CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 8, 2026 Budget and Finance Committee Meeting

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Item 1 File 26-0303 *(Continued from 6/17/26 meeting)*	Department: Board of Supervisors (BOS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance amends the Chapter 10 of the Administrative Code to (a) increase the minimum revenue grant amount requiring Board of Supervisors approval for grant acceptance and expenditure from $100,000 to $1,000,000, or the federal single audit threshold amount set by the U.S. Office of Management and Budget, starting October 1, 2026; (b) require Board of Supervisors approval of a grant increase only if it raises the grant to the approval threshold for the first time or increases a previously-approved grant to 110 percent or more of the previously-approved amount; and (c) authorize the Controller to make rules governing the acceptance and expenditure of any grants or grant increases that do not require Board of Supervisors approval.

Key Points

- City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

Fiscal Impact

- Between January 1, 2025 and April 7, 2026, the Board of Supervisors reviewed 113 grants for acceptance. Of the 113 grants, 45 percent of those grants had not-to-exceed amounts below the proposed $1,000,000 threshold for Board review.

Policy Consideration

- Based on data from January 1, 2025 to April 7, 2026, the proposed ordinance would eliminate Board of Supervisors review of 45 percent of revenue grants that currently require Board of Supervisors approval. This amounts to $18.9 million or two percent of the $765,804,058 in grant revenues reviewed by the Board during that period. The proposal would expedite the execution of revenue grant agreements but limits the Board's visibility, input, and oversight of grant funds.

Recommendation

- 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

City Administrative Code Section 10.170-1 states that accepting Federal, State, or third-party grant funds in the amount of $100,000 or more, including any City matching funds required by the grant, is subject to Board of Supervisors approval.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance amends the Chapter 10 of the Administrative Code to (a) increase the minimum grant amount requiring Board of Supervisors approval for grant acceptance and expenditure from $100,000 to $1,000,000, or the federal single audit threshold amount set by the U.S. Office of Management and Budget, starting October 1, 2026; (b) require Board of Supervisors approval of a grant increase only if it raises the grant to the approval threshold for the first time or increases a previously-approved grant to 110 percent or more of the previously-approved amount; and (c) authorize the Controller to make rules governing the acceptance and expenditure of any grants or grant increases that do not require Board of Supervisors approval.

FISCAL IMPACT

Between January 1, 2025 and April 7, 2026, the Board of Supervisors reviewed 113 grants for acceptance. As shown below, 45 percent of those grants had not-to-exceed amounts below the proposed $1,000,000 threshold, as shown below.

Exhibit 1: Board of Supervisors Approval of Grants, January 1, 2025 – April 7, 2026

# of Grants	Proposed $1M Threshold	% of # Grants	Total Grant Amount	Average Grant Amount
62	Over	55%	$746,888,212	$12,046,584
51	Under	45%	$18,915,846	$370,899
113			**$765,804,058**	

Source: BLA review of legislative files

POLICY CONSIDERATION

Based on data from January 1, 2025 to April 7, 2026, the proposed ordinance would eliminate Board of Supervisors review of 45 percent of revenue grants that currently require Board of Supervisors approval. This amounts to $18.9 million or two percent of the $765,804,058 in grant

revenues reviewed by the Board during that period. The proposal would expedite the execution of revenue grant agreements but limits the Board's visibility, input, and oversight of grant funds.

RECOMMENDATION

Approval of the proposed ordinance is a policy matter for the Board of Supervisors.

Item 8 File 26-0732	Department: Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year (CY) 2027.

Key Points

- The HSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board approves the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by HSS employers, including the City, and other members.
- In general, there are no major changes to the City's existing health insurance provider contracts for CY 2027. However, the Health Service Board approved several plan design changes, including the discontinuation of Kaiser retiree multi-region plans in Washington, Oregon, and Hawaii; the removal of Medicare Advantage PPO coverage for weight-loss medications as required by federal regulations; and restrictions on GLP-1 weight-loss medication coverage under the Health Net CanopyCare plan.

Fiscal Impact

- The total estimated cost for active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, would be $1,251,990,778 in CY 2027, which is 10.42 percent more than the $1,133,820,902 total cost in CY 2026. Of the total, the City's costs would be $1,099,380,893, with the balance of $152,609,885 paid by employees and retirees.

