

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS


BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: January 7, 2026 Budget and Finance Committee Meeting

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Item 1 File 25-1170	Department: San Francisco International Airport (Airport)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <p>The proposed resolution would authorize the Airport to implement the Food and Beverage Minimum Annual Guarantee (MAG) and Pre-Security Rent Reduction Program for certain food and beverage concession tenants. The proposed program terms include: (1) A one-time reset of the MAG commencing in CY 2026 to the lesser of the existing MAG or 12 percent of gross revenues during CY 2024 for 12 qualifying post-security food and beverage leases; (2) A one-time reset of the MAG commencing in CY 2026 to the lesser of the existing MAG or 6 percent of gross revenues during CY 2024 for six qualifying pre-security food and beverage leases; (3) Establish percentage rent at six percent of gross revenues commencing on January 1, 2026 for seven qualifying pre-security food and beverage leases; and (4) Change the method for adjusting the MAG from an annual CPI adjustment to adjusting to the greater of the existing MAG or 85 percent of prior year's base rent for all food and beverage leases, commencing in 2026.</p> <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Airport currently has 69 food and beverage leases, which is a category of concession leases that include quick serve (counter service) operations, sit-down restaurants, coffee shops, and grab-and-go operations. Under the terms of their leases, 67 of the 69 food and beverage tenants currently pay rent annually to the Airport equal to the MAG rent or a tiered percentage rent based on gross revenues, whichever is greater. In addition, MAG rent for the food and beverage leases is adjusted annually by the Consumer Price Index. • Passenger spending at food and beverage businesses at SFO has not kept pace with inflation since the fall of 2023. Per passenger spending at food and beverage businesses has decreased by an average of approximately two percent per month from October 2023 to October 2025 and declined for 18 of those months. • Eight tenants (who did not qualify for the one-time MAG reset) have decided to opt out of the program and maintain the existing CPI-based MAG annual adjustment. However, this is not reflected in the proposed resolution and supporting documents. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The Airport estimates that the rental reduction program will result in a projected decrease of \$1.84 million in rent in CY 2026. The Airport makes an Annual Service Payment to the City's General Fund, equal to 15 percent of concession revenues. The projected \$1.84 million decrease in rent would result in decreased transfers to the General Fund of approximately \$276,000 in CY 2026. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend Attachment A in the proposed resolution to correctly show which leases will be amended as part of the rent reduction program, as shown in Appendix 2 of our report. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that modification of any lease of real property for a period of ten years or more or that has revenue to the City of \$1 million or more is subject to Board of Supervisors approval.

BACKGROUND**Airport Food and Beverage Leases**

The Airport currently has 69 food and beverage leases, which is a category of concession leases that include quick serve (counter service) operations, sit-down restaurants, coffee shops, and grab-and-go operations. The leases include both pre-security (before the security checkpoint) and post-security (past the checkpoint) locations.

The Airport previously amended certain leases, including food and beverage leases, to (1) waive certain rents and fees due to the Airport between April 2020 and December 2020 under the Airport's COVID-19 Emergency Rent Relief Program¹ and (2) extend lease terms by up to three years and six months to eligible concessionaires under the COVID-19 Lease Extension Program.²

Concession Rent

Under the terms of their leases, 67³ of the 69 food and beverage tenants currently pay rent annually to the Airport equal to the Minimum Annual Guarantee (MAG) rent or a tiered percentage rent based on gross revenues, whichever is greater. The tiered percentage rent structures for the leases generally range from six to eight percent of gross revenues for the first tier to 10 to 12 percent of gross revenues for the top tier (with varying levels of amount thresholds).

In addition, MAG rent for the food and beverage leases is adjusted annually by the Consumer Price Index (CPI), which typically results in an increase of approximately two to three percent per year.

¹ In January 2021, the Board of Supervisors provided the Airport delegated authority to amend leases to waive MAG and percentage rents under the Airport's COVID-19 Emergency Rent Relief Program (File 20-1278). This Rent Relief Program was funded by federal stimulus monies under the CARES Act.

² In April 2024, the Board of Supervisors approved the COVID-19 Lease Extension Program for certain Airport food and beverage, retail, and service concession tenants, allowing the Airport to offer lease extensions of up to three years and six months (File 24-0049).

³ Sky Terrace Employee Café has a tiered percentage rent only. Marina's Café in the Rental Car Center is in an extended holdover period and is only paying percentage rent.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Airport to implement the Food and Beverage Minimum Annual Guarantee and Pre-Security Rent Reduction Program for certain food and beverage concession tenants. The proposed rent reduction program terms are as follows:

- A one-time reset of the MAG commencing in CY 2026 to the lesser of the existing MAG or 12 percent of gross revenues during CY 2024 for 12 qualifying post-security food and beverage leases;
- A one-time reset of the MAG commencing in CY 2026 to the lesser of the existing MAG or 6 percent of gross revenues during CY 2024 for six qualifying pre-security food and beverage leases;
- Establish percentage rent at six percent of gross revenues commencing on January 1, 2026 for seven qualifying pre-security food and beverage leases; and
- Change the method for adjusting the MAG from an annual CPI adjustment to adjusting to the greater of the existing MAG or 85 percent of prior year's base rent for all food and beverage leases, commencing in 2026

The proposed resolution also approves amendments to the existing leases to reflect the proposed rent reduction program. As further discussed below, the Airport states that the eight tenants who have opted out of the program will not have their leases amended. We recommend that Attachment A in the proposed resolution be amended to correctly show which leases will be amended as part of the rent reduction program. Appendix 2 to this report shows the updated Attachment A.

Criteria and Qualifying Leases

Out of 69 food and beverage leases, the Airport determined that 18 pre-security and post-security leases⁴ qualified for the MAG one-time reset. To qualify for the one-time MAG reset, tenants in post-security locations must have a CY 2024 MAG greater than 12 percent of their gross revenues during 2024. For tenants in pre-security locations, their CY 2024 MAG must be greater than six percent of their gross revenues during 2024.⁵

As part of the program, seven food and beverage leases at pre-security locations qualify for a reduction in percentage rent to a flat six percent of gross revenues. Six pre-security leases will receive both a one-time MAG reset and percentage rent reduction as part of the program. Appendix I summarizes the 19 qualifying pre-security and post-security leases receiving a MAG reset, percentage rent reduction, or both.

⁴ This includes 12 post-security leases and six pre-security leases.

⁵ According to the Airport, estimated sales were used for the basis of the calculations for leases which did not operate a full 12 months in 2024 or had only a portion of their premises open in 2024.

In addition, as previously mentioned, the program would change the annual MAG adjustment methodology for all food and beverage leases. However, the Airport stated that eight tenants⁶ in post-security locations (who did not qualify for the one-time MAG reset) have decided to opt out of the program and maintain the existing CPI-based MAG annual adjustment. All eight tenants' percentage rent exceeded the MAG in 2024.

Need for Rent Reduction Program

Passenger spending at food and beverage businesses at SFO has not kept pace with inflation since the fall of 2023. According to data provided by the Airport, per passenger spending at food and beverage businesses has decreased by an average of approximately two percent per month over the two-year period from October 2023 to October 2025 and declined for 18 of those months. In addition, according to a study⁷ conducted by the Airport's concession consultant⁸, average losses before interest and taxes in 2023 and 2024 for quick serve (counter service) businesses and sit-down restaurants were approximately two percent and seven percent, respectively. However, average gains were 18 percent for coffee shops and five percent for grab-and-go operations. The majority (15) of the tenants qualifying for the MAG reset and/or percentage rent reduction are quick serve businesses or sit-down restaurants. Airport staff believe that changes in consumer spending confidence could possibly be driving the decline in passenger spending at food and beverage businesses. We reviewed the aggregated results of the study but not the individual profit and loss statements because the Airport did not provide them.

