CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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

February 24, 2023

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: March 1, 2023 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item 5 **File 23-0122**	**Department:** Department of Public Health

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a first amendment to the agreement with the San Francisco AIDS Foundation, increasing the agreement by $41,667,580 from $9,407,633 to $51,075,213 and exercising all options to extend the term by eight years from June 30, 2023 to June 30, 2031.

Key Points

- DPH entered into an agreement with the San Francisco AIDS Foundation in 2021 to provide rental subsidies to low-income San Francisco residents with disabling HIV/AIDS. The contract is budgeted to serve approximately 330 individuals each year.
- The San Francisco AIDS Foundation was the only organization that responded to a 2020 Request for Proposals to administer this program. The initial contract included a not-to-exceed amount of $9,407,633, just under the Board of Supervisors' approval threshold.
- The most recent program monitoring was conducted in January 2022, as a desk audit in lieu of a site visit. The report indicates that the program did not have a waitlist at the time of the review, and the program met 100 percent of its contracted performance objectives, 97.7 percent of its contracted units of service target, and 105.2 percent of its contracted unduplicated client target.

Fiscal Impact

- Actual expenditures for this agreement from FY 2021-22 and estimated expenditures for the first seven months of FY 2022-23 total $6,645,101. Projected expenditures for the last five months of FY 2022-23 through 2030-31 are $44,430,112. The agreement is fully funded by the General Fund.
- Annual contract costs are increasing from $4.2 million to $4.7 million under the proposed amendment due to an increase in the indirect cost recovery rate from 10 to 15 percent and a 12.9 percent increase in existing staff compensation. Rental subsidies constitute $3.2 million of the $4.7 million annual budget.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

After a competitive Request for Proposals (RFP) process, the Department of Public Health (DPH) entered into an agreement with the San Francisco AIDS Foundation in 2021 to provide rental subsidies to low-income San Francisco residents with disabling HIV/AIDS. The initial contract authorized a total not-to-exceed amount of $9,407,633. The initial agreement fell just under the Board of Supervisors' approval threshold.

According to the Department, the San Francisco AIDS Foundation was the only organization that responded to the RFP. That sole proposal received 94.33 out of a possible 100 points by an evaluation panel consisting of DPH staff and another county's public health department staff. The evaluation considered: agency overview (6 points), program experience (18 points), experience with target population (18 points), program design (28 points), and budget documentation (30 points).

Under the existing contract, the San Francisco AIDS Foundation helps individuals to search and obtain safe and affordable housing by offering three types of housing subsidies:

1. **Standard Rental Subsidy Program (244 clients):** monthly financial assistance in the form of a rental subsidy to clients with disabling HIV or AIDS;

2. **Shallow Rental Subsidy (73 clients):** monthly financial assistance in the form of a rental subsidy to extremely low-income HIV+ clients engaged in care at San Francisco's Centers for Excellence[1] and other community providers of HIV care, as well as individuals exiting transitional housing; and

3. **Partial Rental Subsidy (13 clients)**: financial assistance in the form of rental subsidy to people with disabling HIV or AIDS who are in stable housing but who are imminently homeless because 50 percent or more of their income is used to pay rent.

The subsidy amount is the difference between the total rent for the unit (subject to a fair market cap) and the client's rental share. The client's rental share is based on 30% of the client's total adjusted monthly household income.

[1] Centers of Excellence refer to provider sites within the San Francisco Health Network that serve vulnerable populations with HIV, including: the homeless aging population, justice-involved and re-entry populations, Latinos, Blacks, Tenderloin residents, and women.

This agreement is a continuing HIV Health Services program, previously solicited in 2010, in which the SF AIDS Foundation was also the only respondent to the solicitation.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution approves a first amendment to the agreement with the San Francisco AIDS Foundation, increasing the agreement amount by $41,667,580 from $9,407,633 to $51,075,213 and exercising all options to extend the term by eight years from June 30, 2023 to June 30, 2031. The proposed resolution also authorizes the Department of Public Health to enter into amendments or modifications to the agreement prior to its final execution that do not materially increase the obligations or liabilities to the City.

Services Provided

Through this agreement, the San Francisco AIDS Foundation provides monthly financial assistance in the form of a rental subsidy to help low-income HIV+ San Francisco residents who are homeless, at risk of homelessness or marginally housed, and to assist clients in securing and maintaining to stable, safe and affordable housing. As described above, the program offers three types of housing subsidies: standard, shallow, and partial. Clients are referred to this rental subsidy program by the Mayor's Office of Housing and Community Development (MOHCD)'s Housing Plus program.

Performance Monitoring

The most recent program monitoring was conducted in January 2022, as a desk audit in lieu of a site visit. The report indicates that the program did not have a waitlist at the time of the review, and the program met 100 percent of its contracted performance objectives, 97.7 percent of its contracted units of service target, and 105.2 percent of its contracted unduplicated client target. Exhibit 1 below shows the contracted and actual number of subsidized days of housing.

Exhibit 1: FY 2020-21 Program Monitoring Results

Subsidy Type	Contracted	Actual	% Achieved
Partial	4,745	4,684	98.7%
Shallow	26,645	26,220	98.4%
Standard	89,060	86,719	97.4%

Source: DPH

According to the report, SF AIDS Foundation served 347 unduplicated clients in FY 2020-21, which was 105 percent of its targeted unduplicated client count of 330.

Additional performance objectives and findings included: 75 percent or more of clients who exit housing will secure housing appropriate to needs and 100 percent of subsidy recipients will be recertified for eligibility at least annually. According to the FY 2020-21 monitoring document, 86 percent of clients secured housing and 100 percent of clients were recertified that year for eligibility.

Actual FY 2021-22 Spending and Services Delivered

In FY 2021-22, the SF AIDS Foundation spent $4,336,207 and provided more subsidized days of rent than in FY 2020-21. In particular, the contract funded 122,278 subsidized days of rent, as follows: Partial: 5,021; Shallow: 27,229; and Standard: 90,028.

Fiscal Monitoring

In November 2022, the Department's Business Office of Contract Compliance (BOCC) conducted an assessment of the fiscal health of the agency for the fiscal years 2014-15 to 2020-21. According to the report, SF AIDS Foundation has strong cash reserves, with 190 days of operating reserves as of June 30, 2021—exceeding the City's best practice of 90 days of cash reserves. The report also noted that the agency experienced a deficit of $2.6 million in FY 2020-21, a result of "a decrease of revenues from its fundraising and special events due to … COVID-19." The assessment concluded that the deficit did not signal any risks at the time, due to the strong reserve levels. In addition, DPH reviewed SF AIDS Foundation's fiscal and governance practices as part of the FY 2021-22 Citywide Nonprofit Monitoring and Capacity Building Program. The assessment did not have any findings.

FISCAL IMPACT

Actual expenditures for this agreement from FY 2021-22 and estimated expenditures for the first seven months of FY 2022-23 total $6,645,101. Projected expenditures for the last five months of FY 2022-23 through 2030-31 are $44,430,112, as shown below.

Exhibit 2: Actual & Projected Expenditures of Proposed Agreement, FY 2021-22 to FY 2030-31

Actual Expenditures FY 2021-23	
FY 2021-22	4,366,207
FY 2022-23	2,278,894
Subtotal Actuals	6,645,101
Projected Expenditures FY 2022-31	
FY 2022-23	2,599,103
FY 2023-24	4,633,830
FY 2024-25	4,633,830
FY 2025-26	4,633,830
FY 2026-27	4,633,830
FY 2027-28	4,633,830
FY 2028-29	4,633,830
FY 2029-30	4,633,830
FY 2030-31	4,633,830
Contingency (12%)	4,760,369
Subtotal Projected	44,430,112
Total Proposed	**51,075,213**

Source: DPH

This program is fully funded by the General Fund. Agreement expenditures for FY 2023-24 to FY 2030-31 are subject to appropriation by the Board of Supervisors.

Exhibit 3 below shows the change to the FY 2022-23 budget for this program, which increases from $4,199,836 to $4,663,830 in the proposed amendment. The FY 2022-23 budget is the base budget for the remaining portion of the contract.

Exhibit 3: Change in Annual Budget

FY 2022-23	Current	Proposed	Change
Salaries	515,762	582,521	66,759
Benefits	139,256	157,281	18,025
Subtotal, Personnel	655,018	739,802	84,784
Operating Expenses	3,163,015	3,289,615	126,600
Indirect Costs	381,803	604,143	222,340
Total	**4,199,836**	**4,633,560**	**433,724**

Source: Original Agreement and Proposed Amendment

As shown above, annual costs are increasing by $433,724. Approximately 58.2 percent of that cost increase or $222,340 is due to an increase in the indirect recovery from 10 to 15 percent, in order to better capture the provider's actual cost of administering the program. In addition, personnel costs are increasing by $84,784 or 12.9 percent to increase the compensation of existing positions. Operating expenses, which consist almost entirely of rental subsidies, are increasing by 4 percent to increase the number of clients in the Partial subsidy program from 13 to 15 and the number of clients in the Standard subsidy program from 244 to 247.

