

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: January 17, 2019 Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File		Page
2	18-1179	Service Agreement - Pacific Gas and Electric Company - CleanPowerSF - Not to Exceed \$20,000,000	1
3	18-1224	Grant Agreement - Tenderloin Housing Clinic - Supportive Housing Services - \$117,712,362	6

Item 2 File 18-1179	Department: Public Utilities Commission (PUC)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none">• The proposed resolution retroactively approves a service agreement between the San Francisco Public Utilities Commission (SFPUC) and PG&E for ten years from January 1, 2019 through December 31, 2028. The resolution would also authorize the SFPUC General Manager to make amendments to the agreement, as needed, that do not materially increase the obligations or liabilities of the City. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none">• State law allows cities and counties to develop Community Choice Aggregation (CCA) programs through which local governments supply electricity to participating customers within their jurisdictions while the existing private utility (PG&E in San Francisco) continues to provide various services including billing, transmission, and distribution. San Francisco's CCA program ("CleanPowerSF") is in the process of phasing in service to residential customers citywide.• Under the service agreement, PG&E provides meter reading and billing services to CleanPowerSF customers and remits customer payments to CleanPowerSF. The service agreement requires each party to comply with the terms of the CCA tariffs set by the California Public Utilities Commission and includes provisions for audits, dispute resolution, events of default, indemnity, and billing CCA customers and remitting payments to CleanPowerSF. The City retains the ability to audit PG&E's records. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none">• Of the \$20,000,000 not-to-exceed amount for this agreement, CleanPowerSF estimates that it will pay PG&E \$19,033,151 over 10 years for CCA services based on tariffs set by the California Public Utilities Commission. The remaining \$966,849 represents a contingency of approximately 5 percent to cover costs if customer enrollment in CleanPowerSF is higher than estimated.• The costs associated with PG&E services provided under the service agreement are paid from CleanPowerSF revenues. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none">• Amend the proposed resolution to correctly state that the service agreement end date is December 31, 2028.• 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 has a term of more than ten years or requires expenditures of \$10 million or more is subject to Board of Supervisors approval.

BACKGROUND

Community Choice Aggregation

State law allows cities and counties to develop Community Choice Aggregation (CCA) programs, through which local governments supply electricity to participating customers within their jurisdictions while the existing private utility (PG&E in San Francisco) continues to provide various services including billing, transmission, and distribution. San Francisco's CCA program ("CleanPowerSF") is in the process of phasing in service to residential customers citywide.

CleanPowerSF offers two levels of supply service: (1) Green, the default service which contains at least 40 percent renewable energy; and (2) SuperGreen, a premium option which offers 100 percent renewable energy. Residential and business customers are automatically phased into the CleanPowerSF program based on their location and are given opportunities to opt-out of participating in the program.

Approximately 116,000 customer accounts with average electricity demand of about 230 megawatts (MW) are currently enrolled in CleanPowerSF. Full-scale citywide enrollment is planned to occur by April 2019 and would involve approximately 280,000 additional customers, for a total of approximately 396,000 customer accounts with average electricity demand of approximately 350 MW. The opt-out rate is 3.2 percent.

After April 2019, the only remaining accounts to be enrolled will be the largest commercial accounts which account for approximately twelve percent of citywide electricity demand.

Previous CleanPowerSF Legislation

The Board of Supervisors has previously authorized the San Francisco Public Utilities Commission (SFPUC) to enter into long-term renewable energy supply agreements for CleanPowerSF without further Board of Supervisors approval:

- In May 2015, the Board of Supervisors authorized the SFPUC General Manager to use pro forma agreements to purchase and sell renewable electricity to operate the CleanPowerSF program (File No. 15-0408; Ordinance No. 75-15);
- In December 2015, the Board of Supervisors authorized the SFPUC General Manager to enter into agreements requiring expenditures of \$10 million or more for power and related products and services to launch the initial phases of CleanPowerSF (File No. 15-1123; Ordinance No. 223-15); and
- In January 2018, the Board of Supervisors authorized the SFPUC General Manager to enter into agreements for renewable energy with terms in excess of ten years or requiring expenditures of \$10 million or more for power and related products and

services for citywide expansion of CleanPowerSF; and authorized deviations from contract requirements in the Administrative Code and the Environment Code (File No. 17-1172; Ordinance No. 8-18).

