CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: July 13, 2022 Budget and Finance Committee Meeting

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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the Department of the Environment to: (1) accept and expend a grant in an amount not to exceed $2,384,797 from the California Energy Commission (CEC) Alternative and Renewable Fuel and Vehicle Technology Program to increase public awareness of electric vehicles and expand charging infrastructure and other modes of clean transportation for the period of March 2022 through March 2024 and (2) authorizes the Department of Environment to execute interagency agreements related to the grant.

Key Points

- The proposed grant would fund two projects: (1) installation of at least one fast charging plaza in a disadvantaged community and eight fast electric vehicle charging stations and (2) a pilot program to provide electric bicycles to 35 app-based delivery workers to use in making their deliveries.
- The Department of Environment plans to contract with EVgo, a business based in Los Angeles, CA, to construct and operate the fast charging plaza and stations and with GRID Alternatives, a non-profit based in Oakland, CA, to manage the electric bicycle program. In addition, the Department intends to create a map tool to show existing electric vehicle charging stations and obtain input on future stations.

Fiscal Impact

- The total cost of the projects is $3.4 million. The proposed grant would provide $2.4 million while matching funds from Google, EVgo, the San Francisco Local Agency Formation Commission, the Department of Environment, and the San Francisco Public Utilities Commission total $1.0 million to cover the remaining costs. The grant funds 2.47 FTE at the Department of Environment to manage and provide analytical support to the projects.

Policy Consideration

- The Department of Environment selected EVgo and GRID Alternatives as grant co-applicants because of their experience on related projects that were publicly funded. Under the grant budget, the organizations will receive $1 million in grant funds. While there is no requirement to select grant co-applicants through a competitive process, because this proposed grant can only funds projects that were identified in a 2019 planning document, which contemplated applying for additional State funding, we believe the Department could have completed a request for qualifications or similar competitive process to identify partners to implement strategies prior to the proposed grant's application deadline.

Recommendation

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

MANDATE STATEMENT

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

BACKGROUND

As directed in Executive Order B-48-18, California established a goal in 2018 to increase the number of zero-emission vehicles on the road from approximately 1.3 million as of December 2018 to five million by 2030 and achieve 250,000 electric vehicle charging stations by 2025. To meet this goal, in April 2018, the California Energy Commission (CEC) awarded nine cities and organizations approximately $1.8 million for Phase 1 of the Electric Vehicle Ready Community Challenge. The Challenge is funded by CEC's Alternative and Renewable Fuel and Vehicle Technology Program. Phase 1 of the program focused on grantees developing a city-wide planning document to expand public electric vehicle (EV) charging and other modes of clean transportation. The Department of the Environment was one of the awardees of the CEC's Phase 1 grant. Consequently, in October 2018, the Board of Supervisors approved the Department of Environment to accept and expend a grant in the amount of $199,398 from the CEC's Alternative and Renewable Fuel and Vehicle Technology Program to develop an Electric Vehicle Ready Blueprint to accelerate regional vehicle electrification for the period of July 1, 2018, through June 30, 2019 (File 18-0740). San Francisco's Electric Vehicle Ready Community Blueprint planning document was finalized in July 2019.

In September 2021, the CEC announced awards for Phase 2 of the Electric Vehicle Ready Communities Challenge to fund implementation projects developed and identified in Phase 1, Blueprint Development of the Electric Vehicle Ready Communities Challenge. The Department of the Environment was awarded $2,384,797 to implement high priority projects identified in Phase 1, which included increasing public awareness of electric vehicles and expanding charging infrastructure and other modes of clean transportation.

According to the July 2019 San Francisco Electric Vehicle Ready Community Blueprint, there are 700 electric vehicle charging ports or 0.7 ports per electric vehicle registered in San Francisco, the majority of which are privately owned and managed.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the Department of the Environment to: (1) accept and expend a grant in an amount not to exceed $2,384,797 from the CEC Alternative and Renewable Fuel and Vehicle Technology Program to implement activities from the Electric Vehicle Ready Blueprint that will increase public awareness of electric vehicles, and expand charging infrastructure and other modes of clean transportation for the period of March 28, 2022 through March 29, 2024 and (2) authorizes the Department of Environment to execute interagency agreements related to the grant.

The CEC's Alternative and Renewable Fuel and Vehicle Technology Program grant solicitation required a minimum 25 percent total match share as a condition of application and subsequent award, which the Department of the Environment meets through its total match funding of $1,013,198 from the Department, SFPUC, Google, EVgo, and the San Francisco Local Agency Formation Commission, which is 29.8 percent of the project cost. According to the CEC grant solicitation, matching funds include cash or in-kind contributions provided by the recipient, subcontractors, or other parties.

According to Lowell Chu, EV Program Manager, the Department intends request amendments to the proposed resolution to change the start date of the grant from March 2022 to August 2022, clarify that San Francisco Bicycle Coalition, GRID Alternatives, EVgo, and Driver's Seat Cooperative are co-applicants to the grant, and provide Board of Supervisors approval for agreements among the Department of Environment and other City agencies related to the grant.

