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

October 24, 2025

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: October 29, 2025 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 2 File 25-1020	Departments: Emergency Management (DEM), Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed hearing would release $9.9 million from Budget & Finance Committee reserve in the Department of Emergency Management's FY 2025-26 General Fund budget. The funding was placed on reserve pending an update on DEM's long term plans for the street ambassador program.

Key Points

- The street ambassador program is overseen by DEM, with contract management provided by HSA. HSA issued a Request for Proposals (RFP) for new street ambassador vendors on October 3, 2025, with a deadline for organizations to submit proposals on October 24, 2025. Contracts are expected to have an initial 2.5 year term, from January 1, 2026, through June 2028, with a possible 2.5 year extension through December 2030. The City plans to award one or more grants totaling no more than $25.77 million per year initially across twelve service areas. The new contracts will increase staffing within existing service areas and add two new service areas. Key duties would remain the same as existing ambassador services.

Fiscal Impact

- The requested release of $9.9 million in General Fund appropriations would contribute to the $25.77 million annual cost of the street ambassador contract/s that are being procured by HSA as of this writing. The total cost of the new street ambassador program contracts would be $67 million through the initial term of the agreements through FY 2027-28 and $142.8 million through December 2030 if all options to extend are exercised.

Policy Consideration

- The ongoing procurement process and contract structure indicated in the RFP incorporate our prior recommendations on the ambassador contracts, including increasing competition in the procurement process, shifting from a deliverable-based contract to a contract that reimburses actual costs with a clear staffing plan and operating budget, and adding objective outcome measures. Together, these changes are a significant improvement to the internal controls for the street ambassador program and, if executed effectively, have the potential to provide policy makers with greater assurance and clarity regarding the impact of these services.
- The pending procurement will result in DEM requiring approximately $3 million of additional funding in FY 2025-26 and $7.8 million in FY 2026-27. Given the City's structural budget deficit in the General Fund, the Board and Mayor should consider funding the street ambassador program within the existing funding levels approved for this program in the FY 2025-26 and FY 2026-27 budget.

Recommendation

- Approve the requested release of reserves.

MANDATE STATEMENT

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

BACKGROUND

Community Ambassador Program History

In July 2021, the City began funding ambassadors to improve street conditions in the Mid-Market and Tenderloin areas. The original contract was procured and managed by the Office of Economic & Workforce Development (OEWD), which entered into a $4.5 million contract with the Mid-Market Foundation, a non-profit business league, for FY 2021-22. Separately, under the prior Mayor's Tenderloin Emergency Declaration, OEWD entered into a separate, sole-source $7.4 million agreement with the Mid-Market Foundation for the period January 2022 – June 2022 to further increase ambassador staffing in the Tenderloin. The contracts were consolidated and expanded in subsequent years and most recently had a value of $23.8 million in FY 2024-25. The Mid-Market Foundation subcontracted with other organizations for nearly all services, including Urban Place Consulting for administration, Urban Alchemy and Code Tenderloin for ambassadors. The contract with Mid-Market Foundation ended on June 30, 2025, the maximum term allowed under the 2021 solicitation. The City also funded other ambassador contracts with the Tenderloin Community Benefit District and Ahsing Solutions.

While programmatic management of the street ambassador program remains at the Department of Emergency Management (DEM), responsibility for contract management has been shifted from the Office of Economic and Workforce Development to the Human Services Agency (HSA). To prevent a disruption in services, the Human Services Agency entered into agreements with the existing ambassador providers for the period July 1, 2025 through December 31, 2025. The agreements were procured without a competitive solicitation, as allowed under Chapter 21B of the Administrative Code.[1] The purpose of short-term agreements was to allow HSA and DEM to undertake a competitive solicitation to identify a longer-term vendor/s for street ambassador services. The current street ambassador contractors are the North of Market/Tenderloin Community Benefit Corporation ($0.5 million), Ahsing Solutions ($0.5 million), and Urban Alchemy ($9.8 million).

[1] Administrative Code Chapter 21B waives competitive bidding requirements for contracts that address homelessness, substance abuse, mental health, and public safety hiring. This authority was originally provided by the Board of Supervisors in April 2019 for homeless services and expanded in February 2025 to include other services (File 25-0040).

The FY 2025-26 – FY 2026-27 budget included $20.7 million in FY 2025-26 and $18.6 million in FY 2026-27 in General Fund appropriations for the street ambassador contracts. The Board of Supervisors placed $9.9 million of the funding in FY 2025-26 on Budget & Finance Committee reserve, pending an update on the administration's long-term plans for the street ambassador program.

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would release $9.9 million from Budget & Finance reserve in the Department of Emergency Management's General Fund budget in FY 2025-26. The funding would be work ordered (transferred) to the Human Services Agency to pay for contracted street ambassador services.

Procurement of New Street Ambassador Contracts

HSA issued a Request for Proposals (RFP) for new street ambassador vendors on October 3, 2025, with a deadline for organizations to submit proposals on October 24, 2025. Contracts are expected to have an initial 2.5 year term, from January 1, 2026 through June 2028, with a possible 2.5 year extension through December 2030. As detailed below, the initial annual cost of the program is expected to be $25.77 million.

RFP Evaluation Criteria

Proposals may be submitted by non-profit or for-profit organizations that meet minimum qualifications: (1) at least one year of experience providing similar services, (2) compliance with City contracting requirements, and (3) the capability to become a certified vendor with the City within 10 days of award.

Qualified proposals will then be evaluated by a panel based on project approach (45 points), organizational capacity (30 points), and fiscal capacity/budget (25 points), for a total possible score of 100 points.