In addition, in September 2018, the Board of Supervisors authorized the SFPUC General Manager to enter into future agreements (executed within the next five years) requiring binding arbitration for purchase of electricity, if certain conditions were met; and retroactively authorized three agreements between CleanPowerSF and Pacific Gas & Electric Company (PG&E) for purchase of electricity-related products requiring binding arbitration (File 18-0708, Ordinance No. 227-18).

Community Choice Aggregation Service Agreement with PG&E

In 2010, SFPUC entered into a Community Choice Aggregation (CCA) service agreement with PG&E for a period of two years, commencing May 27, 2010. On May 25, 2012, SFPUC executed an amendment extending the agreement until December 31, 2018, for a total term of eight years and seven months. The agreement did not specify a dollar amount. According to Mr. Christopher Whitmore, Local Policy Analyst for SFPUC, at the time of the contract execution, it was unclear whether or when the City would be commencing services to customers under CleanPowerSF. The agreement was required for the City to be certified to operate a CCA program. CleanPowerSF did not start serving customers until May 2016.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively approves a service agreement between SFPUC and PG&E for ten years from January 1, 2019 through December 31, 2028. The resolution would also authorize the SFPUC General Manager to make amendments to the agreement, as needed, that do not materially increase the obligations or liabilities of the City.

Under the service agreement, PG&E provides meter reading and billing services to CleanPowerSF customers and remits customer payments to CleanPowerSF. The service agreement requires each party to comply with the terms of the CCA tariffs,¹ and includes provisions for audits, dispute resolution, events of default, indemnity, and billing CCA customers and remitting payments to CleanPowerSF. The City retains the ability to audit PG&E's records.

Line maintenance, metering, and outage response services are not a component of this agreement. Those services are provided directly to customers by PG&E, and customers pay for those services through PG&E delivery charges on their bill.

According to Mr. Whitmore, CCA service agreements with PG&E are typically for an indefinite period of time. However, since the Charter requires the Board of Supervisors to approve contracts over ten years, the SFPUC is seeking a 10-year contract to provide stability and security to the City's CCA program.

¹ The California Public Utilities Commission sets tariffs, or a pricing schedule that utilities offer to CCA programs for various services, such as billing. A utility must have CPUC approval before changing any of the tariffs.

FISCAL IMPACT

Of the \$20,000,000 not-to-exceed amount for this agreement, CleanPowerSF estimates that it will pay PG&E \$19,033,151 for CCA services over the next ten years based on tariffs set by the California Public Utilities Commission, as shown in Table 1 below. The remaining \$966,849 represents a contingency of approximately 5 percent to cover costs if customer enrollment in CleanPowerSF is higher than estimated in Table 2 below.

Table 1: Agreement Amount

Billing administration and data transmission fees	\$18,982,926
Customer enrollment	13,425
Annual reports	36,800
Subtotal	\$19,033,151
Contingency (5%)	966,849
Total	\$20,000,000

CleanPowerSF expects charges of \$18,982,926 over ten years for PG&E billing and administration fees under the CPUC-approved CCA tariffs, as shown in Table 2 below.² Although 396,000 service accounts are eligible for CleanPowerSF, the SFPUC estimates that 385,000 initial users will be active after accounting for opt-outs (between three and four percent). The total number of customers being served by CleanPowerSF is expected to increase as construction and development introduces additional electricity accounts within CleanPowerSF's service territory.