Policy Consideration

- In 2025, HSS conducted an RFP for dental PPO services. Although MetLife received the highest evaluation score and was projected to reduce City costs by approximately $11.6 million in 2027, the savings were largely attributable to lower in-network utilization resulting from a smaller provider network. The Health Service Board ultimately declined to award a new contract and retained Delta Dental as the City's dental PPO provider.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section A8.423 states that the Health Service Board is required to conduct a survey of the 10 most populous California counties, excluding San Francisco, to determine the average contribution made by each county toward health plan premiums for employees, excluding dental plan premiums. The Health Service Board is then required to certify to the Board of Supervisors the average contribution as determined by this survey. City Charter Section A8.428 also requires the City to contribute to the Health Service System Trust Fund to pay the costs of health plan premiums.

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) any modification of such contracts of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (HSS). The HSS administers non-pension benefits, including health, vision, dental, as well as life insurance and long-term disability insurance. The Health Service Board provides the annual health, vision, dental and other insurance plans, and sets the respective plan premium rates and contributions to be paid by HSS employers and members. There are four HSS employers:

1. City and County of San Francisco (City)
2. San Francisco Unified School District (SFUSD)
3. San Francisco Community College District (SFCCD)
4. San Francisco Superior Court (Superior Court)

HSS members are active and retired employees of the above noted four employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

City and Employee Contribution Models

Most contribution formulas for City employees negotiated as part of their labor agreements fall into the following two percentage-based models which reflect the City's percentage of the contribution.

- 93/93/83 Contribution Model: The City contributes 93 percent of the total health insurance premium for a single member, capped at 93 percent of the second-highest cost plan. The City contributes 93 percent of the total health insurance premium for employees with one dependent, capped at 93 percent of the second-highest cost plan. The City contributes 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According

to HSS, there are 21,014 active employee members (excluding dependents) who are covered by this contribution model in 2027.

- 100/96/83 Contribution Model: The City contributes 100 percent of total health insurance premium for a single member. The City contributes up to 96 percent of the total health insurance premium for employees with one dependent, capped at 96 percent of the second-highest cost plan. The City contributes 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to HSS, there are 11,859 active employee members (excluding dependents) who are covered by this contribution model in 2027.

Retiree Health Plan Premium Contributions

The 10-county survey average is used as a basis for calculating the employer contribution to the monthly health plan premium for all retirees hired on or before January 9, 2009.[1] Based on the 2026 10-County Survey, the 10-county average employer contribution for calendar year 2027 is $1,029.76 per member per month, which is $87.62, or approximately 9.3 percent, more than the average monthly contribution in 2026 of $942.14.

Retirees who were hired on or after January 10, 2009 receive a percentage of the employer contribution depending on how long they worked for the City, with the percentage increasing as the number of years the employee worked for the employer increases.

According to HSS, there are 24,772 retired members (excluding dependents) who are covered by the City Charter-defined retiree contribution model in 2027.

Trust Funds

Under Charter Section A8.428, employer and HSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund, which in turn funds costs for medical expenses and health plans. As of April 2026, the Health Service System Trust Fund balance was $70.5 million and is projected to be $67.8 million as of June 30, 2026.

The retiree rates for health care impact the City's post-employment benefits (OPEB), which are currently paid on a pay-go basis. The City also pre-funds its OPEB liability by contributions from employers and employees deposited into a Retiree Health Care Trust Fund, each up to one percent of each employee's compensation. As of June 30, 2025, the net OPEB liability was approximately $3.9 billion, net of fund assets totaling $1.2 billion. In FY 2024-25, the City paid $248.8 million in pay-go contributions for retirement health care benefits and made a $52.1 million deposit into the Retiree Health Care Trust Fund. Once the Retiree Health Care Trust Fund reaches a funding level sufficient to fund existing liabilities from investment returns, the City's one percent contribution will cease and the employee's contribution will be for new liabilities accrued during a given year, up to one percent of compensation.