According to data provided by the Airport, base rent for the 18 tenants qualifying for the one-time MAG reset averaged 15 percent of gross revenues in 2024, while the remaining 45⁹ tenants averaged approximately 10 percent of gross revenues. According to the memo from the Airport Director to the Airport Commission on the proposed rent reduction program (Airport Memo), the initial business deals were planned with rent in the range of 10 to 11 percent of gross revenues.¹⁰

Consequently, to support the financial viability of the leases, the Airport is proposing a one-time reset of the MAG commencing in CY 2026 to the lesser of the MAG or 12 percent of gross revenues in CY 2024 for post-security leases and to the lesser of the MAG or six percent of gross revenues in CY 2024 for pre-security leases. As previously discussed, this would reduce the MAG in CY 2026 for 18 out of 69 food and beverage leases. The Airport decided to set the gross revenues threshold to 12 percent because it was determined to be the top end of market rent

⁶ The tenants opting out of the program include: (1) Andale Management Group, Inc. – Andale, (2) Andre-Boudin Bakeries – Boudin Bakery, (3) BJ Annex, LLC – Burger Joint, (4) Culinary Heights Hospitality – Ritual Coffee, (5) Gateside, LLC – Gateside Market, (6) Proper Food, (7) Sidewalk Juice, (8) Burger Joint – Mission Bar & Grill

⁷ The Airport's concessions consultant aggregated and reviewed profit and loss statements from 2023 and 2024 from a sampling of 22 food and beverage tenants.

⁸ The Airport contracts with ICF Resources, LLC for as-needed concession analysis and planning services.

⁹ This does not include four new locations and two pre-security tenants that are not part of the rent reduction program (Panda Express and Sky Terrace Employee Café)

¹⁰ According to the Airport, MAG rent for food and beverage leases are originally set by projecting sales revenue and applying a tiered percentage rent structure. This amount is then discounted by approximately 10 to 15 percent to establish the Minimum Acceptable Financial Offer. The Airport states that percentage rents were originally set to reflect the market rent for SFO, inclusive of salaries and benefits costs, construction and operational requirements.

for post-security leases. The Airport decided to set both the gross revenues threshold for the MAG to be reset at six percent and the percentage rent at a flat six percent for pre-security leases to more closely align with the percentage rent established for two Request for Proposals issued for small business set-aside food and beverage operations at pre-security locations. Except for two tenants¹¹, all of the qualifying pre-security leases have the following existing tiered percentage rent structure:

- 6 percent of gross revenues up to and including \$1,000,000;
- 8 percent of gross revenues from \$1,000,000 up to and including \$1,500,000 and;
- 10 percent of gross revenues over \$1,500,000.

Finally, as previously mentioned, MAG rent for the specialty retail leases is currently adjusted annually by Consumer Price Index (CPI), which typically results in an increase of approximately two to three percent per year. As part of the rent reduction program, the Airport has proposed adjusting the MAG annually to the greater of existing MAG or 85 percent of prior year's Base Rent, which is a more common practice in the industry according to the Airport memo.¹² The Airport states this will provide downside protection for tenants while maintaining steady cashflow for the Airport. In addition, this adjustment was also implemented as part of the Airport's Specialty Retail Minimum Annual Guarantee Rent Reduction Program for certain specialty retail concession tenants, which was approved by the Board of Supervisors in February 2025 (File 24-1106).¹³

FISCAL IMPACT

Reduction in Rent and Annual Service Payment to the General Fund

The Airport estimates that the rental reduction program will result in a projected decrease of \$1.84 million in rent in CY 2026. This is based on projected CY 2026 sales estimates of four percent growth¹⁴ for the leases and assumes an annual MAG adjustment of two percent CPI increase to the CY 2025 MAG for each lease.¹⁵

¹¹ This includes Elevate Gourmet Brands – Pronto and World Duty Free Group North America, LLC – Green Beans

¹² According to Airport staff, the airport conducted email outreach to 84 airports nationwide to survey MAG adjustment practices. Out of 29 airports that responded, 28 use a MAG adjustment process similar to the proposed rent reduction program. Airport staff states that many of the 84 airports are small and not comparable to SFO and therefore may have contributed to a lower response rate.

¹³ In February 2025, the Board of Supervisors approved the Specialty Retail Minimum Annual Guarantee Rent Reduction Program for certain specialty retail concession tenants, allowing the Airport to do a one-time adjustment of the Minimum Annual Guarantees due under the leases, and changing the method for future adjustments of the Minimum Annual Guarantees.

¹⁴ The Airport states this is based on enplanement forecast showing passenger growth of approximately four percent in 2026.

¹⁵ The projection is adjusted for the following: eight tenants opting out of the program, estimated sales for new or newly opened locations, new leases that will not have a MAG annual adjustment in 2026, and tenants with suspended MAGs (due to enplanements in the respective boarding areas and over a specified comparison period as set forth in the leases down more than 20 percent for three consecutive months).

Exhibit 1 shows the cost breakdown by food and beverage lease of the proposed rent reduction program's total projected decrease of \$1.84 million in revenue to the Airport in CY 2026. This reflects approximately five percent of estimated rent for all food and beverage leases in CY 2026.

Exhibit 1: Cost Breakdown of Proposed Airport Rent Reduction Program

Tenant	CY2025 Total Estimated Rent	Existing Leases: Projected CY2026 Total Rent (Without Rent Reduction Program)	Proposed Amendments: Projected CY2026 Total Rent (With Rent Reduction Program)	Difference between Existing and Proposed: (Projected Decrease from Rent Reduction Program)
Post-Security Leases with Rent Reduction (15 Leases)				
Amy's Kitchen Restaurant (dba Amy's Drive Thru)	\$630,537	\$643,148	\$562,037	\$81,111
Andale Management Group, Inc. - Valencia St. Station	716,344	730,671	677,275	53,396
Asian Box Palo Alto, LLC – Asian Box*	242,274	247,119	242,274	4,845
Gate 74, Inc. - Proposition Chicken	366,348	373,675	263,295	110,380
Gate 74, Inc. - Sushirrito Express*	93,294	95,160	93,294	1,866
HBF Soto JV LLC - Cat Cora*	174,965	178,464	174,965	3,499
Heigh Connects, LLC - Poke to the Max	570,000	581,400	360,000	221,400
Joe & the Juice New York, LLC*	224,944	229,443	224,944	4,499
Park Cafe Group, Inc. - Dolores Park Café*	223,495	336,446	329,849	6,597
San Francisco Soup Co., Inc. - Ladle and Leaf*	355,571	362,682	355,571	7,111
SF Foodways, LLC - Flyaway by Drake's Brewing Co.*	782,204	797,848	782,204	15,644
SSP America, Inc. - 1300 on Fillmore	415,635	423,948	325,855	98,093
SSP America, Inc. - Sweet Maple	337,759	344,514	145,666	198,848
SSP America, Inc. - The Little Chihuahua	484,518	494,208	454,817	39,392
SSP America, Inc. - Manufactory	683,066	696,727	576,000	120,727
<i>Subtotal, Post-Security Leases</i>	<i>6,300,954</i>	<i>6,535,453</i>	<i>5,568,046</i>	<i>967,408</i>
Pre-Security Leases with Rent Reduction (7 Leases)				
Bayport Concessions, LLC - Koi Palace Express	231,806	236,442	124,747	111,695
Elevate Gourmet Brands - Pronto!	100,521	102,531	40,779	61,753
Host International, Inc. - Starbucks	253,615	265,760	189,456	76,304
SF Foodways, LLC - Potrero Grill	284,930	290,629	130,441	160,187
SSP America SFO, LLC - Roasting Plant	184,797	188,493	72,975	115,518
SSP America, Inc. - Wendy's	293,927	299,806	134,998	164,807
WDFG North America, LLC - Green Beans	237,646	242,399	61,975	180,424
<i>Subtotal, Pre-Security Leases</i>	<i>1,587,242</i>	<i>1,626,060</i>	<i>755,371</i>	<i>870,688</i>
Total (22 Leases)	\$7,888,196	\$8,161,513	\$6,323,417	\$1,838,096

Source: Airport and BLA analysis

*Rent reductions for seven of the post-security leases (totaling \$44,061) are from the change in the adjustment of the MAG only and do not reflect a one-time reset of the MAG

As shown in Exhibit 1 above, estimated rent under the proposed program will decline by a total of approximately \$0.97 million in CY 2026 for the 15 post-security leases receiving rent reductions, which reflects a reduction of 15 percent compared to estimated rent under the

existing leases. This includes \$44,061 in rent reduction associated with the change in the MAG adjustment methodology for seven post-security leases that are not otherwise having their MAGs reset. Rent reductions for the other eight post-security leases are from the one-time reset of the MAG. Estimated rent will decline by a total of approximately \$0.87 million in CY 2026 for the seven pre-security leases receiving rent reductions, which reflects a reduction of 54 percent compared to estimated rent under the existing leases.