Services Provided

The CEC's Alternative and Renewable Fuel and Vehicle Technology Program grant funds will be primarily used to implement the following CEC Electric Vehicle Ready Communities Phase II strategies: (1) expanding electric vehicle charging infrastructure; (2) increasing public awareness of electric vehicles; (3) accelerating transportation mode shift by establishing a pilot for app-based workers to use electric bicycles to make deliveries, and (4) provide a mapping tool for electric vehicle charging infrastructure.

EV Fast Charging Plaza & Stations

The proposed scope of work includes construction of one EV fast charging plaza in a designated Disadvantaged Community[1] and eight fast chargers[2] in San Francisco. An EV fast charging plaza is a location open to the general public that contains fast charging stations. An EV charging station is equipment that transfers electricity to an electrical vehicle. According to EV Program Manager Chu, possible locations include South of Market, Civic Center, and Bayview-Hunters Point.

The Department of Environment plans to contract with EVgo, a business based in Los Angeles, to construct and operate the fast charging plaza and stations. According to EV Program Manager Chu, EVgo was selected as a grant co-applicant by the Department of the Environment because of their experience in building electric vehicle fast charging plazas and past projects that were funded by the Bay Area Air Quality Management District, California Air Resources Board, and California Energy Commission.

[1] Disadvantaged communities are defined as the top 25 percent scoring areas from CalEnviroScreen (a mapping tool that helps identify California communities that are most affected by many sources of pollution, and where people are often especially vulnerable to pollution's effects) along with other areas with high amounts of pollution and low populations.

[2] Fast chargers, or stations, are devices for charging electric vehicles that are rated between 7kW and 22kW of electricity. They draw electrical current from the grid and supply the current through a cord and connector into the vehicles' batteries at higher rates than mid- and low-level chargers.

The grant budget also includes $150,000 to hire a community-based organization to engage residents and businesses in neighborhoods that would be impacted by the new charging plaza and fast-chargers. The community-based organization would also gather information from the communities on how to improve access to public charging and increase electric vehicle uptake.

E-Bicycles

The grant will also fund a pilot program to provide electric bicycles to 30 app-based delivery workers to use in making their deliveries instead of using personal vehicles. The program will collect data from delivery workers on how the bicycles are used and the capabilities of electric bicycles for completing local food deliveries and may help inform a larger pilot program in the future. Participants will be able to keep the electric bike after completion of the pilot program.

The E-Bicycle pilot will be administered by GRID Alternatives, a non-profit based in Oakland. GRID Alternatives will be responsible for procuring, maintaining the e-bikes, and selecting delivery workers for the pilot. According to EV Program Manager Chu, GRID Alternatives was selected as a grant co-applicant by the Department of the Environment because of their experience in implementing similar e-bike programs in the Cities of Berkeley and Oakland. Additionally, GRID Alternatives was selected because of their successes of winning California Energy Commission grants.

App-based data collection and reporting will be completed by Driver's Seat Cooperative, a business organization, and safety training will be provided by the San Francisco Bicycle Coalition, a non-profit organization.

Mapping

The grant will also fund the Department of the Environment's public-private partnership[3] with Google to enhance the online Electric Vehicle Mapping Tool designed in Phase I for use by the public and charging site developers. According to EV Program Manager Chu, the proposed new electric vehicle module within the online tool will show users where existing public charging locations and stations are available in the City and allow users to indicate where they would like to see new public charging locations and stations.

The Department will collaborate with Google to launch the Electric Vehicle Mapping Tool in January 2023. Concurrently, the Department plans to open the required charging stations by the end of March 2024.

Department of Environment Staff

The following 2.47 FTE of existing positions will be funded by the CEC grant: 0.25 FTE 5644 Environmental Principal, 1.0 FTE 5642 Environmental Specialist, and two 5640 Environmental Specialists (1.22 FTE).

[3] Google is the technical lead (coding, prototyping, etc.) on the online tool, and the Department of the Environment provides input on user experience and testing.

- The 5644 Environmental Principal responsibilities include the following: (1) grant administration, invoicing, reporting and point of contact for the grant funder, (2) lead the hiring, onboarding and development of the 5642 Electric Vehicle Ombudsperson, and (3) serve as the project leader.
- The 5642 Environmental Specialist will serve as the Electric Vehicle Ombudsperson to manage the fast charging and e-bicycle projects and launch the electric bicycle pilot in September 2022.
- The two 5640 Environmental Specialists responsibilities include the following: (1) one position will serve as the project leader responsible for the development of the Electric Vehicle Mapping Tool and (2) another position will serve as the project leader for the implementation of the e-bicycle pilot program.