Scope of Services

The City plans to award one or more grants totaling no more than $25.77 million per year across twelve service areas. The service areas are shown below in Exhibit 1. Proposers may apply for one or more service areas. The RFP also specifies staffing levels and hours for each service area.

The $25.77 million amount for the street ambassador program is more than the $21.6 million annualized cost of the existing ambassador contracts because the RFP contemplates additional staffing in existing service areas as well as two new service areas (in commercial corridors and afternoon/evening citywide deployments).

Key duties remain the same as existing ambassador contractors and include de-escalating conflicts, interrupting negative street behaviors (like public drug use or littering) using non-confrontational methods, conducting wellness checks, recognizing and reversing overdoses, providing safe passage escorts, light cleaning (including needle pickup), and supporting community events. Selected organizations will hire, train, and deploy teams of ambassadors with relevant lived experiences, such as previous homelessness, recovery from substance use, or involvement with the justice system, to provide a visible, non-law enforcement safety presence.

Exhibit 1: Street Ambassador Service Areas

Coverage Area	Budget
Commercial Corridor Ambassadors Teams	$1,500,000
Park Ambassadors Team	$1,500,000
Neighborhood Respite Sites	$2,150,000
AM Citywide Deployable Ambassador Teams	$2,770,000
PM Citywide Deployable Ambassador Team	$2,150,000
Mission District Ambassador Teams	$2,150,000
Tenderloin District Ambassador Teams	$2,700,000
South of Market District Ambassador Teams	$2,700,000
Civic Center District Ambassador Teams	$2,700,000
Polk Gulch and Lower Nob Hill District Ambassador Teams	$1,150,000
AM Mid-Market District Ambassador Teams	$2,150,000
PM Mid-Market District Ambassador Team	$2,150,000
Total	**$25,770,000**

Source: HSA Request For Proposals 1191

Performance Management

DEM will monitor performance quarterly using City data and field observations on the following service and outcome objectives.

Service Objectives

A. Successfully execute all programmatic requirements 90 percent of the time.

B. Maintain required staff levels 90 percent of the time.

C. Attend 90 percent of recurring City meetings

D. Participate in at least 80 percent of stakeholder meetings.

E. Complete 90 percent of daily data reports.

F. Submit monthly invoices and reports on time and complete 100 percent of the time.

G. Provide a written strategic ramp-down plan within 30 days of the City's request 90 percent of the time.

H. Track and report critical incidents to DEM within 24 hours using an agreed-upon form 90 percent of the time.

I. Manage staff grievances, conflicts, and personnel issues to the City's satisfaction 90 percent of the time.

Outcome Objectives

J. A 20 percent reduction in relevant 911 calls (e.g., disorderly conduct, public intoxication) in service areas over the initial term of the agreement.

K. A 20 percent reduction in relevant 311 service requests and a 30 percent improvement in response times over the initial term of the agreement.

L. 80 percent compliance with engagement protocols, staffing requirements, and public space cleanliness, verified by no-notice inspections by City staff.

M. A minimum of 70 percent of the staff employed have relevant lived experience.

In addition to the listed objectives, the providers must submit monthly reports to the City tracking staffing hours, blocks covered and their rates, daily deployment averages and totals, any unusual or significant incidents, and the number, nature, and outcomes of interventions, de-escalations, overdose reversals, needle disposals, and calls to 311 and 911.

FISCAL IMPACT

The requested $9.9 million in funding would contribute to the $25.77 million annual cost of the street ambassador contract/s that are being procured by HSA as of this writing. As shown below in Exhibit 2, based on the estimated annual $25.77 million program cost stated in the RFP, we estimate the total cost of the new street ambassador program contracts would be $67 million through the initial term of the agreements through FY 2027-28 and $142.8 million through December 2030 if all options to extend the agreements allowed under the RFP are exercised. These figures do not include the $10.8 million of spending in the first half of FY 2025-26 on the interim street ambassador contracts. Any contracts that exceed $10 million or ten years would require Board of Supervisors' approval.

Exhibit 2: Estimated Street Ambassador Contract Costs

Contract Year	Amount
Initial Term	
Year 1 (Jan 2026 - Dec 2026)	$25,770,000
Year 2 (Jan 2027 - Dec 2027)	$27,058,500
Year 3 (Jan 2028 - June 2028)	$14,205,713
Initial Term	**$67,034,213**
Extension Options	
Year 4 (July 2028 - June 2029)	$29,121,711
Year 5 (July 2029 - June 2030)	$30,577,796
Year 6 (July 2030 - Dec 2030)	$16,053,343
Extension Options	**$75,752,850**
Total Projected Spending	**$142,787,062**

Source: BLA

Funding Sources

As noted above, DEM's budget includes General Fund appropriations of $20.7 million in FY 2025-26 and $18.63 million in FY 2026-27 for street ambassador services (on top of the $2 million in DEM staffing to manage the program). This funding will not be sufficient to fund the street ambassador program at the $25.77 million funding level stated in the RFP. In FY 2025-26, the shortfall is approximately $3 million. DEM will rely on work orders from DPH ($0.4 million) and OEWD ($1.5 - $2 million) as well as projected savings from the interim ambassador contracts ($0.8 million) to fully fund the program. Certain ambassador services may also be carried out by Community Benefit Districts with non-City funding, which could slightly lower the overall cost of the program. In FY 2026-27, DEM will require $7.5 - $7.8 million of additional General Fund appropriations to fully fund the program.