[1] In the event the premium for the retiree is higher than the 10-county "average contribution", the City will pay the "average contribution" amount. In the event the premium is less than the "average contribution," the City will pay one hundred percent of the premium.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year (CY) 2027. A three-fourths' vote of the Board of Supervisors is required to pass the ordinance under Charter Section A8.422. The total cost of the plans would be $1,251,990,778 in CY 2027, which is $118,169,876, or 10.42 percent, more than the $1,133,820,902 total cost in CY 2026. Of the total, the City's costs would be $1,099,380,893, with the remaining $152,609,885 paid by employees and retirees. Exhibit 1 below provides a summary of health insurance costs for 2027.

The Health Service Board approved the following health, vision, dental, life and long-term disability insurance plans and premiums for the period from January 1, 2027 through December 31, 2027 on the following dates in 2026: February 12, March 12, April 9, May 14, and June 11.

In general, there are no major changes to the City's existing health insurance provider contracts for CY 2027. However, the Health Service Board approved several plan changes, including the discontinuation of Kaiser retiree multi-region plans in Washington, Oregon, and Hawaii, the elimination of Medicare Advantage PPO coverage for prescription drugs used solely for weight loss purposes as required by federal regulations, and restrictions on GLP-1 weight loss medication coverage under the Health Net CanopyCare plan.

Health Plans and Premiums

Kaiser Permanente HMO[2]

Kaiser Permanente (Kaiser) covers active, early retirees[3] and Medicare retirees. The total Kaiser HMO premium amounts to be paid by the City as employer are $495,899,265, which is a 6.35 percent increase from CY 2026 to CY 2027.[4] These amounts are shown in Exhibit 1 below.

No 2027 plan design changes were approved for Kaiser plans. However, the Health Service Board approved discontinuation of the Kaiser retiree multi-region plans in Washington, Oregon, and Hawaii after the 2026 plan year due to limited enrollment (currently 238 participants) and administrative burden. Retirees enrolled in those plans will transition to existing Blue Shield plan options available to retirees residing outside the Bay Area, though most would pay higher premiums. According to HSS, 91 percent of retirees on the City's health plans live in California.

[2] An HMO (Health Maintenance Organization) offers care through a closed panel of providers, in which members select a primary care physician, who manages their care. The HMOs pay the medical groups on a per capita basis.
[3] Retired employees of less than 65 years of age and therefore not eligible for Medicare.
[4] This includes the following plans: Kaiser HMO (actives and early retirees) and Kaiser KPSA HMO (Medicare retirees).

Blue Shield of California HMOs

The total Blue Shield of California (BSC) Access+ and Trio plans are flex-funded[5] HMOs for active employees and early retirees. The total BSC flex-funded HMO plan premium amounts to be paid by the City as employer are $370,712,991, which is a 15.81 percent increase from CY 2026 to CY 2027.

Blue Shield of California PPO[6]

The Blue Shield of California (BSC) PPO plan is self-funded for active employees and early retirees. The BSC self-funded PPO plan premium amounts to be paid by the City as employer are $71,435,533, which is a 19.56 percent increase[7] from CY 2026 to CY 2027.

Blue Shield of California PPO for Non-Medicare "Split Family" Plans

In 2025, Blue Shield of California (BSC) became the plan administrator for non-Medicare "split family" plans, which provides coverage for non-Medicare covered individuals within families where one or more individual is Medicare-eligible and enrolled in the BSC Medicare Advantage Prescription Drug (MAPD) plan. This is referred to as a "split family" plan because one or more individuals in the family is not yet Medicare-eligible and enrolls in a non-Medicare BSC PPO or HMO plan and one or more individual is Medicare-eligible and is enrolled in the BSC MAPD plan. The BSC PPO for non-Medicare "split family" plan premium amounts to be paid by the City as employer are $2,707,308, which is a 6.43 percent increase from CY 2026 to CY 2027.

No Plan Changes to Non-Medicare BSC Plans

No plan design changes were approved for the Blue Shield Access+, Blue Shield Trio, Blue Shield PPO, or Blue Shield split-family PPO plans for 2027. The primary actions approved for these plans were premium and contribution adjustments.