Performance Monitoring

The California Energy Commission's Alternative and Renewable Fuel and Vehicle Technology Program grant funds are subject to compliance with standard reporting and monitoring requirements, such as monthly phone calls and quarterly progress reports for the duration of the grant. Data collection and quarterly reporting requirements for the grant project include reporting on the following:

1) Significant milestones and accomplishments;
2) Challenges and potential agreement changes;
3) Report on subrecipients and vendors;
4) Status of milestones and deliverables;
5) Pictures and identifying information of installed or delivered equipment;
6) Fiscal status of project funds; and
7) Evaluation of E-Bike pilot to assess impact on vehicles miles traveled and worker earnings

FISCAL IMPACT

The total budget for the CEC Electric Vehicle Ready Communities Phase 2 – Blueprint Implementation grant project is $3,397,997. The CEC grant will fund $2,384,799, and matching funds from Google, EVgo, the San Francisco Local Agency Formation Commission, and the SFPUC total $1,013,198. The source of the SFPUC's matching funds is the Power Enterprise's Utility Distribution Engineering funds, which is funded by Power Enterprise's capital funds. The source of the Department of Environment's matching funds is the San Francisco Clean Cities Coalition, which is a program of the U.S. Department of Energy.[4]

[4] Administered and implemented by the Department of the Environment, the San Francisco Clean Cities Coalition works with vehicle fleets, fuel providers, community leaders, and other stakeholders to save energy and promote the use of domestic fuels and advanced clean vehicle technologies in transportation.

Exhibit 1 below shows the total costs for the CEC Electric Vehicle Ready Communities Phase 2 – Blueprint Implementation project.

Exhibit 1. CEC Electric Vehicle Ready Communities Phase 2 – Blueprint Implementation Project Costs

Cost Category	Proposed CEC Grant Funds	Matching Funds	Total ($)
Direct Labor	$615,181	$62,069	$677,250
Fringe Benefits	269,331	27,931	297,262
Subtotal, Labor	*$884,512*[5]	*$90,000*[6]	*$974,512*
Materials/Miscellaneous[7]	24,691	0	24,691
Subcontractors			2,155,523
EvGo	526,141	634,390	1,160,531
GRID Alternatives	469,684	0	469,684
Drivers Seat Coop.	80,000	0	80,000
SF Bike Coalition	6,500	0	6,500
Outreach Org TBD	150,000	0	150,000
Google (Map Tool)	0	150,000	150,000
Subtotal, Subcontractors	*$1,232,325*	*$784,390*	*$2,016,715*
SFPUC Technical Assistance	0	125,308	125,308
LAFCo Technical Assistance	0	13,500	13,500
Indirect Costs (18%)[8]	243,271	0	243,271
Total Cost	**$2,384,799**	**$1,013,198**	**$3,397,997**

Source: Department of the Environment

Exhibit 2 below details the total matching funds budget of $1,013,198 for the project.

[5] The following positions will be funded by the CEC grant: 0.25 FTE 5644 Environmental Principal, 1.0 FTE 5642 Environmental Specialist (two-year term for Electric Vehicle Ombudsperson), and two 5640 Environmental Specialists (2.0 FTE).

[6] A 5640 Environmental Specialist will be partially funded using Department of the Environment funds of $90,000. See Exhibit 2 for details.

[7] This includes additional database licenses and upgrades, graphics and report production, bicycle safety helmets, raincoats, panniers and security locks, and incentives for participants to share data and opinions on using electric bicycles for deliveries.

[8] The 18% rate was calculated using the 2 Step Method of the U.S Office of Management and Budget. The amount was calculated multiplying for the estimated hours to be performed by staff times the labor rate times 18%.

Exhibit 2. Matching Funds Budget for CEC Electric Vehicle Ready Communities Phase 2 – Blueprint Implementation Project

Funder	Purpose	Match Amount
EVgo	Build charging plaza in or adjacent to a disadvantaged community	$634,390
Google	Enhance, update and maintain the Blueprint Mapping Tool, provide data collection and digital analysis	150,000
SFPUC	Provide technical assistance with electric bicycle pilot and assist with establishing the Electric Vehicle Ombudsperson	125,308
Department of the Environment	Conduct stakeholder engagement via Clean Cities Coalition's "Listening Sessions" (through helping to fund a 5640 Environmental Specialist)	90,000
SF Local Agency Formation Commission	Provide technical assistance to the electric bicycle pilot project	13,500
	Total Matching Funds	**$1,013,198**

Source: Department of the Environment

According to EV Program Manager Chu, no grant funds have been encumbered or expended. The Department of the Environment does not anticipate incurring any ongoing staff costs once the project is complete and grant funds expire. The 2.47 FTE positions funded by this grant are temporary exempt positions. Once the project is over, the positions will be either be terminated or funded by other grants or sources of funding if available.

EV Fast Charging Plaza & Stations

According to EV Program Manager Chu, the cost to build one fast charging plaza and installing eight (8) stations is $1.16 million. CEC grant funding totals $526,141, and EVgo's match is $634,390. Ongoing maintenance costs for the grant-funded EV charging plaza will be paid for by EVgo.