POLICY CONSIDERATION

The ongoing procurement process and contract structure indicated in the RFP incorporate our prior recommendations on the ambassador contracts, including:

- Increasing competition by allowing a broader set of proposers to apply for funds
- Increasing competition by allowing proposers to apply for one or multiple service areas
- Extending the procurement timeline from two to three weeks
- Shifting from a deliverable-based contract to a contract that reimburses actual costs with a clear staffing plan and operating budget
- Including outcome objectives in the RFP and subsequent contracts, such as change in 911 and 311 calls
- Replacing surveys of community satisfaction with City staff conducting field observations to confirm compliance with program requirements

Together, these changes are a significant improvement to the internal controls for the street ambassador program and, if executed effectively, have the potential to provide policy makers with greater assurance and clarity regarding the impact of these services.

In addition, the RFP requires that street ambassador contractors maintain 70 percent of staff with certain lived experience (such as homelessness, recovery from substance use, and/or involvement with the justice system). This may favor certain program design and incumbent providers and limit the pool of potential proposers. The three current street ambassador contracts have a similar requirement for lived experience, which is either 60, 80, or 100 percent of staff, depending on the contract. According to DEM, the requirement for lived experience will improve program outcomes and was set at 70 percent to allow for a broad pool of applicants.

Finally, as noted above, the pending procurement will result in DEM requiring approximately $3 million of additional funding in FY 2025-26 and $7.8 million in FY 2026-27. Like other City contracts, the street ambassador contracts may be adjusted each year, depending on the budget decisions made by the Mayor and Board of Supervisors. However, given the City's structural budget deficit in the General Fund, the Board and Mayor should consider funding the street ambassador program within the existing funding levels approved for this program in the FY 2025-26 and FY 2026-27 budget.

DEM has met the goal of reporting to the Board of Supervisors on its long-term plans for the ambassador program. We therefore recommend releasing the budget reserve.

RECOMMENDATION

Approve the requested release of reserves.

Item 4 **File 25-1005**	**Department:** Municipal Transportation Agency (MTA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a contract between the San Francisco Municipal Transportation Agency (MTA) and Complete Coach Works for a not-to-exceed amount of $95,443,128 and a term of five years to complete Phase II mid-life overhaul services on 221 coaches, with two one-year options to renew for a maximum term of seven years.

Key Points

- MTA maintains a fleet of 856 coaches (rubber tire fleet) that will require mid-life overhaul repairs in phases. Phase I covered the first set of 315 coaches. Phase II will cover the second set of 221 coaches, which are now in the midpoint of their 12-year life cycle, and Phase III will cover 278 coaches and will commence at a date to be determined by the MTA.
- On August 30, 2024, the MTA issued a Request for Proposals (RFP) for Phase II of the mid-life overhaul program. The MTA received one proposal from Complete Coach Works in November 2024. The agency is currently contracted with the vendor for Phase I mid-life overhaul services. Because there was only one proposal, the MTA did not formally score the proposal and instead began negotiating price and schedule with Complete Coach. Complete Coach Works' bid was found to be within five percent of an independent cost estimate prepared before the procurement process.
- The mid-life overhaul work to be completed by Complete Coach Works includes fully repairing, upgrading, testing and preparing each coach so it is ready to be used for regular passenger service.
- The proposed contract contains a liquidated damages provision, a one-year or 50,000 miles (whichever comes first) workmanship warranty requirement, and a minimum $4 million performance and payment bond to guarantee the vendor's performance of all contractual obligations. Coaches are subject to City inspection prior to payment.

Fiscal Impact

- The proposed resolution would approve a contract between the MTA and Complete Coach Works for a total not-to-exceed amount of $95,443,128. The total budget for the entire Phase II of the mid-life overhaul program is $120.6 million, or $545,580 per bus. Approximately 82 percent of expenditures for the entire Phase II program are funded by federal and state funds, and approximately 18 percent are funded by local funds.

Recommendations

- Amend the proposed resolution to correctly state that the term is five years with two one-year options to renew for a maximum contract term of seven years.
- 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

San Francisco Municipal Transportation Agency Mid-Life Overhaul Program

The San Francisco Municipal Transportation Agency (MTA) maintains a fleet of 856 coaches (rubber tire fleet). Between 2013 and 2019, the MTA replaced its entire rubber tire fleet with new coaches on a staggered cycle. The agency staggered vehicle purchases to spread out the strain of mid-life maintenance and to average out the age of the fleet. The estimated useful life of 40-foot and 60-foot hybrid coaches is approximately 12 years, as determined by the Federal Transit Administration. The MTA is performing a mid-life overhaul on all the coaches in three phases, as required by the San Francisco County Transportation Authority (SFCTA) Prop K Grant Agreement.[1] Phase I covered the first set of 315 coaches. The MTA overhauled 112 coaches in-house, and Complete Coach Works is overhauling 203 coaches[2] under a contract previously approved by the Board of Supervisors (File 22-0152).

Phase II will cover the second set of 221 coaches, which are now in the midpoint of their life cycle, and Phase III will cover the newest set of 278 coaches[3] and will commence at a date to be determined by the MTA. Phase II consists of a proposed 221 coaches to be overhauled (152 standard 40-foot Hybrid Electric New Flyer Coaches, and 69 articulated 60-foot Hybrid Electric New Flyer Coaches), as detailed in Exhibit 1 below.

[1] SFCTA plans, funds and delivers transportation projects in the City, as well as administers and allocates funds from the City's half-cent transportation sales tax. The Prop K Grant agreement (for the purchase of the vehicles) required the MTA to perform mid-life overhauls on all vehicles.