Blue Shield of California Medicare Advantage Prescription Drug (MAPD) PPO

In 2025, Blue Shield of California (BSC) became the plan administrator for MAPD plan members. The BSC MAPD PPO plan covers all non-Kaiser Medicare eligible retirees. One plan design change applies to the BSC MAPD PPO plan in 2027. Consistent with federal Centers for Medicare and Medicaid Services requirements, coverage for prescription drugs used solely for weight-loss

[5] Under flex-funding, the HMO pays the medical groups on a per capita basis and plan sponsor (HSS) pays the variable claims other than the fixed medical group amounts.

[6] Under a PPO (Preferred Provider Organization), the member's cost-share are lower when using physicians, hospitals, and other providers in the preferred network versus and non-preferred providers. This self-funded arrangement means the plan sponsor (HSS) pays the purchaser (through a third-party administrator) on a fee for service basis based on negotiated contracts.

[7] According to HSS, the increase was primarily attributable to a rise in large PPO claims, as 329 covered lives incurred healthcare expenses exceeding $50,000 during 2025.

purposes will be eliminated. This change does not affect GLP-1 medications with FDA-approved Medicare Part D indications.[8]

The total BSC MAPD PPO plan premiums amount to be paid by the City as employer are $94,181,899, which is a 6.39 percent increase from CY 2026 to CY 2027.

According to Aon, the MAPD PPO and related split-family plans continue under the three-year premium guarantee negotiated through the 2024 procurement process, which is projected to generate approximately $67 million in savings between 2025 and 2027.

Health Net CanopyCare HMO

The Health Net CanopyCare HMO plan is flex-funded for active employees and early retirees. CanopyCare provides access to the Canopy Health Alliance of over 5,500 providers in six medical groups and major regional medical centers and hospitals covering the greater Bay Area. The Health Net CanopyCare flex-funded HMO plan premium amounts to be paid by the City as employer are $13,015,692, which is an 18.37 percent increase[9] from CY 2026 to CY 2027.

The Health Service Board approved one plan change for Health Net CanopyCare in 2027. Coverage for GLP-1 medications prescribed solely for weight loss is restricted to members with a Body Mass Index (BMI) of at least 40. No other plan design changes were approved.

Vision Plan

Members enrolled in any of the health plans receive vision benefits through Vision Service Plan (VSP), a third-party insurer. The cost of the Basic Plan vision benefit is included in the cost of the medical plan for all monthly health plan premiums. Any active employees or retirees who choose to enroll in the Premier Plan pay the full premium difference between Premier Plan rates and Basic Plan rates in the form of member contributions.

In 2027, all vision Basic Plan rates remain unchanged from the 2026 plan year. The employer portion of vision costs remains unchanged from 2026 to 2027. In 2027, vision Premier Plan total premium rates are increasing by two percent from 2026 levels. No plan design changes were approved for the vision plans by the Health Service Board for 2027.

Dental Plans

HSS offers three dental plans, which are one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). The City pays most of the cost of dental benefits for active employees enrolled in the Delta Dental PPO, and the full cost of the dental HMOs for active employees. Retirees pay the full cost of their dental plans with no employer contributions.

[8] Medicare Part D covers outpatient prescription drugs and most adult vaccines not covered by Part B. To be eligible, drugs must be medically accepted indications (FDA-approved or supported by standard medical references) prescribed by an authorized provider and listed on the plan's formulary (drug list).

[9] According to HSS, the increase was driven by higher utilization of outpatient surgery services (26 percent), increased utilization of mental health services (32 percent), and significant growth in specialty drug expenditures resulting from both increased utilization and rising drug prices.

For plan year 2027, the City will contribute (1) the total premium toward each of the dental HMO plans for City active employees, and (2) the monthly premium minus employee contributions ranging from $5.00 for employee only coverage to $15.00 per month for full family coverage, for the self-funded Dental PPO plan. Member contributions for the three dental plans remain unchanged from the 2026 plan year.

The total dental plan premium amounts across the three active employee dental plans paid by the City as employer are $45,835,623, which is a 3.49 percent increase from CY 2026 to CY 2027.

No plan design changes were approved for the dental PPO/HMO plans by the Health Service Board for 2027.

Life and Long-Term Disability Insurance

The Life Insurance Company of North America (LINA) and also known as New York Life is the insuring entity for the HSS life insurance, accidental death and dismemberment (AD&D) insurance, short-term and long-term disability (LTD) insurance. In CY 2027, the aggregate City contribution for all life insurance, AD&D, and short-term and LTD plan premiums are $5,592,581, which remains unchanged from CY 2026 to CY 2027.

