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: October 7, 2026 Budget and Finance Committee Meeting

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Item 1 File 26-0959	Department: Elections

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would appropriate $658,000 in State revenues allocated by the California Department of Finance to the Department of Elections to accelerate ballot processing for the November 3, 2026 General Election. The appropriation requires approval of two-thirds of the Board of Supervisors under City Charter Section 9.113(c).

Key Points

- In June 2026, the State amended the 2026 Budget Act to include $34 million for counties to expedite election processing, including $5 million specifically for voter outreach. In August 2026, San Francisco received $658,000, of which $96,765 is designated for outreach and education. The Department of Elections developed a spending plan within this allocation to fund temporary staffing, overtime, rental of supplemental ballot-tabulation equipment, and acquisition of ballot-processing hardware, such as a ballot-envelope sorting and scanning machine, a ballot-extraction machine, and additional laptops and scanners.
- According to Department staff, the additional equipment and staffing provided by the proposed new revenues, along with other process changes, will allow the Department to finish processing the majority of vote-by-mail ballots by the end of election week rather than the week after.

Fiscal Impact

- The appropriation of $658,000 increases the Department of Elections' FY 2026-27 budget by roughly 2.9 percent, from $22.7 million to $23.4 million. While most costs are one-time, the new equipment will result in approximately $35,000 in ongoing annual licensing and maintenance expenses. Of the total appropriation, $308,000 for staffing, overtime, fringe, and non-personnel services requires approval of two-thirds of the Board of Supervisors.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

City Charter Section 9.105 states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

City Charter Section 9.113(c) states that supplemental appropriations related to items that were rejected by the Mayor or the Board of Supervisors during the development of the annual appropriation ordinance requires approval of two-thirds of the Board of Supervisors.

BACKGROUND

November 2026 Statewide General Election

In June 2026, an amendment to the 2026 State Budget Act was enacted. The legislation included $34 million in State appropriations for counties to expedite vote counting in the November 2026 election, of which $5 million is to be used on voter outreach and education. In August 2026, the California Department of Finance allocated $658,000 to the San Francisco Department of including $96,765 for voter outreach and education.

Department of Elections Budget

The Department of Elections FY 2026-27 expenditure budget is $22.7 million. At the time the budget was approved, the statewide general election was scheduled and included in the Department's budget.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would appropriate $658,000 of State revenues from the California Department of Finance to the Department of Elections. The funds were provided to accelerate the vote counting process for the November 3, 2026 general election. Exhibit 1 below shows the breakdown of how the $658,000 state revenue will be used, itemized by category.

Exhibit 1: Proposed Uses of State Funds

Proposed Uses	Amount
Temporary Staffing*	$170,000
Overtime*	53,000
Mandatory Fringe Benefits*	50,000
Professional and Specialized Services *	35,000
Computers and Ballot Processing Hardware	350,000
Total	**$658,000**

Source: Proposed ordinance

*Appropriation requires approval of two-thirds of the Board of Supervisors

The State specifically identified increased staffing, equipment and technology upgrades, and voter outreach as eligible uses of the funds. Elections prepared its spending plan to stay within

the allotted $658,000. Of that amount, $35,000 for professional services will be used to rent ballot-tabulation equipment. These units are part of the Departments existing voting system – they function the same way as the current tabulators and are supplemental machines to expand capacity to read voter-marked cards and record the selections. The $350,000 hardware allocation will fund a ballot envelope sorting and scanning machine, a ballot extraction machine, and additional laptops to expand processing capacity and relieve workflow bottlenecks. The ballot-extraction machine slices open the ballot envelope on two sides and uses suction to separate and open it, allowing staff to quickly and safely remove its contents. This is also the point in the process where the voter's identity is separated from the ballot to maintain confidentiality. The additional extraction unit will help alleviate potential bottlenecks and increase throughput during peak processing periods. With more laptops and scanners, the Department can scan and verify the voter roster more quickly, allowing other steps in the workflow to begin earlier. The additional units will also speed up the scanning of provisional envelopes, enabling staff to transition to subsequent tasks sooner. The Department has already ordered this new equipment and received the sorting and scanning machine and expects to receive the remaining items in mid-October.

Funding for personnel, overtime, and fringe benefits will support increased staffing for extended work hours. The Department intends to use temporary staff for ballot processing and voter outreach and will rely on overtime to continue ballot processing beyond normal operating hours. Outreach efforts will expand, with staff conducting presentations, community meetings, tabling events, equipment demonstrations, and packaging of outreach materials.

According to Department staff, the additional equipment and staffing provided by the proposed new revenues, along with other process changes, will allow the Department to finish processing the majority of vote-by-mail ballots by the end of election week rather than the week after.

FISCAL IMPACT

The proposed ordinance would appropriate $658,000 in State revenues to the Department of Elections budget as shown in Exhibit 1 above. This would increase the department's budget by 2.9 percent from $22.7 million to $23.4 million. The new equipment also carries ongoing licensing and maintenance costs of approximately $35,000 per fiscal year.

Two-Thirds Vote Required

According to the proposed ordinance, $308,000 appropriated for salary, overtime, mandatory fringe benefits, and non-personnel services requires approval of two-thirds vote of the Board of Supervisors per City Charter Section 9.113(c), which states that supplemental appropriations related to items that were rejected by the Mayor or the Board of Supervisors during the development of the annual appropriation ordinance requires approval of two-thirds of the Board of Supervisors.