[2] MTA states that the overhauling of 186 coaches have been completed, and the remaining 17 coaches will be completed by early February 2026.

[3] This does not include 30 El Dorado coaches; MTA is planning for an overhaul project for these coaches in FY27-28

Exhibit 1: Coaches included in Phase II Mid-Life Overhaul

Sales Release (Batch) Number	Type (Coach Length)	Quantity	Propulsion[4]	Arrival Date (at SFMTA)
SR-2043	40-foot	54	Allison	October 2016
SR-2116	60-foot	69	Allison	May 2017
SR-2117	40-foot	68	BAE	June 2018
SR-2118	40-foot	30	BAE	June 2017
Total		**221**		

Source: MTA Phase II Mid-Life Overhaul Request for Proposals

Procurement of Phase II Mid-Life Overhaul Services

On August 30, 2024, the MTA issued a Request for Proposals (RFP) to provide system replacement and rehabilitation services for 221 coaches under Phase II of the mid-life overhaul program. The MTA received one proposal from Complete Coach Works in November 2024.[5] As previously mentioned, the agency is currently contracted with the vendor for Phase I mid-life overhaul services. Because there was only one proposal, the MTA did not formally score the proposal and instead began negotiating price and schedule with Complete Coach Works as allowed under Administrative Code Section 21.4(b). Eight MTA staff members from the Transit division and three consultants from STV comprised the negotiation team.

In March 2024 (before the RFP issuance), MTA obtained an independent cost estimate from STV, a consulting firm, for the cost of the Phase II mid-life overhaul work. In April 2025, the pricing analysis was completed to compare and evaluate the independent cost estimate and vendor's proposal. Complete Coach Works' bid was found to be within five percent of that independent estimate.[6]

[4] Allison and BAE are both manufacturers of the type of propulsion system on the respective coaches. BAE uses series hybrid technology, while Allison uses parallel hybrid technology.

[5] According to MTA, these are possible reasons for the limited number of responses to the RFP: (1) only a few bus manufacturers in the country are currently operating; (2) overhaul work requires a highly niche skillset and is higher risk because of the difficulty in projecting materials and labor costs due to variances in bus conditions; and (3) some vendors may need to make large capital investments to accommodate the workload of overhauling 221 coaches within the project timeline. MTA states that three potential prime contractors attended the pre-bid conference but two decided not to submit a proposal due to reasons unknown by MTA. The RFP also stated that the contractor is required to have (at its own expense) a Post-Delivery Inspection site located within 50 miles of San Francisco so that MTA staff can perform acceptance inspections of the vehicles. According to MTA, this is required because a local site reduces downtime of vehicles returning to service. In addition, the vendor often needs to re-work items found during inspection. Without a local site, all repair and warranty services would need to be conducted at MTA facilities, which are limited and would impair daily maintenance work.

[6] The independent cost estimate used Phase I costs (per the existing contract) with a three percent escalation for inflation to establish an estimated pricing baseline for the overhaul of 40-foot and 60-foot hybrid coaches. The

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a contract between the MTA and Complete Coach Works for a not-to-exceed amount of $95,443,128 and a term of five years to complete Phase II of the mid-life overhaul program for MTA's rubber tire fleet, with two one-year options to renew for a maximum term of seven years. This includes replacing and rehabilitating systems for up to 152 standard (40 foot) Hybrid Electric New Flyer Coaches and 69 articulated (60 foot) Hybrid Electric New Flyer Coaches. The term of the proposed contract will commence upon Board of Supervisors' approval. The proposed resolution states that the maximum term of the contract is five years. However, the proposed contract states that there are two one-year options to renew for a maximum term of seven years. We recommend that the Board of Supervisors amend the proposed resolution to correctly state the term.

Scope of Work

Under the proposed contract, Complete Coach Works would complete Phase II mid-life overhaul services on 221 coaches. This includes fully repairing, upgrading, testing and preparing each coach so it is ready to be used for regular passenger service. The necessary rehabilitations vary by type of coach; however, a summary of general work to be performed includes the following:

- Restoring interior flooring and exterior finish;
- Restoring and replacing operator's seating area;
- Rehabilitating HVAC and cooling systems;
- Electronic equipment (e.g., surveillance cameras) replacement and/or repair;
- Identifying and replacing missing or damaged components;
- Propulsion system replacement and/or repair;
- Electrical wiring and component upgrades and installation; and
- Rehabilitating wheelchair ramps.

The costs associated with each type of coach are summarized in Exhibit 2 below.

---

vendor's total vehicle price was approximately 2.58 percent higher than the independent cost estimate. The Phase I independent cost estimate included the review of other overhaul procurements to validate the pricings. MTA states that because Phase II's scope of work is similar, Phase I pricing was used as a baseline. MTA also notes that overhaul contracts from other agencies may include services for different vehicle types, smaller vehicle quantities and other price factors (such as inflation).