Federal Affordable Care Act Requirements

In 2010, the Patient Protection and Affordable Care Act (also known as the Affordable Care Act) created a Health Insurance Tax (HIT) and two direct fees were passed through to employers – the Transitional Reinsurance Fee (TRF) and the Patient Centered Outcomes Research Institute (PCORI) fee. The HIT and TRF are no longer in effect. The PCORI fee[10] remains in effect through 2029 as part of the SECURE Act passed by the federal government in December 2019. HSS pays this fee to the federal government for the self-funded BSC PPO plan, while Kaiser, BSC, and Health Net pay this fee on HSS's behalf for fully insured or flex-funded plans. The 2027 PCORI fee is expected to be slightly higher than the $3.84 per covered person per year fee in current year 2026, according to the City's actuarial consultant, Aon.

FISCAL IMPACT

2027 Total City Costs

As shown in Exhibit 1 below, the total estimated cost for active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, will be $1,251,990,778 in CY 2027, which is $118,169,876, or 10.42 percent, more than the $1,133,820,902 total cost in CY 2026.

The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in CY 2027 are $1,099,380,893, which is $101,291,645,

[10] The PCORI fee was established as part of the Affordable Care Act to fund research to evaluate the effectiveness of medical treatments, procedures and strategies that treat, manage, diagnose, or prevent illness or injury. The ACA requires certain carriers and health plan sponsors (i.e., employers) to pay the PCORI fee annually.

or 10.15 percent, more than the $998,089,249 cost in CY 2026. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees are $152,609,885 in CY 2027, which is $16,878,232, or 12.44 percent, more than the $135,731,653 cost in CY 2026.

According to HSS, in CY 2027, the average medical monthly contribution by each member will be $210.42 per member per month for all members (actives employees and retirees combined), $243.22 per member per month for active employees, and $166.89 per member per month for retirees.

Exhibit 1: Total Plan Costs for the City, Employees and Retirees in 2027 Compared to 2026 Current Membership[11]