RECOMMENDATION

Approve the proposed resolution.

Item 6 **File 23-0042**	**Department:** Public Utility Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a five-year, $27,800,000 contract between the San Francisco Public Utilities Commission (SFPUC) and Mark Cavagnero Associates for design services. The five-year term is from March 1, 2023 through February 28, 2028; the contract gives the City options to extend the agreement for a total term of nine years

Key Points

- The SFPUC Water Enterprise's City Distribution Division (CDD) currently operates out of a headquarters located at 1990 Newcomb Avenue. The SFPUC has determined the Division now needs a new headquarters to address overcrowding throughout the facilities and code violations and safety issues in several of the shops due to aging infrastructure. The new CDD headquarters will be located at 2000 Marin Street. 428 Full-Time Equivalent staff will be relocating to 2000 Marin.
- The SFPUC estimates the entire new CDD headquarters project will cost $393,600,000 for construction and project delivery. After accounting for debt service on water bonds to fund the development, total project costs are approximately $800 million. Debt service will be repaid over the life of the bonds (20 to 30 years) and paid by water rates.
- This is the third attempt of the SFPUC to award a design contract for the 2000 Marin project. The first two solicitations resulted in only one qualified bidder. The resolution approving the award of the design contract following the second solicitation was continued to the call of the chair by the Budget & Finance Committee in May 2022. SFPUC issued a third Request for Proposals (RFP) in September 2022. An evaluation panel ranked a proposal from Mark Cavagnero the highest technical and oral interview score (883.1 out of 1,000 points) of two proposals.

Fiscal Impact

- Labor billing rates range from $72 to $270 per hour and may be adjusted by regional inflation annually.
- The resolution's not to exceed amount is based on nine percent of the project's construction costs.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

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

BACKGROUND

City Distribution Division

Through the Water Enterprise, the San Francisco Public Utilities Commission (SFPUC) provides drinking water to San Francisco residents, auxiliary services such as emergency water supply for firefighting, and wholesale water delivery to agencies in three nearby counties. Within the Water Enterprise, the City Distribution Division (CDD) is responsible for providing retail water distribution across the City, operating the Emergency Firefighting Water System, managing recycled water and groundwater across the City, and maintaining the City's drinking water infrastructure.

Planned New Headquarters

CDD currently operates out of a headquarters located at 1990 Newcomb Avenue. The SFPUC has determined the Division now needs a new headquarters to address overcrowding throughout the facilities and code violations and safety issues in several of the shops due to aging infrastructure. According to the SFPUC, the structures, over sixty years old, have exceeded their useful life. Rebuilding the facilities in-place while maintaining around-the-clock operations is not feasible.

The new headquarters will be located at 2000 Marin Street, which was acquired by the SFPUC in a land exchange approved by the Board of Supervisors in 2018 (File 18-0550). Staff have identified the need for an approximately 380,000 gross square foot campus, as shown in Exhibit 1 below. The proposed site design also includes public art and gardens for staff to congregate. A site plan is shown as Appendix A to this report.

Exhibit 1: CDD Headquarter Design Plans

	1909 Newcomb (existing)	2000 Marin (proposed)	Change
Staff (FTEs)	428	490	62
Equipment (count)	99	118	19
Vehicles (count)	591	626	35
Administrative Offices (sq. ft.)	32,262	38,101	5,839
Shops (sq. ft.)[1]	50,973	86,100	35,127
Warehouse (sq. ft.)	30,250	24,200	(6,050)
Fuel Station (sq. ft.)	1,350	4,000	2,650
Parking Garage (sq. ft.)	0	216,000	216,000
Covered Storage (sq. ft.)	0	11,620	11,620
Total Square Feet (sq. ft.)	**114,835**	**380,021**	**265,186**

Source: SFPUC

(1)Shops include auto, machine, fabrication & repair, carpenter/paint, meter, electrical, and support spaces (such as showers, lockers, breakrooms, & conference rooms).

Major Changes for New CDD Headquarters

According to SFPUC staff, 428 Full-Time Equivalent staff will be relocating to 2000 Marin, including 361 at the current Newcomb site in office space and trailer, and 67 staff currently working in leased space or trailers at satellite locations, including 20 from the Customer Service, 7 from Water Quality, and 40 from Landscaping and Construction Management. The proposed project is sized for 490 employees, an increase of 15 percent from the 428 existing staff, to accommodate projected staff growth during the facility's intended 50-year lifespan.

Shop space is increasing by 35,127 square feet to address the current shortfall of adequate work space and insufficient space for repair and maintenance of large vehicles. In addition, the 2000 Marin site design includes the development of a parking garage to eliminate unsafe vehicle storage throughout the yard and off-site parking. There are 690 parking spaces at the existing Newcomb Yard.

New CDD Headquarters Project Cost

The SFPUC estimates the entire project will cost $393,600,000 for construction and project delivery. The project involves five buildings, three different building types on an 8-acre contaminated site that requires grading, some soil removal and maintaining an impervious cap on the site. Project costs will be paid by water revenue bonds. After accounting for debt service[1]

[1] Assuming a 20-year bond with 8% true interest cost

on those bonds, total project costs are approximately $800 million. Debt service will be repaid over the life of the bonds (20 to 30 years) and paid by water rates.[2]

To date, the Board of Supervisors has appropriated $48 million for the CDD Headquarters Project. As of January 2023, $4.6 million has been spent.

Procurement

This is the third attempt of the SFPUC to award a design contract for the 2000 Marin project. The first solicitation occurred in March 2021 and obtained four proposals, AECOM Technical Services, KMD Architects, Dreyfuss and Blackford Architects, and Mark Cavagnero Associates, but was canceled during the interview phase. Two of the four proposers were deemed nonresponsive due to not meeting the minimum qualifications and the third proposer communicated they could no longer continue in the evaluation process with their proposed team due to a key team member leaving the firm. A second solicitation was posted in October 2021 and resulted in three of the original four firms submitting proposals: KMD Architects, Dreyfuss and Blackford Architects, and Mark Cavagnero Associates. Although the stated aim of the second solicitation was to increase competition, SFPUC did not do any industry outreach in the first or second solicitation and simply posted the solicitation on its website. On December 20, 2021, SFPUC announced an initial award of the project to KMD Architects, which provided the highest scoring proposal according to an evaluation panel. Following the award, SFPUC staff identified technical errors in the KMD and Dreyfus proposals and disqualified the firms, resulting in an award to Mark Cavagnero Associates in February 2022. SFPUC then sought Board of Supervisors approval for the 2022 Mark Cavagnero design agreement (File 22-0285). We considered approval of that item to be a policy matter for the Board of Supervisors because: (1) the solicitation for the agreement only had a single responsive bidder, (2) the agreement's budget of $20.1 million was less than the $27.8 million requested not to exceed amount in the resolution, and (3) the agreement included Social Impact Partnership commitments, which were prohibited under behested payments regulations in effect at that time (and which would have been waived by the legislation approving the agreement). In addition, according to the SFPUC, after receiving Commission approval for the award in February 2022, SFPUC determined that the 2022 Mark Cavagnero agreement included a $2.7 million subcontract with a firm owned by a City officer, a member of the San Francisco Arts Commission's Civic Design Review Committee (CDRC). According to a September 2022 SPFUC staff memo to the SFPUC Commission, "At a CDRC hearing on November 15, 2021, the committee member critiqued and made comments on the project's design. The member also voted in favor of requiring the SFPUC to address CDRC comments that, if followed, would result in a larger scope of work for the design team. The committee member did not disclose the conflict of interest or recuse himself from the hearing." SFPUC reported that they planned to remove the subcontractor prior executing the contract. The Budget & Finance committee continued the item related to the 2022 Mark Cavagnero agreement to the call of the

[2] The SFPUC has a policy of maintaining water and wastewater bills at no more than 2.5 percent of median household income.

chair in May 2022. Prior to that time, the City officer with the conflict of interest resigned from City service.

In September 2022, the SFPUC Commission rescinded the award to Mark Cavagnero. SFPUC issued a third Request for Proposals (RFP) in September 2022, undertook outreach efforts to potential bidders, and revised the RFP's requirements for cost proposals, subcontractor qualifications, as well as diversity, equity, and inclusion plans.

An evaluation panel[3] ranked a proposal from Mark Cavagnero the highest technical and oral interview score (883.1 out of 1,000 points) of two proposals. KMD Architects, the only other proposer, scored 881.9625 out of 1,000 points. A separate panel scored Social Impact Partnership commitments,[4] described below, and provided KMD 40.1167 points and Mark Cavagnero 48.10 points out of a possible 50 points.

Project Timeline

According to the Water Enterprise's Water Enterprise Capital Improvement Program Quarterly Report for FY 2022-2023, as of January 2023, construction is expected to take place between October 2023 and December 2027. However, because of the delay in securing a design contractor, the project timeline will be extended by at least one year. We estimate that a one-year extension of the project timeline will cost water ratepayers $32 million ($15.7 million in escalation costs plus $16.3 million in associated interest costs).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a five-year, $27,800,000 contract between the SFPUC and Mark Cavagnero Associates for design services. The five-year term is from March 1, 2023 through February 28, 2028; the contract gives the City options to extend the agreement for a total term of nine years.

