# CITY AND COUNTY OF SAN FRANCISCO

## BOARD OF SUPERVISORS

### BUDGET AND LEGISLATIVE ANALYST

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April 4, 2025

**TO:** Budget and Finance Committee

**FROM:** Budget and Legislative Analyst

**SUBJECT:** April 9, 2025 Budget and Finance Committee Meeting

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| Item 1<br>File 25-0270 | **Department:** City Administrator, Real Estate Division |
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## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would approve a childcare lease between the City and Chinatown Community Children's Center for space at City Hall, for an initial term of ten years with two ten-year options to extend, and annual base rent of $1.

### Key Points

- Between 2002 and 2021, Marin Day Care operated a childcare program at City Hall. In August 2023, the Real Estate Division (RED) issued a Request for Proposals to solicit proposals from childcare providers to operate a childcare facility at City Hall. Two entities submitted proposals: Chinatown Community Children's Center and JoJo's Playhouse. Chinatown Community Children's Center was the highest scoring proposer and was awarded the lease. This non-profit operates two other childcare facilities in Chinatown in North Beach, funded by the Department of Early Childhood.
- The lease requires the tenant to pay for improvements to the space, which are still being developed. The lease will start once the tenant has received construction permits from the Department of Building Inspection, estimated to occur in October 2026. Construction is expected to take place between October 2026 and October 2027, with childcare operations commencing October 2027. The proposed resolution states that the Board of Supervisors authorizes the Director of Property to execute the proposed lease once the construction permits have been issued.
- The childcare program at City Hall will serve approximately 36 children (8 infants, 12 toddlers and 16 preschoolers) and be open to City employees and the general public. The Department of Early Childhood (DEC) will provide tuition subsidies for eligible families based on their income.

### Fiscal Impact

- The proposed lease has a $1 annual rent for the initial ten-year term. The lease also requires the City to provide janitorial services, estimated at $30,000 per year initially, to cover the cost of utilities, and to provide security, which is provided for all City Hall tenants by the Sheriff's Office. The cost estimates for the security and utilities are not known at this time.
- If all families received full tuition subsidies, we estimate the cost to DEC would be approximately $1.2 million starting in 2027. Such costs would likely be funded by Commercial Rent Tax revenues.

### Policy Consideration

- The proposed rent of $1 per year is consistent with the solicitation used to award this lease and with the prior childcare license for the space. Based on the City's recent lease transactions in the area, we estimate the market rate for the space is $40 per square foot or approximately $200,000 per year after including the outdoor play space.

### Recommendation

- Approve the proposed resolution.

## MANDATE STATEMENT

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over $15,000 per month. Such leases of City-owned property can be for less than market rent if the lease is for a proper public purpose with Board of Supervisors' approval.

## BACKGROUND

### Childcare at City Hall

In 2002, the City and Marin Day Care, a non-profit, entered into a license agreement for Marin Day Care to use space at City Hall for a childcare operation for up to 49 children. The fee for using the space was $1 per year and the license had an initial one-year term, with automatic one-year renewals each year. In February 2021, Marin Day notified the City it would not renew the term of the license. According to RED, the operation was no longer financially feasible due to COVID-restrictions and associated changes to behavior at the time. Marin Day Care has since been purchased by a for-profit entity, which did not respond to the solicitation to identify a new childcare operator for this space.

### Request for Proposals

In August 2023, the Real Estate Division (RED) issued a Request for Proposals to solicit proposals from childcare providers to operate a childcare facility at City Hall. Proposals were evaluated based on their written proposal (50 points), cost (25 points), and oral interview (25 points), for a maximum of 100 points. The scoring panel consisted of three staff from the Department of Early Childhood, City Administrator, and Low Income Investment Fund. Two entities submitted proposals: Chinatown Community Children's Center, which scored 83 points, and JoJo's Playhouse, which scored 64 points. Chinatown Community Children's Center was the highest scoring proposer and was awarded the lease. This non-profit operates two other childcare facilities in Chinatown in North Beach, funded by the Department of Early Childhood.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a childcare lease between the City and Chinatown Community Children's Center for space at City Hall, for an initial term of ten years with two ten-year options to extend, and annual base rent of $1. The resolution also authorizes changes to the lease that do not materially increase the obligations or liabilities of the City.

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

**Exhibit 1: Key Terms of Proposed Lease**

| | |
|---|---|
| **Address** | 1 Dr. Carlton B. Goodlett Place |
| **Premises** | 6,372 square feet (4,372 square feet for childcare space, 2,000 square feet for outdoor play space) |
| **Initial Term** | 10 Years |
| **Options to Extend** | Two 10-year options to extend |
| **Initial Annual Base Rent** | $1 |
| **Rent Escalation** | No annual escalation. Rent may be increased to market rate when an option to extend the lease term is exercised. |
| **Utilities** | Paid by City |
| **Janitorial & Security** | Paid by City |
| **Building Systems Maintenance** | Paid by City |
| **Tenant Improvements** | Paid by City if improvement is to achieve Building Code compliance. Other tenant improvements will be paid for the tenant. |

Source: Proposed lease

**Rent**

An appraisal for the hotel was not required under Administrative Code Section 23.27 because the proposed annual rent is less than $45 per square foot. The proposed rent is $1 per year, which is below market rate. Such a lease is permissible, but only if the Board of Supervisors adopts a resolution with a finding that a below market rate lease serves a public purpose. At the recommendation of the Budget & Legislative Analyst, the Real Estate Division will request an amendment to the proposed resolution to state that proposed below market rate rent for the initial ten-year term serves a public purpose.

The lease allows, but does not require, the Director of Property to increase the rent to market rate rent if either of the optional term extensions are exercised.

**Tenant Improvements**

The total cost of the tenant improvements is not known, as the design of the improvements is still under development. An initial analysis of the space, program design, and test fit has been completed. The cost of the improvements will be funded by the tenant, except for changes to building systems to comply with Building Code requirements.

In February 2024, the Real Estate Division executed a revocable permit with the tenant, Chinatown Community Children's Center, to allow them to access the site to perform due diligence work.

Exhibit G of the lease includes a timeline for the tenant improvements. According to that schedule, construction is expected to take place between October 2026 and October 2027, with childcare operations commencing October 2027.

**Conditional Board Approval**

Section 3.1 of the lease states that the lease will start once the tenant has received construction permits from the Department of Building Inspection, estimated to occur in October 2026. The proposed resolution states that the Board of Supervisors authorizes the Director of Property to execute the proposed lease once the construction permits have been issued.

**Childcare Services**

As noted above, the Real Estate Division selected Chinatown Community Children's Center for the proposed lease following a competitive solicitation process. The childcare program at City Hall will serve approximately 36 children (8 infants, 12 toddlers and 16 preschoolers) and be open to City employees and the general public. The Department of Early Childhood (DEC) will provide tuition subsidies for eligible families based on their income.

In FY 2024-25, DEC's Early Learning for All program provides a 100% tuition subsidy to families earning up to 110% AMI ($164,850 for a family of four) and a 50% tuition subsidy for families earning between 111% and 150% AMI ($224,800 for a family of four). Early leaning tuition rates in FY 2024-25 are $36,327 for infants, $27,676 for toddlers, and $25,385 for preschoolers. Families must be San Francisco residents.

Further detail on the program design is included in Exhibit F of the proposed lease.

*Fiscal Monitoring*

Chinatown Community Children's Center was not reviewed as part of the City's non-profit fiscal and compliance monitoring program in the past three years. However, DEC provided the organization's latest tax filings (the Form 990 for FY 2023-24), which shows that CCCC had positive growth in net assets between June 2023 and June 2024 and had a cash balance equivalent to 15 months of annual expenses, both good indicators of financial health. The tax data does not provide any information on the organization's internal controls.

## FISCAL IMPACT

The proposed lease has a $1 annual rent for the initial ten-year term. The lease also requires the City to provide janitorial services, estimated at $30,000 per year initially, to cover the cost of utilities, and to provide security, which is provided for all City Hall tenants by the Sheriff's Office. The City may also incur costs to make changes to the building systems serving the space in order to be compliant with Building Code requirements. The cost estimates for the security, utilities, and building system upgrades are not known at this time. Any building system upgrades are likely to be minimal as the site was used as a childcare facility up until 2021.

In addition, DEC will provide tuition subsidies for eligible families. Based on the program design and if all families received full tuition subsidies, we estimate the cost to DEC would be approximately $1.2 million starting in 2027. Such costs would likely be funded by Commercial Rent Tax revenues.

## POLICY CONSIDERATION

The proposed rent of $1 per year is consistent with the solicitation used to award this lease and with the prior childcare license for the space. Based on the City's recent lease transactions in the area, we estimate the market rate for the space is $40 per square foot or approximately $200,000 per year after including the outdoor play space. Because the City advertised a below market rate rent, it would likely have to fund a change to proposed rent to market rate. Such an increase could potentially be funded by DEC with Commercial Rent Tax revenues and benefit the General Fund. If the Board of Supervisors wishes to pursue to arrange, it should not accept the proposed amendment to the resolution that establishes the below market rate rent.

## RECOMMENDATION

Approve the proposed resolution.

| Item 3<br>File 25-0169 | Department:<br>Public Utilities Commission (PUC) |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution approves Amendment No. 1 to the contract between the San Francisco Public Utilities Commission (SFPUC) and CPM/CM Pros JV for construction management services. The amendment increases the contract amount by $25 million, from $9 million to $34 million, and extends the contract term by two years, from June 3, 2028, to June 3, 2030, to support expanded construction scope and schedules for the Sunol Valley Water Treatment Plant (SVWTP) Ozonation and Short-Term Improvements Projects.

### Key Points

- Following a competitive procurement, CPM/CM Pros JV was ranked first out of six proposers and awarded the contract in December 2020. Under the amendment, CPM/CM Pros JV will continue providing construction oversight, inspections, budget tracking, scheduling, regulatory coordination, and documentation support for two Water Enterprise projects.
- Both projects supported by the contract have experienced scope changes and schedule extensions. The SVWTP Ozonation Project increased from a $85 million, 2.5-year effort to a $235 million, 50-month project. The Short-Term Improvements Project grew from $33 million to $45 million, with the duration increasing from 18 to 41 months.
- A March 2025 performance evaluation rated the contractor "Excellent" in all categories. However, this was the first evaluation conducted, despite the requirement for annual reviews. SFPUC has committed to improved oversight moving forward.

### Fiscal Impact

- The amendment increases the contract's total not-to-exceed amount to $34 million. Contract spending is funded by Water Enterprise capital revenues.

### 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

### Request for Proposals

The San Francisco Public Utilities Commission (SFPUC) issued a Request for Proposals for construction management services on December 31, 2019, originally covering ten Water projects occurring in the East Bay Region. The ten projects were later divided into two separate contracts, with three being allocated to the contract this report details.

Proposals were evaluated based on several criteria, including Technical Written Proposals (625 points), Community Benefits Written Submittal (50 points), and Oral Interview (250 points), and Overhead and Profit Schedule (75 p). Organizations that agreed to the Community Benefits provision were provided with a bonus of 7.5 percent, as detailed below in Exhibit 1.[1]

[1] The Written and Oral sections were evaluated by a four-person panel consisting of an Associate Engineer and Utility Specialist from the San Francisco Public Utilities Commission, a Principal Engineer from the Municipal Transportation Agency, and an Engineer from Public Works. The Community Benefits section was evaluated by a three-person panel consisting of a Deputy Director from the San Francisco Public Utilities Commission's Social and Economic Community Benefits Program, a Data Specialist from the Office of Workforce and Economic Development, and a Program Lead from the Bay Area Air Quality Management District.

**Exhibit 1: Request for Proposals Score Summary (1000 Possible Points)**

| Evaluation Phase | CPM/CM PROS JV | Hazen/Avila/ Dabri JV | Arcadis/ MCK JV | Mott MacDonald/ Salimi JV | HDR | Parsons |
|---|---|---|---|---|---|---|
| Written | 538.38 | 527.79 | 524.25 | 549.2 | 535.51 | 518.71 |
| Community Benefits | 31.38 | 37.25 | 35.88 | 40.71 | 31.22 | 39.11 |
| Oral Interview | 210.00 | 203.33 | 196.94 | 158.63 | 197.94 | 0.00 |
| Overhead and Profit Schedule | 75.00 | 75.00 | 75.00 | 75.00 | 75.00 | 75.00 |
| Subtotal | 854.76 | 843.36 | 832.06 | 823.53 | 839.67 | 632.82 |
| CMD Bonus Points (7.5 percent) | 64.11 | 63.25 | 62.4 | 61.77 | 0.00 | 0.00 |
| **Total** | **918.87** | **906.61** | **894.47** | **885.3** | **839.67** | **632.82** |
| **Rank** | **1** | **2** | **3** | **4** | **5** | **6** |

Source: SFPUC

CPM/CM Pros JV, made up of Consor PM/CM Inc. and CM Pros.[2], was selected as the highest-ranked proposer, and on December 8, 2020, the SFPUC awarded them a $9 million contract for a seven-year term from June 4, 2021, to June 3, 2028. Hazen/Avila/Dabri JV was awarded the contract with the second group of seven projects mentioned earlier. The contract did not require Board of Supervisors approval because it had a term of less than ten years and a value of less than $10 million.

The contract this report covers includes three projects: (1) Alameda Creek Recapture, (2) Sunol Valley Water Treatment Plant Ozonation, and (3) Sunol Valley Water Treatment Plant Short-Term Improvements. According to SFPUC, the department's contractor procurements take 1–2 years. For this reason, the Request for Proposals process began early in the planning phase when project scope, budget, and duration were still uncertain. As a result, all three projects have since undergone changes in scope, duration, and staffing availability, leading to increased contract costs.

**The Sunol Valley Water Treatment Plant Ozonation Project**

The Sunol Valley Water Treatment Plant Ozonation Project involves building an ozonation system to address water quality concerns related to algal blooms. It includes ozone generators, an ozone contactor, power system upgrades, and solar panel installation for energy efficiency. The initial estimated construction cost was $85 million with a planned duration of 2.5 years starting in

[2] CM Pros consists of Brown and Caldwell, Effective Management Services LLC, Kleinfelder Inc., Joe Hill Consulting Engineers, and SC Consulting Associates, Inc.

November 2022. However, design took longer than anticipated because there was a need for additional water testing, expansion of the treatment apparatus, additional piping for raw water blending capability, replacement of the utility water/fire protection pump station, upgrades to wash water recovery systems, and performing additional utility pothole and surveying work. This has resulted in a need for additional inspections, more compliance oversight, and two new contractor positions including an Assistant Resident Engineer and a Safety Compliance Officer. Additionally, the construction start date shifted from November 2022 to September 2024, and the duration was extended from 30 months to 50 months. The revised construction cost is now $235 million, and total project costs are $326 million.

**The Sunol Valley Water Treatment Plant Short-Term Improvements Project**

The Short-Term Improvements Project includes structural repairs, electrical and mechanical upgrades, road widening, clean-up of hazardous waste, and other safety improvements at the plant. The project was originally estimated at $33 million with an 18-month duration starting in January 2023. However, the design also took longer than expected because the wash water recovery system was found to be undersized for the new ozonation facility. This caused the construction start date to change from January 2023 to July 2025 and the duration extended from 18 months to 41 months. The revised construction cost is now $45 million, and total project costs are $78.6 million.

