CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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July 17, 2026

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 22, 2026 Budget and Finance Committee Meeting

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Item 2 **File 26-0743**	**Department:** Recreation and Parks Department

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a Recreation and Parks (REC) emergency declaration related to emergency dredging at the Marina Small Craft Harbor for a total estimated cost of more than $2,500,000.
- Any contracts entered into under the proposed emergency procurement authority are exempt from Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (Human Rights Commission), and 14B (Local Business Enterprise utilization) as well as Labor and Employment Code Sections 131 (non-discrimination in contracts), and 132 (non-discrimination in property contracts).

Key Points

- The REC Interim General Manager declared an emergency related to sediment accumulation at the Marina Small Craft Harbor entrance on May 1, 2026. This accumulation is the result of incomplete dredging by the former contracted party, Marinship Development Interest, LLC. Due to inadequate equipment and sediment disposal issues, this contractor did not complete dredging within the required 30-day project window.
- Following termination of Marinship Development Interest, LLC's contract, REC awarded a contract to the second-lowest bidder, The Dutra Group. The Dutra Group began dredging operations on April 29, 2026. In addition to the original scope of work, REC determined the need for additional emergency dredging. The Dutra Group removed an excess of 39,300 cubic yards of sediment, which is nearly three-times the amount removed last year.

Fiscal Impact

- As of July 7, 2026, the work has been completed, and REC has received invoices for approximately $2.9 million. This exceeds the original contract award by approximately $1.8 million, which reflects the cost of the emergency work. Costs will be funded by $1.0 million from the Open Space Fund Contingency Reserve and by $0.8 million from the Marina Yacht Harbor Fund.
- Several Marina capital projects will be delayed to provide funding for the emergency work.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 6.60(d) states that contracts entered into for emergency work that are more than $250,000 are subject to Board of Supervisors approval. Prior to the commencement of emergency work above the $250,000 threshold, the Department must also secure approval in writing from the Mayor or the President of the appropriate Board or Commission. If the emergency does not permit approval of the emergency determination by the Board of Supervisors before work begins, the Department must submit a resolution approving the emergency determination to the Board of Supervisors within 60 days of the Department head's declaration of emergency.

BACKGROUND

The Marina Small Craft Harbor is the oldest operating recreational marina in San Francisco. This 35-acre harbor has 727 berths and 15 end ties for guest berthing vessels. The Recreation and Parks Department (REC) annually dredges the West Harbor to maintain safe and navigable access for boat traffic and emergency response vessels. Dredging is the removal of sediments and debris from the bottom of bodies of water and is necessary to ensure the safe passage of boats and ships, as well as to reduce contaminants in bodies of water.

Each year, the Recreation and Parks Department (REC) awards a dredging contract to the lowest responsible bidder. In 2025, REC solicited bids for Marina Small Craft Harbor dredging in 2026 and awarded a contract to Marinship Development Interest, LLC, who began dredging operations on March 18, 2026. Due to inadequate equipment and sediment disposal issues, Marinship Development Interest, LLC did not complete dredging within the required 30-day project window. REC terminated the contract on April 23, 2026. By April 23, 2026, additional sand accumulated in the channel, making the harbor entrance only accessible during the highest of tides.

Following termination of Marinship Development Interest, LLC's contract, REC awarded a $1,163,262 contract to the second-lowest bidder, The Dutra Group, on April 28, 2026. The Dutra Group began dredging operations on April 29, 2026.

On May 1, 2026 REC Interim General Manager Sarah Madland declared an actual emergency pursuant to Administrative Code Section 6.60 and directed immediate emergency dredging work beyond the original contract scope. In correspondence with the REC Director of Administration and Finance, the REC Interim General Manager wrote: "In order to prevent shutdown of the harbor entrance, I direct you to provide for the immediate removal of sand preventing access for boaters and emergency responders." At the time of the emergency declaration the estimated cost of the additional work was $2.0 million. However, REC increased the estimate to $2.5 million as of June 22, 2026, to provide a contingency.

According to REC Director of Administration and Finance Antonio Guerra, approximately $1.9 million out of the $2.5 million has been encumbered, and this emergency dredging project was completed on June 30, 2026. The Dutra Group removed an excess of 39,300 cubic yards of sediment to clear the entrance channel. This reflects an increase in cleared sediment compared to the prior year of 13,548 cubic yards and reflects both the delay in performing the work as well as changing conditions in the West Harbor that pushed more sand south (and into the harbor) rather than west.

The proposed resolution was introduced on June 23, 2026, within the 60-day timeframe required by Administrative Code Section 6.60(d).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve REC Department’s emergency declaration with an estimated total cost of more than $2,500,000. As mentioned above, approximately $1.9 million has been encumbered, and the emergency project is completed.

Any contracts entered into under the proposed emergency procurement authority are exempt from Administrative Code Chapters 6 (public works contracting policies and procedures), 12A (Human Rights Commission), and 14B (Local Business Enterprise utilization) as well as Labor and Employment Code Sections 131 (non-discrimination in contracts), and 132 (non-discrimination in property contracts).

Procurement

Because of the emergency declaration, selection of contractors is not governed by Administrative Code Chapter 6 requirements. Following termination of the contract with Marinship Development Interest, REC selected the Dutra Group to perform the original scope of work because they were the second lowest bidder in response to REC’s November 2025 request for quotes to dredge the harbor. REC requested quotes to dredge 11,150 cubic yards in areas A, B, and D, with additional optional bids to dredge 15,910 cubic yards in Area C, and 11,430 cubic yards in Area E. REC received quotes from the following three firms, ranked from lowest to highest bid:

1. Marinship Development Interest, LLC
2. The Dutra Group
3. Curtin Maritime Corp.

In April 2026, the Dutra Group provided an updated proposal to perform the emergency work. According to REC staff, REC did not obtain additional quotes from other firms for the emergency work because of the existing contract in place with the Dutra Group for the original scope of work.

Scope of Work

The scope of work for the emergency dredging was to restore access to the Marina Small Craft Harbor entrance by dredging areas A, B, C, and E. This included: (1) mobilization and demobilization of all boats and equipment, including dredging barges, barges to transport sediment, survey boats, and tugboats; (2) Deployment of a nine-man dredge crew to work 12 hour days to dredge and offload.

Project Timeline

As noted above, dredging work began on April 29, 2026 and ended on June 30, 2026. Additional dredging work was aided by larger dredging equipment (deployed from Long Beach), which REC reports arrived on June 18, 2026.

Plans to Mitigate Future Emergency Dredging Work

To ensure future dredging contractors will complete the full duties of their contract, in future bid solicitations, REC plans to include a bidder questionnaire that will identify bidders that have been unable to perform or been terminated from dredging contracts within the past five years. Additionally, REC anticipates improvements in Marina Small Craft Harbor conditions after a new breakwater is constructed in the West Harbor to limit accumulation of sediment as part of the Marina Improvement and Remediation project. Construction is anticipated to begin on the breakwater June 2027 and to be completed in December 2027.

FISCAL IMPACT

As of June 22, 2026, REC estimated that the additional cost of the emergency work would be $2.5 million, including a $500,000 contingency. As of July 7, 2026, REC has encumbered $3,077,898 under the Dutra Group dredging contract and has received invoices for $2,927,475. This exceeds the original contract award of $1,163,262 by $1,764,213, which reflects the cost of the emergency work. Therefore, we recommend that the proposed resolution be amended to state that the emergency work is estimated to cost $1,800,000 instead of "in excess of $2,500,000."

Based on the April 2026 proposal from the Dutra Group, the pricing of the emergency work was structured in two distinct pricing phases. The first phase, covering April 29, 2026 through June 14, 2026 utilized a day-rate structure for equipment and labor to dredge/offload material, along with a fixed price for mobilization and demobilization. This differed from the pricing of the original scope of work, which was priced on a fixed per-volume basis. The second phase, beginning, June 15, 2026, transitioned to a fixed per-volume rate structure based on cubic yards of material dredged when larger dredging equipment became available.

The following exhibit details the pricing descriptions listed in the Dutra Group contract.

Exhibit 1: The Dutra Group Contract Pricing

Bid Item	Description	Units	Unit Price	Qty	Total
Phase 1: Day-Rate Operations (April 29 – June 14, 2026)					
100	Mobilization / Demobilization	Lump Sum	$225,000	1	$225,000
200	Dredge and Offload — 12-Hour Day Rate (Base Rate, one vessel)	Day	$69,000	27	$1,863,000
300	Additional Dredge – 12-Hour Day Rate (Supplemental Rate, second vessel)	Day	$24,000	0	$0
Phase 1 Subtotal					**$2,088,000**
Phase 2: Volume-Rate Operations (June 15 – June 30, 2026)					
1100	Dredge and Offload	CY	$45	18,655	$839,475
Phase 2 Subtotal					**$839,475**
Total Dredge Episode Cost					**$2,927,475**

Source: REC

The Dutra Group completed emergency dredging work across 27 days of active dredging and off haul to the San Rafael Rock Quarry during Phase 1, utilizing one vessel throughout. No second vessel was deployed. The contract then transitioned to a volume-rate structure for Phase 2, where dredged material was offloaded at the SF-08 ocean disposal site. Total dredge episode cost through June 30, 2026 was $2,927,475.

Funding Sources

Annual costs to dredge the harbor are funded by a West Harbor dredging assessment as well as general Marina fund revenues, which include both dockside and landside revenue such as rent and permits, which accrue to the Marina Yacht Harbor Fund.[1] Because the costs of the additional work exceed dredging fee revenues, REC is proposing to fund $1.0 million of the additional costs with the Open Space Fund Contingency Reserve and $0.8 million of the costs with the Marina Yacht Harbor Fund, with offsetting reductions to capital projects in the harbor.