Major Tasks

The scope of services in the proposed agreement includes:

1) **Design development**, including schematic designs, manuals for building systems, and building information models
2) **Preparation of construction documents,** to fully describe the work for each trade bid package

[3] The technical evaluation and oral interview panel consisted of: (1) an engineer from East Bay Municipal Utility District who also scored responses from the 2022 solicitation, (2) an architect from Public Works, (3) a system operations manager from SFPUC Water Enterprise, and (4) a project manager from the Airport who also scored responses from the 2022 solicitation. The technical evaluation assessed proposer qualifications, key team member qualifications, reference projects, work approach, and proposer team organizational chart.

[4] The Social Impact Partnership evaluation panel included: (1) non-profit youth program coordinator, (2) an analyst from the SFPUC, and (3) a community development specialist from MOHCD.

3) **Construction administration**, including responding to requests from construction firms during bidding and construction and conducting inspections during construction

Subcontractors

The proposed contract includes 18 subcontractors. Exhibit 2 below shows the contracts and their scopes of work.

Exhibit 2: Prime and Subcontractors

Firm	Role
Banks Landl Lighting Design	Lighting Design
BKF	Civil Engineer
Clearstory	Signage Consultant
Emily Borland Specifications	Specifications
HRA Consulting	Low Voltage Consultant
Lotus Water	Stormwater Management
Mark Cavagnero	Prime Contractor
Miyamoto International, Inc	Structural Engineer
RDH	Waterproofing Consultant
Reax Engineering	Code Consultant
Salter	Acoustical Engineer
SJ Engineers	Plumbing and Fire Engineer
Stantec	Industrial, Engineering, and Interior Consultants
Stok LLC	LEED & Commissioning Consultant
Syska Hennessy	Elevator Consultant
TBD Consultants	Cost Estimators
Urban Design Consulting Engineers	Dry Utilities
Watry Design	Parking Consultant
William Duff Architects	Architect

Source: SFPUC and Proposed Agreement

Proposed Social Impact Partnership (SIP)

In addition, the proposed agreement requires the completion of Social Impact Partnership commitments totaling $51,000 in direct financial contributions and $214,200 in volunteer hours.

As part of its proposal, Mark Cavagnero Associates proposed a SIP that includes providing volunteer assistance to the community nonprofit organization Bayview-Hunters Point Advocates, sponsoring paid internships in engineering and architectural design, raising awareness about environmental issues and careers in building construction, and providing a free six-week architecture camp for public high school students, as shown in Exhibit 3 below.

Exhibit 3: Social Impact Partnership Proposal

Description	Category	Value
Office renovation support for Bayview-Hunters Point Advocates	Volunteer time	$151,950
Architectural planning support for future community-owned grocery store, with Bayview-Hunters Point Advocates	Volunteer time	$12,000
Paid engineering internships with BFK Engineers	Internship wages	$11,000
Paid architecture internships with Watry Designs	Internship wages	$40,000
Partner with local schools and nonprofit organizations in District 10 to increase awareness of engineering careers and of environmental issues	Volunteer time	$9,000
Six-week architecture camp for SFUSD high school students	Volunteer time	$41,250
Total		**$265,200**

Source: SFPUC

Inclusion of Social Impact Partnership Commitments is consistent with recently approved changes to the behested payments regulation in the Campaign and Governmental Conduct Code (File 22-0539), which now states that competitively solicited SFPUC Social Impact Partnership commitments do not constitute a behested payment.

Performance Management

The proposed contract says that SFPUC "may" conduct performance evaluations of the contractor but does not specify their frequency or evaluation criteria. The SFPUC's Infrastructure Division's Procedure Manual Section 3.16 requires performance evaluations be completed on an annual basis and at the end of the agreement, using a Consultant Performance Evaluation Form in that Manual, for agreements greater than $500,000.

FISCAL IMPACT

Labor Rates

According to Appendix B of the proposed agreement, labor billing rates range from $72 to $270 per hour and may be adjusted by regional inflation annually. Billing rates may not exceed $270 per hour, unless approved by the SFPUC. The contract also allows billing of Other Direct Costs: vehicle use, specialty printing, permit fees, courier fees, and safety equipment.

Not-to-Exceed Amount

The budget in the proposed agreement does not include any staff hours, a departure from prior SFPUC design contracts. According to SFPUC staff, the agency received feedback from potential proposers on this type of contract that estimating staff hours when preparing contract workplans is difficult.

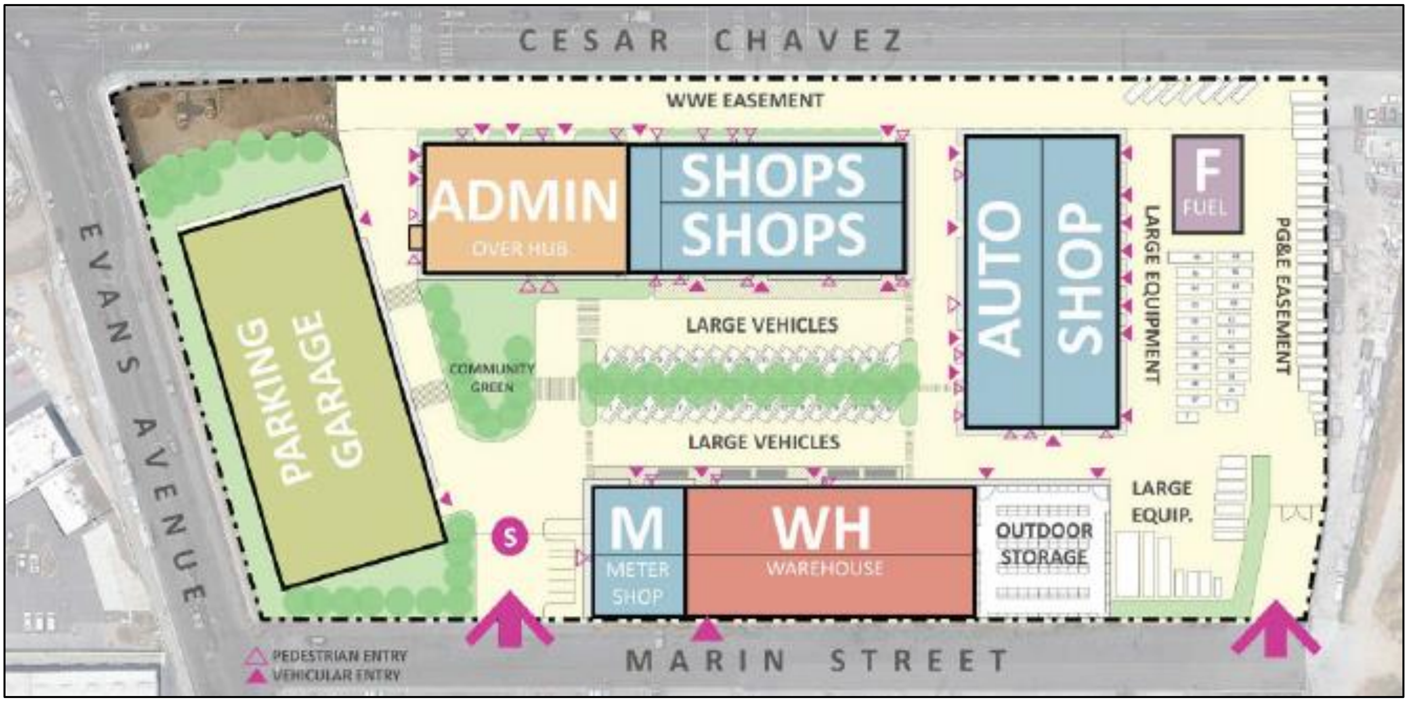
Instead, to determine the agreement's $27,800,000 not-to-exceed amount, SFPUC staff estimated that contracted design costs will be 9 percent of estimated construction costs ($313,526,663). Total design costs for the project are estimated at 12 percent of construction costs, including 3 percent to be completed by Public Works Schematic Design and Landscaping and 9 percent contracted out to Mark Cavagnero and its subcontractors.

As noted above, contract costs will be paid by water revenue bonds.

RECOMMENDATION

Approve the proposed resolution.

Appendix A: Site Plan for CDD Headquarters Project



Source: SFPUC

Item 7 **File 23-0091**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve Amendment No. 2 to the power scheduling agreement between the San Francisco Public Utilities Commission (SFPUC) and APX, Inc., increasing the not-to-exceed amount by $636,000,000, from $259,742,800 to $895,742,800, with no change to the contract term.

