

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: April 17, 2024 Budget and Finance Committee Meeting

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Item 7 File 24-0272	Department: Real Estate Division
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> The proposed resolution would approve the following agreements: (1) an agreement to transfer ownership of the City's steam infrastructure to Energy Center San Francisco, LLC (ECSF), (2) two easements to allow ECSF to access the steam loop at the Civic Center Garage and at the Powerhouse (302 Larkin Street). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> The City owns steam distribution infrastructure around Civic Center. This "steam loop" includes 3,100 feet of piping and seventeen utility vaults and laterals. According to the Real Estate Division, the infrastructure is over 100 years old and significantly past its useful life. ECSF owns all other steam infrastructure in the City. The proposed agreement would transfer ownership of the City's steam loop to ECSF for \$1. Although ECSF assumes ongoing maintenance responsibility as the steam loop's owner, the transaction includes a one-time \$3.1 million payment to ECSF for the repairs necessary to bring the steam loop back to working order. The agreement allows ECSF to connect its steam infrastructure within San Francisco and ensures the City remains a steam customer for at least the next five years. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> The proposed agreement requires a \$3.1 million payment, which will be funded by Certificates of Participation proceeds, which the Board of Supervisors approved in July 2022 (File 22-0683). The City does not sell steam, so the proposed transfer of steam infrastructure does not reduce City revenues. The City's steam purchases would not be impacted either, as the CPUC regulates prices. <p style="text-align: center;">Recommendations</p> <ul style="list-style-type: none"> Amend the proposed resolution to add a resolved clause that states: "The public interest or necessity demands or will not be inconvenienced by the transfer of the Steam Loop." Approve resolution, as amended. 	

MANDATE STATEMENT

Administrative Code Section 23.3 states that sales of City-owned property require Board of Supervisors' approval.

BACKGROUND

The City owns steam distribution infrastructure around Civic Center, which transmits purchased steam for building space heating and hot water generation for City Hall, 101 Grove Street, the Civil Courthouse, and the Bill Graham Auditorium. This "steam loop" includes 3,100 feet of piping and seventeen utility vaults and laterals. According to the Real Estate Division, the infrastructure is over 100 years old and significantly past its useful life.

All other steam infrastructure in the City is owned by Energy Center San Francisco, LLC (ECSF). City Charter Section 16.111 allows the Board of Supervisors to authorize franchise agreements, which provide private entities access to the public right of way to install and operate facilities that provide services. The Board approved a franchise agreement with PG&E for steam infrastructure in 1975, which was transferred to ECSF in 1993. The franchise agreement includes a two percent fee on ECSF's gross receipts related to franchised infrastructure within San Francisco. The California Public Utilities Commission regulates steam prices. The franchise agreement also provides for the Board of Supervisors to regulate construction and maintenance standards for the related infrastructure. The current franchise agreement expires in 2028.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the following agreements: (1) an agreement to transfer ownership of the City's steam infrastructure to ECSF, (2) two easements to allow ECSF to access the steam loop at the Civic Center Garage and at the Powerhouse (302 Larkin Street).

Exhibit 1 below summarizes the key terms of the transfer agreement.

Exhibit 1: Key Terms of Agreement to Transfer Steam Loop to ECSF

Term	Description
Purchase Price	\$1
Repair Amount	\$3,100,000
Transfer Conditions	Purchase is "as is."
Indemnification	For three years, the City indemnifies ECSF against claims related to the steam loop that may exist prior to the transfer
Repair Work	Trenching, new pipe installation, asbestos abatement
Repair Timeline	All repairs must be complete ten months after purchase
Steam Purchases	Requires the City to continue to purchase steam for five years
Ongoing Maintenance and Operating Costs	Sole responsibility of ECSF

Source: Proposed Agreement

Due to the age of the steam loop and amount of deferred maintenance, the Real Estate Division estimates the City-owned steam loop has no value. For this reason, the purchase price is \$1 and does not require an appraisal under Chapter 23 of the Administrative Code. Once ownership is transferred, ECSF must repair portions of the steam loop, including replacing pipes and asbestos abatement, within ten months, to bring the steam loop into good working condition. Although ECSF assumes ongoing maintenance responsibility¹ as the owner of the steam loop, the transaction includes a one-time \$3.1 million payment to ECSF for the repairs specified in the proposed agreement to bring the steam loop back to working order. According to RED staff, this payment is less than the \$4.9 million estimated cost for the City to do the repairs. Total deferred maintenance work is estimated at upwards of \$16 million, which will be the responsibility of ECSF following the proposed transfer in ownership.

The agreement allows ECSF to connect its steam infrastructure within San Francisco and ensures the City remains a steam customer for at least the next five years.

Section 7.1(b) of the agreement states that one of the City's conditions precedents for selling the steam loop is an enacted resolution or ordinance that finds "the public interest or necessity demands or will not be inconvenienced by the transfer of the Steam Loop." We recommend that language be included in the proposed resolution.

¹ The agreement requires ECSF to maintain the steam loop "in accordance with industry operating and maintenance standards.... engaged in or approved by a significant portion of the United States."

FISCAL IMPACT

The \$3.1 million payment required by the proposed agreement will be funded by Certificates of Participation proceeds, approved by the Board of Supervisors in July 2022 (File 22-0683).

The City does not sell steam, so the proposed transfer of steam infrastructure does not reduce City revenues. The City's steam purchases would not be impacted either, as the CPUC regulates prices.

RECOMMENDATIONS

1. Amend the proposed resolution to add a resolved clause that states: "The public interest or necessity demands or will not be inconvenienced by the transfer of the Steam Loop."
2. Approve resolution, as amended.