Open Space Fund Contingency Reserve

Charter Section 16.107 establishes the Park, Recreation and Open Space Fund, which is administered by REC to provide park and recreational services and facilities. The City is required,

[1] While the General Fund previously provided a subsidy to Yacht Harbor's operations, the FY 2024-25 budget removed the subsidy, and berthing and service fees for Yacht Harbor were increased to backfill the subsidy (File 24-0189).

through a voter-approved spending requirement, to deposit an annual property tax set-aside amount into the fund. A 2000 ballot measure, which amended the fund, requires REC to set aside three percent of the Open Space Fund’s annual budgeted revenue in an undesignated contingency reserve. This undesignated sub-fund is subject to several guidelines including but not limited to restricting use to one-time expenditures, prohibiting allocation to staffing costs, requiring Commission approval for all expenditures, and capping use of the reserve for any single project at 25 percent of the reserve.

Currently, there is $4,260,654 in the undesignated Open Space Fund Contingency Reserve. With the proposed withdrawal of $1,000,000, which is 23 percent of the balance, there would be $3,260,654 left in this fund.

According to Director of Administration and Finance Guerra, REC plans to repay the draw from the Open Space Fund Contingency Reserve with dredging fee revenues by FY 2033-34. Due to reduced Marina occupancy during the breakwater remediation project, REC anticipates repayment may begin in July 2028 and would take place over two to five fiscal years based on available revenue.

<u>Marina Yacht Harbor Fund</u>

The Marina Yacht Harbor Fund is funded by berthing and service fees, as well as revenue from the fuel dock, landside rent, and permits.

The following capital projects would be delayed to provide funding for this proposed project:

1) Jetty asphalt replacement with new vinyl striping
2) Asphalt overlay with striping in Marina Green Parking Lot from New Harbor Office to Scott Street
3) Replacement of West Marina electronic gate controllers with new hardware and receivers
4) Remote electric metering of West Marina boat power pedestals
5) Emergency power generator for Marina Harbor Office
6) Marina seawall repairs

RECOMMENDATION

Approve the proposed resolution.

Item 4 **File 26-0495**	**Department:** Department of Public Health (DPH), Police Department (POL)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the San Francisco Police Code to (a) ban the sale of nitrous oxide in the City and (b) provide a rebuttable presumption that individuals possessing large quantities of nitrous oxide intend to sell it (defined as net content of six pounds or more, or an aggregate of 200 or more standard 8-gram cartridges). The ordinance provides exceptions for commercial and specialized uses, including food preparation, vehicles, medical, dental, pharmaceutical, wholesale transactions, and manufacturing.

Key Points

- State law currently prohibits sale or possession of nitrous oxide if the intended use is intoxication, prohibits sales to minors, and requires vendors to maintain written records of transactions that include identification of all buyers. The California State Legislature is considering amendments to State law that would ban retail sale of nitrous oxide starting in 2027, and several counties and cities in California have already done so.
- The proposed ban on nitrous oxide sales provides for criminal, civil, and administrative fines of up to $1,000 each and/or jail time of up to six months. The Department of Public Health and law enforcement would receive authority to enforce the proposed ban.

Fiscal Impact

- The estimated annual cost to enforce this ordinance is $0.6 million. This cost estimate assumes full-time involvement by 1.4 FTE DPH employees, and half-time involvement by one Police Officer on overtime. Funding would likely be sourced from DPH and POL Department General Funds.

Policy Considerations

- Based on review of recently passed and comparable ordinances in other California cities and counties, this ordinance is consistent in its criminal penalty structure: all ordinances our office examined impose criminal fines of up to $1,000 on violators. However, not all other ordinances examined also impose possible civil and administrative fines. In addition, this ordinance does not provide for revoking business licenses, as other jurisdictions do.
- The City government lacks data on the scope of the nitrous oxide problem in San Francisco in part because there is no existing enforcement of the state laws regulating nitrous sales.

Recommendations

(1) Amend the proposed ordinance to require two reports to the Board of Supervisors by June 1, 2027: (a) A report from Environmental Health and Police Department evaluating the scope of the nitrous oxide problem in San Francisco and (b) a report from Environmental Health, Police, District Attorney, and City Attorney, on enforcement actions taken as a result of this ordinance and any legislative changes that may be necessary to manage the nitrous oxide problem in San Francisco. (2) Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

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

BACKGROUND

Nitrous oxide is a gas, commonly known as "laughing gas," and is mostly used as a medical/dental sedative, culinary propellant, or automotive engine booster. Within the past decade, nitrous oxide has increasingly been abused as a recreational inhalant. Repeated inhalation of nitrous oxide presents dangers including but not limited to addiction, oxygen deprivation, vitamin B12 depletion, and possible severe neurological and nervous system damage. Nitrous oxide canisters, also known as "whippets," have become increasingly sold at corner stores, gas stations, and smoke shops throughout the country. According to an August 2025 report from the Orange County Health Care Agency, California Emergency Department and Hospitalization Data shows that nitrous oxide-related emergency department visits in California increased by 246% (from 76 to 263 visits) from 2018 to 2023.

Currently, Section 381 of the State Penal Code prohibits nitrous oxide sales to minors, requires that vendors keep written records of all nitrous oxide transactions for at least one year, requires purchasers to present identification to record their names and addresses in the transaction record, and states that it is a misdemeanor to sell or possess nitrous oxide if the intended use is intoxication. Sellers who violate these laws can face up to six months in jail and/or a fine of up to $1,000.

As described in an appendix to this report, the California State Legislature is considering amendments to State law that would ban retail sale of nitrous oxide starting in 2027, and several counties and cities in California have already done so.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the San Francisco Police Code to (a) ban the sale of nitrous oxide in the City and (b) provide a rebuttable presumption that individuals possessing large quantities of nitrous oxide intend to sell it (defined as net content of six pounds or more, or an aggregate of 200 or more standard 8-gram cartridges). The ordinance provides exceptions for commercial and specialized uses, including food preparation, vehicles, medical, dental, pharmaceutical, wholesale transactions, and manufacturing.

Under the proposed ordinance, violators could be liable for criminal, administrative, and civil penalties. Violations of the proposed ban on nitrous oxide sales could be criminally charged with a misdemeanor or infraction and face up to six months jail time and/or criminal fines not exceeding the maximum fine amount under California Government Code sections 25132[1] and 36901.[2] The Department of Public Health could also levy administrative fines of up to $500 for the first violation, up to $750 for the second violation within five years, and up to $1,000 for each additional violation within five years, with fines deposited into the Public Health Environmental Health Code Compliance Fund. DPH may also recover costs of enforcement, including attorneys' fees. In addition, violators may also be liable for a civil penalty not to exceed $1,000 for each day a violation is committed, to be recovered by a civil action brought by the City Attorney's Office.

In addition, the proposed code changes would declare that violations of the ban are a public nuisance. According to the City Attorney's office, this public nuisance provision allows for a court to apply injunctive relief to address violations of the proposed ban.

Implementation

As proposed, the Department of Public Health and law enforcement would receive authority to enforce the proposed ban. DPH would inspect establishments suspected of violating the ban, document non-compliance, and complete administrative processes to levy fines and revoke violators' DPH-issued Tobacco Sales Permit. DPH and POL already conduct annual compliance inspections to ensure retailers hold valid Tobacco Sales Permits, comply with the citywide flavored tobacco ban, and enforce state age restrictions; however, not all nitrous oxide retailers have tobacco licenses. According to the Police Department, the Department typically dedicates seven to 40 hours per quarter to tobacco compliance enforcement. Law enforcement would be responsible for determining and charging criminal violations.

This ordinance would create additional DPH costs primarily through hiring environmental health inspectors and administrative support. In addition, because the proposed ordinance creates a new crime, the Police Department would need to accompany DPH on inspections, as it does with the City's enforcement of tobacco regulations.

FISCAL IMPACT

Exhibit 1 below summarizes the estimated costs of the proposed ordinance, which total approximately $0.6 million annually.

[1] California Government Code section 25132 states that an infraction is punishable by the following maximum fines: $100 for a first violation, $200 for a second violation within the same year, $500 for each additional violation within the same year.

[2] California Government Code section 36901 states that a fine shall not exceed $1,000.

Exhibit 1: Sources and Costs of Proposed Nitrous Oxide Ban

Department of Public Health	FY 2026-27	FY 2027-28
Salary and Benefits	$239,992	$258,965
Other Direct Costs	$158,174	$167,342
Indirect Costs	$75,645	$81,626
Subtotal	**$473,811**	**$507,833**
Police Department		
Police Officer Overtime	$118,546	$122,126
Total Costs	**$592,357**	**$630,059**

Source: DPH, POL, and BLA budgetary estimates

Note: Police Officer overtime calculated based on assumption of 840 hours of service.

Funding would likely have to be sourced from DPH and POL Department General Funds. The DPH-funded estimates above are comparable to what is currently allocated for DPH-conducted tobacco sales inspections. DPH services would be provided by the Environmental Health Division.

DPH activities would require hiring 1.00 FTE 6122 Senior Environmental Health Inspector, 0.20 FTE 6124 Principal Environmental Health Inspector, 0.20 FTE Senior Clerk. As of June 1, 2026, DPH had seven 6120 Environmental Health Inspectors, one 6122 Senior Environmental Health Inspector, and two 6124 Principal Environmental Health Inspectors, primarily in the Food safety program, which is primarily funded by the General Fund (not fees). In addition, DPH had thirteen 1406 Senior Clerk vacancies.

We assume at least one Police Officer would accompany the Environmental Health Inspectors on overtime and that the inspector would spend half of their productive hours (840 hours annually) on inspections. Inspections may include more or less Police Department involvement depending on how frequent inspections are. We believe the Public Health, Police Department, District Attorney, and Public Defender (if applicable) could absorb these new responsibilities within their existing budgets.