Key Points

- The California Independent System Operator (CAISO) operates the transmission of electric power over California's electric transmission system. State and Federal regulations govern payments made to the CAISO. The SFPUC does not meet the CAISO requirement for a "scheduling coordinator," an entity that is allowed to complete power transactions on the CAISO network and is able to make payments to CAISO for power transactions, so SFPUC has contracted for these services with APX, Inc.
- Forward prices for electricity have increased 200 percent, on average, between June 2021 and December 2022. These prices include escalation in the cost of electricity generation and transmission cost increases, which are approved by the CAISO and Federal Energy Regulatory Commission (FERC). The rising costs have impacted passthrough payments APX makes to the CAISO on behalf of SFPUC.
- In January 2023, SFPUC executed Amendment No. 1 to the contract, increasing the not-to-exceed amount by $125,000,000, for a total not to exceed $259,742,800. Amendment No. 1 did not require Board of Supervisors approval because of the delegated authority provided to SFPUC under Administrative Code Section 21.43.

Fiscal Impact

- The proposed Amendment No. 2 would increase the not-to-exceed amount of the APX contract by $636,000,000, for a total not to exceed $895,742,800. The entire increase is to pay for additional pass-through charges related to the cost of electricity generation and transmission.
- The SFPUC FY 2023-24 – FY 2032-33 10-Year Financial Plan anticipates 14 percent increases to Hetch Hetchy Power retail rates and 15 percent increases to CleanPowerSF generation charges in FY 2023-24. SFPUC anticipates that Power Enterprise customer bills will still be lower than equivalent PG&E customers.

Recommendations

- Amend the proposed resolution to request quarterly reports from SFPUC showing actual CAISO charges compared with projections and remaining contract expenditure authority through FY 2023-24.
- 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

The San Francisco Public Utilities Commission's (SFPUC) Power Enterprise is responsible for the generation, procurement, and delivery of power to electric customers of the City, including CleanPowerSF customers, City departments and other public entities, entities providing service on behalf of or in coordination with tenants on City property (i.e., at the Port and Airport), and the Hunters Point Shipyard and other redevelopment projects.

The California Independent System Operator (CAISO)[1] controls and operates the transporting of electric power over California's electric transmission system. State and Federal regulations govern payments made to the CAISO. The SFPUC does not meet the CAISO requirement for a "scheduling coordinator," an entity that is allowed to complete power transactions on the CAISO network and is able to make payments to CAISO for power transactions, so SFPUC has contracted for these services.[2]

In July 2021, SFPUC issued a Request for Proposals (RFP) to award a scheduling coordinator contract. APX, Inc., which had been SFPUC's existing provider, was the only proposer and met the minimum qualifications specified in the RFP. In March 2022, the Board of Supervisors approved a power scheduling coordination services agreement with APX for a term of five years, from June 2022 through May 2027, and an amount not to exceed $134,742,800 (File 22-0074).[3]

According to Sunita Jones, SFPUC Energy Scheduling and Settlements Manager, wholesale energy market prices have increased faster than expected due to supply chain delays, Russia's invasion of Ukraine, hot weather, and drought conditions impacting hydroelectric energy outputs. According to a January 24, 2023 staff presentation to the SFPUC Commission, forward prices for electricity have increased 200 percent, on average, between June 2021 and December 2022.

[1] CAISO is a nonprofit public benefit corporation that is regulated by the Federal Energy Regulatory Commission (FERC) to manage the flow of electricity across the high-voltage long-distance power lines that make up 80% of California's power grid. CAISO is responsible for ensuring that there is sufficient, safe, reliable, and equal access to power transmission lines and facilitating competitive wholesale power markets to diversify resources and lower prices.

[2] According to Section 4.5.3 of the January 2022 CAISO Tariff, the duties of a scheduling coordinator include paying fees to CAISO, submitting qualified bids and interchange schedules for power, coordinating and modifying demand for power at the direction of CAISO, tracking and settling trades, and assuming financial responsibility for all requested transactions. According to Jeremy Spitz, SFPUC Local and Regional Policy and Government Affairs Manager, the primary obstacles to SFPUC achieving scheduling coordinator status are the lack of a real-time operations desk for SFPUC's energy portfolios and the inability to consistently make timely payments under CAISO's challenging deadlines.

[3] The resolution in File 22-0074 anticipated a start date in April 2022. However, the final contract was not executed by SFPUC until June 1, 2022. Under the terms of the RFP, the total contract term may be extended up to eight years.

These prices include escalation in the cost of electricity generation for the reasons noted above and transmission cost increases, which are approved by the CAISO and Federal Energy Regulatory Commission (FERC).

The rising costs have impacted passthrough payments APX makes to the CAISO on behalf of SFPUC, which pays for the increasing cost of electricity generation and transmission. As a result, the Power Enterprise's wholesale electricity purchase and sales have exceeded their original projections in FY 2022-23 by $95.2 million, as shown in Exhibit 1 below.

Exhibit 1: Power Enterprise Electricity Purchases and Sales

	Budget FY FY 2022-23	Projected FY 2022-23	Change
CleanPower Power Purchases	$251.1	$284.3	$33.2
Hetch Hetchy Wholesale Power Sales	18.3	65.0	46.7
Hetch Hetchy Power Purchases	76.7	92.0	15.3
Total	**$346.1**	**$441.3**	**$95.2**

Source: SFPUC

In January 2023, SFPUC executed Amendment No. 1 to the contract, increasing the not-to-exceed amount by $125,000,000, for a total not to exceed $259,742,800. Amendment No. 1 did not require Board of Supervisors approval because of the delegated authority provided to SFPUC under Administrative Code Section 21.43 for power contracts with annual expenditures less than $150 million per year (File 22-0652).[4]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2 to the power scheduling coordination services agreement between SFPUC and APX, increasing the not-to-exceed amount by $636,000,000, for a total not to exceed $895,742,800, with no change to the contract term. Other key terms of the contract would not change.

The scope of work under the agreement would not change and includes: (1) submitting day-ahead and real-time interchange schedules and bids to CAISO; (2) managing communications between CAISO and SFPUC schedulers and operators; (3) managing CAISO settlements[5] and processing payments of CAISO charges; (4) managing CAISO and California Public Utilities Commission (CPUC) Resource Adequacy[6] requirements; (5) managing access to CAISO systems for meter, outage, settlement, scheduling, and bid/award data; and (6) submitting Settlement Quality Meter Data (SQMD) to CAISO on behalf of SFPUC. Optional services, to be provided at the

[4] The ordinance providing delegated authority on power contracts was not in effect when the initial APX contract was approved.

[5] According to Energy Scheduling and Settlements Manager Jones, the settlement process includes calculating the amount owed to CAISO, billing, and invoicing processes.

[6] State law requires all electric service providers, including CleanPowerSF, to maintain certain quantities of Resource Adequacy (RA) capacity to ensure sufficient electric generation resources are available on the grid to meet unusually high levels of customer demand.

request or SFPUC, include market analyses, energy trading, development of revenue strategies, and training of SFPUC staff.

The proposed contract not-to-exceed amount of $895,742,800 is approximately a 565 percent increase above the original not-to-exceed amount of $134,742,800 over the same five-year term. CAISO charges are non-negotiable and certain charges are only posted one day in advance. CAISO charges include the cost of electricity, fees to access the grid, and transmission fees.[7] According to Energy Scheduling and Settlements Manager Jones, SFPUC was unable to anticipate this increase because CAISO rates had been relatively steady and predictable in past years.

FISCAL IMPACT

The proposed Amendment No. 2 would increase the not-to-exceed amount of the APX contract by $636,000,000, from $259,742,800 to $895,742,800, as shown below in Exhibit 2. The entire increase is to pay for additional pass-through charges related to the cost of electricity generation and transmission.

Exhibit 2: APX Contract

	Pass-Through	APX Labor	Total
Original	$130,500,000	$4,242,800	$134,742,800
Amendment 1	255,500,000	4,242,800	259,742,800
Amendment 2 (proposed)	891,500,000	4,242,800	895,742,800

Source: Contract Documents

Projected annual contract expenditures are shown in Exhibit 3 below. Actual spending on the contract between June 2022 and January 2023 totals $139 million.

Exhibit 3: Projected Annual Contract Expenditures

Year	CleanPowerSF	Hetch Hetchy Power	Total
Year 1 (6/2022-5/2023)	$156,000,000	$49,000,000	$205,000,000
Year 2 (6/2023-5/2024)	143,000,000	57,000,000	200,000,000
Year 3 (6/2024-5/2025)	91,000,000	64,000,000	155,000,000
Year 4 (6/2025-5/2026)	93,000,000	78,000,000	171,000,000
Year 5 (6/2026-5/2027)	79,000,000	85,000,000	164,000,000
Total	**$562,000,000**	**$334,000,000**	**$896,000,000**

Source: SFPUC. Totals may not add due to rounding.

SFPUC consulted trade industry projections to update the contract's projected spending. The projected expenditures of $896 million includes approximately $4.2 million in payments to APX for services provided. The remaining $892 million are passthrough payments to CAISO. In

[7] According to SFPUC, the CAISO Energy Cost code settles day-ahead schedules of market participants by paying for supply and charging for demand based on the locational marginal price at the resource locations for each hour. The Grid Management Charge (GMC) is assessed to wholesale market customers to recover CAISO costs. The Transmission Access Charge (TAC) is assessed on behalf of the Participating Transmission Owner (i.e., PG&E, Southern California Edison, etc.) to parties who require access to the CAISO grid.

comparison, SFPUC had originally projected annual passthrough expenditures of $26.1 million ($130.5 million of the original pass-through amount divided by the five-year contract term). Energy Scheduling and Settlements Manager Jones notes that SFPUC may receive refunds from collateral payments if actual CAISO costs are less than anticipated.[8] For example, CleanPowerSF received a refund of approximately $13 million in September 2022 from its $17.4 million collateral payment. However, refunds are not deducted from contract spending authority.