Table 1: Estimated Billing Administration and Data Transmission Fees

	Per Meter Fee*	Number of Meters**	Annual Cost
Year 1	\$0.35000	385,000	\$1,617,000
Year 2	\$0.36050	386,925	1,673,837
Year 3	\$0.37132	388,860	1,732,698
Year 4	\$0.38246	390,804	1,793,603
Year 5	\$0.39393	392,758	1,856,630
Year 6	\$0.40575	394,722	1,921,901
Year 7	\$0.41792	396,696	1,989,446
Year 8	\$0.43046	398,679	2,059,384
Year 9	\$0.44337	400,672	2,131,751
Year 10	\$0.45667	402,675	2,206,675
Total			\$18,982,926

*Assumes a 3.0 percent annual escalation

**Assumes a 0.5 percent annual escalation as new buildings are constructed

The costs associated with PG&E services provided under the service agreement are paid from CleanPowerSF revenues. These costs are included in the approved CleanPowerSF budget.

² For example see CPUC-approved Electric Rule 23 at: https://www.pge.com/tariffs/tm2/pdf/ELEC_RULES_23.pdf and Electric Rule E-CCA Services to Community Choice Aggregators at: https://www.pge.com/tariffs/tm2/pdf/ELEC_SCHS_E-CCA.pdf

CleanPowerSF expects to incur costs for monthly billing administration, data transmission, customer data reports, and customer enrollment. The Board of Supervisors approved the CleanPowerSF budget of \$157 million for FY2018-19 and \$212.9 million for FY 2019-20.

POLICY CONSIDERATION

Retroactive Approval

The proposed resolution would retroactively approve a service agreement from January 1, 2019 through December 31, 2028. According to Mr. Whitmore, the SFPUC initially believed that the agreement did not need Board of Supervisors approval as it was a new agreement, not an extension of the existing agreement, and the City was required to pay the CCA services charges through a separate tariff approved by the California Public Utilities Commission. After discussion with the City Attorney's Office, SFPUC determined that the agreement is subject to Board approval due to the anticipated costs to be incurred under the CPUC tariff exceeding \$10 million. Additionally, the new agreement extends the terms and conditions of the previous agreement which was entered in 2010 so that the total term would exceed ten years. This determination was made at a point in time that did not provide SFPUC with sufficient time to have the Board approve the agreement before the end of the year.

RECOMMENDATIONS

1. Amend the proposed resolution to correctly state that the service agreement end date is **December 31, 2028**.
2. Approve the proposed resolution as amended.

Item 3 File 18-1224	Department: Department of Homelessness and Supportive Housing
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would retroactively approve a grant agreement and first amendment to the grant agreement between the Department of Homelessness and Supportive Housing and the non-profit Tenderloin Housing Clinic to provide housing and supportive services at 16 master lease hotels. The resolution also approves a proposed second amendment extending the grant agreement term by two years, for a total term of July 1, 2014 through June 30, 2020, and increasing the grant amount by \$35,593,895 from \$82,118,467 to \$117,712,362. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Human Services Agency executed the original grant agreement with the Tenderloin Housing Clinic in 2014 to provide housing and supportive services to formerly homeless individuals. The program was transferred to the Department of Homelessness and Supportive Housing when the Board of Supervisors established the department in August 2016. The sixteen hotels managed by the Tenderloin Housing Clinic have the capacity to serve 1,566 clients, who are formerly homeless. • According to the Human Services Agency, the original grant agreement is retroactive due to an administrative oversight and staff turnover at the time the agreement was executed. According to the Department of Homelessness and Supportive Housing, the first amendment to the agreement is retroactive due to an administrative oversight and unclear records on the grant approval history. • While the proposed second amendment to the agreement is effective as of July 1, 2018, the Department of Homelessness and Supportive Housing has not yet executed the amendment pending Board of Supervisors approval. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Actual expenditures for the first four fiscal years from FY 2014-15 through FY 2017-18 at all sixteen SRO hotels were \$71,787,816. The proposed grant agreement budgets for FY 2018-19 and FY 2019-20 are \$42,357,421 plus a 7.4 percent contingency of \$3,139,949, increasing the total agreement amount to \$117,285,186. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • According to the Department of Homelessness and Supportive Housing, the Department has put in place better internal controls to track contract spending thresholds and ensure that contracts and contract amendments will be submitted to the Board of Supervisors for approval before the contract or contract amendment goes into effect. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> • Amend the proposed resolution to reduce the grant agreement amount by \$427,176 from \$117,712,362, which is the amount in the proposed resolution, to \$117,285,186. • Approve the agreement 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 Board of Supervisors previously approved a grant agreement between Human Services Agency and Tenderloin Housing Clinic to provide housing and support services to formerly homeless single adults at 16 single room occupancy (SRO) hotels. The Human Services Agency selected Tenderloin Housing Clinic through a Request for Qualifications process to be included in a pool of nonprofit organizations qualified to lease SRO hotels and provide support services as part of the Agency's Housing First Program. The original agreement was approved in February 2010 for housing and services at 15 SRO hotels (File No. 09-1287; Resolution No. 52-10), and amended in August 2012 to increase the number of SRO hotels to 16 (File No. 12-0758; Resolution No. 309-12).