POLICY CONSIDERATIONS

The proposed ordinance would tighten restrictions currently imposed by the State on nitrous oxide sales by banning most retail sales of this substance. As noted above, State law currently prohibits sale or possession of nitrous oxide if the intended use is intoxication, prohibits sales to minors, and requires vendors to maintain written records of transactions that include identification of all buyers. There does not appear to be any existing enforcement of these laws in San Francisco.

Other Jurisdictions

Based on review of recently passed and comparable ordinances in other California cities and counties, this ordinance is consistent in its criminal penalty structure: all ordinances our office examined impose criminal fines of up to $1,000 on violators. However, not all other ordinances examined also impose possible civil and administrative fines; Santa Cruz County, for example, only imposes criminal fines. Additionally, this ordinance extends prohibition not only to businesses but to individuals who possess a certain size of nitrous oxide deemed to be a sellable amount. Of the city and counties examined, this provision is consistent only with the ordinance passed in San Mateo County.

In addition, the proposed ordinance does not provide for revocation of a business license, which Orange, Humboldt, and San Mateo Counties do in their bans. San Jose also provides for property owner liability if tenants sell nitrous oxide. The Board of Supervisors should consider adding these provisions to this proposed ordinance, as it could strengthen enforcement efforts.

Enforcement

The City government lacks data on the scope of the nitrous oxide problem in San Francisco in part because there is no existing enforcement of the state laws regulating nitrous sales. Other counties (Humboldt and Orange) conducted local surveys - such as retailer or point-of-sale assessments - to measure the extent and growth of recreational nitrous oxide use within their jurisdictions. They also reviewed hospitalization and first responder data to assess the scope of the problem. The Board of Supervisors should request that Environmental Health and SFPD conduct a similar analysis, which may include community surveys, publicly-available hospital encounter/discharge data, and retail audits. Additionally, the City should require reports from the Environmental Health division, Police Department, and District Attorney report back on their implementation and enforcement actions taken as a result of this ordinance by the end of the fiscal year. This context could allow for less costly and more targeted enforcement strategies. Additionally, the City could undertake a campaign to educate retailers and the public on the dangers of nitrous oxide and details of this legislation.

Lastly, given the existing collaboration between DPH and POL to carry out tobacco compliance inspections, the Departments should add nitrous oxide inspections to these existing operations in order to promote efficiency and cost savings. However, as noted, some nitrous oxide vendors lack tobacco licenses and would therefore fall outside tobacco compliance inspections, meaning enforcement efforts would need to expand to cover these vendors.

The Budget and Legislative Analyst considers approval of the proposed ordinance to be a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed ordinance to require two reports to the Board of Supervisors by June 1, 2027: (a) A report from Environmental Health and Police Department evaluating the scope of the nitrous oxide problem in San Francisco and (b) a report from Environmental Health, Police, District Attorney, and City Attorney, on enforcement actions taken as a result of this ordinance and any legislative changes that may be necessary to manage the nitrous oxide problem in San Francisco.
2. Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Appendix: Other Nitrous Oxide Bans

Evaluation of Senate Bill 936

Louisiana and Nebraska have recently passed legislation to ban the recreational sale of nitrous oxide. California legislators are considering a similar ban through Senate Bill (SB) 936. This bill would impose a state-mandated local program to prohibit the sale and distribution of over 8 grams of nitrous oxide. This ban is detailed in the table below. Committee analysis of SB 936 states that this bill would not only curb recreational use of nitrous oxide but would minimize nitrous oxide cylinder waste and alleviate local waste management expenses. This bill may be passed into law in 2026 but would not go into effect until January 1, 2027.

Exhibit 2 below compares penalties, enforcement mechanisms, and other characteristics of recently passed nitrous oxide sales bans.

Exhibit 2: San Francisco Ordinance in Comparison to Other State/County/City Bans

Jurisdiction	Status / Approved Date	Scope of Ban	Key Penalties	Business License Impact	Property Penalties	Public Nuisance Provision	Enforcement	Violations Data
San Francisco	Introduced by Supervisor Sauter on May 5, 2026	Sale/distribution of nitrous oxide of any size, individual possession of a certain size (cylinder with 6 pounds or more, aggregate of 200 or more 8-gram cartridges, or equivalent amount)	Infraction or misdemeanor, fine ($500 for first, $750 for second, $1,000 for each additional violation)	Possible revocation of Tobacco Sales Permit, possible administrative fines	None	☒	Department of Public Health, Police Department and District Attorney's Office	N/A
Statewide	Being heard in Assembly committees	Sale/distribution of nitrous oxide containers over 8 grams, flavored nitrous oxide	Infraction, possible fine ($500 for first, $1,000 for second, $2,000 for each additional violation)	Possible suspension of business license issued by state, city, or county for up to one year, possible suspension of Tobacco/Cigarette license for up to one year	None	None	Local Police Departments/Sheriff's Offices	N/A

Jurisdiction	Status / Approved Date	Scope of Ban	Key Penalties	Business License Impact	Property Penalties	Public Nuisance Provision	Enforcement	Violations Data
Orange County	February 2025	Sale/distribution of nitrous oxide of any size	Up to 6 months' jail time and/or up to $1,000 fine	Possible business license revocation	None	None	Sheriff's Office, code enforcement Note: County mostly providing supporting role to city enforcement, such as by sending cease and desist letters to identified retailers	Note: Cities with bans may have issued citations.
Humboldt County	June 2025	Sale/distribution of nitrous oxide of any size	Up to 6 months' jail time and/or up to $1,000 fine	Possible tobacco retailer license and business license revocation	None	☒	Department of Health and Human Services, Public Health Division of Environmental Health, Sheriff's Office, Planning and Building Department	No violations recorded as of 7/8/26 Note: Cities with bans may have issued citations.

Jurisdiction	Status / Approved Date	Scope of Ban	Key Penalties	Business License Impact	Property Penalties	Public Nuisance Provision	Enforcement	Violations Data
San Mateo County	August 2025	Sale/distribution of nitrous oxide of any size, individual possession of a certain size (cylinder with 6 pounds or more, aggregate of 200 or more 8-gram cartridges, or equivalent amount)	Up to 6 months' jail time and/or up to $1,000 fine	Possible Tobacco Retailer Permit and business license revocation	None	☒	Sherriff's Office, County Narcotics Task Force, County Environmental Health Services Division	No violations recorded as of 7/9/26 Note: Cities with bans may have issued citations.
Santa Cruz County	September 2025	Sale/distribution of nitrous oxide of any size	Jail time and/or up to $1,000 fine	None	None	None	Sherriff's Office (Alcohol/Tobacco enforcement officer), Environmental Health Division of Santa Cruz County Health Services Agency	No violations recorded as of 7/16/26 Note: Cities with bans may have issued citations.
City of San Jose	November 2025	Sale/distribution of nitrous oxide of any size, property owner liability for knowingly permitting sales	Jail time and/or up to $1,000 fine	Possible revocation of Tobacco Retailer License, Notice of Completed Registration	☒	☒	Planning, Building & Code Enforcement Dept. (with Police and City Attorney)	

Source: BLA analysis of SB 936 bill text, outreach to and review of other jurisdictions

All bans included in the table above include exemptions for use of nitrous oxide for medical/dental administration, culinary propellant use, and automotive engine usage.

In addition to the bans listed above, according to media reports, 18 cities across California (Cloverdale, Eureka, Ferndale, Rio Dell, San Jose, Santa Cruz, Anaheim, Buena Park, Costa Mesa, Fullerton, Garden Grove, Huntington Beach, Laguna Niguel, Newport Beach, Santa Ana, Stanton, Orange, and Westminster) have also passed ordinances to ban the retail sale of nitrous oxide.

Item 5 **File 26-0807**	**Department:** Sheriff's Office

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed hearing would release $1,118,828 of the Sheriff's Office FY 2025-26 General Fund budget held on Budget & Finance Committee reserve.

Key Points

- In June 2025, the Board of Supervisors placed $1,168,828 in the Sheriff's Office (Department) FY 2025-26 General Fund budget on Budget & Finance Committee reserve. The funds were budgeted for a technology project workorder, property rent, software licensing fees, and permanent salaries.

Fiscal Impact

- The proposed release of $1,118,828 would be used to cover expenditures already incurred in FY 2025-26, including rent, software licensing costs associated with expanding body-worn cameras to all deputies, and salaries. A significant portion of the request—$1,000,000 for permanent salaries—supports personnel costs that exceeded the Department's budgeted levels. The department is not requesting the release of $50,000 in funds on reserve for a technology project workorder because these funds are no longer needed.
- The Department incurred a salary and benefit deficit of $7.5 million in its FY 2025-26 General Fund operating budget (Fund 10000) due to overtime expenditures that exceeded budgeted levels by approximately $14.0 million. In addition, the General Fund workorder fund incurred a salaries deficit in FY 2025-26 due to expanded security needs at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital. A separate proposed supplemental appropriation ordinance that will address the General Fund operating deficit assumes use of the $1.0 million in reserved funds for salaries.

Recommendation

- Approve the proposed release of reserved funds.

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

In June 2025, the Board of Supervisors placed $1,168,828 in the Sheriff's Office FY 2025-26 General Fund budget on Budget & Finance Committee reserve. The funds were budgeted for a technology project workorder, property rent, software licensing fees, and permanent salaries. The Department incurred a salary and benefit deficit of $7.5 million in its FY 2025-26 General Fund operating budget (Fund 10000) due to overtime expenditures that exceeded budgeted levels by approximately $14.0 million. A proposed appropriation ordinance to address the deficit and spending above budget for overtime is pending final approval by the Board of Supervisors (File 26-0567).