Power Enterprise Rates

According to Energy Scheduling and Settlements Manager Jones, high CAISO charges and energy market volatility will likely contribute to power rate increases. The SFPUC FY 2023-24 – FY 2032-33 10-Year Financial Plan anticipates 14 percent increases to Hetch Hetchy Power retail rates and 15 percent increases to CleanPowerSF generation charges[9] in FY 2023-24. A year ago, Hetch Hetchy Power retail rates were projected to increase by 8.4 percent in FY 2023-24. Similarly, a year ago, CleanPowerSF generation charges were projected to not increase in FY 2023-24. Over the next 10 years, SFPUC anticipates average annual increases of 6 percent to Hetch Hetchy Power retail rates and 1.1 percent to CleanPowerSF generation charges. PUC Financial Planning staff anticipate that even with the rate increases, the typical customer bills will remain lower for Hetch Hetchy and CleanPower customers than if they were PG&E customers.

To enhance transparency and oversight, the Budget and Legislative Analyst also recommends requesting SFPUC to provide quarterly reports to the Board of Supervisors with actual CAISO charges compared with projections and remaining contract expenditure authority through FY 2023-24.

RECOMMENDATIONS

1. Amend the proposed resolution to request quarterly reports from SFPUC showing actual CAISO charges compared with projections and remaining contract expenditure authority through FY 2023-24.
2. Approve the resolution as amended.

[8] Collateral is a payment required by CAISO to cover the cost of high bills.

[9] CleanPowerSF generation charges account for approximately one third of customer bills. The remaining amount is for PG&E delivery charges and fees.

Item 8 File 23-0173	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves a loan between the City (MOHCD) and Swords to Plowshares or "629 Post, LLC" (the project sponsor) not to exceed $30,385,225 for the acquisition and rehabilitation of 629 Post Street, pursuant to the Small Sites Program (SSP).

Key Points

- 629 Post Street is a six-story, 65-unit mixed-use building located between Taylor and Shannon Street in the Downtown/Civic Center neighborhood. It consists of 62 SRO units and three commercial units—one of which will be renovated into an ADA accessible entrance.
- The Small Sites Program targets funding to buildings with five to 40 units, but projects over 40 units may receive funding if they meet scoring criteria (70 out of 100 total points). This project scored 84 points.
- The building will be operated as affordable housing for unhoused and formerly unhoused veterans through Safe Haven housing; Continuum of Care permanent supportive housing; and federal Department of Housing and Urban Development - Veteran's Administration Support Housing (HUD-VASH) project-based vouchers.

Fiscal Impact

- The $30,385,225 loan will fund the acquisition of the site as well as seismic, structural, and building system upgrades for two years at zero percent interest; after which the loan will be fully repaid with permanent financing, including MOHCD gap financing estimated at $18.5 million. The Academy of Art University Settlement Fund is the source of funding for the proposed loan.
- According to the Affordable Housing Loan Committee Evaluation report, the MOHCD subsidy per unit is $489,650, which exceeds the Small Sites Program Guidelines of $300,000 per unit. However, projects that exceed the maximum subsidy may be eligible for funding subject to meeting minimum scoring criteria or approval from the Director of MOHCD.

Policy Considerations

- MOHCD intends to record a City Option to Purchase 629 Post Street at permanent conversion, but the proposed loan agreement does not currently include such a provision.
- High interest rates are impacting SSP projects. The Housing Accelerator Fund typically funds bridge financing, but due to high interest rates the City is directly funding this loan. For permanent financing, MOHCD initially anticipated using the third tranche of PASS debt, but due to high interest rates MOHCD is reviewing options to lend hard debt more effectively.

Recommendations

- Amend the proposed resolution to state that it is the City's intent to record a City Option to Purchase in a future loan agreement and approve the proposed resolution, as amended.

MANDATE STATEMENT

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

BACKGROUND

Small Sites Program

The Small Sites Program (SSP), administered by the Mayor's Office of Housing and Community Development (MOHCD), was created in 2014 to provide loans for acquiring and rehabilitating multi-family rental buildings of five to 25 units. The Program has issued two Notices of Funding Availability (NOFA), one in 2014 and an updated one in 2019. MOHCD issued updated guidelines in September 2022. The new guidelines prioritize sites that have between five and 40 units. The guidelines allow for sites that have more than 40 units or less than five units subject to the sites achieving a minimum score based on set criteria. The program aims to achieve an average of 80 percent Area Median Income (AMI) rents over time as a building experiences tenant turnover; however, MOHCD may make exceptions to the AMI requirement, and Single Room Occupancy (SRO) units are not subject to the 80 percent AMI rent average.

Swords to Plowshares

Swords to Plowshares: Veterans Rights Organization ("Swords to Plowshares" or "629 Post, LLC") is a nonprofit organization that works to end veteran homelessness in the Bay Area and is the sponsor of the 629 Post Street project. Swords to Plowshares operates permanent housing programs, including the Fairfax Hotel, which provides 19 transitional SRO units that are funded by the Veterans Administration and 20 permanent SRO units that are funded through the Continuum of Care program, providing permanent supportive housing for veterans experiencing homelessness.

Swords to Plowshares began looking for an alternative site to the Fairfax Hotel in 2021 because of construction taking place around the site and conditions in the neighborhood. Swords to Plowshares identified 629 Post Street as an alternative site to Fairfax.

629 Post Street Project

629 Post Street is a six-story, 65-unit mixed-use building located between Taylor Street and Shannon Street in the Downtown/Civic Center neighborhood. It was built in 1925 and consists of 62 SRO units with private bathrooms and three commercial units. There are 20 units that have the potential to be converted into studio units. As part of the rehabilitation, Swords to Plowshares plans to convert all 20 to studio units by adding kitchenettes to allow for the possibility of adding a total of 20 project-based U.S. Department of Housing and Urban Development-Veterans Administration Supportive Housing (HUD-VASH) vouchers to the project, though they are anticipating an initial allocation of 16 HUD-VASH vouchers.

In total the project will have 18,056 residential square feet and 897 commercial square feet. One of the three commercial spaces will be converted into an ADA-accessible entrance; the Veterans Administration will rent another one of the commercial units for case management and support of HUD-VASH units; and, the third commercial unit is currently occupied by a laundromat that will continue to rent the space. There are two non-residential units on the mezzanine level that will be converted into additional office space. There is also an elevator and a front desk.

The project will primarily serve unhoused and formerly unhoused veterans. The building will be renovated to operate four different types of affordable housing:

(1) Safe Haven, which is transitional low-barrier housing. These are the 19 units that will relocate from Fairfax. The project also anticipates applying for at least two additional Safe Haven units in their upcoming application for funding in Spring 2023. If successful, this would result in 21 units funded through the Veterans Administration under the Safe Haven program.
(2) Continuum of Care Permanent Supportive Housing: These are the 20 units that will relocate form Fairfax. The Continuum of Care program is an annual contract renewed through the Department of Homelessness and Supportive Housing, which receives funding from HUD.
(3) HUD-VASH: The project anticipates initially applying for 16 new project-based vouchers for HUD-VASH units, which will support veterans. Swords to Plowshares has a soft commitment from the Veterans Administration regarding these units but they have not been secured. With the conversion of 20 units to studios, Swords to Plowshares can allocate up to 20 HUD-VASH units at the project.
(4) Existing Tenant Housing: There are currently five tenants at 629 Post that will remain there. The rents for these tenants range from $641/month to $2,023/month.

Funding for the anticipated unit configuration is contingent on Swords to Plowshares receiving additional HUD and VA funding for the Safe Haven beds and the HUD-VASH project-based vouchers. If they are unsuccessful in receiving additional subsidies for the project, MOHCD's Affordable Housing Loan Committee Evaluation report states that Swords to Plowshares will move existing subsidies from their portfolio to the project.

Project Selection

Funding guidelines for the Small Sites Program allows for buildings of over 40 units so long as the project meets minimum scoring criteria. According to MOHCD, the project needed to score at least 70 out of 100 points in order to receive funding. The project received 84 out of 100 points, receiving 35 out of 35 points for Housing Affordability; 35 out of 35 points for Community Stabilization; and (3) 14 out of 30 points for Geographic Equity. Because the scoring process is relatively new, MOHCD reports that they conducted project scoring with Swords to Plowshares and a project consultant, Falcone Development Services, LLC. Going forward, MOHCD plans for projects to self-score and then MOHCD staff will review and approve the score to ensure it's accurate.[1]

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (1) approves and authorizes the Director of the Mayor's Office of Housing and Community Development to execute documents for a loan amount not to exceed $30,385,225 for the acquisition and rehabilitation of 629 Post Street, pursuant to the Small Sites Program; (2) confirms the Planning Department's determination under the California Environmental Quality Act; and, (3) finds the project loan is consistent with the General Plan and the eight priority policies of the Planning Code, Section 101.1.