E-Bicycles

According to EV Program Manager Chu, the cost of purchasing, shipping, temporary storage, assembly, and road-testing of 30 e-bikes with data and safety equipment is $80,000 and will be paid for by the proposed grant. GRID Alternatives is responsible for obtaining the e-bikes and will complete its own procurement process to obtain them. The projected total maintenance cost of the e-bikes through the grant period is $2,000. At the end of the grant term, GRID Alternatives will no longer be responsible for maintaining the e-bikes, which will be property of the program participant (app-based delivery work). Ongoing maintenance costs are estimated to be zero.

POLICY CONSIDERATION

As noted above, the Department of Environment selected EVGo and GRID Alternatives as grant co-applicants because of their related experience on similar projects that were publicly funded. As co-applicants, the organizations will $1 million of the grant funds. In addition, Drivers Seat Cooperation, the San Francisco Bicycle Coalition, and a yet to be determined community-based organization will collectively receive approximately $230,000 in grant funds to provide training, analysis, and outreach for the e-bike pilot program.

There is no requirement for a competitive process to select grant co-applicants and the Department stated it did not have time to complete a competitive solicitation process during the two-month window (August 12, 2020 to October 23, 2020) that the grant was open for proposals. However, because this proposed grant can only funds projects that were identified in the Department's Electric Vehicle Ready Community Blueprint from July 2019, a document which contemplated applying for additional State funding, we believe the Department could have completed a request for qualifications or similar competitive process to identify partners to implement strategies in the 2019 Blueprint prior to the proposed grant's application deadline. We are therefore considering approval to be a policy matter for the Board of Supervisors.

RECOMMENDATION

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

Item 4 **File 22-0656**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a contract between San Francisco International Airport (Airport) and Professional Business Providers, Inc. (PBP) to operate, maintain, and repair Airport-owned passenger boarding bridges and baggage handling systems in the domestic terminals, for a term of three years from August 2022 through July 2025, with one two-year option to extend through July 2027, and an amount not to exceed $13,114,615.

Key Points

- In October 2021, the Airport issued a Request for Proposals (RFP) to select a contractor to operate, maintain, and repair the Airport-owned baggage handling systems and passenger boarding bridges in the domestic terminals. Vanderlande, which has been the Airport's contractor for these services since 2016, was the highest-ranking proposer, but was disqualified due to Administrative Code Chapter 12X. Consequently, the Airport awarded a contract to the second highest scoring proposer, Professional Business Providers (PBP), which was determined to be eligible and compliant.
- Under the proposed contract, PBP would be responsible for providing complete maintenance on the Terminal 2 baggage handling system and 40 passenger boarding bridges in Terminals 1 and 2. PBP would also perform on-call maintenance on Baggage Carousel 10 in Terminal 3, which is not frequently used. There is no change in the scope of work from the current Vanderlande contract.

Fiscal Impact

- The proposed contract would have a total amount not to exceed $13,114,615 over three years. PBP estimates that approximately 21 full-time equivalent (FTE) employees would perform services under the contract.
- The Airport's current contract with Vanderlande funds 17.13 FTE staff at an annual cost of $3.7 million, or an average cost of $218,711 per FTE. The proposed contract with PBP funds 21 FTE starting at an annual cost of $3.2 million, or an average cost of $152,391 per FTE. The decrease in per-FTE cost is primarily attributed to changes in the calculation of labor costs and job assignments for certain job classifications.
- Contract costs are billed to airlines.

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

San Francisco International Airport (Airport) owns three baggage handling systems and 40 common use passenger boarding bridges in the domestic terminals.[1] In October 2021, the Airport issued a Request for Proposals (RFP) to select a contractor to operate, maintain, and repair the Airport-owned baggage handling systems and passenger boarding bridges in the domestic terminals. The Airport received three proposals and a three-member panel scored them, as shown in Exhibit 1 below.[2]

Exhibit 1: Proposers and Scores from RFP

Proposers	Score (out of 925)
Vanderlande Industries, Inc.	867.33
Professional Business Providers, Inc.	673.93
Symbrant Aviation Services	554.52

Source: Airport

Vanderlande, which has been the Airport's contractor for these services since 2016, was the highest-ranking proposer. However, Vanderlande is headquartered in the State of Georgia, which is a Covered State under Administrative Code Chapter 12X and is therefore prohibited from doing business with the City.[3] Consequently, the Airport awarded a contract to the second highest scoring proposer, Professional Business Providers (PBP), which was determined to be eligible and compliant. In May 2022, the Airport Commission approved a contract with PBP.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a contract between the Airport and PBP to operate, maintain, and repair Airport-owned passenger boarding bridges and baggage handling systems

[1] One baggage handling system is located in Harvey Milk Terminal 1 (Terminal 1), one is located in Terminal 2, and one is located in Terminal 3. The Terminal 1 baggage handling system is a new system operated under a separate contract with Beumer Lifecycle Management LLC (File 20-0698). 26 passenger boarding bridges are located in Terminal 1, and 14 are in Terminal 2. The Terminal 3 boarding bridges and baggage handling system are maintained by United Airlines, which exclusively operates out of Terminal 3.