DETAILS OF PROPOSED LEGISLATION

The proposed hearing would authorize the release of $1,118,828 from the $1,168,828 currently held in reserve. The Department plans to use these funds for property rent, software licensing costs associated with expanding body-worn cameras to all deputies, and permanent salaries in FY 2025-26.

FISCAL IMPACT

The proposed release of $1,118,828 would be used to cover expenditures already incurred in FY 2025-26, including rent, software licensing, and salaries, as shown in Exhibit 1 below. A significant portion of the request—$1,000,000 for permanent salaries—supports personnel costs that exceeded the Department's budgeted levels.

Reserve Overview

The Board of Supervisors placed funds on reserve across four accounts in the Sheriff's Office FY 2025-26 budget. The Department is requesting the release of a portion of these funds to support operational needs in FY 2025-26. The remaining $50,000 in funds on reserve is no longer needed. Exhibit 1 below shows the use of the requested $1,118,828.

Exhibit 1: Sheriff's Office Reserve Hold Budget, FY 2025-26

Account	Reserve Amount	Requested Release Amount	Remaining Reserve Balance
Technology Project Workorder	$50,000		$50,000
Property Rent	25,000	25,000	0
Software Licensing	93,828	93,828	0
Permanent Salaries	1,000,000	1,000,000	0
Total Amount	**$1,168,828**	**$1,118,828**	**$50,000**

Source: Sheriff's Office

Technology Project Workorder

Of the reserved funds, $50,000 was budgeted for a technology workorder related to the transition of phone lines to VoIP. This project did not move forward in FY 2025-26, and the associated funding remains unspent. The Department is not seeking release of these funds.

Property Rent

Of the reserved funds, $25,000 was budgeted for property rent increase at 70 Oak Grove, the site of the Sheriff's Office's Alternative Programs and Electronic Monitoring Program. The lease expired in May 2024, and the Department is currently subject to a holdover rate of $50.40 per square foot per year, which is above market value. According to Sheriff's Office staff, the Real Estate Division was not able to negotiate a new long-term lease in FY 2025-26 and will be looking for an alternative facility in FY 2026-27. The additional cost is driven by the holdover rate outlined in the reconciliation agreement now serving as an interim measure. The Department is requesting release of the reserve funds to cover these increased rent obligations because the Department could not obtain a more cost-effective lease in FY 2025-26.

Software Licensing Fees

Of the reserved funds, $93,828 was budgeted for software licensing costs associated with expanding body-worn camera deployment to all deputies as part of a $1.5 million contract with Axon Enterprise, Inc. The Sheriff's Office has paid $1.45 million to date. The remaining $50,000 is for training on the body-worn camera equipment. Sheriff's Office staff report that the remaining $50,000 has been invoiced and will be paid pending confirmation that the training has been completed. The Department is requesting release of $93,828 because the department anticipates fully spending the budgeted amount.

Permanent Salaries

Of the reserved funds, $1,000,000 was budgeted for permanent salaries, split evenly between the General Fund Operating ($500,000) and the General Fund Workorder Fund ($500,000). The Department is requesting release of the $1,000,000 to address salary and benefit costs that have already been paid.

Both the General Fund Operating and DPH Workorder budgets incurred salaries deficits in FY 2025-26. A separate supplemental appropriation ordinance (File 26-0567) that will address the General Fund operating deficit assumes use of the $1.0 million in reserved funds. The General

Fund workorder fund incurred a salaries deficit in FY 2025-26 due to expanded security needs at Zuckerberg San Francisco General Hospital and Laguna Honda Hospital. The Sheriff's Office plans to address the deficit with the $500,000 in reserved funds as well as an additional $1.0 million in reimbursement from the Department of Public Health.

RECOMMENDATION

Approve the proposed release of reserved funds.

Items 7 & 8 Files 26-0726 & 26-0727	Department: Office of Contract Administration

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolutions would approve the third amendments to the OCA contracts with Resource Design Interiors (RDI) for 1) seating and ancillary furniture to increase the amount by $1,630,000 for a total not to exceed amount of $10,630,000 and to extend the term by three years through September 14, 2029 (File 26-0726) and 2) for office system furniture to increase the amount by $8,750,000 for a total not to exceed amount of $17,750,000 and to extend the term by more than three years through December 31, 2029 (File 26-0727).

Key Points

- Based on the results of solicitations conducted by the Office of Contract Administration (OCA), OCA awarded two contracts to Resource Design Interiors to provide office furniture and seating for City departments. The two contracts expire on September 14, 2026.
- The City's contracts allow departments to obtain catalog discounts for furniture, which is applied by product category, and with reductions ranging from 50.5 percent to 80.25 percent from the manufacturers' published list prices. Hourly service rates for delivery and assembly are also included in both contracts, varying based on the time and day of delivery.

Fiscal Impact

- The proposed resolutions approve the contracts with a combined not-to-exceed amount of $28,380,000 over the nine-year terms. This includes $10,630,000 for the seating and ancillary furniture contract and $17,750,000 for the office system furniture contract.
- To date, departments have spent approximately $0.9 million annually on seating and ancillary furniture and $1.4 million annually on office system furniture under the two contracts.
- These contracts will be funded by the budgets of City departments that buy seating and office furniture.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

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

BACKGROUND

The Office of Contract Administration (OCA) manages the procurement of office furniture and seating for City departments. Two of the City's existing term contracts for furniture are set to expire on September 14, 2026.

Invitation for Bids

On July 8, 2020, the Office of Contract Administration (OCA) issued an Invitation for Bids (IFB) for system furniture. The solicitation included three aggregates: office system furniture, seating, and ancillary furniture. Awards for each aggregate were based on the lowest-priced, most responsive, and responsible bidder.

Because the original solicitation resulted in only two awards for Aggregate 1 despite specifying that three contracts would be issued, OCA released a second IFB on September 22, 2020 to rebid the office system furniture category. Exhibit 1 below shows the results from the original invitation for bids.

Exhibit 1: Original Invitation for Bids Results (Aggregates 1-3)

Ranking	Aggregate 1	Aggregate 2	Aggregate 3
1	KBM**	Corner Office	Corner Office
2	MG West	SamClar	SamClar
3	SamClar	**RDI**	**RDI**
	RDI	Vangard*	KBM
	Pivot*	MG West*	MG West*
	Vangard*	Pivot*	Vangard*
	One Workplace*	KBM**	One Workplace*
		One Workplace*	Pivot*

Source: OCA
Note: Gray shading indicates contract award
*Proposer determined to be non-responsive
**Proposer subsequently rescinded bid

Resource Design Interiors (RDI) received a contract award for seating (Aggregate 2) and ancillary furniture (Aggregate 3) under the original solicitation and was subsequently awarded a contract for office system furniture (Aggregate 1) following the 2020 rebid. Exhibit 2 below shows the results from the second invitation for bids for Aggregate 1.

Exhibit 2: Aggregate 1 Re Bid Results

Ranking	Proposer
1	**RDI**
	KBM*
	Pivot
	Vangard**

Source: OCA
Note: Gray shading indicates contract award
*Proposer determined to be non-responsive
**Proposer subsequently rescinded bid

RDI Contract for Seating and Ancillary Furniture (Aggregates 2 & 3)

The original contract with RDI for seating and ancillary furniture had a total not-to-exceed amount of $9,000,000 with a contract term from September 15, 2020, to September 14, 2023, with options to extend through September 14, 2029 for a maximum term of nine years.

The contract was amended on May 18, 2022, to extend the term for three years, resulting in a new end date of September 14, 2026, and to increase pricing for delivery and assembly of furniture. The contract not to exceed amount was left unchanged.

The contract was amended a second time on October 25, 2024, to increase pricing for delivery and assembly of furniture. The contract not to exceed amount and the contract duration were unchanged.

RDI Contract for Office System Furniture (Aggregate 1)

The original contract with RDI for office system furniture had a total not-to-exceed amount of $9,000,000 and a contract term from January 1, 2021, to September 14, 2023. The contract included options to extend the contract through December 31, 2029 for a maximum total term of nine years.

The contract was amended on May 17, 2022, to increase pricing for delivery and assembly of furniture and extend the contract for three years, with a new end date of September 14, 2026. The contract not to exceed amount was left unchanged.

The contract was amended a second time on December 18, 2024, to increase pricing for delivery and assembly of furniture and pricing for project and design managers. The contract not to exceed amount and the contract duration were unchanged.

DETAILS OF PROPOSED LEGISLATION

File 26-0726: The proposed resolution would approve the third amendment to the OCA contract with RDI for seating and ancillary furniture to increase the amount by $1,630,000 for a total not to exceed amount of $10,630,000 and to extend the term by three years through September 14, 2029.

File 26-0727: The proposed resolution would approve the third amendment to the OCA contract with RDI for office system furniture to increase the amount by $8,750,000 for a total not to exceed amount of $17,750,000 and to extend the term by more than three years through December 31, 2029.

Overview of Product Discounts and Service Rates

Both contracts establish discount rates for various products as well as hourly rates for delivery and other services. The discount rates for furniture are fixed for the duration of the agreements, but the hourly service rates can be increased based on changes to the consumer price index. The proposed contract amendments maintain the existing discount rates and hourly service rates.

Seating and Ancillary Furniture (File 26-0726)

The seating and ancillary furniture contract establishes discounted pricing for multiple Knoll and Herman Miller seating and ancillary furniture lines. Discount levels range from 50.5 percent to 80.25 percent, depending on the product category. The contract also includes hourly service rates for delivery and assembly. These rates vary based on the time and day of delivery, with a regular-hour delivery rate of $109.42 per hour, and a night or weekend delivery rate of $145.55 per hour.