The documents approved as part of the resolution include the (1) Loan Agreement between the City and 629 Post, LLC (the borrower, Swords to Plowshares); (2) Secured Promissory Note; (3) Deed of Trust; and (4) Declaration of Restrictions.

Acquisition and Rehabilitation Loan

The proposed $30,385,225 loan will be used pursuant to the Small Sites Program to fund Swords to Plowshares' acquisition and rehabilitation of 629 Post. This will be two-year, zero interest loan that will fund the acquisition of the site as well as seismic, structural, and building system upgrades. At the end of the two years, 629 Post LLC must fully repay the loan amount of $30,385,225. MOHCD anticipates the loan will be repaid with permanent financing sources, including a long-term Small Sites Program loan as well as hard debt and a deferred developer fee. The Citywide Affordable Housing Loan Committee reviewed and recommended approval of funding for the project on November 8, 2022.

Planning Commission Review and CEQA Determination

The Planning Commission found the project is in conformity with the General Plan and submitted their referral on December 23, 2022. The Planning Commission also determined that the project is categorically exempt under CEQA Guidelines Section 15301, which exempts certain projects on existing sites.

Required Rents

Exhibit 1 presents the required rents as outlined in the Declaration of Restrictions for the five tenants who will remain in the building along with the housing units reserved for veterans who are or were formerly unhoused.

[1] An MOHCD Director, MOHCD Project Manager, a Swords to Plowshares Deputy Director, and Falcone Development Services Principal completed the scoring for the project.

Exhibit 1: 629 Post Required Rents

Unit Type	Source of Funding	Rent Amount	Number of Units
SRO + Bath	Existing Tenants	$641-$2,203	5
SRO + Bath	Safe Haven	$2,800	21
SRO + Bath (Studio Conversion)	HUD-VASH	$2,658	16
SRO + Bath	Continuum of Care	$1,586	20
		Total	62

Source: Declaration of Restrictions and Affordable Loan Committee Evaluation

Notes: The Safe Haven and Continuum of Care rent amounts are based on actual voucher and rental payments at the Faifax Hotel. HUD-VASH amounts are based on the 2022 fair market rent, as determined by HUD, and escalated for a 2024 lease up.

Project Timeline and Permanent Conversion

According to MOHCD, Swords to Plowshares signed a Purchase Sale Agreement on June 9, 2022 to acquire 629 Post for $13.6 million. Swords to Plowshares anticipates closing on 629 Post Street no later than April 7, 2023. Construction is anticipated to begin by June 2023 and to be completed by December 2024, and marketing and lease up will be completed by February 2025. MOHCD will close out on the rehabilitation and acquisition loan in March 2025, and the project will convert to permanent financing.

At permanent conversion, 629 Post LLC will pay down the City's two-year acquisition and rehabilitation loan with hard debt, along with traditional SSP permanent gap financing, estimated at $18.5 million, subject to Board of Supervisor's approval.

Sponsor Performance

According to the MOHCD loan evaluation, this is Swords to Plowshares first solo acquisition, but they have previously partnered with Chinatown Community Development Center (CCDC) on the rehabilitation of Veteran Commons (150 Otis Street). They also have two new construction projects with CCDC – Maceo May Apartments and Edwin M. Lee Apartments. According to MOHCD, Swords to Plowshares has no outstanding performance issues.

FISCAL IMPACT

The City will provide $30,385,225 to Swords to Plowshares (629 Post, LLC) for the acquisition and rehabilitation of 629 Post Street to serve as housing for 57 formerly unhoused veterans as well as for five tenants who will maintain their housing in the building. Exhibit 2 summarizes the sources and uses of funding for the two- year acquisition and rehabilitation of the project.

Exhibit 1: Funding for Acquisition and Rehab of 629 Post

Sources	Amount
MOHCD	$30,125,225
Swords to Plowshares Equity	60,000
SF Housing Accelerator Fund	200,000
Total Sources	**$30,385,225**
Uses	**Amount**
Acquisition	$14,022,000
Construction (Hard Costs)	12,056,735
Hard Cost Contingency (20%)	2,411,347
Soft Costs^	1,362,472
Soft Cost Contingency (10%)	136,247
Reserves	291,424
Developer Fee	105,000
Total Uses	**$30,385,225**

^Soft Costs Include: Architecture & Design, Engineering & Environmental Studies, Financing Costs, Legal Costs, and Other Development Costs (appraisal, insurance, property taxes, etc.)
Source: Draft Loan Agreement

Funding Sources

The proposed $30,385,225 loan is funded through the Academy of Art University Settlement Fund (AAU Fund), which prioritizes using this funding for the creation or preservation of single room occupancy units.[2] Swords to Plowshares has put down $60,000 for the initial deposit for the building, and the San Francisco Housing Accelerator Fund will provide $200,000 to help fund the down payment upon acquisition of the building. Each of these sources of funding will be refunded by funds from the AAU settlement.

Funding Uses

Acquisition

Of the total loan amount, $14,022,000 will be used for the acquisition of 629 Post Street; $13,600,000 is the sale price for the building and an additional $422,000 covers the legal closing costs and brokers fee, holding costs, and transfer tax. The appraisal provided for 629 Post (as-is market value with in-place rents) matches the sale price.

Rehabilitation

The hard construction costs for rehabilitation are $10,438,731, with an additional $1,618,003 for the general contractor overhead and profit, totaling $12,056,735. Hard cost contingencies are

[2] In January 2020, the Board of Supervisors approved a development agreement between the City and Stephens Institute, doing business as Academy of Art University, which included an "affordable housing payment" of $37.6 million and a $8.2 million payment to the City's Small Sites Fund (File 19-1125).

$2,411,347 or 20 percent of total construction costs. This is higher than the 15 percent hard cost contingency standard for rehabilitation projects in MOHCD's Underwriting Guidelines. MOHCD reports this is because the contingency amount accounts for San Francisco's prevailing wage requirements. Rehabilitation costs were initially budgeted at $3 million but upon completion of a physical needs assessment, there were additional seismic and structural needs and building system upgrades, including electrical upgrades. In addition, there will be updates to the HVAC system, plumbing improvements, roof repairs, new windows and doors, exterior masonry and dry rot repairs, interior drywall repairs, improvements to the utilities, fire and life safety repairs and upgrades, a basement buildout, conversion of 20 SROs to studios with kitchenettes, and ADA improvements.

Permanent Conversion

Swords to Plowshares will convert the Small Sites Program loan to permanent financing at the end of two years. Permanent financing of $31,757,583 will repay the $30,385,225 Small Sites Program loan and the balance ($1,372,358) pays for financing and legal costs associated with permanent financing, funding reserves, and funding the developer fee.

Of the $31,757,583 in permanent financing, MOHCD anticipates providing $18,589,583 in permanent Small Sites Program funds, and $13,168,000 from other MOCHD loan products, such as the Preservation and Seismic Safety program (PASS)[3] or another loan product, and from the deferred developer fee.

City Subsidy

According to the Affordable Housing Loan Committee Evaluation report, the MOHCD subsidy per unit is $489,650.[4,5] The Small Sites Program Guidelines establish a maximum city subsidy (including acquisition, rehabilitation, and permanent financing) for an SRO with an in-unit bathroom of $300,000 per unit. However, projects that exceed the maximum subsidy may be eligible for funding subject to meeting minimum scoring criteria or approval from the Director of MOHCD.

---

[3] The Preservation and Seismic Safety (PASS) program was authorized by voters in 2016 and provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. The program is funded by $260.7 million in general obligation bonds. Unlike other MOHCD permanent loans for affordable housing which are structured as soft debt and repaid through residual receipts, PASS program loans are structured as hard debt.

[4] Permanent financing of $31,757,583 includes $18,589,583 in permanent Small Sites Program funding and $12,748,000 in other MOHCD loans, totaling $31,337,583, equivalent to $489,650 for 64 units (62 residential and 2 commercial units). The balance of $420,000 is provided by deferred developer fees.

[5] MOHCD's SSP Guidelines state that income generating commercial units may be used for to determine the project's unit count. According to the Affordable Housing Loan Evaluation, one commercial unit is a laundromat that will rent the space for the foreseeable future ($3,000/month) and the other will be rented by the VA to provide services ($1/month or a negotiated rate).

POLICY CONSIDERATION

Option to Purchase

The loan agreement does not currently include a provision that provides the City the option to purchase 629 Post Street at a future date. MOHCD reports that MOHCD intends to record a City Option to Purchase at permanent conversion when the City provides gap financing for the project. The Budget and Legislative Analyst recommends amending the proposed resolution to state that this is the City's intent.

Housing Accelerator Fund and PASS Programs Diminished by Rising Interest Rates

Most Small Sites Program projects obtain their acquisition and rehabilitation financing through private bridge loans from the San Francisco Housing Accelerator Fund to achieve time and costs savings. These bridge loans are then refinanced using permanent financing sources, including SSP Loans, as well as PASS loans for some projects. As discussed below, both the Housing Accelerator Fund and PASS programs have been impacted by rising interest rates, which may have implications for future Small Sites Projects.