**Alameda Creek Recapture Project**

The Alameda Creek Recapture Project was designed to construct a water pumping system in Sunol, California, including pumps on barges, a mooring system, an electrical control building, and pipelines to enhance water capture and management in the region. On April 11, 2023, the SFPUC Commission voted to terminate this project for convenience due to a landslide that significantly increased project costs, making further development impractical relative to its anticipated benefits. Originally, the project had a start date of October 2020 with a 17-month duration, but design and bid/award processes took longer than expected, and the project ultimately faced permitting delays and design changes before its termination in 2023.

**Contract Amendments**

On February 11, 2025, the SFPUC approved Amendment No. 1 to the construction management services contract with CPM/CM Pros JV, increasing the contract by $25 million, bringing the new total contract value to $34 million, and extending the contract duration by two years, through June 3, 2030. The amendment requires Board of Supervisors approval.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes Amendment No. 1 to the construction management services contract between the SFPUC and CPM/CM Pros JV, increasing the total contract value by $25 million, from $9 million to $34 million, and extending the contract's duration, originally from June 4, 2021, through June 3, 2028, by two years to a new expiration date of June 3, 2030.

**Scope of Work**

Under Amendment No. 1, CPM/CM Pros JV will continue to provide construction management and project oversight to ensure compliance with project plans and regulations. Their tasks include specialized inspections, managing project schedules and budgets, and handling documentation to support audits. They also coordinate with SFPUC, contractors, and regulatory agencies.

**Local Business Enterprise Requirements**

The Local Business Enterprise subcontracting requirement set by the City's Contract Monitoring Division is 15 percent. CPM/CM Pros JV committed to 17 percent and is currently meeting that percentage, based on actual spending to date on the contract. The firms, their services, and rate of utilization are detailed below in Exhibit 2.

**Exhibit 2: Local Business Enterprise Utilization**

| Consultant | Service | Required Utilization | Actual Utilization |
|---|---|---|---|
| Effective Management Solutions | Facility Condition Assessment | 7% | 9% |
| Joe Hill Consulting Engineers | Owner's Engineer, Startup & Testing Engineer | 10 | 8 |
| **Total** | | **17%** | **17%** |

Source: SFPUC

**Community Benefits Commitments**

The Community Benefits portion of this contract includes workforce development, environmental justice initiatives, and education. Workforce development efforts include funding paid internships and outreach programs to encourage careers in construction management. Environmental justice initiatives focus on supporting affordable homeownership and community volunteer efforts. Education contributions include providing technical expertise and resources for STEM-related events.

The contractor was originally required to commit a minimum of $156,100 in community benefits, including financial contributions and volunteer hours. This will increase proportionally to the contract increase, increasing the required social impact contributions to $589,978. As of March 2025, $57,530 of the SIP commitment had been fulfilled, as shown below. The beneficiaries include Habitat for Humanity East Silicon Valley, East Bay Regional Park District, and Alameda County Community Food Bank.

**Exhibit 3: Community Benefits Completed To-Date (March 2025)**

| Category | Updated Total Requirement | Completed | Remaining After Amendment |
|---|---|---|---|
| Financial | $304,111 | $25,580 | $278,531 |
| Volunteer | 285,867 | 31,950 | 253,917 |
| **Total** | **$589,978** | **$57,530** | **$532,448** |

Source: SFPUC

**Performance**

On March 6, 2025, the SFPUC conducted an annual performance evaluation of CPM/CM Pros JV, awarding the consultant "Excellent" ratings in all evaluated categories (Quality of Service, Schedule Management, Cost Management, Scope Management, Staff and Resources, Value of Services, and Administrative Functions). However, this evaluation was the first conducted for this contract, despite the SFPUC's annual review requirement outlined in Administrative Code Section 6.26 and in the SFPUC Infrastructure Division's Procedure Manual. The SFPUC reports it is committed to providing additional staff training to ensure compliance with annual performance evaluation requirements.

## FISCAL IMPACT

The proposed resolution increases the contract's not-to-exceed amount from $9 million to $34 million. This increase of $25 million will enable CPM/CM Pros JV to provide the additional staffing, oversight, and inspection required for the Sunol Valley Water Treatment Plant Ozonation and Short-Term Improvements projects, given their expanded scope and extended schedules. Although the Alameda Creek Recapture project was funded under this contract, it was terminated on April 11, 2023. The current estimate of approximately $2.2 million in construction

management costs for that project reflects final expenses already incurred. A detailed breakdown is provided in Exhibit 4.

**Exhibit 4: Revised Construction Management Budget Allocation (FY 2024-2029)[3]**

| Task | Original Agreement | Proposed Increase | Proposed New Spending |
|---|---|---|---|
| Alameda Creek Recapture | $600,000 | $1,592,816 | $2,192,816 |
| SVWTP Ozonation Pre-NTP Services | | 159,588 | 159,588 |
| SVWTP Ozonation 95% Design Review | | 100,660 | 100,660 |
| SVWTP Ozonation Constructability Evaluation | | 37,120 | 37,120 |
| SVWTP Ozonation Constructability Eval. Update | | 27,869 | 27,869 |
| SVWTP Ozonation | 5,000,000 | 17,582,094 | 22,582,094 |
| SVWTP Short-Term Improvements | 3,200,000 | 5,334,566 | 8,534,566 |
| **Total** | **$8,800,000** | **$24,834,714** | **$33,634,714** |

Source: SFPUC

According to data provided by SFPUC, spending on this contract through FY 2023-24 totaled $2.4 million, which is less than the $6.8 million of spending originally planned in those years on this contract. Projected spending in FY 2024-25 is $2.8 million and increases to $7.1 million in each of the four subsequent fiscal years.

**Overall Project Budgets**

The total budget (including design, management, and construction) for the three projects is $454 million. Total construction management costs (including this contract) for these three projects range from 9 to 19 percent of construction costs. This is lower than average construction management costs for SFPUC projects, which range from 19 to 25 percent of construction costs.

**Source of Funds**

Contract spending is funded by the Water Enterprise capital revenues, which include customer revenues, revenue bonds, and other government loans and grants.

## RECOMMENDATION

Approve the proposed resolution.

[3] The base labor rates for consultant staff range from $54 to $85 per hour, depending on position and expertise, with an overhead and profit multiplier capped at 2.49 for both the contractor and all subcontractors.

| Item 4<br>File 25-0208 | Department:<br>Public Utilities Commission |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would approve Amendment No. 1 to the professional service contracts for as-needed services between the San Francisco Public Utilities Commission (SFPUC) and (1) Stantec/JHCE JV, (2) MMD JV, (3) AECOM/WRE JV, and (4) LEE Incorporated, increasing each contract by $5.5 million, from $7.5 million to $13 million, raising the total value of the contracts from $30 million to $52 million, with no change to the contracts' duration of 5 years, which run August 29, 2023, to August 16, 2028.

### Key Points

- In 2023, SFPUC competitively procured four as-needed professional services agreements for the Hetch Hetchy Water and Power division with the contractors listed above, each with a not-to-exceed amount of $7,500,000 and a five-year term from August 29, 2023, to August 16, 2028.
- Given their higher-than-anticipated usage of approximately $832,350 per month, additional funding is needed to continue services throughout remaining 38.5 months.
- All four contracts share the same as-needed scope, covering water and power engineering services, asset and land management, environmental compliance, hazardous materials/waste handling, and project prioritization.
- To date, although only 3 of the 4 contractors have satisfied their committed rate of Local Business Enterprise utilization and none have fulfilled their Community Benefits commitment, SFPUC reports that their performance on tasks orders has been satisfactory.

### Fiscal Impact

- The proposed resolution increases each contract's not-to-exceed amount from $7.5 million to $13 million, for a total increase from $30 million to $52 million. The proposed increase is supported by actual spending to date and changes PUC capital plan since the contracts were awarded.
- The contracts will be sourced from the Hetch Hetchy Water and Power capital and operating budgets, which are funded by water revenue bonds, power revenue bonds, state and federal grants and loans, and customer revenues.

### 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

In 2023, the San Francisco Public Utilities Commission (SFPUC) competitively procured four as-needed professional services agreements for the Hetch Hetchy Water and Power division. The four contractors selected were (1) Stantec/JHCE JV, (2) MMD JV, (3) AECOM/WRE JV, and (4) LEE Incorporated. These agreements were each awarded a not-to-exceed amount of $7,500,000 and a five-year term from August 29, 2023, to August 16, 2028.

**Procurement**

Proposals were evaluated based on several key criteria, including Technical Written Proposals (995 points), Diversity, Equity, and Inclusion Submittal (5 points), Social Impact Partnership Bonus (50 points). Organizations that agreed to the Community Benefits provision were provided with a bonus of between 7.5 and 10 percent of their subtotal as detailed below in Exhibit 1.[1]

[1] The proposals were evaluated by a four-person panel consisting of an Engineering Manager and a Utility Specialist from the San Francisco Public Utilities Commission, a Utility Analyst Hydrology 2 from Turlock Irrigation District, and a Director from Yuba Water Agency.

**Exhibit 1: Request-For-Proposals Score Summary (1050 Possible Points)**

| Evaluation Phase | Stantec \| JHCE Joint Venture | MMD Joint Venture | AECOM/WRE - A Joint Venture | LEE Incorporated | Hazen-Avila & Associates Consulting Engineers Joint Venture |
|---|---|---|---|---|---|
| Written | 921 | 919 | 909 | 876 | 796 |
| DEI Submittal | 5 | 5 | 5 | 5 | 5 |
| Community Benefits | 69 | 69 | 69 | 88 | 60 |
| Subtotal | 996 | 993 | 983 | 969 | 861 |
| SIP Bonus Points (out of 50) | 48 | 44 | 43 | 38 | 45 |
| Total | **1044** | **1037** | **1025** | **1007** | **906** |
| Rank | **1** | **2** | **3** | **4** | **5** |

Source: SFPUC

**Contract Amendment**

On February 25, 2025, the SFPUC Commission approved Amendment No. 1 to each of the four contracts. These amendments would increase each contract's not-to-exceed amount by $5.5 million. This results in new totals of $13 million per contract, and $52 million across all four.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the professional service contracts for as-needed services between the SFPUC and (1) Stantec/JHCE JV, (2) MMD JV,[2] (3) AECOM/WRE JV, and (4) LEE Incorporated, increasing each contract by $5.5 million, from $7.5 million to $13 million, raising the total value of the contracts from $30 million to $52 million, with no change to the contract's duration of 5 years, from August 2023, to August 2028.

**Scope of Work**

All four contracts share the same as-needed scope, covering water and power engineering services, asset and land management, environmental compliance, hazardous materials/waste handling, and project prioritization.

SFPUC assigns task orders to a specific contract based on contractor specialization, relevant Local Business Enterprise (LBE) expertise, and contract capacity.

[2] Mott MacDonald Group, Inc is the JV Principal. Dabri, Inc. is the JV Partner.

Consultants are currently managing 58 task orders—52 active, 6 closed. Sample tasks include environmental compliance monitoring for wildfire mitigation, transmission line project coordination, electrical maintenance planning, turbine training, wildfire mitigation plan updates, and records management process updates.

**Local Business Enterprise Participation**

The Contract Monitoring Division determined a 20% Local Business Enterprise subcontracting requirement. Exhibit 2 shows the LBE percentage committed by each contractor. To date, three of the four consultants have exceeded their goals. According to the SFPUC, the Agreement with Stantec/JHCE, while currently under the committed 22.5%, is on track to meet or exceed its requirement with the inclusion of additional pending task orders.

**Exhibit 2: Local Business Enterprise Utilization To-Date (April 2025)**

| Contract | LBE Commitment (%) | LBE Usage To Date (%) |
|---|---|---|
| Stantec/JHCE JV | 22.50 | 17.55* |
| MMD JV | 21.00 | 23.27 |
| AECOM/WRE JV | 20.00 | 65.08 |
| LEE Incorporated | 21.00 | 27.09 |

Source: SFPUC

**Community Benefits Commitments**

The contractors are required to commit a minimum amount in community benefits, including financial contributions and volunteer hours. The amount per contractor is detailed below in Exhibit 3. The priority areas of this contract include (1) Job Exposure, Awareness, and Internships, (2) Education, and (3) Environmental and Community Health. Under these commitments, the consultant team will invest in workforce readiness programs that provide hands-on experience and career pathways, support educational initiatives to build local talent in STEM fields, and promote sustainable practices that address environmental stewardship and the health of surrounding communities.

The contractors were originally collectively required to commit a minimum of $279,000 in community benefits, including financial contributions and volunteer hours. This will increase proportionally to the contract increase, increasing the required contribution to $483,600. As of April 2025, about 7 percent of the total original commitment has been fulfilled, while approximately 36 percent of the original contract duration has passed.

The remaining Social Impact Partnership commitment would have been $260,875 (93 percent) before this amendment and is updated now to $465,475 (about 96 percent) of the total new commitment of $483,600 with 64 percent of the contract duration remaining.

**Exhibit 3: Community Benefits Completed To-Date (April 2025)**

| Category | Original Commitment | Proposed Updated Total Commitment | Completed | Remaining After Amendment |
|---|---|---|---|---|
| Financial | $169,200 | $293,280 | $2,375 | $290,905 |
| Volunteer | 109,800 | 190,320 | 15,750 | 174,570 |
| **Total** | **$279,000** | **$483,600** | $18,125 | $465,475 |

Source: SFPUC

**Performance Measurement**

The Hetch Hetchy Water division of the SFPUC evaluates each consultant's performance at the task order level, reviewing deliverable quality, timeliness, and technical standards. According to the SFPUC, Contractor performance has been satisfactory. Final contractor evaluations are conducted at the close of each agreement.

## FISCAL IMPACT

The proposed resolution increases each contract's not-to-exceed amount from $7.5 million to $13 million, for a total increase from $30 million to $52 million. This increase of $22 million will enable the contractors to provide the services required for the Hetch Hetchy Water and Power Division, given their higher-than-anticipated usage throughout their 5-year terms. A breakdown of the budget is provided in Exhibit 4.

**Exhibit 4: Revised Budget Allocation (August 2023 - August 2028)**

| Contractor | Original Authorization | Proposed Increase | Proposed New Authorization |
|---|---|---|---|
| Stantec/JHCE | $7,500,000 | $5,500,000 | $13,000,000 |
| MMD JV | 7,500,000 | 5,500,000 | 13,000,000 |
| AECOM/WRE | 7,500,000 | 5,500,000 | 13,000,000 |
| LEE Incorporated | 7,500,000 | 5,500,000 | 13,000,000 |
| **Total** | **$30,000,000** | **$22,000,000** | **$52,000,000** |

Source: SFPUC

To date, the average monthly cost under this contract has been approximately $924,000. Extended through the 41.5 remaining months of the contract terms, this assumes a need of an additional payment of approximately $38 million, $4.2 million more than is being requested. The reason for this lower requested amount is that the SFPUC is in the process of preparing a Request For Proposals to replace these contracts, with an estimate start date of mid- to late 2027, or approximately 6-12 months before expiration dates of these four contracts.

**Key Drivers of Increase**

According to SFPUC staff, the increased spending on these as-needed consultant contracts is driven by increases in capital spending to address aging infrastructure. The Ten-Year Capital Plan for Hetch Hetchy Water and Power increased from $1.6 billion in FY 2024-2033 to $2.8 billion in the FY 2025-2034 Ten-Year Capital Plan.

**Billing Rates**

Across all four contracts, billing rates range from $66.60 - $290, adjusted annually by inflation.

**Source of Funds**

The proposed contracts will be funded by the Hetch Hetchy Water and Power capital and operating budgets, which are funded by water revenue bonds, power revenue bonds, state and federal grants and loans, and customer revenues.