[2] The panel consisted of one member from San Jose International Airport, Facilities and Engineering; one member from Oakland International Airport, Airport Equipment Systems; and one member from SFO Terminal Systems.

[3] Chapter 12X of the Administrative Code prohibits City contracting with businesses headquartered in states that allow discrimination against LGBT individuals or have restrictive abortion or voter suppression laws. Georgia is a Covered State under Chapter 12X due to restrictive abortion and voter suppression laws.

in the domestic terminals, for a term of three years from August 2022 through July 2025, with one two-year option to extend through July 2027, and an amount not to exceed $13,114,615.

Scope of Work

Under the proposed contract, PBP would be responsible for providing complete maintenance on the Terminal 2 baggage handling system and 40 passenger boarding bridges in Terminals 1 and 2. PBP would also perform on-call maintenance on Baggage Carousel 10 in Terminal 3, which is not frequently used. There is no change in the scope of work from the current Vanderlande contract.

Performance Management

The Airport uses three performance measures for the contract: the Availability Standard, which tracks the amount of time that equipment is available for use, the Preventive Maintenance Standard, which tracks the percentage of preventive maintenance inspections that are completed on time, and the Tracking Accuracy Standard, which tracks the accuracy of baggage sorted by the baggage handling system. The benchmarks are 98 percent for the Preventive Maintenance Standard and 97 percent for the Availability and Tracking Accuracy Standards.

FISCAL IMPACT

The proposed contract would have a total amount not to exceed $13,114,615 over three years. PBP estimates that approximately 21 full-time equivalent (FTE) employees would perform services under the contract. The staffing plan and estimated labor costs for Year 1 of the proposed contract are shown in Exhibit 2 below.

Exhibit 2: Estimated Staffing Plan and Labor Costs, Year 1 (August 2022 – July 2023)

Position	FTE Employees	Hourly Cost (with Benefits)[4]	Annual Total Hours (Excluding PTO)	Estimated Annual Labor Costs
Manager	1.0	$93.26	1,944	$181,297
Office Site Administrator	1.0	40.93	1,944	79,568
Head Maintenance Technician	3.0	103.73	5,640	584,981
Maintenance Technician	9.0	97.08	16,920	1,642,594
Laborer/Jammer/Encoder	3.5	65.85	6,580	433,293
Control Room Operator	3.5	40.93	6,804	278,488
Total	**21.0**			**$3,200,220**

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

Labor Costs

The Airport's current contract with Vanderlande funds 17.13 FTE staff at an annual cost of $3.7 million, or an average cost of $218,711 per FTE. The proposed contract with PBP funds 21 FTE starting at an annual cost of $3.2 million, or an average cost of $152,391 per FTE. The decrease in per-FTE cost is primarily attributed to changes in the calculation of labor costs. The current contract was structured using fully burdened billing rates, including overhead, and job

[4] Hourly labor costs include health insurance, dental insurance, vision insurance, life insurance, disability insurance, retirement, workers' compensation, payroll taxes, and training.

assignments for laborers and jammers differ between the current and proposed contract. The new contract is structured to pay hourly wages and benefits for actual hours worked. Regarding the increase in FTE positions, PBP's proposal included three Head Maintenance Technician and one Office Site Administrator positions to provide additional support.

PBP estimates that prevailing wage costs will increase approximately 2.6 percent annually, and that other costs will remain constant each year. There is a one-time mobilization charge of up to $50,000 for the first thirty days of the contract to complete training, obtain licenses, permits, and tools, and develop a maintenance plan.

The total cost breakdown over the three-year contract term is shown in Exhibit 3 below.

Exhibit 3: Estimated Contract Budget

Item	Year 1	Year 2	Year 3	Total
Labor	$3,200,220	$3,284,773	$3,372,013	$9,857,007
Mobilization	50,000	-	-	50,000
Management Fee[5]	472,320	472,320	472,320	1,416,961
Other Direct Costs[6]	176,500	176,500	176,500	529,500
Tools, Equipment, & Radio	115,000	115,000	115,000	345,000
Parts & Materials	200,000	200,000	200,000	600,000
As-Needed Services[7]	105,382	105,382	105,382	316,146
Total Not to Exceed	**$4,319,423**	**$4,353,975**	**$4,441,215**	**$13,114,613**

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

As shown above, total contract costs start at $4.3 million in year one, which is approximately $150,000 increase or 3.4 percent increase from the Vanderlande annual contract cost $4.2 million.