	2026 Forecast	2027 Forecast	Increase/ (Decrease)	Percent Change
City Costs Only				
Kaiser HMO (Actives and Early Retirees)	$420,635,611	$451,219,227	$30,583,616	7.27%
Blue Shield Access+ HMO (Actives and Early Retirees)	$243,224,271	$285,667,668	$42,443,396	17.45%
Blue Shield Trio HMO (Actives and Early Retirees)	$76,868,558	$85,045,324	$8,176,766	10.64%
Blue Shield PPO (Actives and Early Retirees)	$59,749,624	$71,435,533	$11,685,910	19.56%
Health Net CanopyCare HMO (Actives and Early Retirees)	$10,996,030	$13,015,692	$2,019,662	18.37%
BSC PPO (Non-Medicare Split Family Lives)	$2,543,740	$2,707,308	$163,568	6.43%
Kaiser KPSA HMO (Medicare Retirees)	$45,665,686	$44,680,038	($985,647)	-2.16%
BSC MA PPO (Medicare Retirees)	$88,522,802	$94,181,899	$5,659,097	6.39%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$948,206,322*	*$1,047,952,689*	*$99,746,367*	*10.52%*
Dental (Actives Only)[12]	$44,290,346	$45,835,623	$1,545,277	3.49%
Long Term Disability and Life Insurance (Actives Only)[13]	$5,592,581	$5,592,581	$0	0.00%
Total City Costs	**$998,089,249**	**$1,099,380,893**	**$101,291,645**	**10.15%**
Employee and Retiree Costs Only				
Kaiser HMO (Actives and Early Retirees)	$51,924,902	$55,384,562	$3,459,660	6.66%
Blue Shield Access+ HMO (Actives and Early Retirees)	$32,058,074	$38,095,319	$6,037,245	18.83%
Blue Shield Trio HMO (Actives and Early Retirees)	$9,804,264	$10,889,574	$1,085,309	11.07%
Blue Shield PPO (Actives and Early Retirees)	$12,078,189	$16,631,172	$4,552,983	37.70%
Health Net CanopyCare HMO (Actives and Early Retirees)	$1,229,356	$1,455,313	$225,957	18.38%
BSC PPO (Non-Medicare Split Family Lives)	$4,908,816	$5,822,288	$913,473	18.61%
Kaiser KPSA HMO (Medicare Retirees)	$5,843,463	$5,748,148	($95,315)	-1.63%
BSC MA PPO (Medicare Retirees)	$10,831,845	$11,530,765	$698,920	6.45%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$128,678,909*	*$145,557,141*	*$16,878,232*	*13.12%*
Dental (Actives Only)	$3,704,100	$3,704,100	$0	0.00%
Long Term Disability and Life Insurance (Actives Only)	$3,348,644	$3,348,644	$0	0.00%
Total Employee and Retiree Costs	**$135,731,653**	**$152,609,885**	**$16,878,232**	**12.44%**
Total Costs				
Kaiser HMO (Actives and Early Retirees)	$472,560,513	$506,603,789	$34,043,276	7.20%
Blue Shield Access+ HMO (Actives and Early Retirees)	$275,282,345	$323,762,987	$48,480,641	17.61%
Blue Shield Trio HMO (Actives and Early Retirees)	$86,672,822	$95,934,897	$9,262,075	10.69%
Blue Shield PPO (Actives and Early Retirees)	$71,827,812	$88,066,705	$16,238,893	22.61%
Health Net CanopyCare HMO (Actives and Early Retirees)	$12,225,387	$14,471,005	$2,245,618	18.37%
BSC PPO (Non-Medicare Split Family Lives)	$7,452,556	$8,529,596	$1,077,040	14.45%
Kaiser KPSA HMO (Medicare Retirees)	$51,509,149	$50,428,187	($1,080,962)	-2.10%
BSC MA PPO (Medicare Retirees)	$99,354,647	$105,712,665	$6,358,018	6.40%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	*$1,076,885,231*	*$1,193,509,830*	*$116,624,599*	*10.83%*
Dental (Actives Only)	$47,994,446	$49,539,723	$1,545,277	3.22%
Long Term Disability and Life Insurance (Actives Only)	$8,941,225	$8,941,225	$0	0.00%
Total Costs	**$1,133,820,902**	**$1,251,990,778**	**$118,169,876**	**10.42%**

Source: San Francisco Health Service System

[11] According to HSS, both 2026 and 2027 forecasted costs are based on a June 2026 headcount.

POLICY CONSIDERATION

HSS staff issued a request for proposals (RFP) in 2025 for dental PPOs. The RFP resulted in MetLife as the top scoring proposer (72.05 out of 100 possible points) and the current provider, Delta Dental was the lowest scoring proposal of three final proposals (receiving 64.25 out of 100 points). MetLife was projected to be $11.6 million less expensive for the City in 2027 because it has a smaller network of dental providers, shifting expenses to plan participants. This savings estimate assumes no members switch to in-network dentists. HSS staff projected that only 46.8 percent of claims would be in network as compared to 87.6 percent of claims for Delta Dental. The Health Service System Board did not award a new contract based on this RFP and therefore the City will continue to use Delta Dental for its dental PPO.

RECOMMENDATION

Approve the proposed ordinance.

[12] Dental costs are fully paid by retirees.

[13] Long term disability and life insurance plans are not offered to retirees.

Item 10 File 26-0489	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a new lease between San Francisco International Airport (Airport) as landlord and Hotelzo, LLC, for a traveler's retreat in Harvey Milk Terminal 1 and Terminal 3, for a Minimum Annual Guaranteed (MAG) rent of $350,000 for the first year of the lease with a base term of 12 years.

Key Points

- In July 2025, the Airport issued a Request for Proposals (RFP) for a traveler's retreat lease in Harvey Milk Terminal 1 and Terminal 3. A four-member panel reviewed the proposals and deemed Hotelzo LLC to be the highest scoring, responsive and responsible proposer.
- The leased premises include 3,054 square feet in Terminal 1 Boarding Area B for sleep and shower service and a lounge, and 1,300 square feet in Terminal 3 Boarding Area E for sleep and shower service, for a total of 4,354 square feet. The lease requires a minimum investment of $1,000 per square foot for space improvements, paid for by the tenant.
- Hotelzo LLC is required to pay the Airport the greater of the Minimum Annual Guaranteed (MAG) rent or percentage rent equal to the sum of 12 percent of gross revenues for services and 8 percent of gross revenues for food and beverage sales. The MAG is $350,000 in Year 1 and is adjusted annually to the greater of the existing MAG or 85 percent of base rent for the prior lease year.