## RECOMMENDATION

Approve the proposed resolution.

| Item 5<br>File 25-0189 | Department:<br>Port Commission (PRT) |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed ordinance seeks to waive competitive solicitation requirements and approve a lease and loan agreement for China Basin Park and a management agreement for the adjacent non-park open space within the Phase 1 footprint of the Mission Rock development project between the Port and an affiliate of Seawall Lot 337 Associates, LLC.

### Key Points

- The China Basin Park Lease and Loan Agreement leases the park to Mission Rock Commons. The initial term is 15 years with three optional five-year extensions. While the Port receives no rent, Mission Rock Commons is expected to assume operating, maintenance, and programming costs for China Basin Park and the adjacent open spaces. The Paseos and Open Space Management Agreement ("Management Agreement") governs the maintenance and operation of all other Port-owned assets and open spaces in the Mission Rock area, including paseos, berms, and non-standard City right-of-way improvements.

### Fiscal Impact

- Revenues to cover park expenses will primarily come from the special tax-equivalent fees from the Mission Rock Owners Association and from concessions, events, sponsorships, and programming. Any net revenues from the park will be used to fund maintenance reserves and park development costs.

### Policy Consideration

- The proposed ordinance waives competitive bidding requirements for the proposed agreements. The Port seeks to contract directly with the Developer's affiliate for efficiency, as it already manages and disburses Mission Rock Owners' Association dues. However, without a competitive process, it's unclear whether other vendors could maintain the park or generate revenue more effectively.
- To support early operations, the Port will provide an interest-free loan of up to $800,000 over three years, funded by the Recreation and Parks Department, for maintenance and start-up costs, which must be paid in full before the initial lease term ends.

### Recommendations

- Request an update from the Port on whether the proposed loan can be funded by the Port's non-General Fund revenues.
- Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

## MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment, or termination of a lease that had an initial term of ten years or more, including options to extend, or that had anticipated revenues of $1 million or more is subject to Board of Supervisors approval.

Administrative Code Sections 2.6-1, 21.1, and 23.33 outline competitive solicitation requirements that apply to Port leases and management agreements.

## BACKGROUND

### Mission Rock Development Project

Mission Rock is a 28-acre site bounded by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay that is being developed by Seawall Lot 337 Associates, LLC (the Developer), a joint venture of the San Francisco Giants and Tishman Speyer. At completion, the project will consist of 1,100 units of housing, up to 1.4 million square feet of office space, retail space, and parks and open space.

### Project Agreements

The Mission Rock development project is governed by a Disposition and Development Agreement (DDA) and a Master Lease, and their related agreements. In February 2018, the Board of Supervisors approved the DDA between the Port and Seawall Lot 337 Associates, LLC (File 18-0092). The DDA requires Seawall Lot 337 Associates, LLC to obtain project entitlements and construct horizontal and vertical improvements within the Mission Rock Project Area and the Port to reimburse the developer for certain infrastructure costs.

As authorized by the approval of the DDA, the Port Executive Director executed the Master Lease between the Port and the Developer in August 2018. The Master Lease is a form that sets forth the terms and conditions under which the Port will lease most of the Mission Rock site to the developer when it is ready to begin constructing horizontal improvements. Individual development parcels will be removed from the Master Lease once horizontal improvements are completed, as they are leased to vertical developers, and parks and streets are removed from the Master Lease once they are accepted by the City.

### Financing Plan

To finance Phase 1 horizontal infrastructure costs, the Port intends to use pre-payment on ground leases, tax-increment financing,[1] and special taxes. Horizontal infrastructure includes

[1] The Board of Supervisors formed the Port Infrastructure Financing District 2 (Port IFD) in March 2016 (File 13-0264). The Port IFD includes eight project areas which are eligible to receive property tax increment revenues, each of which is subject to Board of Supervisors' approval. In February 2018, the Board of Supervisors established Project Area I (Mission Rock) and Sub-Project Areas I-1 though I-13 within the Port's Infrastructure Financing District 2 (File 17-1314), approved the Infrastructure Financing Plan for that Project Area (File 17-1314), and approved the issuance

entitlements, demolition, raising the site to protect against sea level rise, hazardous soil removal, wet and dry utilities, earthwork and retaining walls, roadways and street utilities, as well as public open space, including China Basin Park.

*Special Tax District and Mission Rock Owners Association Payment in Lieu of Tax*

In April 2020, the Board of Supervisors approved the establishment of the San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) (File 20-0120) as permitted under State law.[2] The purpose of the CFD is to limit developer capital in the Mission Rock project funding structure by allowing the Port to levy special taxes, issue bonds, and fund project costs throughout development and for perpetual maintenance of parks, open space, streets, sidewalks, and other infrastructure. The Board of Supervisors has also approved special taxes[3] to be levied in the district and the sale and issuance of up to $3.7 billion in special tax bonds for infrastructure improvements (Files 20-0125 and 20-0124).

However, the Mission Rock Owners' Association is expected to collect fees from commercial tenants in lieu of the Port levying the special taxes. These dues are in the amount of the equivalent tax rate established by the CFD and will allow for the direct transfer of funds from tenants to the Developer to be used for operations and maintenance on a monthly basis. The fees are set at the maximum allowable rate under the CFD.

**Current Project Status**

The Mission Rock Project is to be completed in four development phases to incrementally build out infrastructure and amenities available for use, per the DDA. As of February 2025, Phase 1 of the development is nearly complete. There is no anticipated start date for Phase 2.

*Phase 1 Status*

Phase 1 includes four Blocks: A, B, F, & G. Streets, utilities, and public open spaces have opened to the public under the Master Lease and four buildings consisting of two multi-family residential buildings (Parcels A & F) and two commercial office buildings (Parcels B & G) have received either a Certificate of Final Completion and Occupancy or a Temporary Certificate of Occupancy. Residents began moving into one of the residential buildings (Parcel A) in June 2023, and Parcel F move-ins began in Summer 2024. In addition, ground floor storefronts have been leased to

of up to $1.378 billion tax increment bonds to finance construction of infrastructure within each Project Sub-Area (File 17-1315).

[2] Under California State law, Mello-Roos Community Facilities Districts (CFDs) are a special tax district formed when property owners within a geographic area agree to impose a tax on property to fund infrastructure improvements or services.

[3] Four types of taxes exist under the Mission Rock CFD: (1) Development tax to fund infrastructure and parks with 40 years of bonding authority; (2) Shoreline tax to fund shoreline protection studies and facilities for 120 years; (3) Office tax to fund infrastructure and parks more flexibly than the development tax; and (4) Services tax to fund ongoing operations and maintenance for the site that exists in perpetuity.

retail tenants, including Ike's Sandwiches, Proper Foods, Flour + Water Pizza, LuxeFit gym, and Ariscault Bakery.

Completion of Phase 1 is three years behind schedule based on the target completion date of February 2022 in the DDA Schedule of Performance. According to Port staff, delays are due to several factors, including delays in obtaining a key horizontal permit (the Street Improvement Permit), complexity of sequencing as vertical construction on all four parcels was done concurrently as horizontal construction was also proceeding, construction of complex district sustainability features (such as the blackwater treatment plant and energy system), supply chain issues due to the COVID-19 pandemic, and unforeseen conditions related to underground utilities, soils, and dewatering.

*Phase 1 Budget*

The Phase 1 horizontal infrastructure construction budget has increased from $145.4 million in 2019 to $218.5 million as of October 2023, an increase of $73.1 million or (50 percent). Increases are due to the complexity of project sequencing, unforeseen conditions described above, unanticipated security improvements and reinforcement of concrete in China Basin Park (including moving China Basin Park into Phase 1), inflation, sea-level rise protection, and design features (such as non-standard finishes and hardscapes plus the infrastructure associated with the district sustainability systems) that required additional Developer and City staff costs to implement the project.

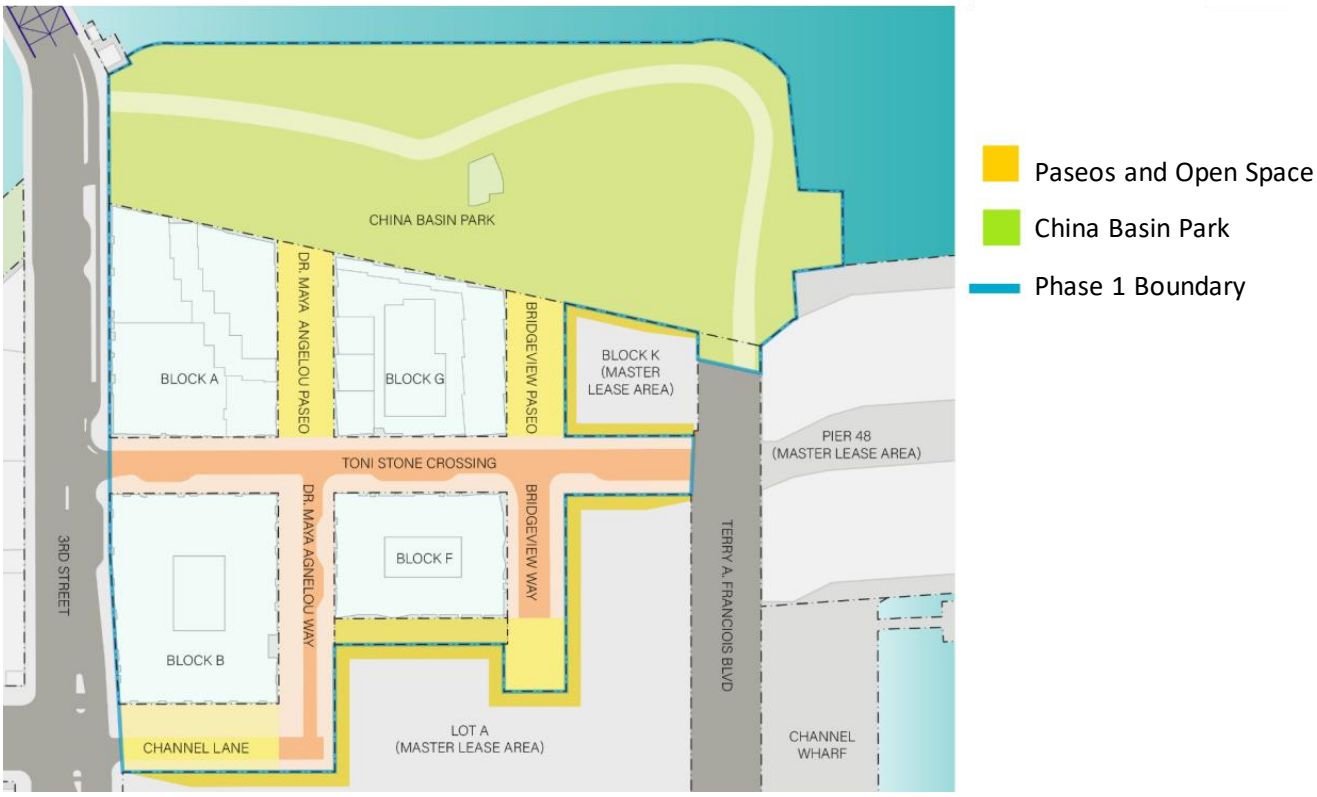
**Phase 1 Acceptance of Improvements**

The Port Commission passed resolutions in February 2025 to formally assume and delegate ownership of continued maintenance and operations obligations to an affiliate of the Developer. The Commission further approved recommendations that the Board of Supervisors approve the land use agreements necessary to finalize the Phase 1 acceptance process.

*Premises*

The premises outlined in the Port Commission's proposed land use agreements include China Basin Park and the paseos and open space, illustrated in Exhibit 1 below.

**Exhibit 1: Phase 1 Premises**




*Source: Port Commission*

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would take the following actions:

1. Waive competitive solicitation requirements for and approve a Port Commission Park Lease and Loan for China Basin Park and a Management Agreement for adjacent public and open spaces within the premises of the Mission Rock Project;
2. Approve a Port Commission License with Mission Rock Utilities;
3. Approve two Port Commission Licenses and an Absolving Services Agreement with Pacific Gas and Electric (PG&E); and
4. Affirm the Planning Department's determination under the California Environmental Quality Act and its findings of consistency with the General Plan, and the eight priority policies of Planning Code Section 101.1.

**Competitive Solicitation Waivers**

The proposed legislation seeks approval from the Board of Supervisors to waive any applicable competitive bidding requirements for the proposed Park Lease and Management Agreement. The Port anticipates the proposed agreements to be executed with Mission Rock Commons, a

Developer affiliate that has not yet been formed. If approved, the ordinance would specifically relieve the Port of any obligations under City Administrative Codes 2.6-1, 21.1, and 23.33, or any other applicable procurement requirement, described in detail in Exhibit 2 below.

**Exhibit 2: Charter Exemptions Requested Under Proposed Ordinance**

| Administrative Code | Obligation | Document |
|---|---|---|
| Section 2.6-1 | Departments must only approve lease agreements with entities that have proven to be the highest responsible bidder in accordance with competitive bidding procedures, except in cases where the Board of Supervisors finds that the bidding procedures are impractical or impossible. | Lease and Loan agreement |
| Section 23.33 | Leases that are expected to produce more than $2,500 per month in revenue must be awarded in accordance with competitive bidding procedures, unless such procedures are impractical or impossible. Leases that are awarded without adherence to competitive bidding procedures must be in an amount equal to at least the fair market value of the property, unless the lease serves a public purpose. | Lease and Loan agreement |
| Section 21.1 | All City contracts for commodities or services shall be procured through competitive solicitation. | Management agreement |

Source: San Francisco Administrative Code

Per the February 2025 Port Commission resolution, the Port is seeking to waive solicitation requirements because of the proposed funding structure. Specifically, because the primary source for the operating and maintenance costs of China Basin Park and Port assets will come from the Mission Rock Owner's Association dues, Seawall Associates 337, LLC affiliate is uniquely positioned to operate, maintain, and program the premises due to their direct financial relationship with Mission Rock Owners Association. According to Port staff, because of the high degree of activation required for the premises to generate revenue, this direct relationship will be more cost-effective than establishing a new partnership with an external management entity.

**China Basin Park Lease and Loan Agreement**

The proposed ordinance would approve a new lease agreement between the San Francisco Port Commission and Mission Rock Commons at the premises of China Basin Park for an initial term of 15 years with three five-year options to extend for a maximum term of 30 years. The lease does not require Mission Rock Commons to pay a security deposit, nor does it require payment of base rent. Instead, the lease assigns full responsibility for operations, maintenance, and programming of the premises to Mission Rock Commons.

*Key Lease Terms*

Under the terms of the lease, Mission Rock Commons is required to use the premises as a public park and open space. The permitted uses include but are not limited to event programming, retail concessions, recreational activities such as walking, bicycling, and picnicking, as well as passive activities like viewing and fishing. Any use beyond these permitted activities requires prior

written approval from the Port, which may be granted or denied at its discretion. Additionally, Mission Rock Commons is required to submit a programming calendar on a monthly basis outlining planned events for the upcoming 14 months while also providing updates on actual events from the previous month.

Mission Rock Commons assumes full responsibility for maintaining the premises at a standard comparable to first-class public waterfront parks in California. This includes routine maintenance, capital repairs and replacements, and ensuring compliance with all applicable laws and regulations. Any improvements or alterations must be approved by the Port. In the case of damage due to fire, natural disasters, or other casualties, Mission Rock Commons is responsible for necessary repairs. The lease specifies that the Port has the right to inspect the premises and may require Mission Rock Commons to undertake maintenance or repairs if the property is not being adequately maintained. If Mission Rock Commons fails to address maintenance concerns, the Port has the right to conduct necessary repairs at the tenant's expense.