According to MOHCD, obtaining a bridge loan from the Housing Accelerator Fund for the proposed project would have resulted in interest costs of more than $2.5 million, making the project financially infeasible. Due to the high interest costs, Swords to Plowshares requested that the City directly fund the acquisition and rehabilitation of the project.

MOHCD initially anticipated using PASS debt[6] for permanent financing of this project. However, the MOHCD Loan Evaluation notes that due to changes in the interest rate environment PASS debt may have too high of an interest rate (currently estimated to be around 6 percent for the third tranche) to be competitive for hard debt for MOHCD projects. MOHCD staff said that the Preservation Team will continue to review options and determine the most effective way to lend hard debt to new projects, likely either by: (a) by combining PASS debt with additional debt financing that has a lower interest rate; or (b) introducing a standalone product. The MOHCD permanent conversion proforma currently assumes a hard debt interest rate of 2.7 percent based on preliminary guidance from MOHCD staff on a new loan product.

RECOMMENDATIONS

1. Amend the proposed resolution to state that it is the City's intent to record a City Option to Purchase in a future loan agreement.
2. Approve the proposed resolution, as amended.

---

[6] A new PASS loan would be funded by a new bond issuance. The Board of Supervisors has previously approved two sales of general obligation bonds to fund the PASS program: (1) $260.7 million in February 2019 (File 18-1218) and (2) $102.6 million in October 2020 (File 20-1093). The balance of unissued PASS Program bond authorization of $85.7 million would be subject to future Board of Supervisors approval.

Item 9 File 22-1223	Department: Environment (ENV)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would repeal and replace Chapter 7 of the Environment Code regarding Municipal Green Building Requirements.

Key Points

- Chapter 7 of the City's Environment Code sets green building requirements for City-owned buildings. According to the proposed ordinance, approximately 41 percent of greenhouse gas emissions in San Francisco are generated from buildings. The City's municipal buildings generally obtain their electricity from the San Francisco Public Utilities Commission's (SFPUC) Hetch Hetchy Power Enterprise, which is free from fossil fuel combustion and greenhouse gas emissions. Therefore, over 99 percent of greenhouse gas emissions from municipal buildings are due to the use of natural gas.
- The key changes to Chapter 7 under the proposed ordinance are: (1) requirement to replace existing municipal building natural gas systems, such as furnaces and water heaters, with all-electric systems at the end of useful life; (2) energy resilience requirements (photovoltaic and battery storage systems) for new construction and major renovations of municipal buildings; and (3) embodied carbon life cycle assessment requirement for new construction and major renovations of municipal buildings. There are also minor changes regarding building material management, human and environmental health, water conservation, and the Municipal Green Building Task Force.

Fiscal Impact

- The largest fiscal impact of the proposed ordinance likely comes from the requirement to replace existing natural gas building systems in municipal buildings with all-electric systems at the end of useful life. Based on a range of interconnection, retrofit, and soft costs from available project data and interviews with subject matter experts, we estimate the City would face approximately an additional $247 million to $1.58 billion in electrification costs for 332 municipal buildings. There is a wide range of building types, sizes, and existing conditions that creates significant uncertainty in this estimate.
- The estimated cost for each battery system for a medium office building is approximately $160,000-$270,000. Actual costs may vary significantly depending on the size and energy needs of each building. The estimated cost for an embodied carbon life cycle assessment on a project is approximately $15,000-20,000.

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

Chapter 7 of the City's Environment Code sets green building requirements for City-owned buildings. Chapter 7 was enacted in its current form by the Board of Supervisors in October 2011 (File 11-0854) and was amended in 2014, 2016, 2017, 2018, and 2020 (Files 14-0226, 16-1054, 16-1287, 18-0002, and 19-0972). Chapter 7 standards include construction and operating requirements for energy efficiency, water conservation, toxics reduction, indoor environmental quality, and recycling and composting of waste.

According to the proposed ordinance, approximately 41 percent of greenhouse gas emissions in San Francisco are generated from buildings. The City's municipal buildings generally obtain their electricity from the San Francisco Public Utilities Commission's (SFPUC) Hetch Hetchy Power Enterprise, which is free from fossil fuel combustion and greenhouse gas emissions. Therefore, over 99 percent of greenhouse gas emissions from municipal buildings are due to the use of natural gas. The City has adopted a goal of net-zero emissions by 2040 through an update to Chapter 9 of the City's Environment Code in 2021 (File 21-0563).

The 2020 amendments to Chapter 7 required new construction and whole building major renovations of municipal buildings to exclude natural gas and include exclusively all-electric energy sources. The ordinance exempted buildings primarily used for water, wastewater, and/or power utilities, as well as natural gas equipment that service other buildings or is part of an emergency backup electricity system. The ordinance did not require existing buildings to replace gas appliances with all-electric appliances if not part of a whole building major renovation.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would repeal and replace Chapter 7 of the City's Environment Code regarding Municipal Green Building Requirements. The key changes are summarized below.

Electrification of Existing Building Systems

The proposed Chapter 7 amendments require existing municipal building natural gas systems, such as furnaces and water heaters, to be replaced with all-electric systems at the end of useful life, with the exception of hospitals.[1] At the time of equipment replacement, electric service infrastructure to the building must be sufficient to accommodate new equipment, future replacement, and the electrification of any remaining natural gas equipment in the building. Additionally, each City department would be required to conduct an inventory of gas-using equipment in their managed buildings and upload the inventory to a City database by December 31, 2023.

[1] Throughout Environment Code Chapter 7, the term "building" excludes structures primarily used for water, wastewater, and/or power utilities.

The Bay Area Air Quality Management District (BAAQMD) is considering a rule change to prohibit the sale and installation of water heaters and furnaces that emit nitrogen oxides in the nine-county Bay Area. This would effectively prohibit natural gas appliances, as currently only electric appliances do not emit nitrogen oxides. The proposed rule would take effect in 2027 for small water heaters, 2029 for furnaces, and 2031 for large commercial water heaters. The State has a carbon neutrality target of 2045, which may require building code electrification mandates as well.

Energy Resilience

The proposed Chapter 7 amendments include energy resilience requirements for new construction and major renovations. For "critical community institutions," such as public safety facilities, health clinics, community centers, libraries, and emergency management facilities, construction must include photovoltaic panels and battery storage capacity to meet Tier 1 emergency loads, which is generally equivalent to 10 percent of total building electrical capacity for emergency uses. For other buildings, photovoltaics and battery storage must either meet Tier 1 emergency loads or the building must comply with other energy efficiency standards.[2] Photovoltaic installation is already required under State Building Energy Efficiency Standards Section 140.10 and City Green Building Code Section 5.201 and is not an additional requirement.

Embodied Carbon

The proposed Chapter 7 amendments would require each municipal construction project of at least 10,000 square feet to submit an embodied carbon checklist assessing the embodied carbon reduction strategies considered for the project and those that were incorporated into the design and/or construction process. Each new construction project or major renovation would be required to conduct a life cycle assessment demonstrating at least 10 percent global warming potential reduction by addressing at least three product categories or building assembly types. Each tenant improvement of at least 10,000 square feet would be required to either conduct a life-cycle assessment demonstrating at least 10 percent global warming potential reduction or demonstrate furniture and interior nonstructural elements reuse equivalent to at least 10 percent by cost. These requirements are consistent with certain LEED[3] certification requirements.

Minor Changes

The proposed ordinance also makes several minor changes to Chapter 7, including:

- Building Material Management: Each tenant improvement subject to a LEED certification requirement would be required to submit documentation verifying that the project generates less than 10 pounds of waste per square foot;

[2] Other energy efficiency standards include annual site zero net energy, designing energy use intensity (EUI) 50 percent better than the national median site EUI, or for a building with process loads that are at least 50 percent of the building's total energy use, exceed American Society of Heating, Refrigerating, and Air Conditioning Engineers (ASHRAE) equipment efficiency requirements by 10 percent.

[3] Leadership in Energy and Environmental Design (LEED) is a widely used green building certification program developed by the U.S. Green Building Council

- Human and Environmental Health: Each municipal construction project subject to a LEED certification requirement would be required to meet LEED requirements for material ingredient reporting, and each municipal construction project would be required to follow the City's biodiversity guidelines;
- Water Conservation: Applies the Water Efficient Irrigation Ordinance (Administrative Code Chapter 63) to municipal construction projects outside of San Francisco city limits; and
- Green Building Task Force: Adds a representative from the Department of Public Works Bureau of Building Repair to the Green Building Task Force.

Waivers

Chapter 7 allows for code waivers due to emergencies, cost-prohibitiveness, alternative compliance measures, or other circumstances. According to the Department of Environment, 26 Chapter 7 waivers have been granted over approximately 20 years, and none have been denied. Waivers are typically granted due to technical inabilities for projects to achieve LEED requirements and have never been sought due to cost-prohibitive reasons.