Office System Furniture (File 26-0727)

The office system furniture contract covers the components of modular office furniture, all of which receive a consistent 80.25 percent discount. The hourly rates for project management and design services are $98.06 and $77.42, respectively. The hourly rates for delivery are $109.42 during regular-hours and $145.55 during nights and weekends.

Performance

City departments are responsible for documenting performance issues and contacting OCA for support if needed. According to OCA staff, OCA has not received any concerns from departments regarding performance under the two contracts.

FISCAL IMPACT

The proposed resolutions approve the contracts with a combined not-to-exceed amount of $28,380,000 for the potential 9-year maximum contract period. This includes $10,630,000 for the seating and ancillary furniture contract and $17,750,000 for the office system furniture contract, as shown in Exhibit 3 below.

Exhibit 3: Not to Exceed Amounts

	Seating & Furniture File 26-0726	Office System Furniture File 26-0727
Spend to Date (As of May 11, 2026)	$5,246,245	$7,701,256
Additional Funds Needed Based on Historical Spend	3,106,062	5,236,539
Additional Funds Needed (PUC Anticipated Spend)	1,500,000	3,500,000
Contingency (25% of additional needed based on historical spend)	776,515	1,309,135
Total Budget and Contingency	10,628,822	17,746,930
Rounded Not to Exceed Amount	**$10,630,000**	**$17,750,000**

Source: OCA

Seating and Ancillary Furniture (File 26-0726)

The City has spent an average of $77,321 per month, or approximately $0.9 million annually, under this contract since it began on September 15, 2020. Using this average, OCA calculated that the not to exceed amount must be increased to $10,630,000 to provide funding through the new end date. This total includes an additional $1,500,000 for anticipated San Francisco Public Utilities Commission (PUC) purchases related to office renovations, workspace changes, the relocation of employees, and other facility improvements across PUC sites, along with a 25 percent contingency for possible price increases and higher usage, as allowed under the contract.

Office System Furniture (File 26-0727)

The City has encumbered an average of $119,771 per month, or approximately $1.4 million annually, since the contract began on January 1, 2021. Using this average, OCA estimated that the not to exceed amount must be raised to $17,750,000 to provide funding through the revised end date. This total includes an additional $3,500,000 for anticipated PUC purchases related to office renovations, workspace adjustments, employee relocations, and other facility improvement projects across PUC sites, and a 25 percent contingency to address possible cost increases and higher usage, as allowed under the contract.

Historical Spend by Department

Exhibit 4 below shows the top six user departments from the highest usage to the lowest for both contracts. These departments account for approximately 87 percent of spending across the two contracts.

Exhibit 4: Highest Spending by Department, As of July 7, 2026

Department	Seating & Furniture (File 26-0726)	Office System Furniture (File 26-0727)	Total	% of Total
Airport	$1,352,857	$2,633,033	$3,985,890	29.5%
Public Works	1,117,729	1,520,703	2,638,432	19.5%
Human Services Agency	548,518	1,583,743	2,132,261	15.8%
City Administrator	947,240	378,734	1,325,974	9.8%
Human Resources	260,729	669,576	930,305	6.9%
Public Utilities Commission	407,624	361,011	768,635	5.7%
All Other Departments	872,702	855,619	1,728,321	12.8%
Total Spend	**$5,507,399**	**$8,002,420**	**$13,509,819**	**100.0%**

Source: OCA

Note: Total spend is greater than the totals shown in Exhibit 3 due to differences in the dates

Funding Sources

The proposed contracts are funded by the budgets of City departments that buy seating and office furniture. To date, enterprise departments, including the Airport and PUC, account for approximately 35 percent of purchases.

RECOMMENDATION

Approve the proposed resolutions.

Items 9 & 10 **Files 26-0793, File 26- 0794**	**Department:** Mayor's Office of Housing and Community Development (MOHCD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution in File 26-0793 would approve and authorize (1) the acquisition of real property at 758 Pacific Avenue in the amount of $2,178,786 for the construction of affordable housing; (2) an amended loan agreement for an amount not to exceed $13,666,153 for a minimum term of 57 years to finance predevelopment project costs; (3) a residential ground lease with Chinatown Community Development Center (CCDC) New Asia Housing, L.P. for property at 758 Pacific and 772 Pacific Avenue for a lease term of 75 years with one 24-year option to extend, and annual base rent of $15,100; (4) a commercial ground lease with CCDC New Asia Commercial LLC for property 772 Pacific Avenue for a lease term of 75 years with one 24-year option to extend, and an initial annual base rent of $1 to operate and maintain space for community-serving purposes; and (5) approve certain agreements and adopt certain findings in support of the project.
- The proposed resolution in File 26-0794 would authorize the Director of Property to partially forgive approximately $1,172,500 of approximately $1,507,500 in outstanding rent obligations owed by tenants of 772 Pacific so long as they vacate by September 30, 2026.

Key Points

The 772 Pacific Avenue Senior Housing project is a new 15-story, 175-unit affordable housing development for seniors at 772 Pacific and 758 Pacific to be developed by Chinatown Community Development Center for a total estimated cost of $176,947,986.

Fiscal Impact

- The proposed resolution provides for the City purchase of real property at 758 Pacific Avenue for $2,178,786 and an increase of $3,847,903 to the current loan agreement for predevelopment costs. Under the proposed residential and commercial ground leases, the City would receive $1,852,300 and $75, respectively, in rent over the initial 75-year term or $2,859,700 and $99, respectively, over 99 years if the option to extend is exercised.
- The proposed rent forgiveness forfeits $1,172,500 in back rent owed to the City.

Recommendations

- For File 26-0793, approve the resolution and request MOHCD and CCDC sublease the commercial space pursuant to a competitive procurement process and requiring a sublessee with a demonstrated good business relationship with the City.
- For File 26-0794, amend the resolution to require MOHCD to remit to the Clerk of the Board the notice of the change in lease terms to the 772 Pacific tenant and include the document in the legislative file for File 26-0794.
- Request MOHCD to report back to the Board of Supervisors by January 15, 2027 on MOHCD commercial tenants that are not paying rent or are otherwise not in compliance with lease terms and plans to bring them into compliance.

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

Project Description

The 772 Pacific Avenue Senior Housing project is a new 15-story, 175-unit affordable housing development for seniors to be located at 772 Pacific and 758 Pacific Avenue. Chinatown Community Development Center (CCDC) was selected to develop the 772 Pacific Avenue site pursuant to a request for qualifications issued November 30, 2020 for multiple sites. CCDC created New Asia Housing, L.P. (Developer) to serve as the legal affiliate for the project.

On August 10, 2022, MOHCD and CCDC executed the first loan agreement for $4,100,000 million, to provide funding for predevelopment activities. Subsequently, the Developer identified that an adjacent property at 758 Pacific Avenue was available for purchase and could be used to expand the number of affordable housing units from 86 to 175. Accordingly, the City executed a loan agreement amendment, adding $3,067,731 for a total loan amount not to exceed $7,167,731 on August 20, 2024 to effectuate the purchase of 758 Pacific Avenue and to fund additional predevelopment costs. On December 19, 2025 a second loan agreement amendment was executed adding $2,650,519 in Federal HOME funds for additional predevelopment costs for a total not to exceed amount of $9,818,250. The original loan agreement and subsequent amendments were approved by the Citywide Affordable Housing Loan Committee but did not require Board approval because the loan agreement remained less than $10 million and ten years.

The 175 affordable housing units consists of studios and one bedroom targeting households earning 15 – 60% area median income.

According to the project synopsis presented to the Citywide Affordable Housing Loan Committee (Loan Committee) on May 15, 2026, total development costs of the project are currently estimated to be $176,947,986.

Exhibit 1: Sources and Uses of Funds for 772 Pacific Senior Housing Project

Sources	Amount
MOHCD Loan	$53,371,272
MOHCD Commercial Loan	7,698,440
MOHCD Chinatown Community Dev Fund	250,000
MOHCD Accrued Deferred Interest	3,167,830
Tax Credit Equity	74,918,107
HCD Multifamily Housing Program Loan	32,000,000
Deferred Developer Fee	5,000,000
Commercial Accrued Deferred Interest	472,337
General Partner Equity	70,000
Total Sources	**$176,947,986**

Uses	Amount
Acquisition (Legal/Closing/Broker Costs)	$0
Construction (Includes 10.2% Contingency)	135,358,225
Soft Costs (Includes 5.4% Contingency)	30,743,239
Reserves	846,522
Developer Fee	10,000,000
Total Uses	**$176,947,986**

Source: MOHCD

Acquisition costs totaling $7.2 million are excluded from the project's total development costs. Development costs are estimated to be $1,011,131 per unit, or 12% above average when compared to other MOHCD projects. Further, estimated soft costs are 22% greater and hard costs are 35% greater than the average of comparable MOHCD projects according to the project synopsis.

Project Status and Next Steps

CCDC requested an updated preliminary MOHCD gap funding commitment of $61,319,712 to support the Developer's application to the California Debt Limit Allocation Committee (CDLAC) for tax credit equity financing which was due May 19, 2026. The Loan Committee approved this preliminary gap financing commitment on May 15, 2026. The Developer anticipates returning to the Loan Committee in Fall 2026 with a more robust gap loan evaluation which considers updated cost estimates based on construction contract bids. MOHCD anticipates bringing the gap loan documents to the Board for approval in late Fall 2026. The Developer anticipates demolition of the existing structures in December 2026, construction start in February 2027 and completion in October 2029, and 95% occupancy by January 2030.