In 2014, the Human Services Agency entered into a new grant agreement with Tenderloin Housing Clinic following a Notice of Funding Availability to provide supportive housing services to formerly homeless adults who reside in 1,566 private SRO residential units at 16 SRO hotels, as shown in Table 1 below. The grant agreement was for a term of four years from July 1, 2014 through June 30, 2018, in a not to exceed amount of \$74,342,402.

Table 1: Hotels and SRO Units Served

Hotel	Address	# SRO units
All Star	2791 16 th St	85
Boyd	41 Jones St	81
Cal Drake	1541 California St	50
Edgeworth	770 O'Farrell St	44
Elk	670 Eddy St	88
Graystone	66 Geary St	73
Hartland	909 Geary St	136
Jefferson	440 Eddy St	109
Mayfair	626 Polk St	54
Mission	520 S Van Ness Ave	244
Pierre	540 Jones St	87
Raman	1011 Howard St	85
Royan	405 Valencia St.	69
Seneca	34 6 th St	200
Union	811 Geary Blvd	61
Vincent	459 Turk St	100
Total		1,566

The grant agreement covered the leasing, supportive services, and property management of residential units in private SRO hotels to provide housing to formerly homeless individuals,

some of whom are clients of County Adult Assistance Programs (CAAP), at the time of referral. The goals of these services are to maintain a safe, supportive, and stable environment and to empower tenants to become self-sufficient and to remain stably housed.

Support services include staff outreach to tenants; tenant intake and assessment for needed services; case management; benefits advocacy and assistance; referrals to services within the community; mediation with property management; tenant conflict resolution; support groups, social events, and organized tenant activities; wellness checks; and monthly community meetings.

The portfolio of SRO housing and support services provided through the Housing First Program, including management of the grant agreement with Tenderloin Housing Clinic, was transferred from the Human Services Agency to the Department of Homelessness and Supportive Housing when the new department was created in 2016. Under this program, the Department of Homelessness and Supportive Housing subsidizes the rents of the SRO hotel residents from the General Fund and the HSH Fund (Care Not Cash revenue transferred from the Human Services Agency for CAAP clients' housing and services). SRO hotel residents pay a portion of the rent, based on their income.

In January 2017, the Department of Homelessness and Supportive Housing entered into the first amendment to the grant agreement with Tenderloin Housing Clinic to increase the grant amount by \$7,776,065, from \$74,342,402 to \$82,118,467 to provide for cost of doing business adjustments and increases in master lease rent and operating expenses.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) retroactively approve a grant agreement between the Department of Homelessness and Supportive Housing and Tenderloin Housing Clinic for supportive housing services for formerly homeless adults for a term of July 1, 2014, through June 30, 2018, in an amount not to exceed \$74,342,402; (2) retroactively approve the first amendment to increase the agreement amount by \$7,776,065 for a total amount not to exceed \$82,118,467; and (3) approve the second amendment to extend the grant agreement by two years for a total contract term of July 1, 2014, through June 30, 2020, and to increase the agreement amount by \$35,593,895 for a total amount not to exceed \$117,712,362.