Fiscal Impact

- The Airport would receive at least $350,000 in rent in Year 1 and at least $4,200,000 over the 12-year term of the lease (assuming a constant MAG of $350,000 per year). The Airport anticipates percentage rent to exceed MAG rent every year based on estimated gross receipts, and therefore, rent would exceed $350,000 per year.
- The Airport makes an annual service payment to the City's General Fund, equal to 15 percent of concession revenues. The proposed lease would generate at least $52,500 in transfers to the General Fund in Year 1 based on the initial MAG, and at least $630,000 over the initial 12-year term of the lease.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that (1) any lease of real property for ten or more years, including options to renew, or having anticipated revenues to the City of $1,000,000, or (2) the modification, amendment or termination of these leases is subject to Board of Supervisors approval.

BACKGROUND

In July 2025, the San Francisco International Airport (Airport) issued a Request for Proposals (RFP) for a traveler's retreat in Harvey Milk Terminals 1 and 3. The RFP called for private rooms, showers, limited retail, and food and beverages. The lease would have a base term of twelve years and a period of up to 210 days for construction of tenant improvements.

The Airport received three proposals in November 2025, but the Airport rejected the proposals and reissued the RFP in January 2026 due to an issue with a required electronic upload link as well as proposer errors as a result of changes to the original RFP after it was issued. Due to federal changes to the Airport Concession Disadvantaged Business Enterprise program, the Airport updated the minimum qualifications form after the original RFP was issued but before the RFP was due. The Airport also changed the mailing address for proposal deposits because of the Commission's office move. Despite notifications, some proposers used the outdated form, and one sent a deposit to the old address. According to a December 2025 Airport staff memo to the Airport Commission on the RFP reissuance, the Airport elected to reissue the RFP to promote broader competition since some of the proposers would have been disqualified based on using the outdated form and sending a deposit to the wrong address.

With the RFP reissue in January 2026, and with no changes to qualifications or business terms, the same three proposals—Hotelzo, LLC; PPL Holdings (USA) LLC; and Rest & Leisure LLC—were resubmitted by February 2026.

Hotelzo, LLC was determined to be the highest-ranking proposer. A four-member panel reviewed the proposals and scored them, determining that the highest scoring proposal met the RFP's minimum qualifications and requirements, as shown in Exhibit 1 below.[1] Proposals were evaluated based on proposed concept (50 points), design intention and capital investment (20 points), customer service and quality control (20 points), and business plan (10 points).

[1] The panel consisted of a Director of Station Operations from an Airline operator, a Director from SFO Financial Planning and Analysis, a Manager from SFO Airport Services, and an SFO Manager from Budget and Capital Planning.

Exhibit 1: Proposals and Scores from RFP

Proposer	Concept Name	Score
Hotelzo, LLC	Wait n' Rest / The Lost Gate	85.67
PPL Holdings (USA) LLC	Aerotel	79.00
Rest & Leisure LLC	Sleep & Shower/Sonoma & Sleep	70.67

Source: Airport staff memo to Airport Commission.

In April 2026, Hotelzo, LLC, the top scorer, was awarded the Harvey Milk Terminal 1 and Terminal 3 Traveler's Retreat Lease by the Airport Commission.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a twelve-year lease between the Airport and Hotelzo, LLC, for a traveler's retreat in Harvey Milk Terminal 1 and Terminal 3, for a Minimum Annual Guaranteed (MAG) rent of $350,000 for the first year of the lease. Exhibit 2 below summarizes the lease provisions.