Annual Service Payment

The Airport makes an Annual Service Payment to the City's General Fund, equal to 15 percent of concession revenues. The projected \$1.84 million decrease in rent would result in decreased transfers to the General Fund of approximately \$276,000 in CY 2026. The Airport states this will be offset by additional rent from new locations.¹⁶

RECOMMENDATIONS

1. Amend Attachment A in the proposed resolution to correctly show which leases will be amended as part of the rent reduction program.
2. Approve the proposed resolution as amended.

¹⁶ The Airport estimates the additional rent could be approximately \$1.8 million.

Appendix I: Qualifying Airport Food and Beverage Leases

Tenant	Projected CY 2026 Estimated Rent (With Rent Reduction Program)	Projected Decrease from Rent Reduction Program	Rent Reduction Type	Lease Expiration
<i>Post-Security Leases</i>				
Amy's Kitchen Restaurant Operating Company, LLC (dba Amy's Drive Thru)	\$562,037	\$81,110	MAG	1/31/2035
Andale Management Group, Inc. - Valencia St. Station	\$677,275	\$53,396	MAG	7/31/2030
Elevate Gourmet Brands SFO Group - Pronto!	\$173,633	-	MAG	12/31/2033
Gate 74, Inc. - Proposition Chicken	\$263,295	\$110,380	MAG	8/31/2029
Heigh Connects, LLC - Poke to the Max	\$360,000	\$221,400	MAG	6/30/2036
HFF-BRH-SFO, LLC - Farmerbrown	\$470,327	-	MAG	4/30/2031
Rylo Management, LLC - Farley's Community Café	\$346,303	-	MAG	8/31/2033
Soaring Food Group, LLC - Illy Café	\$549,732	-	MAG	1/31/2035
SSP America, Inc. - 1300 on Fillmore	\$325,855	\$98,093	MAG	11/30/2032
SSP America, Inc. - Sweet Maple	\$145,666	\$198,848	MAG	10/31/2034
SSP America, Inc. - The Little Chihuahua	\$454,817	\$39,392	MAG	1/31/2035
SSP America, Inc. - Marina's Café, Manufactory Food Hall	\$576,000	\$120,727	MAG	6/30/2034
<i>Pre-Security Leases</i>				
Bayport Concessions, LLC - Koi Palace Express	\$124,747	\$111,695	MAG and Percentage Rent	10/31/2029
Elevate Gourmet Brands SFO Group - Pronto!	\$40,779	\$61,753	MAG and Percentage Rent	6/20/2034
Host International, Inc. – Starbucks	\$189,456	\$76,304	Percentage Rent	12/31/2026
SF Foodways, LLC - Potrero Grill & Tapas & MAG and Taps	\$130,441	\$160,187	MAG and Percentage Rent	10/31/2027
SSP America, LLC - Roasting Plant	\$72,975	\$115,518	MAG and Percentage Rent	2/28/2030
SSP America, LLC - Wendy's	\$134,998	\$164,807	MAG and Percentage Rent	10/31/2027
World Duty Free Group North America, LLC - Green Beans	\$61,975	\$180,424	MAG and Percentage Rent	5/31/2029

Source: Airport and BLA analysis

Attachment A**Food & Beverage Concessions**

	Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction: <u>Exceptions to MAG Adjustment Methodology Change</u>	Local Ownership	ACDBE
1					
2					
3					
4					
5					
6					
7	1	Amoura International, Inc. Lease No. 16-0312	Amoura Café	X	
8	2	Amoura International, Inc. Lease No. 23-0236	Taste of the City	X	
9	3	Amy's Kitchen Restaurant Operating Company, LLC Lease No. 18-0211	Amy's Drive Thru	X	
10	4	Andale Management Group, Inc. Lease No. 10-0034	Andale	X	✗
11	5	Andale Management Group, Inc. Lease No. 16-0012	Valencia St. Station	X	✗
12	6	Andre-Boudin Bakeries, Inc. Lease No. 17-0239	Boudin Bakery	X	
13	7	Asian Box Palo Alto, LLC Lease No. 16-0015	Asian Box	X	
14	8	Bayport Concessions, LLC Lease No. 03-0183	Koi Palace	X	✗
15	9	BJ Annex, LLC Lease No. 10-0035	Burger Joint	X	
16			<u>Opting out of MAG Adjustment Methodology Change</u>		
17					
18					
19					
20					
21					
22					
23					
24					
25					

1	10	Black Point Coffee SFO, LLC Lease No. 17-0254	Black Point Café		X	
2						
3	11	Bun Mee, LLC Lease No. 18-0209	Bun Mee		X	✗
4	12	Bun Mee, LLC Lease No. 16-0313	Bun Mee		X	✗
5						
6	13	Burger Joint, Inc. Lease No. 03-0199	Mission Bar & Grill	<u>Opting out of MAG Adjustment Methodology Change</u>	X	
7						
8	14	Culinary Heights Hospitality Lease No. 20-0043	Ritual Coffee	<u>Opting out of MAG Adjustment Methodology Change</u>	X	
9						
10						
11	15	Elevate Gourmet Brands, Inc. and Aimhigh ESG, LLC, a joint venture d.b.a. Elevate Gourmet Brands Gourmet Brands - SFO Group Lease No. 18-0346	Green Beans		X	✗
12						
13						
14						
15	16	Elevate Gourmet Brands - SFO Group Lease No. 19-0247	Pronto!	MAG reduced	X	✗
16						
17	17	Elevate Gourmet Brands, Inc. dba Pronto! Lease No. 03-0184	Pronto!		X	
18						
19	18	Elevated Tastes SFO Inc Lease No. 16-0016	Tomokazu		X	
20						
21	19	Gate 74, Inc. Lease No. 03-0189	Burger King		X	✗
22	20	Gate 74, Inc. Lease No. 16-0311	Proposition Chicken	MAG reduced	X	✗
23						
24	21	Gate 74, Inc. Lease No. 16-0314	Sushirrito Express		X	✗

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1	22	Gateside, LLC Lease No. 18-0217	Gateside Market	<u>Opting out of MAG Adjustment Methodology Change</u>	X	
2						
3	23	Gotham Enterprises, LLC Lease No. 10-0030	Peet's Coffee locations in T2		X	
4						
5	24	Gotham Enterprises, LLC Lease No. 03-0193	Peet's Coffee in T3		X	
6						
7	25	Guava & Java (SFO), Inc. Lease No. 03-0191	Two Dogpatch Bakehouse locations		X	
8	26	Guava & Java (SFO), Inc. Lease No. 23-0197	Two Black Point Coffee locations		X	
9	27	HBF Soto JV, LLC Lease No. 10-0031	Cat Cora		X	
10						
11	28	HBF Soto JV, LLC Lease No. 10-0036	The Plant Organic Café, Pinkberry		X	
12	29	Heigh Connects, LLC Lease No. 20-0044	Poke to the Max	MAG reduced	X	
13	30	HFF-BRH-SFO, LLC Lease No. 16-0316	Farmerbrown	MAG reduced	X	
14						
15	31	High Flying Foods SFO, LLC Lease No. 16-0013	Gott's Roadside		X	
16						
17	32	IOC Design and Consulting, LLC Lease No. 24-0270	Panda Express		X	X
18						
19	33 <u>32</u>	Joe & the Juice New York, LLC Lease No. 16-0018	Joe & The Juice			
20						
21	34 <u>33</u>	Lady Luck Gourmet, LLC Lease No. 18-0215	Mama Go's Filipino Cuisine		X	
22	35 <u>34</u>	Marina's Café Lease No. 12-0221	Marina's Cafe		X	
23	36 <u>35</u>	Paradies Lagardere @ SFO (F&B), LLC Lease No. 18-0212	Bourbon Pub		X	X
24						