Role of Municipal Green Building Task Force and Department of the Environment

Under Chapter 7, the role of the Municipal Green Building Task Force includes assisting the Department of the Director of the Environment in providing green building advice, assistance, outreach and education to City Departments, advising the Department of the Environment on policy matters, reviewing municipal construction projects for compliance during design and construction, hearing waiver requests from City departments and proposing recommended actions, facilitating interdepartmental communication and cooperation, and acting as an educational forum to increase green building knowledge and sharing project-related successes and lessons learned. The role of the Department of the Environment includes developing goals, strategies, and criteria for optimizing the design, construction, renovation, operation, reuse, and dismantling of municipal construction projects and buildings, making policy recommendations to the Board of Supervisors, developing and overseeing trainings in green building practices for City staff to aid policy implementation, chairing the Municipal Green Building Task Force, coordinating City departments having responsibility for compliance with requirements, providing technical oversight and assistance on green building projects, and developing forms and materials necessary for Chapter 7 compliance.

FISCAL IMPACT

Electrification of Existing Building Systems

The largest fiscal impact of the proposed ordinance likely comes from the requirement to replace existing natural gas building systems in municipal buildings with all-electric systems at the end of useful life. There are varying estimates of this cost, which should consider capital costs, energy costs, and electrical connection costs.

ARUP Study

In October 2022, ARUP issued a study commissioned by the Department of Environment to estimate costs associated with proposed Chapter 7 amendments. The study focused specifically on the incremental costs of equipment, installation, and energy for the replacement of existing natural gas systems with all-electric systems, as opposed to replacement with new natural gas systems. The study analyzed costs for five building types (libraries, office buildings, fire stations, recreational pools, and health centers) that comprise approximately 75 percent of the City's municipal building stock and estimated the incremental costs of replacement of natural gas systems with all-electric systems in 250 buildings over a 15-20 year period. ARUP estimated that all-electric system replacements would have an added cost of approximately $37.6 million for equipment and installation but a savings of approximately $16.4 million in energy costs, for a total net cost of approximately $21.2 million. If extrapolated to the approximately 332 applicable municipal buildings, the total net cost would be approximately $28.2 million.

ARUP notes that at present, electricity is typically more expensive than gas energy. However, electric appliances are more efficient than gas appliances, and natural gas costs are projected to escalate much faster than electric costs in future years. Furthermore, City facilities use SFPUC's Hetch Hetchy Power, which provides favorable pricing compared to PG&E electricity rates. Therefore, ARUP estimates that over a 15-20 year timeframe, energy costs would be lower for all-electric replacement of gas systems.

The ARUP study did not estimate other costs associated with the proposed Chapter 7 amendments, including engineering and design costs, electric connection costs, battery storage, embodied carbon analysis, and other considerations of all-electric systems, such as structural upgrades, space constraints, and cascading impacts on mechanical distribution systems.

Electrical Upgrade Costs

The ARUP report notes that as building systems are converted from natural gas to all-electric, infrastructure upgrades may be needed to provide sufficient power to operate the systems. This includes PG&E interconnection costs, upgrades to primary service, new main switchgear, panelboard, and/or transformer, trenching, and design. According to SFPUC, the cost of new PG&E interconnections has ranged from $30,000 to $2.5 million per project but will likely increase to a minimum cost of approximately $300,000 per project. SFPUC estimates that at least $800,000 per project should be budgeted for a primary switchgear (power system control equipment), if needed, and that additional costs may be incurred to rearrange floorplans to make space for new switchgear. SFPUC also notes that PG&E's process for service upgrades can take between 10 months and four years, which may contribute to additional cost escalation. PG&E also requires "cost of ownership" payments for maintenance and future replacement costs of new distribution infrastructure, and perhaps substation upgrades.

SFPUC Pilot Projects

SFPUC has four building electrification pilot projects in process. Two projects are located at health clinics (Sunset Health Center and City Clinic) and two projects are at the San Francisco Zoo (Lurie Education Building and Lion House). For these projects, SFPUC identified relatively small buildings that did not require additional electrical loads and upgrades of electrical systems. Construction contracts are under negotiation, and SFPUC estimates that the capital cost to purchase and install electric appliances range from approximately $505,000 to $963,000 per project. SFPUC notes that space requirements vary by building and the estimates include additional work, such as structural or roofing upgrades, to accommodate the new equipment. Estimated design and project management costs range from approximately $82,000 to $132,000 per project. SFPUC did not estimate the cost of replacing gas equipment with new gas equipment, so this is not a marginal cost estimate. SFPUC did not analyze ongoing energy costs. SFPUC also notes that these sites are atypical in that they did not require power upgrades, and SFPUC had ruled out several other locations due to the electric connection costs.

<u>Engineering/Design</u>

In the SFPUC pilot projects noted above, soft costs are estimated to be approximately 11 to 20 percent of construction costs. Public Works staff note that soft costs are typically budgeted at approximately 35 percent of total project costs.

Total Electrification Capital Costs

Based on a range of interconnection, retrofit, and soft costs from available project data and interviews with subject matter experts, we estimate the City would face approximately an additional $247 million to $1.58 billion in electrification costs for 332 municipal buildings. We note that there is a wide range of building types, sizes, and existing conditions that creates significant uncertainty in this estimate. By comparison, the FY 2022-FY 2031 Capital Plan includes $617 million for General Fund facility renewal projects over ten years (and notes $2.3 billion of deferred facility renewal projects). These costs may be partially offset by reduced energy costs if natural gas rates escalate faster than electricity rates in future years, as projected by ARUP. A breakdown of cost estimates is shown in Exhibit 1 below.

Exhibit 1: Electrification Capital Cost Estimates

Costs	Low Estimate	High Estimate
PG&E Upgrades	$300,000	$2,500,000
Building Retrofits[4]	403,382	1,210,145
Soft Costs (10-20% of Retrofit Cost)	40,338	242,029
Switchgear	0	800,000
Total Cost per Building	$743,720	$4,752,174
Total Cost (332 Buildings)	**$246,915,034**	**$1,577,721,931**

Complying with the proposed ordinance's electrification requirements will likely require a reorganization of the Capital Plan that includes a combination of deferring planned projects, additional debt, and/or new revenue sources. If capital funds are strained, City departments may seek to utilize the Chapter 7 waiver process under cost-prohibitive grounds. As noted above,

[4] The building retrofit cost range of $403,382-$1,210,145 per building is an estimate of the marginal cost of replacing gas equipment with electric equipment, rather than with new gas equipment. This assumes retrofit capital costs of approximately $500,000-$1,500,000 per building, and that electric equipment and installation costs are approximately 5.2 times the cost of gas replacements (which is consistent with ARUP's findings).

proposed action by BAAQMD or future State building code amendments may necessitate electrification of municipal or privately-owned buildings, regardless of the proposed ordinance.

Benefits of Electrification

The ARUP study notes that building electrification has the benefits of reduced air pollution and greenhouse gas emission. Natural gas combustion releases carbon dioxide, nitrous oxides, particulate matter, sulfur dioxide, and volatile organic compounds, which are all either air pollutants or greenhouse gases and contribute to adverse public health impacts and global warming. ARUP estimates total benefits of approximately $14.3 million from the electrification of 250 municipal buildings. This includes $4.2 million in reduced healthcare costs, as air pollution contributes to strokes, heart disease, lung cancer, asthma, and other respiratory diseases, as well as $10.1 million in avoided economic damages from climate change, including the cost of sea level rise, extreme heat, and other weather-related events. If extrapolated to the approximately 332 applicable municipal buildings, the total benefits would be approximately $19 million.

Battery Storage

The proposed Chapter 7 amendments include energy resiliency requirements for new construction and major renovations. For "critical community institutions," construction must include photovoltaic panels and battery storage capacity to meet Tier 1 emergency loads, which is generally equivalent to 10 percent of total building electrical capacity for emergency uses. For other buildings, photovoltaics and battery storage must either meet Tier 1 emergency loads or other requirements. According to estimates from the California Energy Commission, a medium office building (approximately 53,628 square feet) would require approximately 217-360 kWh of battery storage. At an estimated cost of $767 per kWh, the estimated cost for each battery system is approximately $160,000-$270,000. SFPUC notes recent battery pricing of $1,100 per kWh for a 253 kWh system, or approximately $278,300. Actual costs may vary significantly depending on the size and energy needs of each building. As noted above, photovoltaic installation is already required under state and local building codes and does not present an added cost.

Embodied Carbon

According to the Department of Environment, which conducted several interviews with green building consultants and architects, the cost for a life cycle assessment on a project is approximately $15,000-20,000. The Department does not expect the requirement to complete an embodied carbon checklist for each project to have a significant added cost.

Department of Environment Staffing

According to the Department of Environment, the Department assigns 0.25 FTE Senior Environmental Specialist and 0.10 Environmental Specialist to administer existing Environment Code Chapter 7 requirements (such as evaluating planned capital project's compliance with that Code's requirements). In addition, the Department is planning to assign 0.50 FTE Public Service Aide this fiscal year to assist with evaluating municipal and residential projects. The Department reports it will not seek additional positions to implement the new requirements of the proposed ordinance.

RECOMMENDATION

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