The FY 2026-27 annual appropriation ordinance approved by the Board of Supervisors reduced the Mayor's proposed budget for the Department of Elections' salaries, professional services,

and materials and supplies by $277,654. Therefore, increases to these budgets require two-thirds approval by the Board of Supervisors.

RECOMMENDATION

Approve the proposed ordinance.

Item 2 File 26-0996	Department: Airport

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a third modification to the San Francisco International Airport's (Airport) shuttle bus contract with SFO Hotel Shuttle, Inc. The modification increases the contract's not-to-exceed amount by $25,962,586, for a new total of $98,575,004, with no change to the original five-year term (January 1, 2023–December 31, 2027).

Key Points

- Under an existing contract, the contractor provides shuttle services to the Airport and operates two fixed on-campus routes to remote parking. Since 2023, service has expanded to include four regional commuter routes connecting employees to Hayward, Castro Valley, El Cerrito, Vallejo, Oakland, and San Francisco locations. The contractor collects fares on the regional lines, manages a fleet of 50 Airport-owned buses and performs preventive maintenance, repairs, fueling, charging support, and operational data reporting.
- Additional service expansions are planned over the remaining term, including Airfield busing beginning in March 2027, and additional trips on the commuter route to Vallejo beginning in FY 2027-28.
- Semi-annual contractor performance evaluations show the contractor is generally meeting or exceeding the Airport's expectations but improvement is needed in incident reporting and follow-up on customer complaints. A new incident and customer response tool was implemented in September 2026 to improve issue tracking.

Fiscal Impact

- The revised budget, less fare revenues, totals $98,110,172. The contract increase of more than $25 million is driven by increased service levels from the new commuter routes and higher than budgeted labor and operating costs. To date, $66.5 million has been spent. The Airport estimates the contractor will employ approximately 135 FTEs under the agreement. The contract is funded by Airport Operating Funds.

Recommendations

- Amend the proposed resolution to reduce the not to exceed amount from $98,575,004 to $98,110,172 in line with the revised budget and approve the resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

For over 40 years, the San Francisco International Airport (Airport) has provided free shuttle bus services to various locations, which have included remote parking lots, regional ferry docks, and nearby transit hubs. Routes change occasionally based on the Airport's assessed needs.

SFO Hotel Shuttle Inc. has an existing contract with the Airport to provide shuttle bus services for a not to exceed amount of $72,612,418 and a five-year term ending December 31, 2027. The contractor was selected through a competitive process, and the Board of Supervisors approved the original contract (File 22-0989). In July 2024, the first amendment to the contract increased driver wage rates, the number of positions for support, and oversight staff and added new shuttle routes. In October 2025, the second amendment increased the number of positions and hourly rates, and updated shuttle routes and schedules, equipment and locations.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the third modification to the Airport's contract with SFO Hotel Shuttle, Inc., to increase the not to exceed amount by $25,962,586, bringing the total not to exceed amount to $98,575,004, with no change to the five-year term of January 1, 2023, through December 31, 2027. The increase in the contract amount will be used to support additional lines and services.

Services

The contractor currently operates two fixed on-campus shuttle routes connecting the terminals to remote parking areas and manages a fleet of 50 Airport-owned buses, along with associated administration and maintenance facilities. This service is provided at no cost to Airport employees and the public. Since the original agreement was executed, the Airport has increased shuttle operations by adding four new routes to use as a commuter service for Airport employees, including connections to Hayward, Castro Valley, El Cerrito, Vallejo, Oakland, and San Francisco. For the expanded regional routes, the operator is authorized to collect passenger fares. In addition, in March 2027, the contractor is tentatively scheduled to provide busing on the airfield between remote hardstands (parking lots for airplanes) and bus gates, as needed by the Airport, and the contractor will begin providing midday trips to Vallejo in FY 2027-28. At present, Vallejo service operates on a half-hour schedule during peak shift-change windows, including early mornings, mid-afternoons, and late nights. Under the expansion, service would be available

at minimum hourly intervals across the full day and early evening. Exhibit 1 below captures ridership for the Hayward, Vallejo, Mission District, and Oakland lines.

Exhibit 1: Commuter Lines Ridership, January 2023 to June 2026

Ridership	2023	2024	2025	2026 (Six Months)	2026 Annualized
Hayward	227,467	223,163	253,952	131,012	262,024
Vallejo	--	13,307	63,627	34,341	68,682
Mission (Nights)	--	--	6,296	5,322	10,644
Oakland (Nights)	--	--	4,776	3,799	7,598
Total	**227,467**	**236,470**	**328,651**	**174,474**	**348,948**

Source: AIR

Ridership varies across the four lines, with the Hayward line showing the highest ridership The Mission and Oakland night services show lower ridership levels aligned with their limited operating hours.

Contractor Responsibilities

The contractor is responsible for operating and maintaining the Airport's shuttle bus fleet. Contractor personnel perform preventive maintenance and conduct most major repairs on the vehicles. The contractor acquires all consumables, supplies, parts, and materials required to keep services running. Responsibilities also include fueling the buses, supporting the electric-vehicle charging infrastructure, and managing the systems used for scheduling and other bus operations. Contractor management oversees all personnel matters and collects and reports operational data of the fleet to the Airport.