25

1	<u>37</u> <u>36</u>	Park Cafe Group, Inc. Lease No. 19-0244	Dolores Park Café		X	✗
2	<u>38</u> <u>37</u>	Proper Food SFO Airport, LLC Lease No. 20-0041	Proper Food	<u>Opting out of MAG</u> <u>Adjustment</u> <u>Methodology</u> <u>Change</u>	X	✗
3						
4						
5	<u>39</u> <u>38</u>	Rylo Management, LLC Lease No. 19-0054	Farley's Community Cafe	MAG reduced	X	✗
6	<u>40</u> <u>39</u>	San Francisco Soup Co. Lease No. 16-0309	Ladle and Leaf		X	
7						
8	<u>41</u> <u>40</u>	Sankaku, Inc. Lease No. 03-0180	Sankaku		X	✗
9	<u>42</u> <u>41</u>	Sankaku, Inc. Lease No. 10-0033	Wakaba		X	✗
10						
11	<u>43</u> <u>42</u>	SF Foodways, LLC Lease No. 18-0216	Flyaway by Drake's Brewing Co.		X	
12	<u>44</u> <u>43</u>	SF Uncork'd, LLC Lease No. 12-0089	SF Uncork'd		X	
13	<u>45</u>	Sky Terrace, LLC Lease No. 19-00230	Sky Terrace Employee Cafe		✗	
14						
15	<u>46</u> <u>44</u>	Sidewalk Juice SFO, LLC Lease No. 19-0245	Sidewalk Juice	<u>Opting out of MAG</u> <u>Adjustment</u> <u>Methodology</u> <u>Change</u>	X	
16						
17	<u>47</u> <u>45</u>	Silver Dragon Cafe, LLC Lease No. 16-0310	Bacon Bacon		X	✗
18						
19	<u>48</u> <u>46</u>	Soaring Food Group, LLC Lease No. 18-0214	Illy Caffé	MAG reduced	X	✗
20	<u>49</u> <u>47</u>	SSP America, Inc. Lease No. 16-0017	1300 on Fillmore	MAG reduced	X	✗
21	<u>50</u> <u>48</u>	SSP America, Inc. Lease No. 18-0074	Sweet Maple		X	✗
22				MAG reduced		
23	<u>51</u> <u>49</u>	SSP America, Inc. Lease No. 18-0210	The Little Chihuahua	MAG reduced	X	✗
24						
25	<u>52</u> <u>50</u>	SSP America, Inc. Lease No. 17-0238	Marina's Café, Manufactory Food Hall	MAG reduced	X	✗

1	53 <u>51</u>	SSP America, Inc. Lease No. 03-0200	Union Street Gastropub		X	✗
2	54 <u>52</u>	Tastes on the Fly San Francisco, LLC Lease No. 03-0192	Two Klein's Deli locations		X	
4	55 <u>53</u>	Tastes on the Fly San Francisco, LLC Lease No. 10-0029	Napa Farms Market, Vino Volo		X	
6	56 <u>54</u>	Tastes on the Fly San Francisco, LLC Lease No. 23-0235	Perry's		X	
8	57 <u>55</u>	Tastes on the Fly San Francisco, LLC Lease No. 16-0315	San Francisco Giants Club House		X	
10	58 <u>56</u>	Tastes on the Fly San Francisco, LLC Lease No. 18-0213	Starbird		X	
12	59 <u>57</u>	Tastes on the Fly San Francisco, LLC Lease No. 10-0032	The Grill by Lark Creek		X	
14	60 <u>58</u>	Tastes on the Fly SFO International, LLC Lease No. 16-0014	Mustards Bar & Grill, Napa Farms Market		X	
16	61 <u>59</u>	Tastes on the Fly San Francisco, LLC Lease No. 23-0234	SF Eats Food Hall		X	
18	62 <u>60</u>	Urban Tortilla, Inc Lease No. 03-0187	Urban Tortilla		X	

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22	Pre-security concessions					
23		Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction	Local Ownership	ACDBE
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1	<u>636</u> <u>1</u>	Bayport Concessions, LLC Lease No. 16-0021	Koi Palace Express	MAG and Percentage Rent reduced	X	✗
2						
3	<u>646</u> <u>2</u>	Elevate Gourmet Brands - SFO Group Lease No. 14-0046	Pronto!	MAG and Percentage Rent reduced	X	✗
4						
5	<u>656</u> <u>3</u>	Host International, Inc. Lease No. 16-0023	Starbucks - Arrivals	Percentage Rent reduced	X	✗
6	<u>64</u>	<u>IOC Design and Consulting, LLC</u> <u>Lease No. 24-0270</u>	<u>Panda Express</u>	<u>New lease, already contains updated MAG adjustment methodology</u>	<u>X</u>	
7						
8						
9	<u>666</u> <u>5</u>	SF Foodways, LLC Lease No. 16-0022	Potrero Grill & Tapas & Taps	MAG and Percentage Rent reduced	X	
10						
11	<u>676</u> <u>6</u>	SSP America SFO, LLC Lease No. 16-0020	Roasting Plant	MAG and Percentage Rent reduced	X	
12						
13	<u>686</u> <u>7</u>	SSP America, Inc. Lease No. 16-0024	Wendy's	MAG and Percentage Rent reduced	X	✗
14						
15	<u>68</u>	<u>Sky Terrace, LLC</u> <u>Lease No. 19-00230</u>	<u>Sky Terrace Employee Cafe</u>	<u>Percentage rent only lease, MAG adjustment methodology not needed</u>	<u>X</u>	
16						
17						
18	69	World Duty Free Group North America, LLC Lease No. 12-0085	Green Beans	MAG and Percentage Rent reduced	X	✗
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Item 6 File 25-1263	Department: Mayor's Office of Housing and Community Development
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed resolution would retroactively authorize MOHCD to enter into a grant agreement with RSU Associates, L.P. in an amount not to exceed \$15,369,361 for a 20-year term to provide operating subsidies for 32 supportive housing units (out of 64 total units) for Transitional Age Youth (TAY) at 78 Haight Street. The 20-year term would commence retroactively on October 1, 2025. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> 78 Haight Street is an affordable housing project with 64 units for low income and formerly homeless households. Half of the housing units (32 units) are permanent supportive housing units for transitional aged youth, and one unit is a three-bedroom family childcare unit on the ground floor. The remaining 31 units are for low-income households earning up to 65 percent of Area Median Income (AMI). Tenderloin Neighborhood Development Corporation (TNDC) is the developer for the project. On September 15, 2025, 78 Haight received its temporary certificate of occupancy. The project was delayed by two years due to unforeseen conditions of the adjacent property. The Board of Supervisors previously approved a long-term ground lease and gap loan for the project. The proposed grant agreement funds operating subsidies for 32 supportive housing units (out of 64 total units) for transitional age youth. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The proposed \$15,369,361 in funding will be sourced with \$10,589,361 in General Funds from the Local Operating Subsidy Program (LOSP) over a 15-year term and \$4,780,000 from State No Place Like Home (NPLH) funds over a 20-year term. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> 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**78 Haight**

78 Haight Street is an affordable housing project with 64 units for low income and formerly homeless households. Half of the housing units (32 units) are permanent supportive housing units for transitional aged youth, and one unit is a three-bedroom family childcare unit on the ground floor. The remaining 31 units are for low-income households earning up to 65 percent of Area Median Income (AMI). Tenderloin Neighborhood Development Corporation (TNDC) is the developer for the project.

On February 15, 2022, the Board of Supervisors approved a resolution for the Mayor's Office of Housing and Community Development (MOHCD) to enter a ground lease at the 78 Haight Street parcels for a term of 75 years to construct the project (File 22-0092). The resolution also approved a loan agreement between MOHCD and TNDC in an amount not to exceed \$26,746,467 to finance the development and construction of the project. Construction was anticipated to begin in April of 2022 and finish August 2023.

On February 27, 2024, the Board of Supervisors approved an increase in the loan amount to Octavia RSU Associates, L.P., a subsidiary of TNDC, by \$8,559,766, for a total amount not to exceed \$35,306,233 (File 24-0092). The increased loan amount was due to increased construction costs due in part to unforeseen conditions of the adjacent Mount Trinity Baptist Church, which was at risk of collapse if construction preceded.

On September 15, 2025, 78 Haight received its temporary certificate of occupancy.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize MOHCD to enter into a grant agreement with RSU Associates, L.P. in the amount not to exceed \$15,369,361 for a 20-year term to provide operating subsidies for 32 supportive housing units (out of 64 total units) for Transitional Age Youth (TAY). The 20-year term would commence retroactively on October 1, 2025.

The proposed resolution would authorize a total of \$10,589,361 in General Funds from the Local Operating Subsidy Program (LOSP) over a 15-year period. It also includes a total of \$4,780,000 in No Place Like Home (NPLH) funds to be provided through a capitalized operating subsidy reserve (COSR) to support 15 of the 32 units targeted to residents who are homeless or at risk of

homelessness under No Place Like Home criteria over a 20-year period.¹ Exhibit 1 below shows the income and rent restrictions of the subsidized and unsubsidized units.