Exhibit 2: Phase II Mid-Life Overhaul Costs for Proposed Contract

Quantity	Description[7]	Unit Price	Total Price
54	SR-2043 – 40-foot Allison Hybrid with New ISL Engine	$360,308	$19,456,641
30	SR-2116 – 60-foot Allison Hybrid with New ISL engine and SFMTA Rebuilt Drive Unit	$460,148	$13,804,435
10	SR-2116 – 60-foot Allison Hybrid with SFMTA Rebuilt Engine and SFMTA Rebuilt Drive Unit	$381,383	$3,813,833
29	SR-2116 – 60-foot Allison Hybrid with New ISL engine, Rebuilt Drive Unit with Stator A replaced	$532,008	$15,428,229
68	SR-2117 – 40-foot BAE Hybrid with New ISL engine	$389,559	$26,490,015
30	SR-2118 – 40-foot BAE Hybrid	$364,999	$10,949,976
10	As-Built Drawings, Updated Schematics, and Parts Lists (SR 2043, SR-2116, SR-2117, SR-2118)	No Cost	No Cost
N/A	Special Tools	N/A	$250,000 (fixed allowance)
N/A	Spare Parts	N/A	$250,000 (fixed allowance)
N/A	Unforeseeable Work and Exterior Body Work	Labor & Supplies	$5,000,000
		Total	**$95,443,128**

Source: Proposed Draft Contract

One unit price reflects the labor, materials, facilities, and equipment costs to rehabilitate one vehicle. As shown above, unit prices range from $360,308 for a 40-foot Allison Hybrid Coach with new ISL engine[8] to $532,008 for a 60-foot Allison Hybrid Coach with new ISL engine, rebuilt drive unit with Stator A replacement.[9] The unit prices are from the vendor's proposal in response to the RFP. As previously mentioned, the unit prices were within five percent of the independent cost estimate from STV for the cost of the Phase II mid-life overhaul services.

---

[7] The description column indicates the sales release (batch) number, model year, the size/length of the coach, the type of coach, and whether it needs engine work.

[8] The ISL engine is a line of 8.9-liter, inline 6-cylinder engines from Cummins (the engine manufacturer), commonly used in medium-duty and heavy-duty trucks, buses, and motorhomes.

[9] The stator (which is a stationary part that creates a magnetic field and makes the rotor turn) will be replaced in the rebuilt drive unit (traction motor)

Up to $250,000 is reserved for the purchase of spare parts and special tools each[10], and $5 million is reserved for unforeseeable and exterior body work to be paid out based on labor and supplies.[11] In addition, if any systems were modified or upgraded during the overhaul, the vendor is required to provide updated schematics drawings for future maintenance purposes and at no cost.

The MTA will pay Complete Coach Works 60 percent of the cost of each coach repair upon the certification, by an MTA inspector, that the coach has been shipped from Complete Coach Works. The MTA will then pay 35 percent of the cost of each coach upon certifying that the repairs have been completed satisfactorily. The MTA will retain 5 percent of the cost of all items (e.g., coach repair, special tools, spare parts) until all the contract deliverables are satisfied and upon the satisfactory inspection of all coaches at the end of the contract.

MTA is expecting the rehabilitation services to start in Quarter 1 of 2026 with completion of all coaches by early 2028.

Buy America Requirements

Because federal funding will be used to fund the proposed contract, the contract requires Buy America compliance. Pre-delivery and post-delivery audits will confirm domestic content thresholds and final assembly requirements under Federal Transit Administration regulations.

Small Business Enterprise Requirements

Under the proposed contract, Complete Coach Works has committed to achieving 10 percent Small Business Enterprise (SBE) subcontracting participation for the contract.

Performance and Warranty

The proposed contract contains a liquidated damages provision that allows the MTA to fine Complete Coach Works for each day it is late in (1) delivering coaches[12], (2) other project deliverables (special tools, spare parts, drawings)[13], and (3) a plan for correction for any fleet defects or resolution of any specific declared defects.[14] The proposed contract also includes a one-year or 50,000 miles (whichever comes first) workmanship warranty requirement. In addition, the coaches are subject to City inspection prior to payment. Finally, the proposed contract includes a minimum $4 million performance and payment (labor and materials) bond to guarantee the vendor's performance of all contractual obligations, including payment and warranty terms.

---

[10] In the RFP, these items were allocated a fixed allowance of one million each but were reduced to $250,000 during negotiations.

[11] According to MTA, based on the existing Phase I mid-life overhaul contract, the average unforeseeable work is roughly averaging $25,000 per coach. Using this as the general guideline, MTA deemed the $5 million amount for unforeseeable work should be reasonable for Phase II's proposed 221 coaches.

[12] $500 per Coach per day

[13] $500 per day per deliverable

[14] $200 per Coach per day

MTA states that the agency will also host weekly production meetings to review the status of the project and monitor the performance of the vendor.

FISCAL IMPACT

The proposed resolution would approve a contract between the MTA and Complete Coach Works for a total not-to-exceed amount of $95,443,128. The total budget for the entire Phase II of the mid-life overhaul program is $120,573,287, or $545,580 per bus. Exhibit 3 below details the sources and uses of the total Phase II budget.

Exhibit 3: Sources and Uses of Funds for Phase II Mid-Life Overhaul Program

Sources	**Amount**
Federal and State	
Federal Transit Administration Section 5307 Urbanized Area Formula Grant Funds	$91,008,083
CA Transportation Commission State Transportation Improvement Program Funds	7,952,000
Subtotal, Federal and State	*$98,960,083*
Local	
CCSF Low Carbon Fuel Sales	561,331
Mission Rock Developer Fees	5,267,431
General Fund Population Baseline Transfer	3,144,442
SFCTA Sales Tax (Prop L - formerly Prop K)	12,640,000
Subtotal, Local	*$21,613,204*
Phase II Total Sources	**$120,573,287**
Expenditures	
Complete Coach Works Contract (221 coaches)	$95,443,128
Other Associated Contract Costs	
Sales Tax (8.625%, paid by City)	8,231,970
Soft Costs - Planning, Design, Project Administration, Inspection and Consultant Support	11,750,344
In-house Materials Purchases	5,147,845
Subtotal, Other Contract Costs	*$25,130,159*
Phase II Total Expenditures (221 Coaches)	**$120,573,287**

Source: MTA

As shown above, the total Phase II cost of $120,573,287 includes the proposed contract's cost of $95,443,128 (79 percent) other associated costs to the MTA of $16,898,189 (14 percent), and sales tax of $8,231,970 (7 percent). According to MTA, the in-house materials purchases ($5,147,845) reflect the cost of procurement for 40 drive units (traction motors[15]) and 10 engines to be used by the agency's in-house machine shop to rehabilitate forty 60-foot Allison Hybrid coaches.