Funding Source

According to Director Guadiamos, the contract costs are billed back to the Airlines based on prorated share of passengers and each Airline's portion of those passengers. For those gates assigned as common use, the contract costs are built into the Airport's Common Use Fees and charged to Airlines on a "per use" basis. Under the Airport's FY 2022-23 Rates and Charges, airlines using boarding bridges maintained by the Airport are charged an additional $25-27 per arriving or departing flight compared to airlines that maintain their own bridges.

RECOMMENDATION

Approve the proposed resolution.

[5] The management fee includes profit, overhead, and all other costs not specified in another category.

[6] Other direct costs include security badges, employee parking, uniforms, phones, fuel and consumables, service vehicle maintenance, office supplies, training, licenses and permits, travel, shipping and handling of spare parts, and corporate insurance.

[7] As-needed services are services that are not part of the regular scope of the contract.

Item 5 **File 22-0605**	**Department:** San Francisco Public Utilities Commission (SFPUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve the first amendment to a lease between the City and Landlord Kristian Akseth, Lilly Akseth, and Libkra Investment Corporation for 48,400 square feet of property located at 1980 Oakdale Avenue in San Francisco that is used by the San Francisco Public Utilities Commission (SFPUC).

Key Points

- The current lease expires on December 31, 2022. The first amendment would extend the lease term by eight years through December 31, 2030.
- The proposed new annual base rent would increase from $874,260 to $1,024,054, which is at or below market rate based on a survey of comparable properties completed by SFPUC Real Estate staff and reviewed by our office.
- The construction of a replacement SFPUC facility on City-owned land at 2000 Marin Street is in the planning stages, and according to SFPUC, will not be ready for occupancy until after December 31, 2027. Once it is ready, the lease at 1980 Oakdale Street will be terminated.
- Under the amendment, the landlord will make improvements to the premises to become ADA compliant. SFPUC will then relocate 25 staff to work at the leased premises.

Fiscal Impact

- Under the proposed eight-year lease extension, the City would make total rent payments of at least $8.2 million, not including annual CPI adjustments. If the City (via SFPUC) exercises the Early Termination Option, rent payments could be as low as an additional $5.1 million, not including CPI adjustments.
- Funding for rent is paid from SFPUC Water Enterprise revenues.

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

On November 16, 2016, the City signed a lease agreement on behalf of the San Francisco Public Utilities Commission (SFPUC) with landlord Kristian and Lilly Akseth and the Libkra Investment Corporation[1] for the lease of approximately 48,400 square feet of land at 1980 Oakdale Avenue in San Francisco, for a six-year term that commenced on February 1, 2017 and expires on December 31, 2022. During that time, the City has paid $4.8 million in rent. The original lease did not meet the threshold that would bring it to the Board of Supervisors for approval under Charter Section 9.118 (b), since the lease term was for less than ten years and less than $10 million in total rent.

The original agreement includes one option to extend the lease term by three years. The City has notified the Landlord in a timely manner of its intent to extend the lease term, beyond three years, as proposed here in the first amendment now under consideration.

On April 26, 2022, SFPUC recommended approval of the proposed first amendment lease (SFPUC Resolution 22-0078).

Description of Leased Premises

The premises leased by SFPUC consist of approximately 36,400 square feet of rentable building space, and approximately 12,000 square feet of paved yard space. The premises are currently used by SFPUC Water Enterprise's City Distribution Division mainly for storing materials including pipes, valves, and meter boxes, with some field staff also stationed in the building. The premises are located across the street from City-owned property at 1990 Newcomb Avenue, which serves as the main facility for the Water Enterprise's City Distribution Division. The City Distribution Division's need for additional warehouse space grew beyond the capacity of 1990 Newcomb to the point where it needed to lease the additional warehouse at 1980 Oakdale in 2016.

New Replacement Facility

In April 2020, the City acquired approximately 7.5 acres of land at 2000 Marin Street in San Francisco. SFPUC is planning to use this land to construct a new facility to replace the existing Water Enterprise's City Distribution Division facilities located at 1990 Newcomb Avenue and 1980

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[1] Ownership of the Premises is split three-ways between the collective Landlord: individual Kristian Akseth who owns 32.5 percent, the individual Lilly Akseth who owns 32.5 percent, and the Libkra Investment Corporation which owns 35 percent.

Oakdale Avenue. The new facility construction for 2000 Marin Street is currently in the planning stages, and according to SFPUC, will not be ready for occupancy until after December 31, 2027. Until the construction at 2000 Marin Street is complete, SFPUC intends to continue leasing the premises located at 1980 Oakdale Avenue.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve the first amendment to a lease between the City and Landlord Kristian Akseth, Lilly Akseth, and Libkra Investment Corporation for 48,400 square feet of property located at 1980 Oakdale Avenue in San Francisco that is used by the San Francisco Public Utilities Commission (SFPUC). The current lease expires on December 31, 2022. The first amendment would:

- Extend the lease term by eight years for a new total lease term of 14 years, from January 1, 2017 through December 31, 2030, with no additional option to extend;
- Increase Annual Base Rent from $874,260 to $1,024,054 starting on January 1, 2023;
- City to pay one-time fee of $17,500 within 30 days of the effective date of the amendment. This fee is a negotiated amount to cover the additional maintenance and repair services that the landlord would provide under the amended lease agreement (described below);
- Provide the City with the option to terminate the lease any time after December 31, 2027 with 270 days' advance written notice;
- Provide for the landlord to make improvements, repairs, and maintenance to the premises to become ADA compliant. SFPUC will add more personnel to work at the leased premises once it is ADA compliant.