Exhibit 1: Income and Rent Restrictions

Units	Count	Maximum Income Restrictions
Studio	12	30% of AMI (LOSP)
Studio	15	30% of AMI (LOSP & NPLH)
One Bed	5	30% of AMI (LOSP)
Studio	27	65% of AMI
Studio	4	50% of AMI
Family Childcare 3-BR	1	120% of AMI
Total	64	

Source: MOHCD Evaluation of Request for LOSP and NPLH Grant Agreement

Reason for Retroactive Approval

According to MOHCD staff, MOHCD is seeking retroactive approval for the proposed grant agreement because this is the first affordable housing project to use NPLH funds as a Capital Operating Subsidy Reserve and MOHCD had to take several steps before submitting the draft grant agreement to the Board of Supervisors for approval. These steps included: updating MOHCD Underwriting Guidelines, updating the form of the LOSP loan agreement to include the Capital Operating Subsidy Reserve, and obtaining approval from the Affordable Housing Loan Committee and the California Department of Housing and Community Development (HCD). HCD approved the use of NPLH funds as a Capital Operating Subsidy Reserve in September 2025. The grant start date is retroactive to October 1, 2025 to align with the start of operations of the project, which began leasing up in October 2025.

Consistent with Administrative Code Chapter 120, LOSP grant agreements are not subject to Board of Supervisors' approval, but LOSP funding is subject to annual appropriation by the Board of Supervisors. The proposed grant agreement requires Board of Supervisors approval because of the inclusion of the NPLH Capital Operating Subsidy Reserve in addition to the LOSP subsidies.

FISCAL IMPACT

City Funding Sources

The proposed \$15,369,361 in funding will be sourced with \$10,589,361 in General Funds from the Local Operating Subsidy Program (LOSP) over a 15-year term and \$4,780,000 from State No Place Like Home (NPLH) funds over a 20-year term.

Exhibit 2 below shows the total payment amount by year over a 20-year period.

¹ The California Department Housing and Community Development's No Place Like Home Program provides funding for the development of permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or are at risk of chronic homelessness.

Exhibit 2: Subsidy Schedule

Calendar Year	Months to Fund	LOSP Disbursement	NPLH Disbursement	Total Subsidy Payment
CY-1 2025	3	\$139,741	\$126,391	\$266,132
CY-2 2026	12	536,661	173,709	710,370
CY-3 2027	12	556,148	180,134	736,282
CY-4 2028	12	576,331	186,790	763,121
CY-5 2029	12	597,235	193,684	790,919
CY-6 2030	12	618,886	200,826	819,712
CY-7 2031	12	641,310	208,223	849,533
CY-8 2032	12	664,534	215,885	880,419
CY-9 2033	12	688,585	223,822	912,407
CY-10 2034	12	713,494	232,042	945,536
CY-11 2035	12	739,290	240,556	979,846
CY-12 2036	12	766,007	249,374	1,015,381
CY-13 2037	12	793,674	258,507	1,052,181
CY-14 2038	12	822,325	267,966	1,090,291
CY-15 2039	12	851,995	277,763	1,129,758
CY-16 2040	12	883,145	287,485	1,170,630
CY-17 2041	12		297,547	297,547
CY-18 2042	12		307,961	307,961
CY-19 2043	12		318,739	318,739
CY-20 2044	12		332,596	332,596
Total Contract Amount		\$10,589,361	\$4,780,000	\$15,369,361

Source: Grant Agreement, *Projected Project Subsidy Payments*

The subsidy schedule above assumes four percent annual increases in LOSP and NPLH subsidy payments. According to MOHCD staff, the LOSP subsidy amounts are based on the difference between project income (including the NPLH subsidy) and operating expenses each year. The subsidy schedule assumes that operating cost increase by 3.5 percent each year

Total Operational Costs

The first-year operating budget shows a total net operating income of \$14,460 for the LOSP units and \$35,670 for the non-LOSP units. The 32 LOSP units are projected to generate a total income of \$765,507, of which \$685,354 (90 percent) is subsidized by LOSP and NPLH funding. Operating expenses for LOSP and non-LOSP units are equivalent apart from higher staffing costs for LOSP units due to a higher prorated share of operating expenses for desk clerk coverage (75 percent of total), partially offset by higher supportive services costs in the operating budget for non-LOSP units. The supportive service costs for the LOSP units are funded separately by HSH and are not included in the operating budget.

Exhibit 3 below summarizes the annual operating budget.

Exhibit 3: Budget for First Full Year of Operations

	LOSP (32 units)	Non-LOSP (32 units)
Income	Amount	Amount
Tenant Rents	\$79,800	\$623,700
LOSP Tenant Assistance Payments	558,963	
NPLH Subsidy	126,391	
Laundry and Vending	4,343	4,343
Withdrawal from Capitalized Reserve*		146,900
Vacancy Loss	(3,990)	(31,185)
Total Income	\$765,507	\$743,758
Operating Expenses	Amount	Amount
Management	\$ 44,464	\$ 44,464
Salary/Benefits	198,774	106,718
Administration	61,782	61,782
Utilities	43,174	43,174
Taxes and Licenses	3,534	3,534
Insurance	218,413	218,413
Maintenance & Repair	157,227	157,227
Supportive Services	0**	49,277
Replacement Reserve Deposit	16,000	16,000
Ground Lease Base Rent	7,500	7,500
Total Operating Expenses	\$750,867	\$708,088
Net Operating Income	\$14,640	\$35,670

Source: MOHCD evaluation memo of the proposed grant agreement

Note: Totals may not add due to rounding

*The project's development budget funded a capitalized operating reserve to subsidize operations

**Supportive services costs for the LOSP units are funded separately by HSH

RECOMMENDATION

Approve the proposed resolution.

Items 8 & 9 Files 25-1265 & 25-1266	Department: Mayor's Office of Housing and Community Development
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • File 25-1265 is a proposed resolution that would: (1) approve a ground lease between the Mayor's Office of Housing and Community Development (MOHCD) and 967 Mission, L.P. for property at 967 Mission Street for a lease term of 75 years with a 24-year option to extend, and annual base rent of \$15,000 to construct affordable housing; (2) approve an amended and restated loan agreement for an amount not to exceed \$44,318,000 for a minimum term of 57 years to finance the project; and (3) approve certain supporting agreements. • File 26-1266 is a proposed resolution that would execute a grant agreement with 967 Mission, L.P. for a 15-year term in the amount of \$10,548,907 to provide senior operating subsidies for 40 units. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The 967 Mission Street site in the SoMa (South of Market) neighborhood was acquired by the City in 2019 from the developer of the 5M Project per the terms of a development agreement. After a Request for Qualifications (RFQ) process, MOHCD selected The John Stewart Company and Bayview Hunters Point Multipurpose Senior Services, Inc. as a joint venture to develop the site as affordable housing. • The project consists of 94 affordable housing units for seniors, including 40 units funded by the Senior Operating Subsidy Program, 24 units funded by the Local Operating Subsidy Program, five units under the City's Plus Housing Senior Referral program, and 25 unsubsidized units. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The \$44,318,000 proposed loan is funded by: the private developer of the 5M Project, general obligation bonds, the American Rescue Plan, the Housing Trust Fund, condo conversion funds, and the Low- and Moderate-Income Housing Asset Fund. The senior operating subsidies are funded by a State grant from the California Department of Housing and Community Development's Permanent Local Housing Allocation Program. • Total development costs per unit (\$836,573) are comparable to similar projects. However, the City subsidy per unit (\$465,385) is greater than similar projects and exceeds the subsidy limit of \$250,000 per unit established in the RFQ because the project was not able to leverage State funding to finance the project. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease of real property for a period of ten years or more or that has revenue to the City of \$1 million or more is subject to Board of Supervisors approval.

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

The 967 Mission Street site is an 8,777-square-foot rectangular parcel located on the southern side of Mission Street between Mary Street and Sixth Street in the SoMa (South of Market) neighborhood. A surface parking lot for decades, it is a through lot with frontage on both Mission Street and Minna Street. The property was transferred to the City by the developer of the 5M Project as a requirement of the Development Agreement for the larger 5M mixed-use project (located nearby at 5th and Mission) for the development of affordable housing. The site is proposed to provide 94 units of low-income senior housing (for adults ages 62 and over) and one manager's unit, across nine floors. The Board of Supervisors authorized the acquisition of the site in 2015 (File 15-0788), and the site was acquired in 2019.