MTA states that the agency does not have sufficient dedicated maintenance staff, overhaul facilities, and material logistics to complete any of the Phase II overhaul in-house while the vehicles are still halfway through their useful life.

In addition, according to MTA, the 221 coaches will eventually need to be replaced; however, because of the agency's anticipated financial constraints in future years, the coaches may need to stay in service beyond their useful life. MTA plans to replace coaches as they reach the end of their useful life and funding becomes available.

Sources of Funds

As shown in Exhibit 3 above, approximately 82 percent of expenditures for the entire Phase II of the mid-life overhaul program are funded by federal and state funds, and approximately 18 percent are funded by local funds.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the term is five years with two one-year options to extend for a maximum term of seven years.
2. Approve the proposed resolution, as amended.

[15] A traction motor is an electric motor used for propulsion of a vehicle

Item 5 File 25-0976	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 6 to the International Terminal Duty Free and Luxury Store concession lease between DFS Group, L.P. (DFS), and the Airport to temporarily reduce percentage rent and the Minimum Annual Guarantee (MAG) for four years, covering Lease Years 7 through 10 (calendar years 2026 through 2029).

Key Points

- DFS Group leases the International Terminal Duty Free and Luxury Stores from the Airport under a concession lease agreement with a 14-year term that began in April 2020. DFS Group consists of a joint venture partnership between DFS Group, L.P., with 75 percent ownership, and the five small business partners, each with 5 percent ownership. The lease agreement has been amended five times to reduce rent and/or fees paid to the Airport due to the COVID-19 pandemic and a sustained reduction in travelers from China.
- The original lease included a MAG of $42 million, subject to annual adjustments, and a tiered percentage rent structure ranging from 45.8 percent of revenues up to $100 million, to 30 percent of revenues exceeding $160 million. Amendment 4 reduced percentage rent from 45.8 percent to 36 percent of gross sales and temporarily reduced the MAG to $30 million through December 2026. Amendment 6 would further reduce the MAG to $25 million and percentage rent to 28 percent of gross revenues up to $100 million, plus 32 percent of gross revenues above $100 million through 2029.

Fiscal Impact

- Based on estimated gross revenues for the four-year period, the Airport would receive $119.2 million in rent under the proposed amended lease, which reflects a reduction of $74.6 million compared to rent projected under the existing lease. This would lead to approximately $11.2 million less in total transfers to the General Fund from 2026 to 2029.

Policy Consideration

- According to DFS' financial statements, DFS has incurred financial losses of approximately $115.9 million since the start of the lease through September 2025. The Airport has provided approximately $46.8 million in rent relief to DFS through 2025. This past relief amounts to approximately 40 percent of the losses incurred during that period. Proposed Amendment No. 6 would provide an additional $74.6 million in rent relief through 2029, bringing the total estimated rent relief from 2020 to 2029 to $121.4 million. The Airport does not have a policy for sharing financial losses with concessionaires.

Recommendation

- Approve the proposed resolution.

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

In March 2018, the Board of Supervisors approved a concession lease agreement between DFS Group, L.P. (DFS) and the Airport for a 14-year term that started on April 1, 2020, and will end on March 31, 2034 (File 18-0079).[1] The lease now covers 47,758 square feet of retail space, including 17 facilities located in the International Terminal (Boarding Areas A and G), Terminal 2, and Harvey Milk Terminal 1. Under the terms of the original lease, DFS pays base rent to the Airport equal to the Minimum Annual Guarantee (MAG) rent or a tiered percentage rent based on gross revenues, whichever is greater. DFS uses the space for duty-free, luxury, and other specialty retail stores.

Sustained Financial Underperformance and Demographic Shifts

DFS began operations on April 1, 2020, coinciding with the onset of the COVID-19 pandemic, which contributed to a decline in international passenger traffic. Lease amendments 1 through 3, which reduced DFS's rent, were approved by the Board of Supervisors to improve the business's financial viability, which has had negative net income since the lease commenced. Although the number of international passengers departing from the Airport has recovered to pre-pandemic levels, duty-free sales remain well below initial forecasts.[2] This gap is primarily due to a change in the demographic makeup of international travelers, specifically a decrease in travelers from China.

The current square footage of 47,778 square feet is 1,483 square feet more than the original lease premises of 46,295 square feet. This reflects a three percent overall increase in leased space. The Airport reports that the MAG did not increase because the total change in square footage was less than 10 percent.

In 2019, before the pandemic, travelers from China accounted for 15 percent of all international passengers and nearly 50 percent of duty-free sales, spending $48 million per year. In 2024,

[1] DFS manages the lease through a joint venture called SFO Duty Free & Luxury Store Joint Venture. The ownership includes DFS Group, L.P., which holds 75 percent, and five Airport Concessions Disadvantaged Business Enterprise (ACDBE) partners, each with a 5 percent stake: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, Inc., and Skyview Concessions, Inc.