Mission Rock Commons is required to submit a quarterly report to the Port detailing actual operating expenses, revenues, and any changes to the budget. Additionally, an annual report must be submitted by April 1 of each year, summarizing park operations, financial performance, and compliance with the lease agreement.

*Loan Option*

In the event that park revenues are insufficient to cover operating expenses in the initial years of the lease, Mission Rock Commons may request a loan from the Port Commission, with funds provided by Recreation and Parks General Fund, to cover an anticipated operating deficit. This loan option is only available within the first three years of the lease term and only covers park maintenance, not park events. Loan requests must be accompanied by detailed financial statements and are subject to Port Commission review and approval. The maximum loan amount is capped at $800,000, with an annual draw limit of $300,000. The loan is interest-free and must be repaid by the end of the initial 15-year term of the lease. Any excess loan proceeds that are not required for operating expenses must be returned to the Port.

The loan provision was not included in the DDA or previous legislative packages brought to the Board of Supervisors. According to Port staff, the loan proved to be necessary as the Department and the developer began discussing management terms. The Port reports there was a funding gap in the first years of the budget due to inflation and costs associated with the park's use of recycled black water[4] and the overall delay of the Mission Rock project and associated availability of maintenance revenues. Port staff project for this gap to be closed within three years, due to the developer being able to facilitate revenue-generating programming that is not currently permitted under the Master Lease.

[4] The Mission Rock development project intends to avoid using any potable water for non-potable purposes. The black water (wastewater) recycling system will be used for irrigation, flushing, etc. throughout Mission Rock's footprint.

*Annual Revenue Allocation*

Gross revenue generated from China Basin Park (except donations and capital improvement sponsorships) is to be allocated in the following order:

1. Operating and capital expenses.
2. Operating Reserve Account provided that the annual deposit may not exceed: (a) $100,000 if there is a Port loan outstanding, or (b) the lesser of $200,000 or 20 percent of operating and capital expenses; and the total amount in the reserve account may not exceed: (a) $100,000 if there is a Port loan outstanding, or (b) $600,000 if there is no Port loan outstanding.
3. Repayment for any outstanding Port loan (if drawn by the tenant and not repaid).
4. Maintenance Reserve Account provided that total amount in the reserve account may not exceed the capital needs amount.
5. Mission Rock Long Term Reserve Fund[5] provided the total amount in the reserve fund does not exceed the aggregate amount in the Operating Reserve Account and the Maintenance Reserve Account.
6. Finally, any remaining amounts (once the reserve accounts and funds are fully funded as described above) are to be split 50 percent to the Mission Rock Long Term Reserve Fund and 50 percent to repay horizontal development costs for the project.

**Paseos and Open Space Management Agreement**

At the same time as the Park Lease and Loan Agreement, the proposed ordinance would approve a qualified management agreement[6] designating Mission Rock Commons or another Developer affiliate to operate and maintain the open space within the Mission Rock Phase 1 premises, as shown in yellow in Exhibit 1 above. The term for the proposed agreement would also be for 15 years with three five-year extension options that the Port may exercise for a maximum term of 30 years.

*Management Fee, Cost Reimbursement, and Port Contribution*

In exchange for the value of maintaining the premises, the Port is to pay an annual management fee to Mission Rock Commons of $10,000. This amount is to be adjusted annually according to

[5] The Mission Rock Long Term Reserve Fund are to be used to fund repairs of unanticipated damage, capital repairs and replacements, remediation, compliance improvements, and events related to the Tenant's DEI Plan.

[6] Qualified management contracts feature facilities financed with proceeds from tax-exempt bonds in accordance with Internal Revenue Service (IRS) procedure 2017-13. The management agreement, being a qualified management contract, identifies limitations on private uses within the premises that Mission Rock Commons must adhere to. Permitted uses for private businesses will be in accordance with IRS standards and must require private use agreements that are approved by the Port. Any other use of the premises other than standard public access must have the express written approval of the Port Commission.

CPI and lessened proportionally with increased operating revenues (from the leasing or licensing of a portion of the premises) or contributions from the Master Association.

Mission Rock Commons is entitled to reimbursement for "reasonable costs expended in accordance with the budget" and is to be reimbursed first from Master Association Contributions, second from the Port if the Contingent Services Special Tax is levied, and third "as may be directed by Port" in its discretion. The Port, at its discretion, may also contribute funding to support operations or programming of the premises. Port staff indicated they do not anticipate making contributions towards paseo or park maintenance (beyond the loan) and that the clauses regarding financial support were to give the Port flexibility to make improvements to the premises without retaining or management responsibilities. The ultimate liability of the land under the Management Agreement will stay with Port to meet the IRS rules for the qualified management agreement.

*Other Key Terms*

Mission Rock Commons is required under the proposed management agreement to assume the responsibilities and obligations that the Port is contractually obligated to meet, outlined below.

1. **Memorandum of Understanding Regarding Jurisdiction, Acceptance, and Maintenance of Public Improvements at the Mission Rock Special Use District:** MOU outlines the ownership framework for City acceptance items and Port Assets, which include open space assets and non-standard assets in the City Rights of Way. Mission Rock Commons will be responsible for the Port's obligations under the MOU to maintain, operate, manage, and report on these assets.
2. **Interdepartmental Master Encroachment Permit (IMEP):** Permit issued to Port from Public Works for all Port-owned, non-standard assets in the City Rights of Way. The assets listed include tree grates, signage, public art installations, waste receptacles, and other surface developments. Mission Rock Commons must assume liability and maintenance requirements outlined in the Permit.

Additional obligations required by the management agreement include routine maintenance, capital repairs, and ensuring compliance with all applicable laws. Mission Rock Commons must maintain the open spaces in accordance with the same cleanliness standards required by any other City-owned open space.

Finally, the management agreement requires Mission Rock Commons to submit a report to the Port Commission on a quarterly basis detailing actual expenses and updates to the proposed budget and private use agreements. Prior to April 1 of each year, Mission Rock Commons must also deliver an annual report for the previous calendar year inclusive of a narrative on Park operations, separate line items for operating and capital expenses, a summary of private use agreements, a premises evaluation report of the premises' conditions, copies of all private use agreements, and the amount of any budget surplus or deficit.

**Utilities Licensing**

The proposed legislation also approves license agreements that allow PG&E and Mission Rock Utilities to operate and maintain utilities located on Port property. All licenses and agreements are for a term of 66 years[7] with no associated fees. The four agreements include:

1. A license with PG&E that establishes access rights to PG&E for the maintenance and repair of two gas lines located in Port open space.
2. A license with PG&E that establishes access rights to PG&E for an electric line through China Basin Park.
3. An absolving services agreement, which is required by PG&E, that acknowledges that PG&E may discontinue electric service if the electric license is terminated and absolves PG&E from liability related to such service discontinuance.
4. A license with Mission Rock Utilities that grants access rights to Mission Rock Utilities to operate and maintain lines for the Mission Rock District Energy System and Blackwater Recycling System infrastructure for all of Mission Rock, including Port-owned parks and open space.

**Concurrent Legislation**

The developing project at Mission Rock is awaiting Board approval for five additional legislative items:

- File 25-0188 is a proposed ordinance granting a revocable master encroachment permit allowing Mission Rock Utilities to maintain privately-owned utility systems beneath the public right-of-way.
- File 25-0186 is a proposed ordinance to accept and dedicate certain public infrastructure improvements associated with Phase 1A of the Mission Rock Project.
- File 25-0285 is a proposed resolution to grant the Port revocable permission to maintain certain encroachments in the public right of way under the Interdepartmental Master Encroachment Permit.
- File 25-0264 is a proposed resolution to amend the Mission Rock Housing Plan to reduce the minimum percentage of inclusionary affordable housing units per phase of the Mission Rock Project.[8]
- File 25-0188 is a proposed ordinance to assign certain retail permitting from Public Works to Port for spaces in Mission Rock, Pier 70, and Potrero Power Station.

[7] California regulations prohibit the Port from issuing land rights to entities other than PG&E for a term longer than 66 years.

[8] Port staff reported that this item is unrelated to the acceptance process.

## FISCAL IMPACT

### Change in Port Obligations

Under the proposed lease agreement and management agreement, the financial obligations of the Port under the agreements include:

- The Port must pay the **management fee** to the Developer affiliate under the proposed management agreement in the amount of $10,000 annually, adjusted for inflation. The management fee must be offset by earned revenue from leasing, licensing, or private use of the premises. If these contributions and the Master Association fees equal or exceed the management fee, the Port would have no payment obligation. After the third year of the term, the Port and Mission Rock Commons will meet to evaluate and discuss funding sources for costs associated with maintenance and operation of open spaces.
- The Port may issue a zero-interest **loan** in the amount of up to $300,000 annually for the first three years of Mission Rock Commons assuming ownership of China Basin Park, up to $800,000 total, in the event revenues cannot pay for Mission Rock's operating expenses. The loan cannot be used to cover expenses incurred through programming, marketing, or sponsorship solicitation. The loan funds will be provided to Port by Recreation and Parks (REC). According to REC staff, there will be a separate work order agreement to provide these funds on loan with interest.

The Port may additionally issue **discretionary support** for reasonable expenses for programming or operations of the park, paseos and open space at its sole discretion under the proposed Management Agreement. Any such contribution comes with terms and conditions that Mission Rock Commons must agree to before accepting.

The estimated sources and uses of funds for China Basin Park and Open Spaces for the initial year of the proposed agreements are shown in Exhibit 3 below.

**Exhibit 3: Sources and Uses of China Basin Park and Open Spaces**

| | China Basin Park | Non-Park Open Spaces | Total |
|---|---|---|---|
| **General Operations** | | | |
| ***Sources*** | | | |
| Special Tax Equivalent* | $1,116,770 | $372,257 | $1,489,027 |
| Additional Assumed Revenue | 10,000 | 3,000 | $13,000 |
| *Total Sources* | 1,126,770 | 375,257 | $1,502,027 |
| ***Uses*** | | | $0 |
| Facilities & Maintenance | 325,020 | 101,640 | $426,660 |
| Custodial | 226,159 | 75,386 | $301,545 |
| Utilities/Other | 731,394 | 240,465 | $971,859 |
| *Total Uses* | 1,282,573 | 417,491 | $1,700,064 |
| ***Net Deficit*** | **(155,803)** | **(42,234)** | **($198,037)** |
| ***Programming & Sponsorships*** | | | |
| ***Sources*** | | | |
| Concessions | 53,000 | | $53,000 |
| Sponsorships | 150,000 | | $150,000 |
| Event Usage | 177,000 | | $177,000 |
| *Total Sources* | 380,000 | | $380,000 |
| ***Uses*** | | | $0 |
| Programming | 472,500 | | $472,500 |
| Sponsorships | 27,000 | | $27,000 |
| Marketing | 47,000 | | $47,000 |
| *Total Uses* | 546,500 | | $546,500 |
| ***Net Deficit*** | **(166,500)** | | **($166,500)** |
| | | | |
| ***Net Total Operating Deficit (incl Programming)*** | **($322,304)** | **($42,234)** | **($364,538)** |

*Source: Port*

**Per each of the agreements, 75 percent of dues are to be assigned to China Basin Park while 25 percent shall be reserved for the operating funds for the open spaces management agreement.*

*General Operations*

For the first year of assumed responsibility, expected revenues for China Basin Park and the open spaces premises total $1.1 million and $375,257, respectively. The primary source of revenue for both areas is the special tax equivalent paid by the Mission Rock Owners' Association, designed to match the amount that a special services tax would generate if fully levied. Additional assumed revenue is anticipated to be licensing fees received from restaurant retailers. Estimated operating expenses are driven by ongoing maintenance and repairs, day cleaning inclusive of restroom maintenance and waste management, water and sewer expenses. Expenses are

expected to exceed revenues, with China Basin Park and Open Spaces experiencing a deficit of $155,803 and $42,234, respectively.

*Programming & Sponsorships*

The Port Commission and Developer anticipate that programming and sponsorships incurred by China Basin Park within the first year of operations will include an estimated $380,000 in revenue from concession agreements, corporate sponsorships, and event fees. Expenses related to overseeing programming, however, are anticipated to total $546,500 and operate at a deficit of $166,500 when Mission Rock Commons first assumes ownership. The majority of the estimated programming expenses are from 2.75 full-time equivalent (FTE) staff performing outreach, marketing, communications, and event planning. Inclusive of programming, the expected deficit of China Basin Park for the first year of affiliate ownership totals $322,304.

**Licenses**

There are no fees associated with the absolution of PGE services and the creation of MRU.

## POLICY CONSIDERATION

**Joint Approval Necessary**

The approval of the Mission Rock Utilities license is contingent upon the approval of the pending resolution to grant a revocable encroachment permit to Mission Rock Utilities, Inc. (File 25-0188).

**Competitive Bidding Requirements Waivers**

The proposed ordinance waives competitive bidding and solicitation requirements for the proposed Park Lease and Loan Agreement and the Management Agreement. The DDA did not contemplate that the Developer or an affiliate would be responsible for maintaining Port-owned open space following project completion, just that a revenue source would be available to fund park maintenance. The Port is seeking to waive competitive solicitation requirements and enter into agreements with an affiliate of the Developer because of the cost efficiency gained by the same entity managing and dispersing the Mission Rock Owner's Association dues revenue, according to Port staff. Absent a competitive procurement, we do not know if other vendors could maintain the park and generate revenue more effectively.

**Loan and Projected China Basin Park Deficit**

According to Port staff, the Port proposes to provide a loan of up to $800,000 to the developer affiliate because of projected revenue gaps due to inflation and underestimated costs associated with the black water recycling system. In addition, the Port is proposing that the loan will be a zero-interest loan because all revenue earned within the Mission Rock development site is to stay within the project, including paying down horizontal development costs for which the Port needs to reimburse the developer. Consequently, the Port offered the zero-interest term to avoid taking money away from funds that would otherwise go towards China Basin Park operations. However, funding for the Port loan will be provided to Port from REC using General Fund operational maintenance dollars. Port was not able to verify why Port funds would not be able

to finance the proposed loan. While REC expects to receive interest from the Port during its repayment period, this loan will effectively reduce available funds for the San Francisco park system by up to $300,000 in each of the next two years and $200,000 in the third year for a park located on Port property. This funding reduction will be especially impactful to REC given the Mayor's 15 percent instructed cuts to General Fund operating budgets in the next two fiscal years. The Port should report to the Budget & Finance Committee whether it can use its own non-General Fund revenues to fund the proposed loan.

China Basin Park is the largest public asset delivered by the Mission Rock project, and at full project buildout, special tax revenue (or in-lieu fees) generated from Phases 1 through 4 are sized to support park operations. The Port anticipates that the park will operate at an annual deficit of more than $150,000 in the initial year of operation because the park will only be supported by special tax revenue from Phase 1 and because it may take time to ramp up revenue generating events. However, the remaining development Phases are on hold and the Port has not offered documentation of the Developer's plan to generate revenue in the park. Most public parks are not self-sustaining and need outside revenue to fund maintenance expenses. As the agreements are written, the Port and REC are assuming financial liability without a mechanism to recover funds if special tax equivalent revenues remain insufficient and increased programming is not viable. According to the Port, if the park is not financially self-sufficient within three years, the park's operating budget could be reduced.

## RECOMMENDATIONS

1. Request an update from the Port on whether the proposed loan can be funded by the Port's non-General Fund revenues.
2. Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

| Items 7 & 9<br>Files 25-0288, 25-0289 | **Department:** Mayor's Office of Housing and Community Development (MOHCD) |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolutions would approve amended and restated loan agreements between the Mayor's Office of Housing and Community Development (MOHCD) and (1) Sunnydale Block 7 Housing Partners, L.P., for an amount not to exceed $18,050,000 (File 25-0288), and (2) Sunnydale Block 9 Housing Partners, L.P., for an amount not to exceed $30,200,000 (File 25-0289) to finance the construction of the Sunnydale HOPE SF affordable housing project.