In November 2020, the Mayor's Office of Housing and Community Development (MOHCD) issued a Request for Qualifications (RFQ) to select developers for nine affordable housing sites, including 967 Mission Street. MOHCD received three responses for the Mission site, and an evaluation panel scored them, as shown in Exhibit 1 below.¹

¹ The evaluation panel consisted of a Pastor from Church Without Walls, a Member of the Dignity Fund Oversight and Advisory Committee, a Housing Program Manager for the Office of Community Investment and Infrastructure, a Director of Construction Services at MOHCD, an HIV Housing Programs Manager from MOHCD, a Marketing and Lottery Program Manager from MOHCD, a Business Development Manager from the Office of Economic and Workforce Development (OEWD), a Project Manager from OEWD, a Director of Real Estate and Facilities from the Department of Homelessness and Supportive Housing (HSH), a Family Housing Program Manager from HSH, a Subsidy Administration Manager from HSH, a Director of In-Home Supportive Services from the Human Services Agency (HSA), and a Director of Construction Services from MOHCD.

Exhibit 1: Responses and Scores from RFQ for 967 Mission Street

Respondent	Score (out of 100 Points)
John Stewart Company/Bayview Hunters Point Multipurpose Senior Services, Inc.	89
Tenderloin Neighborhood Development Corporation	89
Tabernacle Community Development/the Pacific Companies	77

Source: MOHCD

Proposals were scored based on developer experience (40 points) and project concept (60 points), and two proposers received a high score of 89, with a third proposer receiving a score of 77. MOHCD selected The John Stewart Company and Bayview Hunters Point Multipurpose Senior Services, Inc. as a joint venture (Sponsor) to lease the land and develop the 967 Mission Street site over the other high scoring proposer (Tenderloin Neighborhood Development Corporation) because the Sponsor presented a project concept that reflected the diversity of the SoMa neighborhood.

In the RFQ, the Mission Street site was intended as an affordable senior housing development, including for formerly homeless seniors in units subsidized by the City's Local Operating Subsidy Program (LOSP) and a City services contract (with 20 percent of the total number of units to be LOSP-subsidized units for formerly homeless seniors); and at least five units for households on the City's Plus Housing List, with rents set no greater than 50 percent of the Area Median Income (AMI). The City subsidy for development costs was to be limited to \$250,000 per unit.

In September 2023, the Citywide Affordable Housing Loan Committee approved a \$4 million predevelopment loan and a \$24,750,000 preliminary gap commitment for the project (including the predevelopment loan). The loan was executed and did not require Board of Supervisors' approval because it was less than \$10 million and ten years. In January 2025, the Loan Committee approved an increase in the preliminary gap commitment to \$44,318,000, which served as a City commitment for the project to apply for funding from the California Debt Limit Allocation Committee and the California Tax Credit Allocation Committee for a tax-exempt bond allocation with 4 percent tax credits. In August 2025, the California Debt Limit Allocation Committee awarded up to \$21,750,000 in tax-exempt bonds to fund construction, and the California Tax Credit Allocation Committee awarded the project four percent tax credits. Finally, in October 2025, the Citywide Affordable Housing Loan Committee approved the final proposed gap loan amount of \$44,318,000 and up to \$10,548,907 for a senior operating subsidy grant. The proposed gap loan (\$44.3 million) exceeds the initial preliminary gap commitment (\$24.8 million) because the project was ultimately not competitive for State financing from the Multifamily Housing Program due to its location in a low-income area, according to the MOHCD evaluation of the proposed gap loan.

State Permanent Local Housing Allocation Program Grant Award

In September 2021, the Board of Supervisors authorized MOHCD to accept and expend a grant award in the amount of up to \$52,308,210 from the California Department of Housing and Community Development's Permanent Local Housing Allocation Program for funding affordable multifamily housing for extremely low-income households at 15- to 25-percent AMI (File 21-

0875). As noted, the Citywide Affordable Housing Loan Committee approved a portion of these funds—\$10,548,907—to fund a senior operating subsidy at 967 Mission Street.

DETAILS OF PROPOSED LEGISLATION

File 25-1265 is a proposed resolution that would:

1. Approve and authorize the Director of Property and the MOHCD Director to enter into a ground lease for 967 Mission Street with 967 Mission, L.P. (the borrower entity between The John Stewart Company and Bayview Hunters Point Multipurpose Senior Services, Inc.), for a lease term of 75 years with a 24-year option to extend, and annual base rent of \$15,000, to construct a 95-unit affordable housing building for seniors;
2. Authorize the Mayor and the MOHCD Director to execute loan documents to provide permanent financing to develop the project;
3. Approve and authorize an amended and restated loan agreement with the developer to finance the project, in an amount not to exceed \$44,318,000, for a minimum loan term of 57 years;
4. Determine that the below market rent payable under the ground lease will serve a public purpose, in accordance with Administrative Code Section 23.30;
5. Adopt findings that the property is “exempt surplus land” pursuant to the California Surplus Lands Act;
6. Adopt findings that the project and proposed transactions are consistent with the General Plan and Planning Code; and
7. Authorize the MOHCD Director to make modifications to the ground lease, loan agreement, and any other documents that are necessary to complete the transaction.

The documents approved as part of this resolution include: (1) a Ground Lease between the City and the Developer; (2) an Amended and Restated Loan Agreement between the City and the Sponsor; (3) a Declaration of Restrictions for Affordable Housing; (4) an Amended and Restated Promissory Note; and (5) a Deed of Trust.

File 25-1266 is a proposed resolution that would execute a grant agreement with 967 Mission, L.P. for a 15-year term in the amount of \$10,548,907 to provide senior operating subsidies for 40 senior units.

Ground Lease

The proposed ground lease provides for the Sponsor to pay the City annual base rent of \$15,000, without escalation, for a term of 75 years, with a 24-year option to extend. In the event that the MOHCD loan is fully repaid (which is unlikely for several decades), the Developer would also pay annual residual rent of up to \$885,000 from residual receipts. The Sponsor is responsible for paying any costs, taxes, or obligations related to the premises, obtaining the utility connections

necessary to develop the project, and maintaining and insuring the site. The Developer would also assume liability for any claims of personal injury or property damage related to the premises.

To conform with the ground lease, the Developer must commence demolition or construction by February 15, 2026, complete construction by April 30, 2028, and achieve 100 percent occupancy of the units by October 31, 2028.

Loan Agreement and Repayment

The proposed loan agreement between the City and 967 Mission, L.P. provides for a loan amount not to exceed \$44,318,000. The loan will bear simple interest at a rate of three percent, with repayments based on half of residual receipts from the project. The loan matures on the later of 57 years after the recording of the deed of trust or 55 years after the conversion date.²

Required Rents

The Declaration of Restrictions outlines required rents for all units in the project. All affordable units must be rented to seniors with incomes between 15 percent and 50 percent AMI (during the term of the senior operating subsidy). In addition to a one-bedroom manager's unit, which is unrestricted, the income restrictions are as follows for the remaining 94 units:

- 40 units must be made available through the City's Senior Operating Subsidy (SOS) Program during the term of the subsidy, with 20 units restricted to households at 15 percent AMI, and 20 units restricted to households at 25 percent AMI—with rents paid at 60 percent AMI including the subsidy. In the event that the SOS funds are not renewed by the State, these 40 units will be restricted to 60 percent AMI. These units are comprised of 27 studios and 13 one-bedroom units.
- 24 units are for formerly homeless seniors, funded by the City's Local Operating Subsidy Program (LOSP) and are restricted to households with up to 30 percent AMI. These units are comprised of 16 studios and eight one-bedroom units.
- 25 units must be made available to seniors and are restricted to households with up to 50 percent AMI.
- Five units must be made available to seniors under the City's Plus Housing Senior Referral program and are restricted to households with up to 30 percent AMI.

State Permanent Local Housing Allocation Program Agreement

The proposed grant agreement provides operating subsidies for 40 units under the Senior Operating Subsidy program to reduce rents from 60 percent AMI to either 15 percent or 25 percent AMI. The gross rent payments for all SOS Program tenants cannot exceed 30 percent of the 60 percent AMI threshold, adjusted for household size and bedroom count. The agreement has a 15-year term beginning in 2028, with a requirement that the project Sponsor follow the

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.

following median income limits: 20 units at 15 percent AMI (13 studios and seven one-bedroom units), and 20 units at 25 percent AMI (14 studios and 16 one-bedroom units).