[2] Duty-free shops are retail outlets located in international transit zones, such as airports, that sell merchandise free of certain local or national taxes and customs duties. Sales are restricted to travelers departing the country.

Chinese travelers accounted for less than five percent of international passenger enplanements and $21 million in duty-free sales.

This has led to actual gross sales falling short of initial projections when the lease commenced. For example, in the fifth fiscal year of the lease, actual sales totaled $93.9 million, compared to the projected $185.8 million.

As shown in Exhibit 1 below, the lease agreement has been amended five times to provide rent relief due to financial underperformance caused by the COVID-19 pandemic, shifts in international passenger demographics, and changes in the Chinese economy.

Exhibit 1: Lease Amendment History (2018-2025)

Amendment	Approval	Description
Original Lease	Board of Supervisors (File 18-0079), Mar 2018	• **Term**: 14-year term commencing April 2020 (after Development Term) • **MAG**: $42 million, adjusted annually to the greater of the existing MAG or 90% of rent paid in previous year. • **Percentage rent**: equal to 45.8% of gross revenues up to $100M, plus 41.8% of gross revenues from $100M to $160M, plus 30% of gross revenues over $160M
1	Board of Supervisors (File 20-0542), July 2020	• **MAG**: suspended • **Percentage rent**: reduced to 33% of gross revenues between Apr 2020 and Dec 2020
2	Board of Supervisors (File 20-1348), Feb 2021	• **Percentage rent:** continued reduced rent of 33% of gross revenues until earlier of Jan 2024 or reinstatement of MAG
3	Airport Commission[3], Oct 2020	• **Certain rents and fees**: waived between Apr 2020 and Dec 2020
MAG reinstated in May 2023 (due to increase in international enplanements)		
		• **MAG:** reinstated to $42M in May 2023 • **Percentage Rent:** reinstated to original tiered structure along with MAG in May 2023 (per terms of Amendment 2)
4	Board of Supervisors (File 23-1153), Apr 2024	• **MAG**: reduced to $30M in 2024 with annual adjustments in 2025 and 2026 • **Percentage rent**: reduced to 36% of gross revenues between 2024 and 2026 (up from reduced rent of 33% through April 2023) • Original MAG and tiered percentage rent resume in 2027
5	Board of Supervisors (File 24-0673), July 2024	• **Percentage Rent**: retroactive reduction to 33% of gross revenues between May 2023 and December 2023
6	Proposed (File 25-0976)	• **MAG:** reduced to $25M in 2026 with annual adjustments thereafter • **Percentage rent:** reduced to 28 percent of gross revenues up to $100 million, plus 32 percent of gross revenues above $100 million between 2026 and 2029 • Original MAG and tiered percentage rent resumes in 2030

Source: Original Lease, Amendments 1-5, Proposed Amendment 6

As outlined above, the original lease initially included a MAG of $42 million, subject to annual adjustments, and a tiered percentage rent structure: 45.8 percent for revenues up to $100

[3] 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. Under that authority, the Airport executed the third amendment to the lease

million, 41.8 percent for revenues between $100 million and $160 million, and 30 percent for revenues exceeding $160 million.

However, the MAG was suspended between lease commencement in April 2020 and May 2023 due to the COVID-19 pandemic, and the percentage rent was reduced to a flat 33 percent of gross revenues over the period and through December 2023. The MAG was temporarily reduced to $30 million in 2024 through 2026, and percentage rent was temporarily reduced to 36 percent of gross revenues (up from the reduced rent of 33 percent through December 2023). The original MAG and tiered percentage rent are set to resume in 2027.

In 2024, DFS paid $34.5 million in percentage rent to the Airport, which exceeded the MAG of $30 million. In 2025, the MAG is approximately $31.07 million.

Need for Additional Rent Relief

DFS and its joint venture partners continue to experience financial losses due to the gap between sales projections at lease commencement and actual performance, caused by demographic shifts in international travelers. According to the DFS financial statements provided by the Airport, the joint venture has accumulated total losses of more than $115 million from the start of the lease on October 1, 2018, through August 31, 2025.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 6 to the International Terminal Duty Free and Luxury Store concession lease between DFS Group, L.P. (DFS), and the Airport to temporarily reduce percentage rent and the Minimum Annual Guarantee (MAG) for four years, covering Lease Years 7 through 10 (calendar years 2026 through 2029). This amendment introduces a new percentage rent structure of 28 percent of gross revenues up to $100 million, plus 32 percent of gross revenues above $100 million, and a MAG of $25 million, subject to annual adjustments afterward as specified in the original lease.[4]

At the start of Lease Year 11 (January 1, 2030), the temporary relief will expire. The original base rent structure, including the $42 million MAG (adjusted annually from 2020) and the original tiered percentage rent, will be reinstated for the rest of the lease term, which ends on March 31, 2034.

The proposed lease changes are summarized in Exhibit 2 below.

[4] Annual adjustments based on an increase in prevailing wage for technicians and other labor rates adjusted by CPI.