Contract Performance

AIR conducts semi-annual performance evaluations using criteria that cover general operations, personnel, fleet and equipment, and operations, with ratings ranging from unsatisfactory to outstanding. In the July 2026 evaluation, the contractor, SFO Hotel Shuttle Inc., generally met the Airport's standards but did not meet expectations in the general category of follow-up and in the operations category related to service. The service criteria include requirements to report all missed trips or trips exceeding specified delay thresholds, document incidents, maintain on-time performance, and respond to passenger complaints. Incidents include situations such as pass-ups where buses reach capacity and passengers cannot board.

The July 2026 performance evaluation found that the contractor made progress on several prior improvement benchmarks. Driver and supervisor staffing met established targets, missed trips due to driver confusion were resolved, a utility mechanic was added, and data reporting improved.

The evaluation identified ongoing areas needing improvement. Incident reporting was not consistently timely, and a brief increase in minor traffic incidents occurred earlier in the review period before being addressed through refresher safety training. The evaluation also observed that management coordination could improve, and continued vacancies in the mechanic and

safety supervisor roles remain a concern. Other goals—such as technology updates and improved fleet utilization—were not fully met, and follow-up on customer feedback and related investigations require more consistent completion.

In response, the contractor has implemented a new incident and customer response management tool as of September 2026 to improve issue tracking and resolution according to Airport staff. Ongoing industrywide labor shortages continue to affect recruitment for management, senior mechanics, and safety supervisors, though the contractor has mitigated some impacts by hiring and training junior and apprentice mechanics. The advanced age of the fleet also contributes significantly to service challenges, requiring substantial staff time to maintain vehicles and limiting capacity to focus on other operational improvements, including technology. These combined factors hinder the contractor's ability to meet desired performance levels. Replacing buses should help reduce missed trips, operational issues, and technology-related delays; 16 new vehicles are expected to enter service next quarter.

FISCAL IMPACT

The proposed contract would have a total not to exceed amount of $98,575,004 with no change to the contract term. To date, spending under the contract totals approximately $66.5 million, with $6.1 million remaining of the existing $72.6 million contract amount. The Airport anticipates that SFO Hotel Shuttle will employ approximately 135 full-time equivalent (FTE) employees. Total expenditures, net of fare revenues, are shown in Exhibit 2 below. The agreement is funded by Airport Operating Funds.

Exhibit 2: Estimated Annual Contract Costs

Expenses	FY 2022-23 (6 months)	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28 (6 months)	Total (5 Years)
Labor	$3,623,874	$7,643,686	$9,832,381	$12,029,634	$12,486,760	$6,480,629	$52,096,963
Payroll Taxes and Benefits	1,618,794	3,345,327	4,174,822	4,920,442	5,107,419	2,650,750	21,817,554
Workers Compensation	200,940	452,730	564,840	674,823	700,467	363,542	2,957,342
Facilities	8,839	54,060	77,510	46,734	48,510	25,177	260,831
Vehicle Operating Costs	1,593,773	3,326,111	4,167,098	3,950,989	4,101,127	2,128,485	19,267,582
General and Administrative	96,797	145,013	140,063	162,700	168,883	87,650	801,106
Management Fee	464,832	929,664	929,664	929,664	929,664	464,832	4,648,320
Additional service[1]					358,931	1,059,364	1,418,295
Contingency (1.80%)					405,959	210,693	616,652
Total Expenses	7,607,848	15,896,591	19,886,378	22,714,987	24,307,719	13,471,121	103,884,644
(Less Fare Revenues)	(10,449)	(1,012,058)	(1,084,309)	(1,467,062)	(1,467,062)	(733,531)	(5,774,472)
Net Expenditure	**$7,597,399**	**$14,884,532**	**$18,802,069**	**$21,247,925**	**$22,840,657**	**$12,737,590**	**$98,110,172**

Source: AIR

Estimated net expenditures of $98,110,172 exceed the proposed not to exceed amount of $98,575,004, by $464,832 because the initial budget included 12 months of the monthly management fee in FY 2027-28, rather than six months. To align the contract authorization with the corrected cost projection, we recommend reducing the not to exceed amount to $98,110,172.

The contract provides for reimbursement of operating expenditures and payment of a fixed monthly management fee of $77,472. Labor represents the largest cost category, rising from $7.6 million in FY 2023-24 to $12.5 million in FY 2026-27. A contingency of 1.8 percent is applied starting in FY 2026-27. Net expenditures increase by more than 50 percent from $14.9 million in FY 2023-24 to $22.8 million in FY 2026-27.

[1] Additional services include Airfield Hardstand seasonal busing and Vallejo Midday Trips starting in FY 2028.

Contract Increase

When the Board last reviewed this contract in 2022, 2026 costs were estimated at approximately $15 million. The proposed contract budget for 2026 is approximately $22 million, or 46 percent more than projected four years ago. The Airport attributes the majority of the budget increase to the addition of service lines to other cities for Airport workers.[2] According to data provided by the Airport, the cost of the four new lines, less fare revenues, was $5.9 million in FY 2025-26. The proposed budget also assumes additional service increases from the return of airfield busing later in the fiscal year and the proposed Vallejo expansion near the end of the budget period. Airport staff report that the Vallejo expansion will proceed only if the oldest vehicles are retired, which would reduce consumables spending enough to offset the operating costs of the expansion.