DETAILS OF PROPOSED LEGISLATION

File 26-0793 is a proposed resolution that would:

1. Approve and authorize the Director of Property on behalf of MOHCD to acquire real property located at 758 Pacific Avenue from CCDC New Asia Housing, L.P. for $2,178,786;
2. Place 758 Pacific Avenue under the jurisdiction of MOHCD for the construction of affordable housing;
3. Approve and authorize an amended loan agreement with CCDC New Asia Housing, L.P. for an amount not to exceed $13,666,153 for a minimum term of 57 years to finance predevelopment project costs;
4. Approve and authorize a residential ground lease between MOHCD and CCDC New Asia Housing, L.P. for property at 758 Pacific and 772 Pacific Avenue for a lease term of 75 years with one 24-year option to extend, and annual base rent of $15,100 to construct affordable housing;
5. Approve and authorize a commercial ground lease between the MOHCD and CCDC New Asia Commercial LLC for property at 758 Pacific and 772 Pacific Avenue for a lease term of 75 years with one 24-year option to extend, and annual base rent of $1 and 40% of surplus cash from operations to operate and maintain space for community-serving purposes;
6. Adopt findings that the property is “exempt surplus land” pursuant to the California Surplus Lands Act;
7. Determine that the below market rent payable under the residential and commercial ground leases will serve a public purpose, in accordance with Administrative Code Section 23.30;
8. Adopt findings that the project and proposed transactions are consistent with the General Plan and Planning Code; and
9. Authorize the Director of Property and/or MOHCD Director to execute the purchase agreement, loan agreement, residential and commercial ground leases, and make further additions, amendments, or modifications to these agreements, so long as the benefits to the City do not decrease and/or the obligations of the City do not increase.

The documents approved as part of this resolution include: (1) Agreement of Purchase and Sale for Real Estate; (2) Third Amendment to Loan Agreement; (3) Third Amended and Restated Secured Promissory Note; (4) Residential Ground Lease; and (5) Commercial Ground Lease, all between the City and the Developer.

File 26-0794 is a proposed resolution that would:

1. Authorize the Director of Property, in consultation with MOHCD, to partially forgive approximately $1,172,500 of approximately $1,507,500 in outstanding rent obligations owed by Hon So, Inc., Hon Keung So, Candy Mei-Yiu So, David Ho, Shew Yick, and Richard Tong doing business as New Asia Restaurant, Inc. (collectively, the Tenant) for the

occupancy of commercial space at 772 Pacific Avenue and reduce the monthly base rent from $22,500 to $5,000 per month for the Tenant's month-to-month occupancy to end on September 30, 2026; and

2. Authorize the Director of Property and Director of MOHCD, to take any other related actions in furtherance of this resolution.

MOHCD reports that there will be no legal documents executed to effectuate this change and that the proposed resolution is sufficient to authorize the rent forgiveness and the rent reduction.

Real Property Acquisition

The proposed Agreement of Purchase and Sale for Real Estate would convey 758 Pacific Avenue to the City in exchange for a $2,178,786 credit to the unpaid principal balance of the City's loan to CCDC New Asia Housing, L.P., which includes both the original purchase price and closing costs incurred by New Asia Housing L.P.

Loan Agreement

The proposed Third Amendment to Loan Agreement provides for a loan amount not to exceed $13,666,153 for predevelopment project costs, including site acquisition costs, architecture and design, engineering and environmental studies, entitlement and permit fees, relocation costs, and so on. The affiliated Third Amended and Restated Secured Promissory Note provides for the repayment of the principal amount of $11,487,367, with the variance being the amount of the original loan being forgiven due to the conveyance of 758 Pacific Avenue. The loan has zero to three percent basic interest, to be determined by the MOHCD Director before closing, 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.[1]

Residential Ground Lease

The proposed residential ground lease has a term of 75 years and gives the Developer one 24-year extension option, for a maximum term of 99 years. During the initial lease term, proposed base rent is $15,100 per year and increased by $5,000 every 15 years beginning January 1, 2042. Further, one half of residual receipts are payable to MOHCD after various liabilities and obligations are settled including full repayment of the MOHCD and the HCD Multifamily Housing Program loans. This is consistent with MOHCD's Residual Receipts policy, which defines "residual receipts" as net income after operating costs, debt service payments, ground lease base rent, and replenishing operating reserves. Annual rent during the extension period would be negotiated between the developer and the City and would have to be at least the annual rent of the initial lease term.

To conform with residential ground lease, the Developer must commence demolition, rehabilitation, or construction by February 2027, complete construction by October 2029, and achieve 95 percent occupancy of the units by May 30, 2030. A provision of the residential ground

[1] 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.

lease stipulates that all project financing must be in place by February 23, 2027 or there will be early termination of the lease due to failure to close financing.

Commercial Ground Lease

The proposed commercial ground lease provides for the CCDC New Asia Commercial LLC (Tenant) to pay the City annual base rent of $1 plus percentage rent for a term of 75 years, with one 24-year option to extend. The annual percentage rent would be based on 40% cash surplus from operations and payable only after MOHCD's commercial loan with an estimated principal balance of $7,698,440 is fully repaid. The commercial loan will fund build out of the commercial space and is expected to be executed as part of the gap financing loan documents in late Fall 2026.

The commercial space is currently projected to be comprised of 11,932 square feet on portions of the ground floor, mezzanine, and basement, which is 8.4% of the project's total 142,278 square feet.

The commercial ground lease would stipulate that the Tenant own, operate, and manage the commercial share of the 772 Pacific Avenue Senior project for non-residential public benefit, including, but not limited to, a restaurant, banquet hall or event space, grocery store, or other retail establishment that demonstrably serves the residential occupants of the 772 Pacific Avenue Senior Housing project. The project synopsis provided to the Loan Committee noted that the Tenant is interested in maintaining similar leasing arrangements with New Asia Restaurant, Inc., the current commercial tenant at 772 Pacific Avenue, which is registered as a Legacy Business. New Asia Market, LLC, has submitted a Letter of Intent to CCDC for a 15-year lease with four 5-year options to extend for a total term of 35 years and with proposed monthly lease payments of $10,901 beginning in year 1 and escalating to $22,006 in year 15 with cost-of-living adjustments up to 3% thereafter. The Letter of Intent also includes reimbursement of $500,000 payable to New Asia Market, LLC, from CCDC for tenant improvements.

Rent Forgiveness

As noted above, the current commercial space at 772 Pacific Avenue is occupied by New Asia Restaurant, Inc. pursuant to the terms of a 2002 lease agreement for the sole purpose of operating a restaurant that was assumed by the City in June 2017. While that lease agreement expired December 31, 2021, New Asia Restaurant, Inc. continued to operate on a month-to-month basis. However, the restaurant ceased operations in March 2020 due to the COVID-19 pandemic and received rent forgiveness from April 2020 through December 2020 from the City. Subsequently, New Asia Restaurant, Inc. proceeded to open at the same location as a grocery store in 2020, but did not seek a change in lease terms or apply for a change in use from City Planning. New Asia Restaurant also failed to resume rent payments after December 2020. MOHCD reports that the failure to comply with the terms of the agreement was not addressed by the City because of uncertainty surrounding the pandemic impacts on restaurant and banquet hall operations and the protracted time to obtain a Conditional Use Authorization to bring New Asia into legal compliance and negotiate the $5,000 monthly rent.

According to the proposed resolution, $5,000 was determined to be a reasonable monthly rent amount by the Director of Property as compared to the $22,500 monthly rent based on the terms of the original agreement. MOHCD reports that the $5,000 monthly rent was negotiated with

New Asia Restaurant, Inc. and is appropriate given the month-to-month occupancy that has been in place since January 2022 and the pending demolition of the building and redevelopment of the site. If retroactively applied to begin in January 2021 through July 2026, the rent forgiveness required to date, as proposed, would be $1,172,500. In order for the rent forgiveness to take effect, New Asia Restaurant, Inc. would be required to vacate the current site by September 30, 2026.

FISCAL IMPACT

Real Property Acquisition

An independent appraisal of the property assigned a value of $2,150,000 to 758 Pacific Avenue as of May 6, 2026, which is $28,786 less than the compensation being remitted to CCDC New Asia Housing, L.P. in the form of loan forgiveness. However, MOHCD notes that $2,178,786 is compensating CCDC for the initial land costs as well as closing costs. MOHCD does not anticipate any further closing costs with this transaction.

Loan Agreement

The proposed Third Amendment to Loan Agreement provides for a loan amount not to exceed $13,666,153, an increase of $3,847,903 for predevelopment costs.

Exhibit 2: Sources and Uses of Predevelopment Loan Amount

Sources	Amount
Federal HOME Funds	$6,498,422
2019 GO Bonds	3,000,000
Federal CDBG Funds	2,131,526
Housing Trust Fund	1,936,205
Donation	100,000
Total Sources	**$13,666,153**
Uses	
Acquisition	$2,178,786
Soft Costs	8,651,688
Hard Costs	2,285,679
Developer Fees	550,000
Total Uses	**$13,666,513**

Of these sources, City sources include the Housing Trust Fund and the 2019 GO Bonds and total $4,936,205. Through May 15, 2026, $7,167,731 had been disbursed, including $2,178,786 for the initial purchase of 758 Pacific Avenue, and approximately $91,284 in interest had been accrued.

Uses include $2.2 million for acquiring 758 Pacific, $2.3 million in hard costs for demolition and renovations, $3.3 million for design work, $1 million for tenant relocation, $4 million for other predevelopment activities, and $0.5 million for developer fees.

According to MOHCD, this loan will be refinanced into a permanent loan at gap financing in December 2026 and included in the total City subsidy for the project of $61,319,712, which is estimated to be $350,398 per unit. This amount is 20% more than the average City subsidy for MOHCD comparable projects of $290,273.

MOHCD anticipates that the permanent loan will materially maintain the same terms and conditions, including interest rate terms and residual receipt payment requirements as presented in the Third Amendment to Loan Agreement and Third Amended and Restated Secured Promissory Note. According to the 20-year cash flow analysis presented to the Loan Committee, residual receipts payments will begin in Year 1 and will total approximately $523,647 for the first twenty years of the repayment period.