Project Description

As mentioned above, the project would include 94 residential units for seniors across nine floors at what is a surface parking lot, which previously hosted “Kapwa Gardens,” a temporary venue for community and private events, meetups, student lunches, and a food vendor incubator that vacated the premises as of August 2025. The building would also include approximately 4,988 square feet of ground-floor space proposed to be used for property management offices, a community room with a kitchen, services offices, a small conference room, and a lobby with mail area, according to the Citywide Affordable Loan Committee memorandum for October 17, 2025. The project does not include vehicular parking.

FISCAL IMPACT**Ground Lease**

The proposed ground lease would have annual base rent of \$15,000, without adjustment. Over the initial 75-year term of the lease, the City would receive \$1,125,000 in rent. If the 24-year option to extend is exercised, the City would receive an additional \$360,000 in rent, for total rent of \$1,485,000 over 99 years.

In the event that the MOHCD loan is fully repaid, the Developer would also pay annual residual rent of up to \$885,000 from residual receipts. Given the project’s cash flow projections, it is unlikely that MOHCD would receive residual rent for several decades, if ever.

MOHCD Loan

The proposed loan would provide up to \$44,318,000 to finance the construction of 967 Mission Street. The sources and uses of funding are shown in Exhibit 2 below.

Exhibit 2: Sources and Uses of Funds for 967 Mission Street Project

Sources	Amount
MOHCD Loan	\$44,211,575
Low-Income Housing Tax Credit 4% Proceeds	33,562,657
Deferred Developer Fee	1,700,000
General Partner (Developer) Capital	200
Total Sources	\$79,474,432

Uses	Amount
Acquisition (Legal/Closing/Broker Costs)	\$50,400
Construction (Includes 5.4% Contingency)	60,018,916
Soft Costs (Includes 8.5% Contingency)	12,731,561
Reserves	1,778,555
Developer Fee	4,895,000
Total Uses	\$79,474,432

Source: Proposed Loan Agreement

Construction costs include a 5.4 percent hard cost contingency and 8.5 percent soft cost contingency. Operating reserves total \$1,778,555 to support unanticipated operating costs for at least 20 years, as required by the investor. Total costs include \$4,895,000 in developer fees and \$12,731,561 in soft costs.

Loan Funding Sources and City Subsidy

The \$44,318,000 proposed loan is funded by:

- \$23,124,009 from 5M Quarter Mile Funds³ (\$4,000,000 as a predevelopment loan and an additional \$19,124,009);
- \$7,000,000 of 2019 General Obligation Bond funds;
- \$4,568,198 from federal Department of Housing Urban Development HOME-ARP (American Rescue Plan) funds;
- \$4,536,954 from the Housing Trust Fund;
- \$3,650,000 from Condo Conversion Funds received by the Citywide Affordable Housing Fund from fees associated with the conversion of dwelling units into condominiums; and

³ Per the proposed loan agreement, the 5M Quarter Mile Funds are provided by a private developer (5M Project, LLC) as part of their Development Agreement with the City; the funds are to be used for predevelopment and development expenses and administrative costs associated with the acquisition, construction, and rehabilitation of permanently affordable housing units in the "Housing Impact Area," a quarter-mile radius around the 5M site per the Development Agreement.

- \$1,438,839 from Low- and Moderate-Income Housing Asset Fund (LMIHAF), which collects proceeds from former redevelopment agency housing assets derived from loan repayments and other housing asset program income.

Total development costs per unit are approximately \$836,573, which is comparable to similar projects, according to MOHCD. However, the City subsidy per unit (\$465,385) is greater than similar projects (approximately \$290,000) and exceeds the subsidy limit of \$250,000 per unit established in the RFQ because the project was not able to leverage State funding to finance the project.

Ongoing Rental Subsidies

The City will provide \$526,824 in senior operating subsidies for 40 units in Year 1 (2028), with annual increases of four percent. Over the 15-year term of the agreement, the City will provide \$10,548,907 in operating subsidies. The subsidies are funded by a State grant from the California Department of Housing and Community Development's Permanent Local Housing Allocation Program. In the event that the SOS funds are not renewed by the State, the 40 units will be restricted to 60 percent AMI (up from 15 to 25 percent AMI) unless the City provides additional subsidies.

Under a separate grant agreement, the City will also provide operating subsidies through the LOSP program to an additional 24 units. LOSP agreements do not require Board of Supervisors approval, per Chapter 120 of the Administrative Code.

Operating Revenues and Expenditures

According to the 20-year cash flow analysis for the project, the project's revenues are sufficient to cover operating expenses, reserves, and debt service. Project revenues consist of tenant rents and operating subsidies from the Senior Operating Subsidy and LOSP programs. The project income includes approximately \$940,000 initially in operating subsidies from these programs. The budget assumes annual rental income loss of five percent due to vacancies. Half of residual receipts (net project income) would be used to pay debt service on the proposed loan, and half would go to the developer.

RECOMMENDATION

Approve the proposed resolutions.

Item 12 File 25-1166	Department: Public Health
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed resolution would approve Amendment No. 1 to the agreement between the Department of Public Health (DPH) and A&A Health Services, LLC (A&A) to extend the agreement term by three years, from June 30, 2026, to June 30, 2029, for a total term of five years, from July 1, 2024, through June 30, 2029, and increase the not to exceed amount by \$22,722,200 for a new total not-to-exceed amount of \$32,654,875. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> Under an existing agreement with DPH, A&A operates two Rehabilitative Board and Care facilities, which combine non-treatment residential care with mental health and substance use recovery services for individuals transitioning from acute settings who are not yet ready for independent living. The proposed amendment increases the number of beds from a total of 57 to a total of 71. Victoria's House is a 46-bed facility in the Mission. The agreement also funds a portion of beds in a large regional facility in San Pablo, CA. DPH expanded the number of beds in San Pablo in September 2025 from 11 to 25 beds. The City pays for all 46-beds in Victoria's House regardless of occupancy, but only for occupied beds in the San Pablo facility. DPH procured these services under San Francisco Administrative Code Section 21A.4, which authorizes DPH to contract directly with service providers without adhering to standard competitive procurement requirements for specialized behavioral health services. DPH staff conduct monthly site visits and utilization reviews to assess each client's level of care needs. DPH conducted its first annual monitoring of the program, a desk audit of Victoria's House, for FY 2023-24 and found that the program met DPH standards. However, DPH is still developing certain annual program monitoring requirements for the program since the program is subject to monthly site visits and is not subject to Medi-Cal requirements. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The \$22,722,200 increase in the not to exceed amount funds the three-year extension, the expansion of beds in the San Pablo facility, and bed rate increases of 2.5 percent. The FY 2025-26 annual budget is \$6.2 million and reflects daily bed rates of \$205 for the San Pablo facility and \$256 at Victoria's House. Funding is provided by Proposition C revenues. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> 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 Public Health (DPH), A&A Health Services, LLC (A&A) provides Adult Residential Facility services, commonly known as "Board and Care," for San Francisco residents aged 18 to 59. Board and Care facilities serve as a component of the City's behavioral health continuum of care, providing a structured, non-medical environment for individuals transitioning from acute settings (such as psychiatric hospitals, jail health services, or homelessness) who do not require inpatient care but are not yet ready for independent living.

The target population consists of individuals with dual or triple diagnoses (severe mental illness, substance use disorders, and/or medical conditions). Individuals admitted to A&A must have behavioral health issues and medical conditions and/or physical impairments requiring special assistance, including the use of a wheelchair, walkers, or a cane; vision and/or hearing loss; or speech impairment.

A&A operates two facilities under this agreement:

1. Victoria's House in San Francisco is a 46-bed facility located at 658 Shotwell Street in the Mission District. This facility opened in August 2022 as part of the City's Mental Health SF initiative to add 400 new residential and treatment beds.
- San Pablo Facility in San Pablo, CA, is a large regional facility located at 13956 San Pablo Avenue. While the facility has a total licensed capacity of 225 beds, the City currently contracts for a designated portion (up to 25) of those beds and only pays for occupied beds. The expansion of beds at this facility is part of the City's "Breaking the Cycle" initiative.

A&A provides "Rehabilitative Board and Care" services. This model combines non-treatment residential care with mental health and substance use recovery services. While the program goal is to maximize clients' functional capacity and discharge them to a lower level of care within 12 months, DPH staff report that the San Pablo facility is suited for clients requiring a permanent home, with an average length of stay of 2.17 years. The San Francisco location has an average length of stay of 1.13 years.

Contractor Selection

DPH procured these services under San Francisco Administrative Code Section 21A.4, which authorizes the Department to contract directly with service providers without adhering to standard competitive procurement requirements for specialized behavioral health services. DPH

selected A&A because the provider approached the City with a unique service model that combined residential care with recovery treatment, which was not otherwise available in the Behavioral Health Services system.