According to Airport staff, the cost of consumable goods (such as fuel and tires) has risen substantially and may continue to escalate given current global conditions. In addition, labor costs have increased due to wage increases. The contractor's reimbursement for wage increases is capped based on the percentage change in the prevailing wage.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not to exceed amount from $98,575,004 to $98,110,172 to align with the revised budget.
2. Approve the resolution as amended.

[2] In 2022, the contract budget included funding for transportation to Lot D, the Westfield Garage, and the Hayward and Castro Valley BART Stations. The contractor now provides commuter service to Vallejo, El Cerrito, Oakland, and the following San Francisco BART Stations 16th & Mission, 24th & Mission, and Balboa Park when BART is not running.

Item 5 File 26-1004	Department: Port (PRT)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize a new lease with NorCal Rental Group, LLC (CRESCO) for approximately 44,750 square feet of paved land for an initial five-year term starting after Board of Supervisors' approval with one three-year option and a second two-year option to extend. Under the lease the initial annual base rent is $381,270.

Key Points

- CRESCO previously subleased paved land at Pier 96 but entered into their own lease for an adjacent site upon commencement of the Port's Gatehouse Project, which required tenants in the immediate proximity to relocate while the Port demolished the fire-damaged Pier 96 Gatehouse Building. Under CRESCO's existing lease, the tenant pays an annual base rent of $108,551 for 15,870 square feet, or $6.84 per square foot. The lease began on May 19, 2025 and terminated April 30, 2026, and the lease has been on holdover since April 30, 2026.
- Under the proposed lease, CRESCO would relocate back to the original subleased site and expand their footprint for a total area of 44,750 square feet of paved land. The tenant would pay an annual base rent of $381,270, or $8.52 per square foot, with an average annual increase of 2.8 percent. Port policies set rent for paved land at $9 per square foot, but Port Resolution 10-37 authorizes a Large Land Discount of five percent for tenants with a minimum premises of 43,560 square feet and minimum term of 36 months.

Fiscal Impact

- Under the proposed lease, CRESCO will pay a total of $2,013,750 in base rent over the initial lease term of five years before the first option to extend. If CRESCO exercises both options to extend, they will pay a total of $4,312,110 over the ten years. A portion (6.5 percent) of lease revenues will accrue to the Port's Southern Waterfront Community Benefits and Beautification Fund, and all other lease revenues will accrue to the Port Harbor Fund.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 9.118(c) states that 1) any lease of real property for a period of ten or more years, including options to renew, or having anticipated revenue to the City and County of $1,000,000 or more, or 2) the modification, amendment or termination of any such lease is subject to Board of Supervisors Approval.

BACKGROUND

Original Sublease

In 2022 the Port entered into a lease with Mike O'Brien Specialized Hauling for 7,810 square feet of outdoor paved land for a term of two years at a base rent of $44,986 (or $5.76 per square foot) in Year 1 and $45,923 (or $5.88 per square foot) in Year 2 (Lease No. L-16938). The tenant then entered into a sublease agreement with NorCal Rental Group, LLC (CRESCO), a Northern California equipment rental provider offering construction, industrial, facility, and event related equipment and services. Because the Port did not consent to the sublease, the Port could not provide the exact terms of the sublease.

Gatehouse Project and Holdover Lease

In 2025 the Port began the "Gatehouse Project," to demolish the fire-damaged Pier 96 Gatehouse Building adjacent to the area leased by Mike O'Brien Specialized Hauling. The Gatehouse Project required any tenants in the immediate proximity to relocate. However, because Mike O'Brien no longer needed the space, the lease was terminated and CRESCO entered into a new direct lease with the Port (Lease No. L-17292) for approximately 15,870 square feet of paved land adjacent to the Pier 96 Maintenance & Repair Shed for a term beginning on May 19, 2025 and terminating on April 30, 2026. CRESCO paid annual base rent of $108,551, or $6.84 per square foot. CRESCO uses the paved land for storage and parking of construction-related vehicles and equipment.

In February 2026, the Port authorized the tenant to be on holdover starting on April 30, 2026, paying a new monthly rent of $0.59 per square foot or $7.05 per square foot annualized—a three percent increase from the original lease. This is the current month-to-month rent that CRESCO is paying while the Gatehouse Project is being completed, and they are currently tenants in good standing. According to Port staff, because the Port has ample vacant land, the competitive bidding process for such land is impractical and does not provide additional public benefit. Bidding was therefore not required for the current lease as it was considered a routine lease for vacant land.

At the time of writing, the Gatehouse building has been demolished, and the area has been paved. While there are a few areas where grade changes need to be addressed, the Port anticipates the work will be completed by October 9, 2026.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Executive Director of the Port of San Francisco to execute a new lease for real property located at Pier 96 for approximately 44,750 square feet of paved land for a five-year term starting after Board of Supervisors' approval, with one three-year option and a second two-year option to extend. Under the lease the initial annual base rent is $381,270, with three percent annual increases on average. The proposed lease would allow CRESCO to relocate back to the original subleased site and expand their footprint to support the company's continued business growth. Because the proposed use is a continuation of existing and related uses, it is not subject to review under the California Environmental Quality Act.

Exhibit 1 below compares the key terms of the proposed lease to the current lease.