POLICY CONSIDERATION

Commercial Ground Lease

An anticipated commercial loan of $7,698,440 would provide financing to construct a commercial space with a “cold shell” comprised of unfinished walls, ceiling, and flooring for $4.3 million; “warm shell” improvements consisting of the necessary infrastructure for gas service for $1.4 million; and $2.0 million for soft costs including a $275,000 developer fee. The proposed commercial ground lease stipulates that the Tenant is responsible for all subsequent Tenant improvements at no additional cost to the City. However, the Tenant has not identified sources of funding for the build-out of the commercial space.

As noted above, the Tenant has indicated an interest in subleasing the commercial space to New Asia Restaurant, Inc. The project synopsis presented to the Loan Committee reported that CCDC and its design team have worked with New Asia Restaurant, Inc. to develop banquet hall specifications. However, New Asia Restaurant Inc. is the tenant of the current commercial space at 772 Pacific Avenue that defaulted on its agreement with the City, conducted operations that were out of compliance with City Planning laws regarding change of use, and which is subject of the proposed rent forgiveness. Further, while New Asia Restaurant has been registered as a Legacy Business since 2019, that designation is contingent on continuous operations as a restaurant and not a grocery store. As noted in the staff report for the New Asia Restaurant’s application for the program, a restaurant featuring Chinese cuisine is the “core physical feature or tradition” that defines the business that would be required for maintenance of the business on the Legacy Business Registry. As previously noted, the restaurant ceased operations in March 2020 and did not open as a restaurant after the end of the COVID-19 pandemic. In order to ensure best value for the proposed use of commercial space, the commercial ground lease should include provisions that require the Tenant to conduct a competitive process for sublease and occupancy of the commercial space. As the project synopsis reports, the Tenant “is well-positioned to find another operator with both dim sum and banquet hall experience.”

Rent Forgiveness

While the proposed resolution would authorize rent forgiveness of $1,172,500 for New Asia Restaurant, Inc., the agreement required to effectuate the resolution has not been drafted. No lease amendment is included in the legislative file for the resolution. MOHCD reports that it has worked with the Office of the City Attorney and the Department of Real Estate and has determined that the most expeditious manner for effectuating the terms of the proposed resolution, given the expedited timeline, is to issue a letter directly to New Asia Restaurant, Inc. notifying them of the new terms. However, the resolution does not provide terms that would ensure the City’s interests are protected if New Asia Restaurant, inc., were to default on the revised monthly rent of $5,000. New Asia Restaurant, Inc. would owe $345,000 for the entire term from January 2021 through September 2026. MOHCD reports that the City retains all remedies available pursuant to California law.

The proposed resolution also contains a provision that would allow New Asia Restaurant, Inc., to reduce this $345,000 obligation as part of a relocation benefit package. A part of the Developer's predevelopment loan from the City, $800,000, has been allocated to New Asia Restaurant, Inc. specifically for relocation. According to MOHCD, the $800,000 could be reduced by the $345,000 in rent owed if New Asia Restaurant, Inc. opts for this. However, the proposed resolution does not provide for CCDC to then remit the $345,000 to the City for the back rent to which it is entitled.

In all, New Asia Restaurant, Inc. will obtain financial benefits from the City totaling $1,972,500 for operating a grocery store out of compliance with City laws and agreements ($1.1 million for rent forgiveness and for $0.8 million relocation). However, MOHCD reports that the benefits may be even more pursuant to applicable relocation law.

Development Issues Identified by MOHCD

In the May 15, 2026 project synopsis presented to the Loan Committee, MOHCD identified five primary project development issues. These include:

- The $7.7 million estimated development cost for the commercial space is not a typical MOHCD project cost and is "higher than normal."
- Uncertainty in the tax credit market may ultimately impact the amount of the gap financing loan required of MOHCD.
- Delays in the move out of two current commercial tenants, including New Asia Restaurant, Inc., resulting from the failure to agree on replacement commercial space may delay the start of demolition.
- The Developer must obtain neighbor agreements to address certain construction impacts prior to project finance closing.
- Continuing risk of increased project costs as a result of the project being served by the Wholesales Distribution Tarriff system and PG&E's post construction cost reconciliation fees.

Additionally, as previously noted, project costs per unit are considerably higher than MOHCD's other projects. These issues will need to be specifically addressed by both MOHCD and the Developer prior to returning to the Board for approval of the total gap financing package of approximately $61.3 million to minimize fiscal impact to the City and mitigate project risks.

RECOMMENDATIONS

1. For File 26-0793, approve the resolution and request MOHCD and CCDC sublease the commercial space pursuant to a competitive procurement process and requiring a sublessee with a demonstrated good business relationship with the City.

2. For File 26-0794, amend the resolution to require MOHCD to remit to the Clerk of the Board the notice of the change in lease terms to the 772 Pacific tenant and include the document in the legislative file for File 26-0794.
3. Request MOHCD to report back to the Board of Supervisors by January 15, 2027 on MOHCD commercial tenants that are not paying rent or are otherwise not in compliance with lease terms and plans to bring them into compliance.

Item 11 File 26-0795	Department: Real Estate Division (RED), Department of Homelessness and Supportive Housing (HSH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively authorize the Director of Property, on behalf of HSH, to execute a lease with 3rd Street Youth Center and Clinic (3rd Street), as tenant, for the 2^{nd} and 3^{rd} floors (approximately 20,000 square feet) of the City property at 888 Post Street, for a two-year term from July 1, 2026 to June 30, 2028 and annual base rent of $1. The proposed resolution would also determine that the below market rent payable under the proposed lease serves a public purpose by providing a TAY Navigation Center pursuant to Administrative Code Section 23.33.

Key Points

- In July 2021, the Board of Supervisors approved a purchase and sale agreement for a three-story, 33,970 square foot building located at 888 Post Street for use as a Navigation Center. 3rd Street currently operates the Lower Polk Transitional Age Youth (TAY) Navigation Center under contract with HSH. A new service contract with 3rd Street for continued operation of the facility through June 2028 is in the final stages of approval. The proposed lease is tied to the service contract and would automatically terminate if the service contract is terminated for reasons other than the tenant's negligence or default.
- The facility currently has capacity for 75 beds and can serve up to 75 TAY experiencing homelessness at any given time. Utilization levels during the proposed lease term are expected to remain consistent with FY 2025-26 (279 unduplicated clients). During FY 2024-25, the program maintained a 97 percent occupancy rate, exceeding the target occupancy rate of 90 percent.
- The proposed lease would provide approximately 20,000 square feet of City-owned space at a nominal annual rent of $1, with no rent escalations during the term. RED states that (1) the nominal rent reflects the public benefit associated with continued provision of shelter and supportive services to TAY experiencing homelessness and therefore serves a public purpose consistent with Administrative Code Section 23.33, and (2) the leased premises have limited standalone market value because they are integrated into the Navigation Center site, rely on shared circulation areas, and lack private access.

Fiscal Impact

- Total rent over the two-year lease term would be $2. Lease and operating costs would be funded through the State's Homeless Housing, Assistance and Prevention (HHAP) Program. Annual operating costs for the Lower Polk TAY Navigation Center are approximately $3.9 million, or approximately $52,000 per bed.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over $15,000 per month. The Real Estate Division must obtain an appraisal of the fair market rent if the rent exceeds $45 per square foot per year and appraisal review if the rent exceeds $60 per square foot per year.

Administrative Code Section 23.33 provides that leases of City-owned property should generally be awarded at fair market value and permits below-market leases when the City determines that the lease serves a public purpose and the tenant's use of the property is consistent with that purpose, subject to approval of the Board of Supervisors.

BACKGROUND

City Purchase of 888 Post Street

Navigation Centers provide unsheltered San Franciscans room and board while case managers work to connect them to income, public benefits, health services, shelter, and housing. In July 2021, the Board of Supervisors approved a purchase and sale agreement for a three-story, 33,970 square foot building located at 888 Post Street for use as a Navigation Center in the amount of $29 million plus typical closing costs from TC II 888 Post, LLC (File 21-0772). The City had previously entered into a lease for the property in October 2020 for use by the Department of Homelessness and Supportive Housing (HSH) as a 75-bed Navigation Center for Transitional Age Youth (File 20-0043).[1]

3rd Street Youth Center and Clinic

HSH entered into a grant agreement in December 2020 with 3rd Street Youth Center and Clinic (3rd Street) to operate the Navigation Center at 888 Post Street for an initial term of December 2020 through June 2023, and an amount not to exceed $9,931,337. The Lower Polk TAY Navigation Center opened in February 2021 with a reduced capacity of 43 beds and expanded to 75 beds in Fall 2022, as COVID restrictions receded. In May 2023, the Board of Supervisors approved the first amendment to the grant agreement, extending the term by three years through June 2026, and increasing the not-to-exceed amount by $10,772,423, for a total not to exceed $20,703,760 (File 23-0416). According to HSH, 3rd Street currently operates the Lower Polk TAY Navigation Center under the grant agreement with HSH and does not have leasehold rights to the City-owned property.

In September 2025, under Administrative Code Chapter 21B, HSH selected 3rd Street to operate a TAY Navigation Center based on prior performance and to ensure continuity of services. According to HSH, a new service contract in the amount of $9,411,413 (including contingency) with 3rd Street for continued operation of the Lower Polk TAY Navigation Center for a term from

[1] The lease between the City and TC II 888 Post, LLC for property located at 888 Post Street had an initial term of 20 years at a base rent of $1,500,000 per year that increased at 3 percent per year and included one 10-year extension option.