Retroactive Approval of the Agreement

The Human Services Agency did not obtain Board of Supervisors approval for the original agreement with Tenderloin Housing Clinic in 2014. According to Mr. Dan Kaplan, Human Services Agency Deputy Director for Finance and Administration, the Agency did not submit the original agreement to the Board of Supervisors for approval in 2014, due to an administrative oversight and staff turnover. When management of the grant agreement was transferred from the Human Services Agency to the Department of Homelessness and Supportive Housing in August 2016, information on the status of Board of Supervisors approval of the grant agreement was not conveyed to the Department.

Subsequently, the Department of Homelessness and Supportive Housing entered into a first amendment to the agreement in 2017, without first obtaining Board of Supervisors approval. According to Ms. Gigi Whitley, Department of Homelessness and Supportive Housing Deputy Director for Administration and Finance, the Department did not submit the first amendment to the agreement to the Board of Supervisors due to an administrative oversight and unclear records on the grant approval history.

According to Ms. Whitley, the proposed second amendment to the grant agreement, effective July 1, 2018, was delayed due to a significant number of vacant positions in the Department's contracts team, which was not fully staffed until May 2018, and to delays while staff reconciled the information from the prior department records and prior years' financial information. The Department has not yet executed the second amendment, pending Board of Supervisors approval.

Grant Agreement Provisions

The grant agreement amounts are outlined in Table 2, below.

Table 2: Original Grant Agreement and Grant Amendments

Agreement	Term	Not to Exceed Amount
Original	July 1, 2014 - June 30, 2018	\$74,342,402
First Amendment	July 1, 2014 - June 30, 2018	\$82,118,467
Proposed Amendment	July 1, 2014 - June 30, 2020	\$117,712,362

There are no changes to the scope of services. The additional funds account for a cost of doing business adjustment, additional contract years, and one-time funds added by the Board of Supervisors. The cost of doing business increases amount to \$495,859 for FY 2018-19 and \$516,864 in FY 19-20. Additionally, one-time funds of \$491,439 were applied to the contract for building repairs, bathroom renovation, pest control, and capital needs assessment.

FISCAL IMPACT

Actual expenditures for the first four fiscal years from FY 2014-15 through FY 2017-18 at all sixteen SRO hotels were \$71,787,816. The proposed grant agreement budgets for FY 2018-19 and FY 2019-20 are \$42,357,421 plus a 7.4 percent contingency of \$3,139,949, increasing the total agreement amount to \$117,285,186, as shown in Table 3 below. The funding source for the grant agreement is the City's General Fund and the HSH Fund, Care Not Cash revenue to fund CAAP clients' housing. Funding of \$42,357,421 is included in the Department of Homelessness and Supportive Housing's FY 2018-19 and FY 2019-20 budget previously approved by the Board of Supervisors.

Table 3: Actual Annual Expenditures and Proposed Annual Budget

Fiscal Year	Expenditures
2014-15	\$ 16,033,596
2015-16	18,048,964
2016-17	17,870,619
2017-18	19,834,637
Actual Expenditures to date	71,787,816
Proposed Budget FY 2018-19	21,165,997
Proposed Budget FY 2019-20	21,191,424
Total Proposed FY 2018-20	42,357,421
Contingency (7.4%)	3,139,949
Total Proposed Not to Exceed Amount	117,285,186

The proposed resolution should be amended to reduce the grant agreement amount by \$427,176 from \$117,712,362, which is the amount in the proposed resolution, to \$117,285,186, as shown in Table 3 above.

As part of the FY 2018-20 budget process, the Board of Supervisors approved a 2.5 percent cost of doing business increase for nonprofit contracts in FY 2018-19. The FY 2018-19 budget in the proposed second amendment includes the 2.5 percent increase.

POLICY CONSIDERATION

As noted above, the Department of Homelessness and Supportive Housing did not submit the first amendment to the grant agreement with Tenderloin Housing Clinic, as required by Charter Section 9.118(b). According to Ms. Whitley, the Department of Homelessness and Supportive Housing has put in place better internal controls to track contract spending thresholds and ensure that contracts and contract amendments will be submitted to the Board of Supervisors for approval before the contract or contract amendment goes into effect.

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the grant agreement amount by \$427,176 from \$117,712,362, which is the amount in the proposed resolution, to \$117,285,186.
2. Approve the resolution as amended.