Exhibit 1: Key Terms of Existing and Proposed Lease

Lease Provision	Current Lease	Proposed Lease
Lease Number	L-17292	L-17432
Premises	Approximately 15,870 square feet of paved land adjacent to the Pier 96 Maintenance & Repair Shed	Approximately 44,750 rentable square feet of paved land at Pier 96
Term	1 year from May 19, 2025 to April 30, 2026	5 years beginning after Board of Supervisors' approval
Option to extend	n/a	One three-year option to extend and a second two-year option to extend
Base Rent	$9,045.90 per month $108,550.80 per year	$31,772.50 per month $381,270 per year
Rent per square foot	$0.57 per month $6.84 per year	$0.71 per month $8.52 per year
Annual Rent Adjustment	n/a	2.8 percent annual increase on average
Maintenance, Repair, and Utilities	Tenant's responsibility	Tenant's responsibility

Source: Current and proposed leases

Large Land Discount

Port policies set rent for Paved Land at $0.75 per square foot per month ($9 per square foot per year). However, Port Resolution 10-37 authorized a Large Land Discount to better attract large industrial tenants, offering a five percent discount for land transactions with a minimum premises

of 43,560 square feet and a minimum term of 36 months. Because the proposed lease is for 44,750 square feet for a minimum of five years, the tenant is eligible for the discount and the monthly price per square foot was reduced to $0.71 ($8.52 per square foot per year).

FISCAL IMPACT

Under the Proposed Lease, CRESCO will pay a total of $2,103,750 in base rent over the lease term of five years before the first option to extend. If CRESCO exercises both options to extend, they will pay a total of $4,312,110 over the ten years. See Exhibit 2 below for the base rent over the initial term and options to extend.

Exhibit 2: Monthly Base Rent for CRESCO from Commencement of Proposed Lease Through End of Extension Options

Dates	Monthly Price per Square Foot	Monthly Base Rent	Annual Base Rent
Year 1	$0.71	$31,772.50	$381,270
Year 2	$0.73	$32,667.50	$392,010
Year 3	$0.75	$33,562.50	$402,750
Year 4	$0.77	$34,457.50	$413,490
Year 5	$0.79	$35,352.50	$424,230
Subtotal, Initial Base Term			**$2,013,750**
1st Extension Option (3 years)			**$1,337,130**
2nd Extension Option (2 years)			**$961,230**
Total (10 years)			**$4,312,110**

Source: Proposed lease

The annual base rent increases by between 2.4 percent and 3.5 percent per year for an average annual increase of 2.8 percent. According to Port staff, the proposed lease increases the monthly price per square foot by three percent annually, leading to fluctuations in the percentage increase in the total annual amount.

Under the Port's Southern Waterfront Community Benefits and Beautification Policy, 6.5 percent of lease revenues will accrue to the Port's Southern Waterfront Community Benefits and Beautification Fund. Over the potential 10-year term, $280,287 in revenues would accrue to this fund. All other lease revenues will accrue to the Port Harbor Fund.

RECOMMENDATION

Approve the proposed resolution.

Item 7 File 26-1056	Department: Public Health (DPH)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively authorize the Department of Public Health (DPH) to enter into a grant agreement and accept and expend $14,184,580 from the California Department of Health Care Services (DHCS) under the Behavioral Health Continuum Infrastructure Program (BHCIP) for 44 adult residential substance use disorder (SUD) treatment beds at 415 Trade Winds Avenue on Treasure Island. The grant term would commence upon execution of the agreement and continue through June 30, 2030, with allowable expenses eligible for reimbursement beginning March 11, 2026.

Key Points

- Proposition 1, passed in 2024, included the Behavioral Health Infrastructure Bond Act which dedicated $1.5 billion to counties and cities to finance behavioral health treatment beds, supportive housing, and other public health facilities. In October 2025, the Board of Supervisors authorized DPH to apply for Round 2 funding for the Treasure Island Adult Residential Substance Use Disorder Treatment Facility. On March 11, 2026, DHCS notified DPH of a conditional award of $14,184,580 to support construction and furnishing of 44 adult residential SUD treatment beds at 415 Trade Winds Avenue.
- The treatment facility would occupy one floor of the proposed Treasure Island Behavioral Health Building, which would also contain 256 residential step-down beds, for 300 beds total. The 44 treatment beds would increase DPH-funded residential SUD capacity citywide from 245 to 289 beds, or approximately 18 percent, and are projected to serve an estimated 220 individuals annually.

Fiscal Impact

- Of the $80.5 million in costs to develop and furnish the Treasure Island Behavioral Health Building, DPH currently projects using $13.5 million of the proposed $14.18 million BHCIP grant award. The grant requires a ten percent City match of $1,418,458, which DPH proposes to fund with $1,361,222 from the 2020 Health and Recovery General Obligation Bond and $57,236 in prior project expenses. DPH estimates annual operating costs of $4.9 million for the 44 treatment beds, with approximately 80 percent covered by Medi-Cal.
- The Treasure Island Behavioral Health Building has a $7.1 million funding gap for furniture, fixtures, and equipment (FF&E), primarily for the residential step-down floors. DPH plans to request General Fund support for the unfunded FF&E in its next annual budget request.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

Administrative Code Section 10.170-1 states that the Board of Supervisors must approve the acceptance and expenditure of federal, State, or other grant funds in the amount of $100,000 or more. If, as a condition of the grant, the City is required to provide any matching funds, those funds shall be included in determining whether the grant meets the $100,000 threshold.

City Charter Section 9.118(a) states that contracts entered into by a department, board, or commission that (i) have anticipated revenues of $1 million or more, or (ii) have anticipated revenues of $1 million or more and require modifications, are subject to Board of Supervisors approval.