### Key Points

- HOPE SF is an initiative to revitalize the City's most distressed public housing sites into mixed-income communities comprised of affordable housing, including replacement units for existing public housing and new affordable units, and production of market-rate units. Sunnydale is one of four sites undergoing revitalization as part of the HOPE SF initiative.
- Sunnydale Block 7 is an 89-unit affordable housing building comprised of 13 one-bedrooms, 43 two-bedrooms, 23 three-bedrooms, nine four-bedrooms, and one two-bedroom manager's unit. Sunnydale Block 9 is a 95-unit affordable housing building comprised of 10 one-bedrooms, 51 two-bedrooms, 22 three-bedrooms, 11 four-bedrooms, and one three-bedroom manager's unit. Each building would also include a lobby for residents, property management and resident service offices, a community lounge, a laundry room, a courtyard, and parking. In 2021, the Citywide Affordable Housing Loan Committee approved pre-development loans of $2,820,000 for Block 7 and $3,500,000 for Block 9. In 2024, the Loan Committee approved gap financing commitments for the project to apply for tax credit and California Affordable Housing and Sustainable Communities (AHSC) financing.

### Fiscal Impact

- The proposed loans would provide up to $48,250,000 to Mercy Housing and Related Companies for the construction of Sunnydale Blocks 7 and 9. The loans are soft debt that would be repaid based on residual income in the projects.
- The loan amounts are equal to $213,656 per unit for Block 7 and $334,299 per unit for Block 9. Total development costs are $1.2 million per unit for both Block 7 and Block 9. According to the 20-year cash flow analysis for the projects, the projects' revenues are sufficient to cover operating expenses, reserves, and debt service.

### 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

**Sunnydale HOPE SF**

In 2007, the San Francsico Housing Authority (SFHA) and the Mayor's Office of Housing and Community Development (MOHCD) launched the HOPE SF initiative to revitalize the City's most distressed public housing sites into mixed-income communities comprised of affordable housing, including replacement units for existing public housing and new affordable units, and production of market-rate housing. Sunnydale is one of four sites undergoing revitalization as part of the HOPE SF initiative, which also includes Potrero Terrace, Alice Griffith, and Hunters View. The Sunnydale project includes approximately 1,770 residential units, 60,000 square feet of retail and community spaces, 3.5 acres of open space, and new streets, utilities, and infrastructure. To date, four residential buildings have been constructed or are under construction (Block 3A, Block 3B, Casala, & Malosi), totaling 392 affordable/public housing replacement units.

Sunnydale HOPE SF is a phased project co-developed by Mercy Housing California and Related Companies of California. Sunnydale Block 7 is an 89-unit affordable housing building comprised of 13 one-bedrooms, 43 two-bedrooms, 23 three-bedrooms, nine four-bedrooms, and one two-bedroom manager's unit. Sunnydale Block 9 is a 95-unit affordable housing building comprised of 10 one-bedrooms, 51 two-bedrooms, 22 three-bedrooms, 11 four-bedrooms, and one three-bedroom manager's unit. In 2021, the Citywide Affordable Housing Loan Committee approved pre-development loans of $2,820,000 for Block 7 and $3,500,000 for Block 9. In 2024, the Loan Committee approved gap financing commitments for the project to apply for tax credit and California Affordable Housing and Sustainable Communities (AHSC) financing.[1]

## DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve amended and restated loan agreements between the Mayor's Office of Housing and Community Development (MOHCD) and (1) Sunnydale Block 7 Housing Partners, L.P., for an amount not to exceed $18,050,000 (File 25-0288), and (2) Sunnydale Block 9 Housing Partners, L.P., for an amount not to exceed $30,200,000 (File 25-0289) to finance the construction of the Sunnydale HOPE SF affordable housing projects. The resolutions also adopt findings that the loan agreements are consistent with the adopted Mitigation Monitoring and Reporting Program under the California Environmental Quality Act (CEQA), the City's General Plan, and Planning Code.

[1] The California Affordable Housing and Sustainable Communities (AHSC) program uses state Cap-and-Trade funds to provide loans and grants to affordable housing developments that seek to reduce carbon emissions by being located close to employment centers and public transit and encouraging active transportation.

The documents approved as part of this resolution include: (1) Loan Agreements between the City and Sunnydale Block 7 Housing Partners, L.P. and Sunnydale Block 9 Housing Partners, L.P. (partnerships between Mercy Housing and Related Companies); (2) Declarations of Restrictions for affordable housing; (3) Promissory Notes; and (4) Deeds of Trust.

**Loan Agreement and Repayment**

The proposed loan agreement provides for loan amounts not to exceed $18,050,000 for Block 7 and $30,200,000 for Block 9. Each loan has three percent basic interest with repayments based on 50 percent of residual receipts from the developments. The loan terms are shown in Exhibit 1 below. The loans mature the later of 57 years after the recordings of the Deeds of Trust or 55 years after the conversion date,[2] but no later than December 31, 2083.

**Exhibit 1: Sunnydale Loan Summary**

| Loan | Amount | Annual Interest Rate | Interest Type | Repayment |
|---|---|---|---|---|
| Block 7 | $18,050,000 | 3.00% | Simple | Annual payments, equal to 50% of residual receipts |
| Block 9 | 30,200,000 | 3.00% | Simple | Annual payments, equal to 50% of residual receipts |
| **Total** | **$48,250,000** | | | |

Source: Master Promissory Notes

*Required Rents*

The Declarations of Restrictions outline required rents for all units in the Block 7 and Block 9 buildings. Income restrictions are as follows:

1. **Sunnydale Block 7**: 67 units are restricted to households with up to 50 percent of Area Median Income (AMI), 21 units are restricted to households with up to 70 percent of AMI, and one unit is a manager's unit.
2. **Sunnydale Block 9**: 71 units are restricted to households with up to 50 percent of AMI, 23 units are restricted to households with up to 80 percent of AMI, and one unit is a manager's unit.

The 67 units in Block 7 and 71 units in Block 9 that are restricted to households with up to 50 percent of AMI would first be made available to existing Sunnydale public housing residents. The remaining units would be available to eligible tenants through a lottery system.

Under the proposed loan agreements, construction for both projects must begin by June 30, 2025 and be completed by September 1, 2027 for Block 7 and March 1, 2028 for Block 9. The projects must achieve 95 percent occupancy by May 1, 2028 for Block 7 and September 1, 2028 for Block 9.

[2] The conversion date is the date when construction financing is converted to permanent financing, which is anticipated to occur approximately one year after the project receives a temporary certificate of occupancy.

**Project Description**

As mentioned above, Block 7 would include 89 residential units and Block 9 would include 95 residential units. The ground floor of each building would include a lobby for residents, property management and resident service offices, a community lounge, a laundry room, and a courtyard. Block 7 includes 60 parking spaces and Block 9 includes 73 parking spaces. Each building would also have one bicycle parking space per unit.

## FISCAL IMPACT

The proposed loans would provide up to $48,250,000 to Mercy Housing and Related Companies for the construction of Sunnydale Blocks 7 and 9. The sources and uses of funding are shown in Exhibit 2 below.

**Exhibit 2: Sources and Uses of Funds for Sunnydale Project**

| Sources | Block 7 | Block 9 | Total |
|---|---|---|---|
| MOHCD Loan | $18,050,000 | $30,200,000 | $48,250,000 |
| MOHCD Accrued/Deferred Interest[3] | 965,390 | 1,612,766 | 2,578,156 |
| GP Equity | 100 | 100 | 200 |
| Tax Credits | 48,926,064 | 50,995,000 | 99,921,064 |
| Bank Loan | 19,459,000 | 27,847,000 | 47,306,000 |
| AHSC Loan | 18,500,000 | - | 18,500,000 |
| Deferred Developer Fee | 1,700,000 | 2,803,570 | 4,503,570 |
| **Total Sources** | **$107,600,554** | **$113,458,436** | **$221,058,990** |

| Uses | Block 7 | Block 9 | Total |
|---|---|---|---|
| Acquisition (Legal/Closing/Broker Costs) | - | $20,001 | $20,001 |
| Construction | 79,549,346 | 82,072,270 | 161,621,616 |
| Soft Costs | 23,053,108 | 22,269,165 | 45,372,273 |
| Reserves | 798,000 | 847,000 | 1,645,000 |
| Developer Fee | 4,200,100 | 8,250,000 | 12,450,100 |
| **Total Uses** | **$107,600,554** | **$113,458,436** | **$221,108,990** |

Source: Memos to Loan Committee

Construction costs include hard cost contingencies of 5.4 percent for Block 7 and 8.3 percent for Block 9 and soft cost contingencies of 4.6 percent for Block 7 and 3.4 percent for Block 9. Operating reserves total $798,000 for Block 7 and $847,000 for Block 9 and support unanticipated operating costs for at least 20 years. Total costs include developer costs of $4,200,100 for Block 7 and $8,250,000 for Block 9 and soft costs of $23,103,108 for Block 7 and $22,269,165 for Block 9.

[3] MOHCD Accrued and Deferred Interest and the Deferred Developer fee are counted as both sources and uses of project funds.

**Loan Funding Sources and City Subsidy**

The proposed Block 7 loan is funded by:

- $2,620,000 from 2019 General Obligation Bond funds
- $200,000 from the Low and Moderate Income Housing Asset Fund
- $5,983,586 from HOME Program funds (affordable housing developer fees)
- $9,246,414 from 2024 General Obligation Bond funds

The proposed Block 9 loan is funded by:

- $2,000,000 from 2019 General Obligation Bond funds
- $850,000 from the Low and Moderate Income Housing Asset Fund
- $650,000 from HOPE SF General Funds
- $5,697,782 from HOME Program funds
- $1,600,000 from the Housing Trust Fund
- $19,402,218 from 2024 General Obligation Bond funds

The City subsidies per unit are $213,656 for Block 7 and $334,299 for Block 9. Total development costs are $1.2 million per unit for both Block 7 and Block 9. The high unit cost is attributable, in part, to the number of family-sized units within each development, on-site parking, and temporary power connections due to delays in securing permanent power from PG&E.

**Operating Revenues and Expenditures**

According to the 20-year cash flow analysis for the projects, the projects' revenues are sufficient to cover operating expenses, reserves, and debt service. Project revenues consist of tenant rents and HUD rental assistance payments. The budgets assume annual rental income loss of five percent due to vacancies. The residual receipts after expenses would be split 50/50 to repay the MOHCD loan and to the developer in deferred fees.

## RECOMMENDATION

Approve the proposed resolutions.

| | |
|---|---|
| **Item 10**<br>**File 25-0193**<br>*(Continued from 3/26/25 meeting)* | **Department:** Department of Homelessness and Supportive Housing (HSH) |

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would retroactively approve a lease for non-congregate shelter use between the Department of Homelessness and Supportive Housing (HSH) and Lombard Hotel Group for the Monarch Hotel at 1015 Geary Street, for a term of one year and initial annual base rent of $1,597,320

### Key Points

- In 2020, the City entered into a booking agreement with the Monarch Hotel, located at 1015 Geary Street, to use as a non-congregate shelter. The booking agreement has since been amended five times and expired March 31, 2025. HSH has determined that leasing the hotel provides a more cost-efficient option, and the Real Estate Division (RED) has negotiated a lease with the hotel owner. The original lease included in the legislative file was for one year with four one-year options to extend the term. HSH and RED have renegotiated the lease to eliminate the options to extend, and the Budget & Finance Committee amended this resolution to approve the lease retroactive to April 1, 2025, to approve a one-year lease at the same initial base rent.
- The lease would have a term of one year from April 2025 through March 2026. The fair market rent was determined estimating the landlord's revenues and costs that the hotel would generate if it were operated as a tourist hotel. HSH has contracted with WeHOPE to provide supportive services at the hotel.

### Fiscal Impact

- The proposed lease would have initial annual rent of $1,597,320. Rent would be paid by the City's General Fund. HSH would also pay a termination fee of $100,000 at the end of the lease.
- HSH estimates that by converting from the booking agreement to a lease, HSH would save approximately $1.4 million per year, or approximately $40 per room per night.

### Recommendation

- Approve the proposed resolution.

## MANDATE STATEMENT

City Administrative Code 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

In 2020, the City entered into a booking agreement with the Monarch Hotel, located at 1015 Geary Street, to use as a non-congregate shelter in response to the COVID-19 pandemic. The Department of Homelessness and Supportive Housing (HSH) and Human Services Agency (HSA) identified the property through a Request for Information (RFI) issued in February 2020. The booking agreement has since been amended five times, most recently by the Board of Supervisors in July 2024 (File 24-0634) and expires March 31, 2025.

Due to the ongoing need for shelter capacity, HSH wishes to continue non-congregate shelter operations at the Monarch Hotel. HSH has determined that leasing the hotel provides a more cost-efficient option than extending the booking agreement. In addition, a lease would clarify the owner's responsibility and timing for maintenance and repairs, insurance requirements, methodology for calculating rent increases, and responsibility of taxes and expenses. The lease structure could also allow HSH to utilize services (such as meals and laundry) through existing grant agreements with non-profit operators rather than through the hotel operator, which may reduce operating costs. The Real Estate Division (RED) has negotiated a lease on behalf of HSH with the owner of the Monarch Hotel.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively approve a non-congregate shelter lease between HSH and Lombard Hotel Group for the Monarch Hotel, for a term of one year and annual base rent of $1,597,320.

The lease was originally negotiated to have an initial term of one year from April 2025 through March 2026, with four one-year options to extend, and three percent annual escalation. HSH and RED have renegotiated the lease to eliminate the options to extend beyond one year. HSH introduced an amended resolution at the March 26, 2025 Budget and Finance Committee meeting, retroactive to April 1, 2025 and reflecting the shorter lease term. The Budget and Finance Committee approved the amendments to the resolution and continued the item to the April 9, 2025 meeting to comply with the Brown Act. The proposed lease also provides the City right of first refusal if the landlord receives an offer to purchase to the property.

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

**Exhibit 1: Key Terms of Proposed Lease**

| | |
|---|---|
| **Address** | 1015 Geary Street |
| **Premises** | 38,706 Square Feet |
| **Units** | 102 Units (97 Shelter Units, 5 Office Units) |
| **Initial Term** | 1 Year |
| **Options to Extend** | None |
| **Initial Annual Base Rent** | $1,597,320 ($15,660 per Unit, $41.27 per Square Foot) |
| **Rent Escalation** | Not Applicable |
| **Utilities** | Paid by City |
| **Janitorial, Security, & Program Services** | Paid by City |
| **Building Systems Maintenance** | Paid by Landlord, unless damage is caused by City or its clients |
| **If Property Is for Sale** | City has right of first refusal |
| **Termination Fee** | City pays landlord $100,000 |

Source: Proposed lease

An appraisal for the hotel was not required under Administrative Code Section 23.27 because the proposed annual rent is less than $45 per square foot. However, Colliers International conducted an appraisal for RED in 2024 for the Stanford Hotel, and RED used the methodology from that appraisal to determine the fair market rent for Monarch Hotel. The methodology involved identifying an average nightly rate per room for the hotel to determine a monthly rate for the entire hotel, then reducing that amount to account for expected vacancies and hotel operating costs, to estimate the monthly net revenue for the hotel. Using this methodology, RED determined that the negotiated annual rent of $15,660 per room was reasonable fair market rent.