Contract History

The Original Agreement commenced on July 1, 2024, for a two-year term ending June 30, 2026, with a not-to-exceed amount of \$9,932,675.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 1 to the agreement between the Department of Public Health (DPH) and A&A Health Services, LLC (A&A) to extend the agreement term by three years, from June 30, 2026, to June 30, 2029, for a total term of five years, from July 1, 2024, through June 30, 2029, and increase the not to exceed amount by \$22,722,200 for a new total not-to-exceed amount of \$32,654,875.

Scope of Work

The contract includes non-treatment residential care (including room and board, medication management, transportation to medical appointments, and assistance with obtaining entitlements) and mental health and substance use recovery services. The contract requires that A&A develop an individual assessment and treatment plan within 14 days for each client. However, the contract does not specify what treatment services are provided beyond the individual assessment and treatment plan and medication support. According to DPH staff, A&A also provides individual and group counseling, case management, and housing navigation. We recommend that DPH update the scope of services to provide more detailed information on the treatment services.

Units of Service and Referrals

The amendment continues 24-hour residential care services and expands the City's contracted capacity at the San Pablo location from between 10 and 11 beds to a maximum of 25 beds. This increase was implemented in September 2025 to provide additional as-needed capacity. DPH pays for these beds based on actual occupancy. As of December 22, 2025, 13 beds were occupied.

The amendment maintains 46 beds at San Francisco's Victoria's House on a block-booking basis, under which the City pays for all 46 beds, regardless of occupancy, to ensure guaranteed availability for San Francisco referrals without competing with other parties for beds. In FY 2024-25, Victoria's House had an average occupancy of 80 percent, which DPH states is adequate given client turnover and unit repairs.

A&A Health Services facilities will primarily admit San Francisco residents directly from acute psychiatric units, medical inpatient units, locked sub-acute facilities for individuals under mental health conservatorship, including the unit at the Zuckerberg San Francisco General Hospital Behavioral Health Center, Jail Health Services, and clients from the community as appropriate. Clients may also be conserved and supervised by a public guardian.

DPH behavioral health staff are responsible for making referrals to the A&A beds. DPH staff will be informed of A&A Health Services' decision to admit or not admit within 72 business hours of receipt of the referral packet.

Performance Monitoring

The contract requires that A&A participate in program evaluation as requested by the City, with performance objectives established by DPH Behavioral Health Services. Immediate written notification to the Contract Administrator is required from A&A for any quarter in which it maintains less than ninety percent of the total agreed-upon beds filled per day.

DPH conducted its first annual monitoring of the program, a desk audit of Victoria's House, on October 15, 2025 for FY 2023-24. According to DPH staff, the FY 2024-25 monitoring report will include both facilities. According to DPH staff, DPH has not historically conducted annual performance monitoring of residential facilities that are not Medi-Cal certified programs because: (a) DPH Residential System of Care staff conduct monthly site visits and utilization reviews to assess each client's level of care needs; (b) the programs do not have to comply with Medi-Cal requirements, which are foundational to DPH's annual performance monitoring process; and (c) DPH's focus during annual monitoring has been on non-profit providers rather than for-profit entities. In addition, adult residential facilities are subject to audits and random visits by the state licensing board.

As discussed below, DPH is still developing the specific annual program monitoring requirements for the program since the program is not subject to Medi-Cal requirements. This includes administrative binder requirements and a summary of client feedback on the program. As DPH finalizes its approach to monitoring this program, we recommend that DPH include additional performance objectives similar to other DPH residential treatment programs, such as timely completion of individual assessment plans, whether or not clients meet the goals of their plans, and if clients exit the program to stable housing.

Victoria's House Program Monitoring Results

According to DPH's FY 2023-24 program monitoring report, A&A was found to be in compliance with the contract's program objectives, outcomes, and compliance requirements. DPH's program monitoring resulted in Victoria's House receiving an overall program score of four out of four or "commendable/exceeds standards."

A&A was reported to have met 100 percent of its Performance Objectives and program compliance. However, the San Francisco facility only had 83 percent of clients attend at least four groups, compared to the contracted target of 90 percent. DPH notes that these groups focus on skill-building and that attendance is a proxy for progress toward independent living.

The program was exempt from the units of service and unduplicated client count because DPH purchases 46 beds at Victoria's House regardless of occupancy.

The program was exempted from review of the premises and the administrative binder requirements for the initial monitoring until the Systems of Care can establish a Program Declaration of Compliance specific to residential programs that do not bill Medi-Cal. DPH is

currently configuring a monitoring template to reflect the specific assessment requirements of these facilities.

The program was also exempt from standardized client satisfaction surveys because the facility is not a Medi-Cal provider because there is no Client Satisfaction Survey requirement in this contract. Section 7 of Appendix A-1, however, specifies staff training as a Quality Improvement measure. The program provided proof that all staff completed the required training during the monitoring period. According to DPH staff, an individualized client satisfaction report is under development.

A breakdown of performance objective goals and results is detailed in Exhibit 1 below.

Exhibit 1: Victoria's House Performance Objectives and Results (FY 2023-24)

Facility	Objective	Result
San Francisco	At least 50% of the clients in the program will complete the 1-year treatment program.	67% (28 out of 42 clients)
San Francisco	At least 90% of the clients will attend at least 4 groups	83% (35 out of 42 clients)

Source: DPH

Fiscal and Compliance Monitoring

A&A is not subject to citywide fiscal and compliance monitoring because it is a for-profit organization.

FISCAL IMPACT

The proposed resolution increases the not to exceed amount by \$22,722,200, from \$9,932,675, to a new total not-to-exceed amount of \$32,654,875. This includes a contingency of \$2,961,055, or 12 percent of the allocated funding for the period of July 1, 2025, through June 30, 2029.

The total also includes approximately \$1.3 million in additional spending authority for FY 2025-26 because DPH increased the capacity of the San Pablo facility from up to 11 beds to up to 25 beginning in September 2025, which led to increased usage of the contract.

A summary of the annual budget and not to exceed amount is provided in Exhibit 2 below.

Exhibit 2: Total Contract Spending Summary by Fiscal Year 2024-25 to 2028-29

Fiscal Year	Existing	Proposed	Total Proposed
FY 2024-25	\$5,018,360		\$5,018,360
FY 2025-26	4,914,315	1,254,550	6,168,865
FY 2026-27		6,168,865	6,168,865
FY 2027-28		6,168,865	6,168,865
FY 2028-29		6,168,865	6,168,865
<i>Subtotal, Budget</i>	9,932,675	19,761,145	29,693,820
Contingency		2,961,055	2,961,055
Total NTE	\$9,932,675	\$22,722,200	\$32,654,875

Source: DPH

Bed Rates and Annual Budget

The amendment includes rate increases for FY 2025-26. The San Pablo Daily rate increases from \$200 to \$205 (2.5 percent), and the San Francisco Daily rate increases from \$250 to \$256 (2.4 percent). These rates are based on the facilities' published rates according to DPH staff. The proposed budget assumes 100 percent occupancy up to 25 beds at \$205 per day at the San Pablo facility (\$1.9 million) and 46 beds at \$256 per day (\$4.3 million) at the San Francisco facility. As mentioned above, DPH pays for the San Pablo beds based on occupancy but pays for the San Francisco beds regardless of occupancy.

Reasonableness of Budget

The proposed bed rates are on the high end of the City's bed rates for adult residential facilities according to the January 2025 Controller's Office report on Findings and Recommendations of the Residential Care and Treatment Workgroup. Across providers, daily bed rates range from \$46 to \$250 with an average of \$130. Bed rates are likely higher than other residential facilities due to the unique rehabilitative model provided.

Year-Over-Year Budget Comparison

The FY 2025-26 budget is \$6,168,865, an increase of \$1,150,505 (22.9 percent) over the FY 2024-25 budget of \$5,018,360, driven by the increase in bed capacity at the San Pablo facility (from 11 beds to up to 25). The budget for the San Pablo facility is increasing by \$1,049,765, from \$820,860 in FY 2024-25 to \$1,870,625 in FY 2025-26, while the budget for the San Francisco facility is increasing by \$100,740 due to the 2.4 percent daily bed rate increase.

Funding Source

Annual funding is provided by Proposition C "Our City, Our Home" funds.

RECOMMENDATION

Approve the proposed resolution.