BACKGROUND

Proposition 1 Grant and Bond Behavioral Health Continuum Infrastructure Program (BHCIP)

In March 2024, California voters passed Proposition 1, which included the Behavioral Health Services Act and the Behavioral Health Infrastructure Bond Act (BHIBA). BHIBA authorized $6.4 billion in bonds to finance behavioral health treatment beds, supportive housing, and other public health facilities, with a minimum of $1.5 billion dedicated to counties and cities. The Behavioral Health Services Act (BHSA) adjusted Mental Health Service Act (MHSA) ongoing funding allocations but did not change the one percent tax on incomes over $1 million per year. The California Department of Health Care Services (DHCS) provides bond-funded grants through its Behavioral Health Continuum Infrastructure Program (BHCIP).

In May 2025, the California Department of Health Care Services (DHCS) solicited Bond BHCIP Round 2 applications for "Unmet Needs" projects. Round 2 funds focused on the remaining gaps in the statewide behavioral health continuum and prioritized mental health community residential beds and crisis settings. These funds can be used to construct, acquire, and rehabilitate real estate assets or invest in infrastructure to expand the continuum of behavioral health treatment resources. In October 2025, the Board of Supervisors authorized the Department of Public Health (DPH) to apply for Round 2 funding for the Treasure Island Adult Residential Substance Use Disorder (SUD) Treatment Facility (File 25-0949). On March 11, 2026, DHCS notified DPH of a conditional award of $14,184,580 for the treatment facility, with a required ten percent City match of $1,418,458.

Treasure Island Behavioral Health Building

DPH proposes a new behavioral health building at 415 Trade Winds Avenue on Parcel E1.2 on Treasure Island. DPH's current plan includes 44 adult residential SUD treatment beds and 256 residential step-down beds, for a total of 300 beds.[1] The proposed $14,184,580 BHCIP grant

[1] According to DPH, the grant application's estimate of 242 step-down beds was revised to 256 based on updated capacity assumptions, with no changes to the building's design or capital costs.

would support construction and furnishing of the 44 treatment beds; the 256 residential step-down beds would be funded separately. The treatment beds would provide Drug Medi-Cal Organized Delivery System services at ASAM Levels 3.1 and 3.5[2], offering both low and high-intensity residential treatment for adults with substance use disorders. The separate step-down component would provide transitional recovery housing.[3] Construction is anticipated to begin in the fourth quarter of 2026. The conditional award identifies November 1, 2028 as the construction completion date for the grant-funded treatment facility. DPH anticipates a temporary certificate of occupancy of the Treasure Island Behavioral Health Building in June 2028 and final project completion in July 2028.

DPH currently funds 245 residential SUD treatment beds citywide. The proposed facility would add 44 beds, increasing DPH-funded capacity to 289 beds, an approximately 18 percent increase. DPH anticipates that the new beds would serve an estimated 220 individuals annually, depending on utilization and length of stay. Although DPH cannot project a specific reduction in wait times, it expects the additional beds to improve timely access to appropriate treatment placements. The facility would serve Medi-Cal and safety-net clients, including people experiencing homelessness and those with co-occurring mental health or chronic medical conditions.

2020 Health and Recovery General Obligation Bond

In November 2020, San Francisco voters approved the $487.5 million Health and Recovery General Obligation Bond to fund facilities serving people experiencing mental health challenges, substance use disorders, and homelessness, as well as parks and public infrastructure improvements. In July 2025, the Board of Supervisors approved a $150 million appropriation of bond proceeds to DPH and the Mayor's Office of Housing and Community Development (MOHCD) for behavioral health facilities, supportive housing, and shelters (File 25-0678).

In September 2026, the Board approved a subsequent ordinance replacing $43,505,000 of DPH's previously appropriated Series 2025G proceeds with Series 2026B proceeds, as part of an $83,475,000 appropriation to DPH and the Recreation and Park Department (File 26-0871). The proceeds remain on Controller's Reserve pending receipt of bond proceeds. According to DPH, the bond sale is projected to close on October 22, 2026. DPH's current Treasure Island Behavioral Health Building budget identifies approximately $35,000,000 in bond funding, of which $1,361,222 would provide the proposed BHCIP grant's cash match (as further discussed below).[4]

[2] The American Society of Addiction Medicine (ASAM) classifies substance use disorder treatment by level of care. Level 3.1 provides clinically managed, low-intensity residential treatment, while Level 3.5 provides clinically managed, high-intensity residential treatment for individuals needing more intensive services.

[3] Transitional recovery housing provides temporary housing and recovery support after residential substance use disorder treatment. According to the grant application, the Treasure Island step-down program would provide one to two years of housing while residents pursue employment, education, outpatient treatment, and permanent housing.