The proposed new annual base rent of $1,024,054 is at or below market rate based on a survey of comparable properties completed by SFPUC Real Estate staff and reviewed by our office.

Exhibit 1. Summary of Lease Provisions

	Original	**First Amendment (*Proposed)***
Term	February 1, 2017 - December 31, 2022	Eight Year extension; February 1, 2017-December 31, 2030
Premises	48,400 square feet at 1980 Oakdale Street	No change
Permitted Use	Satellite office and warehousing facility for SFPUC Water Enterprise City Distribution Division	No change
Option to Extend	Yes, one 3-year term	None
Early Termination Option	None	Yes, without penalty after December 31, 2027, provided 270 days' advance notice
Base Rent	$741,000 (initial); $874,260 (current)	$1,024,054
Rent per Square Foot[a]	$20.36 per year (initial); $24.18 (current)	$28.13 per year
Rent Increases	Annually on each January 1 by regional Consumer Price Index (CPI)	No change
Security Services	City is responsible for the cost of its security for the Premises	Landlord shall maintain and repair existing security camera and burglar alarm system
Utilities & Services	Landlord provides to the building gas and electricity and water, City pays cost. City supplies janitorial, pest control and refuse removal services	No change
Improvements & Repairs	Landlord is responsible for maintenance of the exterior and structural portions of the building such as the sidewalk, roof, foundation, walls and window frames, as well as the building systems. City will be responsible for maintenance and repairs to the parking lot, perimeter fencing and the interior portions of the premises.	Additionally, Landlord shall now provide property repairs and maintenance including Lift Maintenance, HVAC Maintenance, Yard Gate Maintenance, installing an ADA-compliant washroom and repairing other washrooms to be ADA compliant. Landlord will purchase and install workstations at a not to exceed cost of $325,000, reimbursed by the City.
Building Insurance	City is self-insured, not required to carry any insurance with respect to this Lease	No change

Notes: a) Rent calculated based on 36,400 square feet of building rentable area only

Source: Proposed First Amendment to Lease

Improvements & Repairs

As noted in Exhibit 1 above, the proposed lease extension requires the landlord to make improvements to the lease site to accommodate an increase in site staffing from 32 staff to 58 staff. Currently there are 32 FTEs working at 1980 Oakdale Street. According to SFPUC, 25 staff are being relocated from their current remote location at University Mound Reservoir Pipe Yard (850 Bacon Street) and 1990 Newcomb Avenue where they are stationed in leased construction trailers.[2] SFPUC will terminate the month-to-month trailer rentals ($2,186 per month) following the ADA improvements and staff relocation to 1980 Oakdale Street. The renovated site could accommodate up to 62 staff, allowing for growth of 5 FTE over the eight-year term of the lease.

The improvements include converting the first floor into an office space and purchasing workstations at a not-to-exceed cost of $325,000, which will be reimbursed by the City. The landlord will select design and construction contractors to complete the work. According to the proposed lease extension, the landlord plans to work with 450 Architects for design services but has not yet selected a general contractor.

In addition, the proposed lease transfers responsibility for interior building systems (such as electrical, plumbing, life safety, and HVAC), security system, and elevator maintenance from the City to the landlord.

FISCAL IMPACT

Under the proposed first amendment, beginning on January 1, 2023, the Annual Base Rent will be $1,024,054, equal to approximately $28.13 per square foot. Rent is adjusted annually on each January 1 to reflect the change in Consumer Price Index (CPI). Under the proposed eight-year lease extension, the City would owe total rent payments of at least $8.2 million, not including annual CPI adjustments. If the City (via SFPUC) exercises the Early Termination Option, rent payments could be as low as an additional $5.1 million, not including CPI adjustments.

Funding Source

Funding for rent is paid from SFPUC Water Enterprise revenues. The Controller's office confirmed that there are $512,027.10 in funds available for the initial six months' base rent, from January 1, 2023 to June 30, 2023.

RECOMMENDATION

Approve the proposed resolution.

[2] According to SFPUC, the 28 staff being relocated are from the City Distribution Division, Engineering Construction Management Team. They will provide construction management services for the annual replacement of 10 – 12 miles of water mains.