July 1, 2026 to June 30, 2028 is currently in the final stages of approval. The contract is funded through the State's Homeless Housing, Assistance and Prevention (HHAP) Program. HSH states that it intends to seek Board of Supervisors approval to extend the contract through June 2029 to align with the department's Multi-Year Procurement Plan for shelter services.[2]

According to HSH, the Lower Polk TAY Navigation Center served approximately 279 unduplicated clients during FY 2025-26. The facility continues to operate at a capacity of 75 beds and provides shelter, case management, housing navigation, and supportive services for TAY. Consequently, this proposed lease at 888 Post Street is now being considered by the Board of Supervisors for approval to continue use of the premises by 3rd Street as a Navigation Center.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize the Director of Property, on behalf of HSH, to execute a lease with 3rd Street, as tenant, for the 2nd and 3rd floors (approximately 20,000 square feet) of the City property located at 888 Post Street, for a two-year term from July 1, 2026 to June 30, 2028 and annual base rent of $1 and determine that the below market rent payable under the proposed lease will serve a public purpose by providing a TAY Navigation Center pursuant to Administrative Code Section 23.33.[3] The proposed resolution would also authorize the Director of Property to make further amendments to the lease so long as they do not increase the City's liabilities.

According to HSH, the proposed resolution is retroactive because of the need to align execution of the lease with the approval process for the associated service contract, which required commission approvals.

Exhibit 1 below summarizes the terms and conditions of the lease provisions.

[2] According to HSH, if 3rd Street is awarded a future contract to operate the Lower Polk TAY Navigation Center following a competitive procurement, HSH would execute a new lease, if necessary, to support continued operation of the facility.

[3] Administrative Code Section 23.33 establishes City policy that leases of City-owned property should generally be awarded at fair market value. Below-market leases are permitted when the City makes a finding that the lease serves a public purpose and the tenant's use of the property is consistent with that purpose, subject to applicable approvals.

Exhibit 1. Summary of Proposed Lease

	Proposed Lease
Premises	Approximately 20,000 rentable square feet (2nd and 3rd floors)[4] of building is located at 888 Post Street.
Term	2 years (July 1, 2026 – June 30, 2028)
Options to extend	None
Annual Base Rent	$1
Rent Escalation	None
Utilities and Services	City will pay for standard building utilities and services to the premises, which include water, electricity, HVAC, and elevator facilities. Tenants will pay for any utilities or services required beyond the standard services provided by the City. If the tenant's usage exceeds standard levels, the City may require reimbursement for excess utility costs and may install meters or other monitoring equipment to measure consumption.
Repairs and Maintenance	City is responsible for repair and maintenance of the building's structural components, building systems, elevators, common areas, and accepted tenant improvements. Tenant is responsible for maintaining and replacing, at its own expense, all furniture, fixtures, equipment, and tenant improvements not accepted by the City.
Security Deposit	None
Tenant Improvements	Tenant is responsible, at its sole cost, for designing, constructing, permitting, and installing tenant improvements, subject to City approval. Upon completion and City acceptance, ownership and maintenance responsibility for accepted tenant improvements transfers to the City. Planned tenant improvements include a computer lab, fitness area, restrooms, staff offices, and quiet rooms.
Other Provisions	The lease is tied to the tenant's service contract with HSH for operation of the Lower Polk TAY Navigation Center (dated as of July 1, 2026). If the service contract is terminated for reasons other than the tenant's negligence or default, the lease automatically terminates without penalty.

Source: Proposed Lease Agreement

Site Usage

As previously mentioned, the Lower Polk TAY Navigation Center at 888 Post Street would continue to operate as a Navigation Center throughout the proposed lease term. The facility currently has capacity for 75 beds and can serve up to 75 TAY experiencing homelessness at any

[4] Glide occupies a TAY Health and Wellness Center on the 1st floor, funded through a grant agreement with HSH.

given time. HSH does not anticipate changes to the facility's use and bed capacity under the proposed lease. In addition, according to HSH, utilization levels during the proposed lease term are expected to remain consistent with FY 2025-26 (279 unduplicated clients).

3rd Street Service Contract

As previously mentioned, a new HSH service contract with 3rd Street for continued operation of the Lower Polk TAY Navigation Center is currently in the final stages of approval. The proposed contract would have a two-year term from July 1, 2026 through June 30, 2028 and a not-to-exceed amount of approximately $9.4 million. According to HSH, the proposed two-year lease term is intended to align with the term of the service contract. If 3rd Street is subsequently awarded a new contract to operate the Navigation Center, HSH would execute a new lease, if necessary, to support continued operation of the program.

The proposed lease is tied to the tenant's service contract with HSH for operation of the Lower Polk TAY Navigation Center. Under the proposed lease, if the service contract is terminated for reasons other than the tenant's negligence or default, the lease automatically terminates without penalty. Because the lease automatically terminates if the associated service contract terminates, occupancy of the premises remains tied to continued provision of TAY Navigation Center homelessness services at the site.

Performance

HSH staff completed performance monitoring on the 3rd Street grant to operate the Lower Polk TAY Navigation Center for FY 2024-25 in December 2025, which included a site visit. The program monitoring report found that the Lower Polk TAY Navigation Center maintained its contracted capacity of 75 shelter beds and achieved a 97 percent occupancy rate, exceeding HSH's target occupancy rate of 90 percent. The review identified one formal finding and several recommendations related to supervisory review documentation, client release forms, service plans, staff training records, and Spanish-language staffing coverage. 3rd Street submitted a corrective action plan in January 2026 addressing these issues, and HSH determined in February 2026 that the corrective actions were satisfactory and closed the monitoring review.

Base Rent Determination

The proposed lease would provide 3rd Street with approximately 20,000 square feet of City-owned space for operation of the Lower Polk TAY Navigation Center at a nominal annual rent of $1, with no rent escalations during the two-year term. According to RED, the leased premises have limited standalone market value because they are integrated into the Navigation Center site, rely on shared circulation areas, and lack private access. As a result, RED did not estimate the market value of the leased premises or quantify the value of the rent concession provided under the proposed lease.

RED further states that the nominal rent reflects the public benefit associated with continued provision of shelter and supportive services to transition-age youth experiencing homelessness and, therefore, serves a public purpose consistent with Administrative Code Section 23.33.

Proposed Lease Requires Public Purpose Determination

The Board of Supervisors must determine whether the public benefits provided by the program support a finding that the proposed below-market lease serves a public purpose consistent with Administrative Code Section 23.33.

The Lower Polk TAY Navigation Center's 75 beds represent approximately 29 percent of the City's 267[5] shelter beds dedicated to young adults. HSH currently oversees eight Navigation Centers, which have a combined 1,111 temporary and emergency beds.[6]

Tenant Improvements

Under the proposed lease, the tenant is responsible, at its sole cost, for designing, permitting, constructing, and installing all tenant improvements, subject to City approval of plans and specifications. The tenant may not begin construction until the lease is fully approved and executed and must obtain City approval for any material changes during construction. Upon completion, the tenant must provide as-built plans and request City acceptance. Once accepted by the City, ownership of the improvements and any associated warranties transfer to the City, and the City becomes responsible for maintaining the accepted tenant improvements. The tenant must also comply with applicable local hiring and prevailing wage requirements for the improvement work.

According to HSH, planned tenant improvements include a computer lab, fitness area, restrooms, staff offices, and quiet rooms. HSH reports that conceptual plans are still under development, and a detailed scope of work and project budget are not yet available. HSH further states that all tenant improvements will be funded and completed by 3rd Street without City funding. 3rd Street has raised approximately $1 million in private funding from the Crankstart Foundation to support the buildout.

As previously mentioned, once accepted by the City, maintenance responsibility for the tenant improvements will be transferred to the City. According to HSH, 3rd Street will continue to provide janitorial services at the facility. HSH states that City facilities staff will maintain accepted improvements, including any new restrooms, consistent with maintenance practices at other City-owned shelters. HSH was unable to estimate future maintenance costs because repairs will be performed on an as-needed basis. HSH further notes that most improvements involve reconfiguration of existing space rather than installation of new building systems, which is expected to limit ongoing maintenance obligations. In addition, the improvements will be covered by warranty during the first year following completion.

Utilities and Services

Under the proposed lease, the City will provide standard building utilities and services to the premises, which include water, electricity, HVAC, and elevator facilities. The tenant is responsible for obtaining and paying for any utilities or services beyond those standard services. If the tenant requires utility usage in excess of the standard services, the City may authorize the additional usage and require the tenant to reimburse the City for associated costs. The proposed lease also

[5] Data source is HSH's shelter and crisis intervention inventory dashboard, as of July 14, 2026.
[6] Data source is HSH's shelter and crisis intervention inventory dashboard, as of July 13, 2026.

authorizes the City to install meters or other measurement devices to monitor water or utility consumption and bill the tenant for excess usage. Utilities and services costs are budgeted through the contract with 3rd Street, which operates the Navigation Center. According to the service contract's Appendix B, utilities (which include electricity, water, gas, phone, and refuse services) are budgeted at $121,000 annually in FY 2026-27 and FY 2027-28.

FISCAL IMPACT

As shown in Exhibit 2 below, over the two-year term, HSH would pay $2 in total rent.

Exhibit 2. Total Rent by Year Under Proposed HSH Lease

Lease Year	Annual Rent
Year 1	$1
Year 2	$1
Total	**$2**

Source: Proposed Lease Agreement

The proposed lease would establish an annual rent of $1 with no rent escalations during the two-year term.

Lease and operating costs would be fully funded through the State's Homeless Housing, Assistance and Prevention (HHAP) Program. According to the program budget, the annual operating costs are approximately $3.9 million, or approximately $52,000 per bed.

RECOMMENDATION

Approve the proposed resolution.