[4] According to DPH, the previously reported $42.1 million in Health & Recovery bond funding assumed the BHCIP grant would not be available. If the proposed resolution is approved, DPH expects to issue $30 million in additional bonds because the grant would cover $12.1 million in capital costs, allowing the funds to be spent on improvements for the Health, Recovery, & Connection Center at 1660 Mission.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively authorize DPH to enter into a grant agreement and accept and expend grant funds in the amount of $14,184,580 from the DHCS under the BHCIP Round 2 for the construction of 44 adult residential SUD treatment beds at 415 Trade Winds Avenue on Treasure Island. The grant term would commence upon execution of the grant agreement and continue through June 30, 2030, with reimbursement of allowable project expenses incurred beginning March 11, 2026. Under the grant agreement, the City is required to provide a local cost share of ten percent, or $1,418,458. The grant would be administered through a third party, Advocates for Human Potential, Inc. (AHP), a DHCS contractor and party to the grant agreement. The proposed resolution waives the recovery of the City's indirect costs in the grant budget, allowing the funding to be fully spent on direct project costs. The proposed resolution would also authorize a recorded declaration of restrictions requiring grant-compliant use for at least 30 years after project completion. It would also authorize DHCS to apply to a court for a receiver upon City default and require the City to defend and indemnify DHCS and AHP against specified project-related claims.

Grant Agreement

The proposed grant agreement provides up to $14,184,580 and has a term through June 30, 2030, with an option for the grant administrator, AHP, to extend the term through June 30, 2031. As previously mentioned, the grant requires a ten percent City match of $1,418,458, which DPH proposes to fund with $1,361,222 from the 2020 Health and Recovery General Obligation Bond and $57,236 in prior project expenses proposed as eligible match (as further discussed below). DHCS approval of the prior expenses remains pending. Grant funds must be used for the purposes described in the Statement of Work, included as Attachment D. The grant-funded facility must serve Medi-Cal and/or MHSA/BHSA beneficiaries consistent with the approved application. The City must also provide payment and performance bonds covering 100 percent of construction costs and naming DHCS and AHP as co-obligees. If the City fails to comply with the agreement, AHP or DHCS may withhold payments, require repayment, or enforce the property restrictions described below. The agreement also requires the City to defend, indemnify, and hold harmless DHCS and AHP against specified project-related claims.

Ground Lease and Property Restrictions

DPH expects to execute a ground lease with the Treasure Island Development Authority (TIDA) in October 2026, before construction begins. According to DPH, the lease would have an initial 75-year term, with an option to extend the total term to 99 years. The grant requires the City to record a Declaration of Restrictions requiring the grant-funded facility to remain in its approved behavioral health use for at least 30 years after issuance of the Certificate of Occupancy. The proposed resolution would also authorize DHCS to seek court appointment of a receiver to take over and operate the property if the City defaults.

Statement of Work: Tasks and Milestones

Attachment D of the draft agreement identifies the 44 new treatment beds and organizes project deliverables into seven milestone phases. Initial requirements include an executed grant agreement, applicable Board authorization, insurance certificates, a current title report where applicable, a recorded Declaration of Restrictions, and an executed facility access agreement with DHCS. DPH must also document the required match, including cash funds and any eligible prior expenses. The acquisition requirements do not apply because the grant does not fund property acquisition.

The preconstruction and construction requirements include environmental and planning review, completed design and construction drawings, permits, utility commitments, an executed construction contract, prevailing wage compliance, insurance, and payment and performance bonds. DPH must certify that construction is 50 percent complete and subsequently submit occupancy, completion, lien-release, licensing, and operational certifications and documentation, as applicable. Milestone documentation and certifications are due within 60 days after each milestone is met.

Grant disbursements depend on compliance with the applicable milestone requirements and approval of draw requests supported by invoices and documentation of completed work. DPH must spend the full required cash match before receiving the final portion of grant funding, which may be up to 25 percent of the award. In addition, AHP and DHCS retain 10 percent of total grant funds until construction is satisfactorily completed and DPH submits acceptable completion and final lien-release documentation.

The draft Statement of Work identifies September 30, 2028 as the expected opening date. As previously mentioned, DPH's current schedule anticipates final completion in July 2028, before the November 1, 2028 construction completion date identified in the conditional award. Construction must be completed before June 30, 2031, or the end date of the grant, including the one-year option to extend.

Project Development

DPH and the MOHCD selected Mercy Housing California as the developer for the Treasure Island Behavioral Health building based on its Treasure Island housing development experience, including an adjacent affordable senior housing project (Parcel Senior E1.2).[5] Mercy Housing selected Cahill Contractors as the general contractor. MOHCD oversees the City's Development Services Agreement with Mercy Housing. DPH would receive the grant funds and use them to fund Mercy Housing's draw requests submitted to MOHCD for design consultants and the construction contractor. DPH has assigned a project manager to serve as the owner's

[5] The 2011 One Treasure Island Agreement provides for TIDA-approved member organizations to develop designated housing sites. One Treasure Island proposed, and TIDA approved, Mercy Housing California to develop Parcel E1.2, which includes the behavioral health building and adjacent affordable senior housing.

representative, who will attend weekly owner, architect, and contractor meetings and review Mercy Housing's draw requests, including contractor payment applications.

Reporting Requirements

Under the draft agreement, DPH must report project progress to AHP at least once every 30 days, including progress toward performance milestones. The conditional award also requires monthly funding projections, updates to construction timelines, quarterly progress reports, and monthly meetings with AHP. Draw requests must include invoices and supporting records of completed work. DPH must provide updated budgets and schedules at 50 percent construction completion and notify AHP and DHCS of significant changes in scope, cost, or schedule.

The conditional award requires reporting and on-site compliance inspections for at least 35 years after project completion. The draft agreement requires the City to retain financial and project records for at least 35 years after final payment and permits AHP and DHCS to audit records and inspect the site.