**Service Provider**

HSH has contracted with WeHOPE to provide supportive services at the Monarch Hotel. Services include guest intake, entry and exit, wellness checks, room inspections, habitability checks, room turnover, referrals and coordination of services, support groups and activities, building maintenance, and exit planning. The grant funds are approximately 18.64 full-time equivalent (FTE) employees.

HSH is in the process of negotiating a new contract with WeHOPE to commence in April 2025. The estimated annual cost of the new grant agreement, plus meals, is approximately $4.3 million. The grant will not require Board of Supervisors approval because the initial agreement is not expected to exceed 10 years or $10 million.

*Performance and Fiscal Monitoring*

HSH staff conducted a site visit at the Monarch Hotel to assess WeHOPE's services in August 2024 and identified no findings. HSH staff reviewed WeHOPE's financial documents as part of the FY 2023-24 Citywide Fiscal and Compliance Monitoring Program and identified two findings: less

than 15 percent of funding came from non-City sources, and the organization had less than 30 days of operating cash. WeHOPE responded with its corrective actions planned and taken to address the findings, and HSH has found WeHOPE to be in conformance with city standards.

## FISCAL IMPACT

The proposed lease would have an annual base rent of $1,597,320. Rent would be paid by the General Fund. As noted above, HSH would also pay a termination fee of $100,000, also from the General Fund.

**Costs Compared to Booking Agreement**

HSH estimates that by converting from the booking agreement to a lease, HSH would save approximately $1.4 million per year, or approximately $40 room per night. This includes both savings in the rent, as well as moving certain costs (such as meals, janitorial costs, and security) from the booking agreement to HSH service agreements). The comparison of costs is shown in Exhibit 2 below.

**Exhibit 2: Cost Comparison, Booking Agreement vs. Lease**

| Annualized Cost, Booking Agreement | |
|---|---|
| Room Rent | 3,203,811 |
| Meals | 1,139,400 |
| Services and Operations | 2,966,736 |
| **Total Budget** | **$7,309,947** |
| Number of Shelter Rooms | 97 |
| Nightly Room Rate | $206 |

| Annualized Cost, Proposed Lease | |
|---|---|
| Room Rent | $1,597,320 |
| Meals | 730,000 |
| Services and Operations | 3,577,695 |
| **Total Budget** | **$5,905,015** |
| Number of Shelter Rooms | 97 |
| Nightly Room Rate | $167 |
| | |
| **Annual Cost Savings** | **$1,404,932** |
| Nightly Rate Savings | $40 |

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

## RECOMMENDATION

Approve the proposed resolution.

| Item 11<br>File 25-0230 | Department:<br>Homelessness and Supportive Housing |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would approve the first amendment to the agreement between Abode Services and the Department of Homelessness and Supportive Housing (HSH) for Rapid Rehousing to extend the grant term by two years, for a total term of 4.5 years, and to increase the not to exceed amount by $9,282,568, for a total amount not to exceed $19,184,173. However, HSH intends to request an amendment to the proposed resolution to correctly state the grant amount and reduce the not to exceed amount to $18,402,770
- Rapid rehousing (RRH) supports households to exit homelessness through a time-limited rental subsidy in the private market for 12- to 24 months, with access to wraparound support services.

### Key Points

- Abode would continue serving adults without children. The amended grant requires Abode to serve a total of 240 people during the grant term with housing-focused case management, housing location services, housing coordination services, subsidy administration, landlord liaison services, and workforce development services.
- In FY 2023-24, Abode generally met service objectives of the grant and met three of the four outcome objectives, including placing clients into housing within 75 days. According to monitoring results, 47 percent of clients obtained employment or increased their income by the first annual tenant assessment compared to the goal of 80 percent. According to HSH, by the time clients exited the program, 86 percent had obtained employment or increased their income.

### Fiscal Impact

- The proposed amended not to exceed amount of $18,402,771 is consistent with the grant budget and includes a 15 percent contingency. The grant is funded by Proposition C (Our City, Our Home) funds.
- The FY 2025-26 budget of $5.0 million includes $3.1 million in direct client assistance (or approximately $23,000 per client served) as well as $1.2 million in salaries and benefits associated with 10.95 full-time equivalent positions. The FY 2026-27 budget decreases slightly to $4.4 million as clients exit the program.

### Recommendation

- 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

Rapid rehousing (RRH) supports households to exit homelessness through a time-limited rental subsidy in the private market for 12- to 24 months, with access to wraparound support services. According to the Department of Homelessness and Supportive Housing (HSH), the program's objective is to "empower households to assume full financial responsibility for their monthly rent and maintain housing stability through a combination of financial support and wrap-around services." The program offers one-time funded subsidy slots, meaning that once a household exits the program, the slot is not refilled.

Abode has administered the adult RRH program in San Francisco since its launch in 2021 as part of the effort to wind down the Shelter-in-Place hotel program and rehouse Shelter-in-Place hotel guests. New participants are referred by HSH via Coordinated Entry, which is designed to assess, prioritize, and match people experiencing homelessness to housing opportunities. The Coordinated Entry assessment measures chronicity of homelessness, vulnerability, and barriers to housing; clients deemed eligible are referred to appropriate supportive housing programs based on their unique needs.

### Selection & Current Grant

The grant agreement was procured pursuant to Administrative Code Chapter 21B, which allows selection of homeless service providers without competitive solicitations. The original agreement has a term of January 1, 2023 through June 30, 2025, with a not-to-exceed amount of $9,891,605. Under the original agreement, Abode provides housing location, coordination, landlord liaison, and subsidy administration services to 120 adults; responsibility for providing housing-focused case management services was shared by Abode and Five Keys, with Abode serving 100 adults and Five Keys serving 20 adults.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to the agreement between Abode Services and HSH to extend the grant term by 24 months, from June 30, 2025 to June 30, 2027 and to increase the not to exceed amount by $9,282,568, for a total amount not to exceed $19,184,173, and would also authorize HSH to enter into immaterial amendments to the contract. However, HSH intends request an amendment to the proposed resolution to reduce the not to exceed amount to $18,402,770, which reflects an increase of approximately $8.5 million compared to the existing agreement and is consistent with the proposed grant budget.

The Department proposes to double the size of the program by increasing the number of slots from 120 to 240.

**Services Provided**

Under the amended agreement, Abode Services would continue serving adults without the custody of children. Per the grant agreement, services include:

- **Housing-Focused Case Management Services** to support transition to permanent housing, including assisting clients with obtaining required documents to move into housing, referrals to resources, and coordinating with RRH administrators to ensure that clients are connected to appropriate services based on their needs prior to housing placement.
- **Housing Location Services** to identify and secure housing units that meet the needs of the served population.
- **Housing Coordination Services** to connect clients to units and eliminate barriers to housing placement (such as utility arrears, poor credit, and no renter history). Includes lease negotiation tenant support during housing search and move-in, and payment for related costs such as application fees, security deposit, furniture, and moving costs. Conduct monthly home visits for the first three months, then move to quarterly. Collaborate with case managers to support rent payments and tenancy stability. Perform income verification and rent calculation upon move-in and quarterly thereafter, and other services.
- **Subsidy Administration Services** to issue and document timely and accurate subsidy payments to landlords and property management and other types of financial assistance.
- **Landlord Liaison Services** between landlords and tenants to support ongoing housing stability, including quarterly check-ins with landlords, respond to lease violation or other complaints, and ensuring landlords conduct repairs and fulfill their legal responsibilities.
- **Workforce Development Services**, including an initial employment assessment and ongoing workforce development planning, as well as referrals to workforce development services specifically designed for RRH referrals, training and support to ensure job retention after placement.

**Performance Monitoring**

According to preliminary program monitoring results for FY 2023-24, Abode generally met service objectives of the grant and met three of the four outcome objectives in FY 2023-24, as shown in Exhibit 1. According to the results, 47 percent of clients obtained employment or increased their income by the first annual tenant assessment compared to the goal of 80 percent. According to HSH, by the time clients exited the program, 86 percent had obtained employment or increased their income. This reflects an improvement compared to Abode's performance in FY 2022-23 when Abode met only one of the four outcome objectives.

**Exhibit 1: Abode Services Outcome Objectives (Goals and Actuals) for FY 2023-24**

| | Goal | FY 22-23 Actual | FY 23-24 Actual |
|---|---|---|---|
| At least 90% of clients referred to the program will successfully move into housing | 90% | 76% | 97% |
| The average length of time for clients to obtain housing should be less than 75 days | 75 days | 128 days | 67 days |
| 90% of households will maintain their housing for a minimum of 12 months, move to other permanent housing, or be provided with more appropriate placements | 90% | 94% | 97% |
| At least 80% of clients shall obtain employment or increase their earned income by the first annual tenant assessment compared to their status at program enrollment | 80% | 41% | 47% |

Source: HSH

Note: shading indicates outcome objective was not met. The goal of 80% of clients obtaining employment/increasing their income is reduced to 75% in the proposed first amendment to the grant agreement.

Adobe and HSH have been able to reduce the time for clients to get into housing from 128 days in FY 2022-23 to 67 days in FY 2023-24. This timeline is better than the grant's goal of 75 days and similar to another HSH housing locator provider, Catholic Charities (25-0042).

Program monitoring for FY 2022-23 also identified a finding related to missing required documentation, including bimonthly case management check-ins, initial and quarterly housing stability plans, and quarterly income verification and rent recalculation. According to HSH, this finding was addressed by the provider and not indicated as a finding in the FY 2023-24 monitoring.

**Fiscal and Compliance Monitoring**

Abode Services underwent Citywide Fiscal and Compliance Monitoring in May 2024 for FY 2023-24, and there were no findings.

## FISCAL IMPACT

The proposed resolution would increase the not-to-exceed amount of the grant by $9,292,568 to $19,184,173. However, as noted above HSH intends to amend the proposed resolution to reduce the not to exceed amount to 18,402,770, consistent with the proposed budget shown in Exhibit 2 below. The annual grant budget is proposed to increase from approximately $3.3 million in FY 2024-25 to approximately $5.0 million in FY 2025-26 to accommodate additional clients and one-time move-in assistance for households, and then decrease slightly in FY 2026-27 to $4.4 million as clients exit RRH.

**Exhibit 2: Abode Services Expenditures for Rapid Rehousing Program**

| Expenditure Category | FY 2022-23 Actual (6 months) | FY 2023-24 Actual | FY 2024-25 Proposed | FY 2025-26 Proposed | FY 2026-27 Proposed | Total |
|---|---|---|---|---|---|---|
| Salaries & Benefits | $485,163 | $1,039,403 | $1,080,979 | $1,180,233 | $1,227,443 | **$5,013,221** |
| Operating Expense | 40,672 | 126,627 | 57,840 | 82,149 | 88,740 | **396,028** |
| Indirect Cost (14%) | 12,695 | 174,905 | 170,823 | 189,355 | 197,427 | **745,205** |
| Other Expenses | 745,260 | 1,765,561 | 1,968,750 | 3,527,562 | 2,841,085 | **10,848,218** |
| **Total Expenditures** | **1,283,790** | **3,106,495** | **3,278,392** | **4,979,300** | **4,354,695** | **17,002,671** |
| **Contingency (15%)** based on FY 2025-26 & FY 2026-27 budget | | | | | | **1,400,099** |
| **Total** | | | | | | **$18,402,770** |

Source: Appendix B of the amended agreement
Note: totals may not add due to rounding. Rental subsidies are included in the "Other Expense" budget line.

The FY 2025-26 annual budget of $5.0 million includes $3.1 million in direct client assistance and landlord incentives (under other expenses) such as rental subsidy payments, security deposits, and other client costs. The $3.1 million in direct client assistance is equal to approximately $23,000 per client served in FY 2025-26.[1] The FY 2025-26 budget also includes $1.2 million in salaries and benefits associated with 10.95 full-time equivalent (FTE) positions funded by the grant.

**Funding Source**

The program is fully funded by Homelessness Gross Receipts (Proposition C) funds.

**Actual Spending**

Expenditures to date show that Abode spent 65 percent of its budget from January to June 2023, and spent 81 percent of its budget in FY 2023-24. According to HSH staff, underspending in the first 18 months of the grant period was due to program ramp up process. Additionally, following the Shelter in Place hotel program's rehousing efforts there were delays in the referral process and slower placement rates in FY 2022-23 (128 days), which improved in FY 2023-24 (67 days).

## RECOMMENDATION

Approve the proposed resolution, as amended.

[1] The proposed grant is sized to serve 240 individuals during the grant term. Because the subsidies are time-limited and not backfilled once they expire, this translates into 98 subsidized clients in FY 2024-25 and 138 subsidized clients in FY 2025-26.

| Item 12<br>File 25-0231 | Department:<br>Homelessness and Supportive Housing |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution approves the fourth amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Episcopal Community Services (ECS), extending the contract by an additional three years, for a total term of nine years, and increasing the not-to-exceed amount by $9,038,341, bringing the total not-to-exceed amount to $23,630,286. However, HSH intends to request an amendment to the proposed resolution to reduce the term by one year (with a term end date of June 30, 2027) to align with plans to reprocure these services and to reduce the not to exceed amount to $20,400,596.

### Key Points

- Under an existing agreement, ECS operates the Henry Hotel, located at 106 Sixth Street, which provides site-based permanent supportive housing for formerly homeless adults (18 and older, without custody of minor children). The site has 121 rooms.
- In October 2023, the Board of Supervisors approved the Third Amendment to the agreement to extend the term through June 30, 2025, and increase the not-to-exceed amount to $14,591,945.
- According to HSH staff, rent collection is an ongoing challenge across permanent supportive housing sites. The FY 2023-24 monitoring report for the Henry Hotel cited a 47 percent rent collection rate compared to a goal of 90 percent.

### Fiscal Impact

- The proposed amended not to exceed amount of $20,400,596 is consistent with a two-year extension and includes a 15 percent contingency. The grant is funded by the General Fund and Proposition C revenues.

### Policy Consideration

- Legacy permanent supportive housing buildings (such as the Henry Hotel) are funded at a lower level per unit compared to newer permanent supportive housing sites. Going forward, HSH should determine if the funding inequity among projects is programmatically and fiscally sustainable. To address this difference, the City would need to either increase services at legacy buildings, which might reduce the number of units in the City's PSH portfolio without additional funding for HSH, or reduce funding for newer existing sites, consistent with the amounts in this grant agreement.

### Recommendation

- 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

**Homelessness in San Francisco**

During the 2024 Point-in-Time count, San Francisco identified 4,354 residents who were unsheltered, reflecting a 1 percent decrease from 2022 and a 16 percent decrease from 2019. The Department of Homelessness and Supportive Housing (HSH) supports a portfolio of 11,616 units of permanent supportive housing, 9,159 of which are site-based.

**Permanent Supportive Housing at Henry Hotel**

The Henry Hotel, located at 106 Sixth Street, provides site-based permanent supportive housing for formerly homeless, income-eligible adults (18 and older, without custody of minor children). The site has 121 rooms.

**Previous Approvals**

Episcopal Community Services (ECS) was chosen to operate the site in 2014 through a competitive process by the Human Services Agency. When HSH was formed in 2016, it continued the ECS agreement under Administrative Code Chapter 21B, which permits execution or amendment of agreements/contracts addressing homelessness without a competitive procurement process.

HSH entered into a new 3-year grant agreement with ECS on July 1, 2019, which was set to expire on June 30, 2022, with a total not to exceed amount of $8,877,679 to provide support services, property management, and master lease stewardship at the Henry Hotel for 121 participants.

In March 2022, the First Amendment extended the agreement for an additional 12 months through June 30, 2023, and increased the not to exceed amount by $860,833 for a total of $9,738,512.