Exhibit 2: Proposed Lease Amendments

Category	Original	Proposed Amendment No. 6 (Years 7–10)
Term	Oct 2018 - Mar 2034 (14 years, plus 1 year and 6-month Development Term)	No change
Square Feet	46,295 square feet	47,778 square feet
Minimum Annual Guarantee (MAG)	$42,000,000	**Year 7**: $25,000,000 for Year 7 (2026) **Years 8-10**: Annual adjustments **Year 11-14**: Original MAG of $42 million adjusted annually from 2020
MAG Adjustment	Annually adjusted to the greater of the existing MAG or 90% of rent paid in the previous year	No change
Percentage Rent	45.8% of gross revenues up to $100 million; 41.8% of gross revenues from $100 million to $160 million; 30% of gross revenues over $160 million	**Years 7-10**: Reduced percent rent for Years 7–10 (2026–2029): 28% of gross revenues up to $100 million, 32% of gross revenues above $100 million **Year 11**: Original percentage rent reinstated for remainder of term

Source: Airport

The proposed percentage rent of 28 to 32 percent is still higher than the average percentage rent of other specialty retail at the Airport, which averaged 19.4 percent in CY 2023. According to Airport staff, the proposed percentage rent of 28 to 32 percent was based on a comparison of current duty-free rents at peer airports, which range from 13 percent to 31 percent. The proposed MAG of $25 million is slightly lower than projected percentage rent.

Leased Premises and Renovations

DFS currently leases 47,778 square feet of space for duty-free and luxury stores across 17 locations. As shown in Exhibit 3 below, this includes 19,913 square feet in International Terminal A, 23,142 square feet in International Terminal G, 3,714 square feet in Harvey Milk Terminal 1, and 1,009 square feet in Terminal 2.

Exhibit 3: DFS Duty Free and Luxury Stores Locations

Store	Location	Square Feet
Lego	Harvey Milk Terminal 1	3,714
Duty Free Store	Terminal 2	1,009
Burberry	International Terminal A	930
Coach	International Terminal A	1,769
Hermes	International Terminal A	1,540
Gucci	International Terminal A	1,500
YSL	International Terminal A	730
Watches	International Terminal A	990
Swarovski & APM Monaco	International Terminal A	1,440
Galleria Store	International Terminal A	10,005
Gate Store	International Terminal A	1,009
Burberry	International Terminal G	730
Gucci	International Terminal G	1,230
Former Hermes, PopUp now	International Terminal G	1,674
Watches	International Terminal G	736
Galleria Store	International Terminal G	17,336
Gate Store	International Terminal G	1,436
Total		**47,778**

Source: Airport

Completion of Renovations and Contingencies

Amendments 4 and 5 made rent relief dependent on the completion of new facilities in Harvey Milk Terminal 1 (by December 31, 2024) and Terminal 2 (by March 31, 2025). The Airport states that both of these requirements were met. The proposed Amendment No. 6 does not include any new construction requirements because DFS has completed all renovations, and all stores are currently open.

FISCAL IMPACT

Proposed Amendment Number 6 would temporarily lower the MAG from $42 million to $25 million for lease year 7, with annual adjustments, and reduce the percentage rent to 28 percent of gross revenues up to $100 million and 32 percent for gross revenues above $100 million, or for lease years 7 through 10 (calendar years 2026 to 2029).

Exhibit 4: Projected Decrease in Rent (in Millions)

Lease Year (Calendar Year)	Estimated Gross Receipts	Rent under Existing Lease	Rent under Proposed 6th Amendment	Reduction in Rent to Airport
Year 7 (2026)	$95.00	$34.20	$26.60	$7.60
Year 8 (2027)	100.00	51.65*	28.00	23.65
Year 9 (2028)	111.00	53.20*	31.52	21.68
Year 10 (2029)	116.00	54.80*	33.12	21.68
Total	**$422.00**	**$193.86**	**$119.24**	**$74.62**

Source: Airport
*Under the existing rent structure, in Years 8 through 10, estimated rent reflects the MAG, which is expected to exceed percentage rent

The Airport projects DFS will have gross revenues of $95 million in 2026, $100 million in 2027, $111 million in 2028, and $116 million in 2029. Based on these projections, the total estimated rent relief under proposed Amendment 6 is $74.62 million over the four-year period. This calculation assumes that the original base rent structure would have been reinstated starting in 2027, with the MAG adjusted annually by three percent since 2020. The Airport projects that the MAG would exceed percentage rent in 2027 through 2029 under the existing rent structure.

The Airport makes an annual service payment to the City's General Fund, equal to 15 percent of concession revenues. The proposed rent decrease would lead to approximately $11.19 million less in total transfers to the General Fund from 2026 to 2029. Annually, the reduction would range from $1.14 million to $3.55 million.

Rental Assistance to DFS Joint Venture Members

The proposed lease amendment would provide an estimated $74.62 million in rental assistance to the SFO Duty Free & Luxury Store Joint Venture over the four-year period. Based on the joint venture structure, this assistance includes approximately $55.97 million to DFS and approximately $18.66 million to the five Airport Concessions Disadvantaged Business Enterprise (ACDBE) partners ($3.73 million each).[5]

POLICY CONSIDERATION

According to DFS' financial statements, DFS has incurred financial losses of approximately $115.9 million since the start of the lease through September 2025, initially due to the COVID-19 pandemic and the subsequent drop in high-spending travelers from China.

[5] The five ACDBE businesses include: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, and Skyview Concessions, Inc.

The Airport has provided approximately $46.8 million in rent relief to DFS through 2025. This past relief amounts to approximately 40 percent of the losses incurred during that period. Proposed Amendment No. 6 would provide an additional $74.6 million in rent relief through 2029, bringing the total estimated rent relief from 2020 to 2029 to $121.4 million. The Airport does not have a policy for sharing financial losses with concessionaires. This presents a market risk that DFS accepted when it entered into a lease for retail luxury goods at the airport.

RECOMMENDATION

Approve the proposed resolution.