FISCAL IMPACT

BHCIP Grant Budget and City Match

As shown in Exhibit 1, the submitted grant budget includes $15,545,802 in costs for developing the 44 residential SUD treatment beds. These costs would be funded by the proposed $14,184,580 BHCIP grant and $1,361,222 from the 2020 Health and Recovery General Obligation Bond. DPH proposes to meet the required $1,418,458 City match with the bond funds which includes $57,236 in prior project expenses.

BHCIP permits eligible project expenses incurred during the year before the March 11, 2026 conditional award to count toward the required match, subject to DHCS approval. According to DPH, construction and related project costs are allocated based on the five residential floors: 20 percent to the floor containing the 44 SUD treatment beds and 80 percent to the four step-down floors.[6] Using this allocation, DPH identified $57,236 in prior expenses between March 11, 2025, and March 10, 2026, for developing the 44 residential SUD treatment beds, representing 20 percent of Mercy Housing's project costs and MOHCD's management fees incurred during that period. DPH submitted these expenses to DHCS for approval in June 2026; approval remains pending. These expenses are listed as a matching source as well as a use, but we note they were incurred before the grant period and subject to approval by DHCS. The grant budget is shown in Exhibit 1 below.

[6] Furniture, fixtures, and equipment (FF&E) costs are estimated separately.

Exhibit 1: BHCIP Grant Budget

Sources	Amount
BHCIP State Grant (proposed)	$14,184,580
2020 Health and Recovery GO Bond cash match	1,361,222
Prior project expenses (sunk costs)	57,236
Subtotal, City Match	*$1,418,458*
Total Sources	**$15,603,038**
Uses	**Amount**
Prior project expenses (sunk costs)	$57,236
Development planning	579,590
Construction permits and fees	274,970
New construction (including $700,000 FF&E)	14,535,242
Developer overhead (Mercy Housing California)	156,000
Total Uses	**$15,603,038**

Source: DPH

Note: The budget includes $2,273,357 in contingencies and $593,402 in owner administration costs. These amounts are included in the use categories shown above and are not additional costs.

Although the submitted grant budget assumes use of the full $14.18 million award, DPH currently expects to use approximately $13.5 million after accounting for the City's required match. This includes $12.1 million for eligible capital costs and $1.4 million for treatment-floor furniture, fixtures, and equipment (FF&E).[7] DPH could use more of the award if eligible project costs increase.

Treasure Island Behavioral Health Building Budget

The BHCIP-funded treatment facility is one component of the larger Treasure Island Behavioral Health Building. DPH's September 2026 budget for the entire building includes $80.5 million in costs and $73.4 million in identified funding, as shown in Exhibit 2. The funding sources include DPH's projected $13.5 million in BHCIP grant spending.

[7] According to DPH, the submitted grant budget includes $700,000 for FF&E. If construction costs do not increase, DPH plans to request DHCS/AHP approval near the end of construction to transfer grant funds from construction to FF&E, increasing the allocation to approximately $1.4 million, subject to the cap of 10 percent of the total grant award.

Exhibit 2: Treasure Island Behavioral Health Building Budget, September 2026

Sources	Amount
2020 Health & Recovery GO Bond	$35,022,754
TIDA Developer Fees	15,000,000
BHCIP State Grant (Proposed)	13,500,000
Community Care Expansion State Grant	9,895,000
Total Sources	**$73,417,754**
Uses	
Construction	
Soft Costs (e.g. Design, Permitting, Testing, Project Administration)	$7,600,000
Construction	64,400,000
Construction, Subtotal	*72,000,000*
Furniture, Fixtures, & Equipment	8,500,000
Total Uses	**$80,500,000**
Funding Gap	**$7,082,246**

Source: DPH

The $73.4 million in identified funding would fund the $72 million construction and soft-cost budget and provide $1.4 million for furniture, fixtures, and equipment (FF&E) for the 44 SUD treatment beds. Total building FF&E costs are estimated at $8.5 million, leaving approximately $7.1 million unfunded, primarily for the residential step-down floors. DPH expects to request General Fund support for the unfunded FF&E through its annual five-year FF&E projection, in coordination with the Office of Resilience and Capital Planning and the Mayor's Budget Office. DPH states that it plans to include the FF&E funding request in its next annual budget request to align with anticipated completion in 2028. According to DPH, a delay in securing funding could delay the building's opening. If funding is not allocated, DPH would evaluate funding options across its project portfolio.

Operating Costs

The BHCIP grant does not fund ongoing operations. DPH estimates annual operating costs of $4.9 million for the 44 treatment beds, with approximately 80 percent covered by Medi-Cal. Based on those estimates, annual Medi-Cal revenue would be approximately $3.92 million, leaving approximately $980,000 to be funded from other sources.

DPH plans to address the non-Medi-Cal share in its FY 2028–29 proposed budget, consistent with anticipated building completion in the Summer/Fall of 2028. The funding sources and appropriation have not yet been established. DPH expects to select an operator and finalize the operating budget in late 2027 or early 2028. The estimated Medi-Cal share remains subject to changes in state and federal policy.

Potential Construction Cost Increases

According to DPH, any construction costs exceeding the budget would need to be covered by eligible funding sources across its behavioral health project portfolio, potentially including the General Fund and Proposition C Homelessness Gross Receipts Tax revenues. DPH does not currently anticipate cost increases beyond the amounts budgeted for normal construction change orders.

RECOMMENDATION

Approve the proposed resolution.