In July 2023, the Second Amendment provided a no-cost extension for four months, moving the end date to October 31, 2023.

In October 2023, the Third Amendment extended the term by 20 months to June 30, 2025, and increased the not-to-exceed amount by $4,853,433 for a revised total of $14,591,945. This amendment was approved by the Board of Supervisors since the total contract amount surpassed $10,000,000 (File 23-0991).

**Multi-Year Procurement Plan**

HSH is implementing a multi-year procurement plan, aligned with updated performance measures, to re-procure services across various sites, including the Henry Hotel. The proposed extension aligns with the anticipated release of competitive solicitations for permanent supportive housing, projected for FY 2025–26. According to HSH, extending this provides sufficient time to conduct a solicitation for the PSH portfolio, negotiate agreements and budgets, and secure any necessary approvals (e.g., Homelessness Oversight Commission, Mayor and Board of Supervisors).

All HSH agreements include a "Termination for Convenience" clause, enabling the Department to terminate agreements without cause if or end the agreement earlier than the end of the term for instance, if ECS is not selected during re-procurement. In that event, HSH would develop transition plans to ensure continuity of support for existing tenants.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the fourth amendment to the grant agreement with Episcopal Community Services (ECS), extending the contract by an additional 36 months, from July 1, 2025, through June 30, 2028, and increasing the not-to-exceed amount by $9,038,341, bringing the total not-to-exceed amount to $23,630,286. However, HSH intends to request an amendment to the proposed resolution to reduce the term by one year (with a term end date of June 30, 2027) to align with the timelines of the Multi-Year Procurement Plan and to reduce the not to exceed amount to $20,400,596.

**Scope of Services**

This agreement with ECS encompasses three core responsibilities[1]:

1. Property Management involves daily oversight of building operations, such as tenant intake, unit orientation, rent collection, and essential maintenance tasks like cleaning, pest control, and timely repairs. Provides staffing for 24-hour front-desk coverage, periodic wellness checks and building security, and manages leases with PSH tenants. Lease enforcement procedures include issuing written notices or warnings when needed, helping tenants with rent-payment arrangements, and working with supportive services staff to address any issues that could escalate toward eviction.

2. Supportive Services are offered on a voluntary basis to all tenants, at a 1:25 ratio, focusing on case management that creates individualized service plans and links tenants to community resources for healthcare, mental health services, and financial benefits. Crisis support is provided for tenants experiencing housing instability, with staff working closely with property management to mediate conflicts and safeguard against evictions. Finally, staff organize social events, weekly community meetings, and tenant gatherings, and they facilitate exit planning for

[1] ECS holds a subcontract with Caritas for Property Management services at the Henry Hotel.

those preparing to leave the building to ensure ongoing support and a seamless transition to other housing options.

3. Stewardship of the Master Lease centers on the broader contractual relationship with the property owner, including negotiating lease terms, handling any amendments or renewals, and coordinating large-scale repairs or capital improvements. The master lease for the Henry Hotel is held by Episcopal Community Services, not the City, though this grant agreement funds those rental expenses. This function also requires informing the Department of Homelessness and Supportive Housing of major developments, such as building inspections or potential lease defaults, and ensuring that complete lease records are kept accurately and up to date.

**Performance**

HSH completed FY 2023-24 program monitoring for the Henry Hotel in October 2024, including a site visit in August 2024. In general, ECS met the grant's objectives for service delivery, though the report identified a couple areas for improvements, noted below. A breakdown of performance scores is detailed below in Exhibit 1.

The agreement has goals for tenants to complete satisfaction surveys. The tenant satisfaction surveys came in below target for both property management and support services. According to ECS, one major reason for the apparent dissatisfaction is that "neutral" responses were not recorded in the "satisfied" responses which substantially lowered the overall satisfaction percentages. Of those surveyed, 45 percent responded to questions about support services, and 47 percent to those about property management, with reported satisfaction rates of 56 percent and 60 percent, respectively. ECS outlined in their December 2, 2024, response to HSH's Program Monitoring that the organization plans to increase survey participation and satisfaction by utilizing the monthly community meetings to gather feedback.

Rent collection continues to be an ongoing challenge across permanent supportive housing, as non-payment of rent increased during and following the COVID-19 pandemic, when there were both state and local eviction moratoriums in effect. In 2023, HSH released Non-Payment of Rent Guidance to housing providers which emphasized engagement with tenants to assist them in complying with rent payment provisions in their leases in order to maintain their housing, including: rent reminders, payment plans, money management referrals, rent relief applications (including for the City's Emergency Rental Assistance Program), and benefits advocacy. The program monitoring report for the Henry Hotel cited a 47.38 percent collection rate on tenant portions of monthly rent. HSH confirms that any revenue shortfall can be offset by reallocation of City funding, subject to HSH's grant budget modification procedure.

**Exhibit 1: FY 2023-24 Performance Monitoring Assessment Results for ECS at the Henry Hotel**

| Type | Metric | Time Frame | Goal (%) | Actual (%) |
|---|---|---|---|---|
| Service | Initial Assessment for Healthcare Services | 60 Days | 100 | 100 |
| Service | Initial Assessment for Benefits | 60 Days | 100 | 100 |
| Service | Planning for Exiting Participant | As Needed | 100 | 100 |
| Service | Outreach Frequency | Monthly | 100 | 99.75 |
| Service | Stability Support for Struggling Participant | As Needed | 100 | 100 |
| Service | Unit Turnover Time | 21 Days | 100 | 100 |
| Service | Move-in Time After Referral | 30 Days | 100 | 100 |
| Service | Rent Collection from Tenant | Monthly | 90 | 47.38 |
| Service | Initial Tenant Contact | 3 Times in 60 Days | 100 | 100 |
| Service | Service Plan Review | Bi-Annually | 100 | 100 |
| Outcome | Participant Housing Stability | Annually | 90 | 100 |
| Outcome | Individualized Plans Review | Bi-Annually | 80 | 100 |
| Outcome | Tenant Survey (Support Services) | Annually | 80 | 56 |
| Outcome | Lease Violation Resolution without Eviction | As Needed | 85 | 99 |
| Outcome | Tenant Survey (Property Management Services) | Annually | 65 | 60 |
| Missing | Occupancy Rate | Monthly | >93 | 95 |

Source: HSH

**Fiscal and Compliance Monitoring**

ECS underwent citywide nonprofit fiscal monitoring most recently in FY 2023-24 and there were no unresolved findings.

## FISCAL IMPACT

The proposed Fourth Amendment increases the total contract amount by $9,038,341, from $14,591,945 to $23,630,286. However, as noted above HSH intends to amend the proposed resolution to reduce the not to exceed amount to $20,400,596, consistent with a two-year (rather than a three-year) extension. This amount includes both direct operating costs and supportive services costs. The detailed breakdown of the program's revenue sources and expenditures is provided below in Exhibit 2 and reflects the updated budget for a two-year extension.

HSH funding totals $19,558,068 and the grant also includes a 15 percent contingency (which would be $842,528 based on the updated budget) to provide cost of doing business and other budget modifications during the grant term, for a total not to exceed amount of $20,400,596.

**Exhibit 2: Proposed Revenues and Expenditures, FY 2019–2028**

| | | | *Extension Term* | | |
|---|---|---|---|---|---|
| | **FY 2020-24** | **FY 2024-25** | **FY 2025-26** | **FY 2026-27** | **Total** |
| **Expenditures** | Actuals | Budget | Budget | Budget | |
| Salaries & Benefits | 2,586,911 | 698,196 | 690,606 | 690,606 | 4,666,319 |
| Operating Expense | 5,360,829 | 480,840 | 481,104 | 481,104 | 6,803,877 |
| Indirect Cost | 1,034,475 | 184,733 | 192,058 | 192,058 | 1,603,324 |
| Other Expenses | 5,866,364 | 2,450,701 | 2,450,701 | 2,450,701 | 13,218,467 |
| Capital Expenditure | 250,292 | 450,973 | | | 701,265 |
| **Total Expenditures** | **15,098,873** | **4,265,443** | **3,814,470** | **3,814,470** | **26,993,256** |
| | | | | | |
| **Revenues** | | | | | |
| **HSH Revenues Subtotal** | **10,681,817** | **3,259,399** | **2,808,426** | **2,808,426** | **19,558,068** |
| General Fund | 11,973,956 | 3,138,157 | 2,687,184 | 2,687,184 | 20,486,481 |
| Prop C | 152,273 | 121,242 | 121,242 | 121,242 | 515,999 |
| Adjustments to Actuals | (1,444,412) | | | | (1,444,412) |
| **Other Revenues Subtotal** | **4,417,056** | **1,006,044** | **1,006,044** | **1,006,044** | **7,435,188** |
| Rental Income | 2,361,812 | 295,740 | 295,740 | 295,740 | 3,249,032 |
| CoC Rental Assistance | 2,055,244 | 710,304 | 710,304 | 710,304 | 4,186,156 |
| **Total HSH + Other Revenues** | **15,098,873** | **4,265,443** | **3,814,470** | **3,814,470** | **26,993,256** |

Source: HSH

Note: Totals might not add due to rounding.

The grant was underspent by $1,444,412 between FY 2019-20 and FY 2023-24, including $712,067 in FY 2023-24. According to HSH, underspending occurred because of temporary case-manager vacancies. ECS also reported that property management underspent due to higher-than-expected tenant income, which offsets City expenditures. HSH expects spending to rise in future years, both to fill vacant positions and to address any additional repair or programming needs.

**Funding Sources**

For the proposed extended term, the grant's primary source of funding is the City's General Fund (approximately 70%), which covers both service and property-management activities. Additional revenue comes from Homelessness Gross Receipts Tax (Proposition C) (approximately 3%), tenant rent contributions (approximately 8%), and federal Continuum of Care subsidies (approximately 19%), which help offset the overall operating costs.

## POLICY CONSIDERATION

**Cost Per Unit**

The City's cost to operate the Henry Hotel is $31,525 per unit, including support services and property management. This is approximately half the unit cost of recent permanent supportive housing projects (42 Otis and 1174 Folsom). This is striking because the other projects with higher costs are City-owned and do not have rental expenses, as this proposed grant agreement does.

According to HSH, some of the differences in PSH unit cost is driven by the population served and building size (42 Otis and 1174 Folsom both have less than 50 units and serve transitional age youth), as well as certain Homekey requirements, such as insurance, that result in greater costs for the new Homekey projects. However, beyond these factors, HSH reports that legacy master lease sites (such as the Henry Hotel) are funded at a lower level per unit compared to newer permanent supportive housing sites.

Going forward, HSH should determine if the funding inequity between legacy projects and new projects is programmatically and fiscally sustainable. To address this difference, the City would need to either increase services and funding at legacy buildings, which might reduce the number of units in the City's PSH portfolio without additional funding for HSH, or lower permanent supportive housing costs for existing and any proposed new beds, consistent with the amounts in this grant agreement.

## RECOMMENDATION

Approve the proposed resolution, as amended.

| Item 13<br>File 25-0232 | Department:<br>Homelessness and Supportive Housing |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution approves the second amendment to a grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Five Keys, extending the grant term by two additional years, from June 2025 through June 30, 2027, and increasing the not-to-exceed amount by $4,857,296, from $9,055,337 to $13,912,633.

### Key Points

- The Artmar Hotel at 433 Ellis Street serves formerly homeless transitional aged youth (18–27). Under this agreement, Five Keys is responsible for supportive services, property management, and stewardship of the master lease. As of March 2025, the building had one offline unit (undergoing cleaning or repair) and 56 of 57 available residential units occupied, with three rooms designated for janitorial/storage or staff break room.
- Five Keys was initially selected to open and operate the program in 2021 under Administrative Code Section 21B, which allows HSH to contract for homeless services without a competitive solicitation. HSH intends to conduct a competitive solicitation for these PSH services in FY 2025-26.
- Five Keys met all grant service and outcome goals in FY 2023–24, including a 90 percent rent collection rate and a 93 percent occupancy threshold. The most recent citywide nonprofit monitoring for Five Keys had no unresolved findings; no further monitoring was required in FY 2023–24.

### Fiscal Impact

- The resolution increases the not-to-exceed amount by $4,857,296, from $9,055,337 to $13,912,633.
- For the proposed extended term, the agreement's primary source of funding is the Homelessness Gross Receipts Tax (Proposition C), covering approximately 96 percent of expenses, and four percent comes from tenant rent contributions, which is adjusted according to changes in tenant income.

### 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

### Homelessness in San Francisco

During the 2024 Point-in-Time count, San Francisco identified 4,354 residents who were unsheltered, reflecting a 1 percent decrease from 2022 and a 16 percent decrease from 2019. According to HSH, the City has 11,616 total permanent supportive housing units, of which 9,159 units are site-based.

### Agreement History

On June 1, 2021, HSH entered into a Grant Agreement with Five Keys Schools and Programs (Five Keys) to open and operate the Artmar Hotel, located at 433 Ellis Street. This site provides 60 Permanent Supportive Housing (PSH) units for formerly homeless Transitional Aged Youth aged 18 to 27. The original grant was for $6,704,364 and had a term June 2021 – June 2024.

Five Keys was originally selected in 2021 under Administrative Code Section 21B, which permits execution or amendment of contracts addressing homelessness without a competitive procurement process. According to HSH, Five Keys was selected for provision of Artmar Hotel based on the organization's experience and ability to begin services in a timely manner.

The first amendment to the agreement extended services through FY 2024–25 and increased the not to exceed amount by $2,350,973, for a total of $9,055,337. The original agreement and first amendment did not require Board of Supervisors approval.

As of March 2025, the building had one offline unit (undergoing cleaning or repair) and 56 of 57 available residential units occupied, with three rooms designated for janitorial/storage or staff break room.

### Multi-Year Procurement Plan

HSH is implementing a multi-year procurement plan to re-procure services across various sites, including the Artmar Hotel. The proposed extension aligns with the anticipated release of competitive solicitations for permanent supportive housing, projected for FY 2025–2026. According to HSH, extending this grant through June 2027 provides sufficient time to conduct a solicitation for PSH providers, negotiate agreements, and secure any necessary approvals (e.g., Commission, Board of Supervisors, Civil Service Commission).

All HSH agreements include a "Termination for Convenience" clause, enabling the Department to terminate agreements without cause if, for instance, Five Keys is not selected during re-

procurement. In that event, HSH would develop transition plans to ensure continuity of support for existing tenants.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves the second amendment to a grant agreement with Five Keys, extending the grant term by two additional years, from June 2025 through June 30, 2027—and increasing the not-to-exceed amount by $4,857,296 , from $9,055,337 to $13,912,633.

**Scope of Services**

Under this agreement, Five Keys is responsible for three core functions at the Artmar Hotel:

1. Property Management involves daily oversight of building operations, such as tenant intake, unit orientation, rent collection, and essential maintenance tasks like cleaning, pest control, and timely repairs. Provides staffing for 24-hour front-desk coverage periodic wellness checks and building security and also manages leases with PSH tenants. Lease enforcement procedures include issuing written notices or warnings when needed, helping tenants with rent-payment arrangements, and working with supportive services staff to address any issues that could escalate toward eviction.

2. Supportive Services are offered on a voluntary basis to all tenants, at a 1:20 ratio, focusing on case management that creates individualized service plans and links tenants to community resources for healthcare, mental health services, and financial benefits. Crisis support is provided for tenants experiencing housing instability, with staff working closely with property management to mediate conflicts and safeguard against evictions. Finally, staff organize social events, weekly community meetings, and tenant gatherings, and they facilitate exit planning for those preparing to leave the building to ensure ongoing support and a seamless transition to other housing options.