Exhibit 2: Summary of Lease Provisions

Term	12 years plus a period of up to 210 days for construction of tenant improvements. At the discretion of the Airport Director, the development term may be extended
Options to Extend	None
Premises	4,354 square feet, including 3,054 square feet in Terminal 1 Boarding Area B for sleep and shower service and lounge; and 1,300 square feet in Terminal 3 Boarding Area E for sleep and shower service
Permitted Uses	Sleep and shower service and customer lounge
Rent	Greater of MAG or Percentage Rent
Initial MAG Rent	$350,000
MAG Adjustment	Adjustment to occur every January 1st to the greater of the existing MAG or 85% of base rent for the prior lease year
Percentage Rent of Gross Revenues	Sum of 12 percent of gross revenues for service fees and retail merchandise sales, and 8 percent of gross revenues for food and beverage sales within the lounge.
Promotional Fee	$1 per square foot per year, which equals $4,354 annually
Interim Rent During Construction	12 percent of gross revenues
Deposit Amount	One-half of the initial MAG. The deposit amount can be adjusted and increased during the lease term as the MAG escalates.
Minimum Investment Amount to Improve Premises	$1,000 per square foot, totaling $4,354,000 paid by the tenant, and subject to Airport approval.

Source: Proposed Lease with Hotelzo, LLC

MAG and Percentage Rent

According to Airport staff, the proposed initial MAG of $350,000 was determined based on eight percent of the projected first-year sales. In addition, the percentage rent of eight percent of gross revenues for food and beverage sales and 12 percent of all other gross revenues were established using rate structures observed at other comparable airports.

Minimum Investment

Each lease requires a minimum investment of $1,000 per square foot for space improvements, paid for by the tenant, which amounts to $4,354,000. According to the proposed lease, these improvements may include refurbishing and redecorating the spaces. The tenant pays the Airport 12 percent of any sales that occur during the construction period for interim use.

Commencement Date

The lease will commence once the space improvements are completed. The Airport expects the sleep and shower service spaces for the lease to be open in September 2027.

FISCAL IMPACT

Under the proposed lease terms, Hotelzo, LLC is required to pay the Airport the greater of the Minimum Annual Guaranteed (MAG) or percentage rent equal to the sum of 12 percent of gross revenues for services and 8 percent of gross revenues for food and beverage sales. The initial MAG is $350,000, and the MAG will be adjusted annually to the greater of the existing MAG or 85 percent of base rent from the prior lease year.

The Airport would receive at least $4,200,000 in MAG rent over the proposed twelve-year lease term, as shown in Exhibit 3 below. This is a minimum rent estimate, as the MAG escalates each year. However, based on Hotelzo's revenue projections, the Airport anticipates Hotelzo will pay percentage rent each year.

Exhibit 3: MAG Rent of Proposed Lease

Tenant	MAG Rent	Minimum MAG Rent over 12-Year Term
Hotelzo, LLC Wait n' Rest/ The Lost Gate	$350,000	$4,200,000
Total	**$350,000**	**$4,200,000**

Source: BLA analysis of proposed lease

The Airport anticipates Hotelzo's gross revenues to increase between eight and 10 percent per year for both Terminal 1 and Terminal 3 locations over the first five years, as shown in Exhibit 4 below, generating percentage rent that exceeds the MAG. Based on Hotelzo's proforma, Hotelzo estimates the lease will generate $455,400 in rent to the Airport in Year 1 and a total of approximately $2.7 million in rent over the first five years. However, we note that percentage rent would likely be higher based on the estimated gross revenues below.

Exhibit 4: Five Year Revenue Projections, Hotelzo, LLC.

Lease Year	HMT1 Location	T3 Location	Total Gross Revenues
Year 1	$6,232,559	$1,195,740	$7,428,299
Year 2	6,783,732	1,294,710	8,078,442
Year 3	7,435,843	1,414,853	8,850,696
Year 4	8,093,129	1,531,860	9,624,989
Year 5	8,918,139	1,659,494	10,577,633
Total	**$37,463,402**	**$7,096,657**	**$44,560,059**

Source: Airport

Annual Service Payment to the General Fund

The Airport makes an annual service payment to the City's General Fund, equal to 15 percent of concession revenues. The proposed lease would generate at least $52,500 in transfers to the General Fund in Year 1 based on the initial MAG, and at least $630,000 over the initial twelve-year term of the lease (assuming a constant MAG of $350,000 per year).

RECOMMENDATION

Approve the proposed resolution.