3. Stewardship of the Master Lease centers on the broader contractual relationship with the property owner, including negotiating lease terms, handling any amendments or renewals, and coordinating large-scale repairs or capital improvements. The master lease for the Artmar Hotel is held by Five Keys, not the City, though this agreement funds those rental expenses. This function also requires informing the Department of Homelessness and Supportive Housing of major developments, such as building inspections or potential lease defaults, and ensuring that complete lease records are kept accurately and up to date.

**Program Monitoring**

HSH completed FY 2023-24 program monitoring for the Artmar Hotel in October 2024, including a site visit. Five Keys met all of the grant's service and outcome objectives as noted below. A breakdown of performance scores is detailed below in Exhibit 1.

**Exhibit 1: FY 2023-24 Performance Monitoring Results for Five Keys at Artmar Hotel**

| Type | Metric | Time Frame | Goal (%) | Actual (%) |
|---|---|---|---|---|
| Service | Initial Assessment for Primary Healthcare | 90 Days | 100 | **100** |
| Service | Initial Assessment for Mental Healthcare | 90 Days | 100 | **100** |
| Service | Initial Assessment for Benefits | 90 Days | 100 | **100** |
| Service | Initial Service Plan Consultation Offer | 90 Days | 100 | **100** |
| Service | Service Plan Review | Bi-Annually | 80 | **80** |
| Service | Planning for Exiting Participant | As Needed | 100 | **100** |
| Service | Outreach Frequency | Monthly | 95 | **100** |
| Service | Stability Support for Struggling Participant | As Needed | 100 | **100** |
| Service | Unit Turnover Time | 7 Day average | N/A | **3 Day Average** |
| Service | Rent Collection from Tenant | Monthly | 90 | **90** |
| Service | Tenant Survey Participation | Annually | 65 | **73** |
| Outcome | Participant Housing Stability | Annually | 90 | **100** |
| Outcome | Exiting Tenant Housing Stability | Annually | 75 | **100** |
| Outcome | Service Plan Review | Bi-Annually | 80 | **80** |
| Outcome | Income Maximization | Bi-Annually | 100 | **100** |
| Outcome | Tenant Survey (Support Services) | Annually | 80 | **94.7** |
| Outcome | Lease Violation Resolution without Eviction | As Needed | 85 | **100** |
| Outcome | Tenant Survey Satisfaction (Property Management Services) | Annually | 85 | **100** |
| Missing | Occupancy Rate | Monthly | 90 | **92** |

Source: HSH

**Occupancy and Vacancy Rates**

Although the property has 60 units, Five Keys served 64 total households in FY 2023–24. As tenants exit, new referrals move in. On January 29, 2025, the vacancy rate stood at 12 percent, reflecting two units awaiting referral, three units with referrals in progress, and two offline units under maintenance. By March 2025, only one unit remained offline, and 56 of 57 available units were occupied, keeping the overall vacancy at or below HSH's goal of 93 percent occupancy.

**Tenant Income and Rent Collection**

Rent collection in PSH is based on tenant income, and tenants reporting zero income must certify their status at regular intervals. In FY 2023–24, Five Keys recorded more than half of their tenants with no income or reliance on public benefits. In such cases, rent owed is zero. As of October 9, 2024, the rent collection rate was 90 percent of rent owed.

**Fiscal and Compliance Monitoring**

Five Keys most recently underwent citywide non-profit fiscal monitoring in FY 2022–23 and there were no unresolved findings. Because there were no significant findings and other risk factors, Five Keys was exempt from fiscal and compliance monitoring in FY 2023-24.

## FISCAL IMPACT

The proposed Second Amendment increases the agreement from $9,055,337 to $13,912,633 (including a grant budget of $13,215,088 plus a 15 percent contingency). Exhibit 2 below provides an overview of the program's revenues and expenditures under the proposed amendment.

**Exhibit 2: Revenues and Expenditures under Proposed Amendment FY 2021–2027**

| | | | *Extension Term* | | |
|---|---|---|---|---|---|
| | **FY 2021-24** | **FY 2024-25** | **FY 2025-26** | **FY 2026-27** | **Total** |
| **Expenditures** | Actuals | Budget | Budget | Budget | |
| Salaries & Benefits | $3,219,518 | $1,219,373 | $1,218,872 | $1,218,872 | $6,876,635 |
| Operating Expense | 764,688 | 293,047 | 293,547 | 293,547 | 1,644,829 |
| Indirect Cost | 597,631 | 226,863 | 226,863 | 226,863 | 1,278,220 |
| Other Expenses (Not Indirect) | 1,959,115 | 681,845 | 681,845 | 681,845 | 4,004,650 |
| **Total Expenditures** | **6,540,952** | **2,421,128** | **2,421,127** | **2,421,127** | **13,804,334** |
| | | | | | |
| **Revenues** | | | | | |
| General Fund | 2,248,242 | | | | 2,248,242 |
| State - Homeless Housing Assistance & Prevention | 3,117,952 | | | | 3,117,952 |
| Educational Revenue Augmentation Fund | 732,484 | | | | 732,484 |
| Prop C | 140,955 | 2,325,152 | 2,325,152 | 2,325,152 | 7,116,411 |
| **Total HSH Revenues** | **6,239,633** | **2,325,152** | **2,325,152** | **2,325,152** | **13,215,089** |
| | | | | | |
| Rental Income | 301,320 | 95,976 | 95,976 | 95,976 | 589,248 |
| **Total Other Revenues** | **301,320** | **95,976** | **95,976** | **95,976** | **589,248** |
| | | | | | |
| **Total HSH + Other Revenues** | **$6,540,952** | **$2,421,128** | **$2,421,128** | **$2,421,128** | **$13,804,337** |

Source: HSH

Note: Totals might not add due to rounding.

There has not been significant underspending on this grant in prior years.

**Funding Sources**

For the proposed extended term, the agreement's primary source of funding is the Homelessness Gross Receipts Tax (Proposition C), covering approximately 96 percent, which includes both supportive services and property management. About four percent of operating revenue comes from tenant rent contributions, which is adjusted according to changes in tenant income. If tenants have no income, zero rent is collected; if their income increases, their rent portion increases, reducing the City's share.

## POLICY CONSIDERATION

The City's cost to operate the Artmar Hotel is $40,352 per unit, including support services and property management. As discussed in our report on File 25-0231, inequities exist between "legacy" permanent supportive housing sites and newer developments, with older receiving 30-50 percent less funding per unit. HSH should consider addressing these funding disparities in the upcoming PSH procurement to ensure equitable resource allocation across all PSH properties.

## RECOMMENDATION

Approve the proposed resolution.

| Item 14<br>File 25-0263 | Department:<br>Homelessness & Supportive Housing |
|---|---|

## EXECUTIVE SUMMARY

### Legislative Objectives

- The proposed resolution would approve the second amendment to the grant agreement between the Department of Homelessness and Supportive Housing (HSH) and Mission Action, Inc. for emergency shelter to increase the not to exceed amount by $8,530,284 for a total amount of $18,529,877 and to extend the term by two years through June 30, 2027, for a total term of six years.

### Key Points

- Mission Action, which was formerly known as Dolores Street Community Services, provides emergency shelter services at the Dolores Shelter Program located at 1050 South Van Ness Avenue. The Program currently provides 91 shelter beds and will provide a total of 152 beds starting in October 2025, following completion of an expansion project. The existing agreement has a not to exceed amount of $9,999,593 and a term end date of June 30, 2025.
- Under the proposed second amendment, Mission Action will continue to provide emergency shelter at the Dolores Shelter Program, as well as hot meals and support services to adults experiencing homelessness. The shelter operates between 6:00pm and 8:00am and provides breakfast and dinner.

### Fiscal Impact

- The proposed budget of $18,529,877 includes a 15 percent contingency and funding for the extended term. It also includes $1.9 million in one-time capital expenses associated with the expansion and $990,745 in annual costs to support operations of the 61 new beds.
- The FY 2025-26 annual budget is $3.9 million, which includes $2.4 million for salaries and benefits associated with 35.76 full time equivalent (FTE) positions funded by the grant and $1.0 million in operating expenses, such as property rent and food to provide breakfast and dinner daily.
- The grant is funded by the General Fund.

### 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

Under an existing agreement with the Department of Homelessness and Supportive Housing, Mission Action, Inc. (Mission Action), which was formerly known as Dolores Street Community Services, provides emergency shelter services at the Dolores Shelter Program located at 1050 South Van Ness Avenue. Mission Action has operated the program since 1982, and in FY 2023-24, the Program served 309 adults. The Program had a reduced capacity of 39 beds due to COVID-19 restrictions but gradually increased capacity to 91 beds between November 2023 and January 2024. Capacity will be increased to 152 beds following completion of an expansion project in September 2025. As of April 2025, the City funds 3,580 shelter beds.

The original agreement had a three-year term from July 1, 2021 through June 30, 2024 and a not to exceed amount of $8,738,572. In July 2024, HSH executed a first amendment to the agreement to extend the term by one year through June 30, 2025 and increase the not to exceed amount by $1,261,021 for a total not to exceed of $9,999,593. The first amendment also changed the name of the grantee from Dolores Street Community Services to Mission Action (a new name for the same provider) and provided terms for the project to expand the Dolores Shelter Program by 61 beds from 91 beds (as of July 2024) to 152 beds, including a new 48-bed dormitory on the second floor and the renovation of the existing 24-bed Santa Ana dormitory on the first floor. The agreement specified a project completion date of May 1, 2025. However, the project is delayed due to delays in hiring an architect to draft architectural plans and delays associated with Mission Action's renegotiation of the lease with the building owner to build out the additional space. According to HSH staff, Mission Action has hired CB2, as the contractor, to begin construction, and HSH staff anticipate construction to take three months and to be completed by September 1, 2025.

### Selection

As allowed by Chapter 21B of the Administrative Code, HSH did not use a competitive solicitation to procure this service. According to HSH staff, Mission Action was selected as the grantee due to their demonstrated experience providing culturally competent emergency shelter services in the Mission Neighborhood.

## DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the second amendment to the grant agreement between HSH and Mission Action, Inc. for emergency shelter to increase the not to exceed

amount by $8,530,284 for a total amount of $18,529,877 and to extend the term by two years through June 30, 2027, for a total term of six years.

According to HSH staff, HSH plans to reprocure services for this grant and other shelter services through a competitive solicitation as part of the department's multi-year procurement plan. The proposed two-year extension aligns with HSH's anticipated procurement timeline.

**Scope of Services**

Under the proposed second amendment, Mission Action will continue to provide emergency shelter at the Dolores Shelter Program, as well as hot meals and support services to adults experiencing homelessness. The shelter operates between 6:00pm and 8:00am and provides breakfast and dinner. The agreement extends the shelter completion date by four months to September 1, 2025.

**Program Monitoring**

According to the FY 2023-24 program monitoring report, the provider met three out of four service objectives[1], including achieving an average daily bed occupancy rate of 95 percent, and did not meet the only outcome objective. Detail on the two objectives not met by the provider is provided below:

- The provider did not provide verification that 100 percent of shelter staff completed the required training. In a response letter, the provider reported that all staff will complete required training by June 2025.
- The provider did not provide any guest satisfaction survey data to HSH. The agreement required that at least 75 percent of guests who complete a quarterly satisfaction survey rate the shelter services as good or excellent. According to HSH, the provider uploaded quarterly satisfaction data in Carbon in October 2024 and January 2025, and more than 75 percent of guests who completed the survey rated services as good or excellent in both quarters.

Program monitoring identified three additional findings that were administrative in nature, including the failure to document supervisor review of client case files, to send out daily bed availability to referral partners, and to provide metrics in monthly and quarterly Carbon reports. HSH reports that these findings were addressed by the provider.

Finally, program monitoring found that the provider was not meeting the required case management ratio (1:25) but stated that the provider committed to meeting the ratio following completion of the shelter expansion project.

[1] One additional service objective that required biometric check-in of clients is no longer applicable, as HSH no longer requires biometric check-in.

*New Objectives*

The proposed second amendment adds four new service objectives, related to intake and program orientation, creation of service plans, referral provision for benefits, employment and health services, and referral provision for problem solving or assessment through Coordinated Entry. The amendment also adds one new outcome objective related to supporting housing referral status guests to gather and upload documents to meet document readiness standards. New objectives added align with standardized objectives across similar temporary shelter program models according to HSH staff.

**Fiscal and Compliance Monitoring**

The Department of Public Health conducted the FY 2023-24 Citywide Nonprofit Fiscal and Compliance Monitoring for the grantee and identified no findings.

## FISCAL IMPACT

The proposed resolution would approve the amended grant agreement between HSH and Mission Action for a total not-to-exceed amount of $18,529,877, including a 15 percent contingency of $1,200,255, as shown in Exhibit 1 below. The grant is funded by the General Fund. Underspending of approximately 16 percent[2] in FY 2023-24 was due to delays in the shelter expansion project according to HSH staff.

**Exhibit 1: Proposed Grant Budget**

| Year | Actual Spend* | Projected Spend | Total Spend |
|---|---|---|---|
| FY 2021-22 | $513,365 | | $513,365 |
| FY 2022-23 | 1,881,021 | | 1,881,021 |
| FY 2023-24 | 2,711,307 | | 2,711,307 |
| FY 2024-25 | 1,446,445 | 2,775,785 | 4,222,230 |
| FY 2025-26 | | 3,877,007 | 3,877,007 |
| FY 2026-27 | | 4,124,692 | 4,124,692 |
| **Total**** | **$6,552,138** | **$10,777,484** | **$17,329,622** |
| Contingency (15% of Extended Term) | | | 1,200,255 |
| **Not to Exceed** | | | **$18,529,877** |

Source: HSH

*Actual spend through December 2024

**Capital Expenses**

The total budget of $17.3 million excluding the contingency includes approximately $1.9 million in capital expenses associated with the shelter expansion. This reflects an increase of $1.1 million

[2] Underspending of $534,579 in FY 2023-24 includes $317,139 in underspending in ongoing expenses (11%) and $217,440 in underspending in one-time expenses (66%) associated with delays in increasing shelter capacity following the removal of COVID-19 restrictions.

compared to the capital budget under the existing agreement. According to HSH staff, the full cost of capital improvements was not previously included in the budget. In FY 2024-25, HSH approved $1.1 million in one-time capital costs (through a budget modification under the existing agreement), following completion of architectural plans, to provide funding to build out two new dorms, including construction of new bathrooms, as well as soft costs.

**Annual Budget**

The FY 2025-26 annual budget is $3.9 million, which includes $2.4 million for salaries and benefits associated with 35.76 full time equivalent (FTE) positions funded by the grant and $1.0 million in operating expenses, such as property rent and food to provide breakfast and dinner daily. The FY 2026-27 budget increases by 6.4 percent compared to the prior year. Exhibit 2 below shows the proposed program budget under the extended grant agreement.

**Exhibit 2: Annual Budget, Two-Year Extension**

| Expenditures | FY 2025-26 | FY 2026-27 | 2-Year Total |
|---|---|---|---|
| Salaries & Benefits | $2,390,460 | $2,543,120 | $4,933,579 |
| Operating Expense | 980,851 | 1,043,569 | 2,024,420 |
| Indirect Cost (15%) | 505,697 | 538,003 | 1,043,700 |
| **Total Expenditures** | **$3,877,007** | **$4,124,692** | **$8,001,699** |

Source: HSH

According to HSH staff, the proposed budget includes $990,745 in annual costs to support operations related to the shelter expansion. The new beds are expected to be operational by October 2025, and costs are prorated in FY 2025-26 to $743,059.

## RECOMMENDATION

Approve the proposed resolution.