Item 6 **File 22-0652**	**Department:** Public Utilities Commission (PUC)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the Administrative Code to approve form contracts for the San Francisco Public Utilities Commission (SFPUC), grant Administrative and Environment Code waivers for these contracts, and delegate the SFPUC General Manager authority under Charter Section 9.118 to execute certain contracts with terms in excess of 10 years or requiring expenditures of $10,000,000 or having anticipated revenues of at least $1,000,000, for a period of five years through June 30, 2027.

Key Points

- CleanPowerSF and Hetch Hetchy Power must enter into contracts for electricity products under compressed timelines to comply with state law and California Public Utilities Commission (CPUC), California Energy Commission (CEC), and California Independent System Operator (CAISO) rules and regulations. The energy market is highly volatile and increasingly competitive. As such, SFPUC staff believes that Board of Supervisors approval of every power contract is not feasible or convenient, and requests delegating authority to the SFPUC General Manger to enter these contracts.
- Under the proposed ordinance, SFPUC would use two industry standard agreements, the SFPUC's purchase, storage, and sale agreements, and form contracts developed by California Community Power (CC Power). SFPUC would be required to provide an annual report to the Board of Supervisors including the duration, product purchased, and cost of contracts entered into under the delegated authority, as well the rates charged to CleanPowerSF customers to recover program costs, and a comparison to the PG&E rates.

Fiscal Impact

- The authority delegated by the proposed ordinance would be used to enter into contracts with total annual expenditures of up to $150 million, for total maximum potential expenditures of $750 million over the five-year term. The delegated authority would also allow SFPUC to enter into contracts with total annual revenues of up to $10 million, for total maximum potential revenues of $50 million over the five-year term.

Recommendation

- Because the proposed ordinance waives (1) standard contracting provisions required by the City's municipal codes, and (2) the Board of Supervisors' authority under Charter Section 9.118, authorizing the SFPUC to enter into contracts longer than 10 years or in an amount of $10 million or more without further Board of Supervisors approval, approval of the proposed ordinance is a policy matter for the Board of Supervisors.

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.

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

In 2016, the San Francisco Public Utilities Commission (SFPUC) launched the CleanPowerSF Community Choice Aggregation (CCA) program to provide cleaner and more sustainable electricity at competitive rates to those offered by Pacific Gas & Electric Company (PG&E). CleanPowerSF uses clean and renewable energy purchased from various sources, including SFPUC's Hetch Hetchy Power.

In February 2021, the Board of Supervisors authorized CleanPowerSF to join a nine-member Joint Powers Agency (JPA) with other community choice aggregators in Northern California (Ordinance 25-21). The JPA, called California Community Power or "CC Power," was formed in April 2021.

Delegated Authority of Power Contracts

In May 2015, the Board of Supervisors authorized the SFPUC General Manager to use pro forma agreements to purchase and sell electricity to operate the Hetch Hetchy and CleanPowerSF programs without further Board of Supervisors approval (File 15-0408).[1] In December 2015, the Board of Supervisors authorized the SFPUC General Manager to enter into agreements requiring expenditures of $10 million or more for electric power and related products and services to launch the initial phases of CleanPowerSF (File 15-1123). In January 2018, the Board of Supervisors approved an ordinance delegating authority under City Charter Section 9.118(b) to the SFPUC General Manager to enter into agreements exceeding 10 years or $10 million for power and related products and services required for CleanPowerSF, which applied to power agreements procured through two Requests for Offers (RFO) issued in 2017 (File 17-1172). In February 2020, the Board of Supervisors approved an ordinance delegating authority to the SFPUC to (1) enter into contracts with up to nine providers of renewable energy products from a 2019 RFO that have terms of up to 25 years and have a combined annual cost of up to $35 million using standardized power contracts without further Board of Supervisors' approval and (2) waive certain standard contracting provisions required by the City's municipal codes for such contracts (File 19-1203). In each case of the delegated authority, the SFPUC has used pro forma contracts developed by the SFPUC with the City Attorney's Office and standard contract templates provided by the Western System Power Pool Agreement and the Edison Electric Institute.

[1] The Board of Supervisors similarly authorized the use of pro forma agreements to purchase and sell electricity to operate the Hetch Hetchy program prior to 2015 and the operation of the CleanPowerSF program. See, for example, File 01-0225.

According to Barbara Hale, SFPUC Assistant General Manager, CleanPowerSF and Hetch Hetchy Power must enter into contracts for electricity products under compressed timelines to comply with state law and California Public Utilities Commission (CPUC), California Energy Commission (CEC), and California Independent System Operator (CAISO) rules and regulations, such as Resource Adequacy requirements.[2] The energy market is highly volatile and increasingly competitive, as in addition to six Investor Owned Electric Utilities and 71 Publicly Owned Electric Utilities, there are now 24 CCA programs operating in California and 19 Energy Service Providers supplying wholesale customers and retail customers. The time-limited pricing typically offered in the industry cause the SFPUC to size commitments to the authority of the General Manager to secure power supplies on market timelines, even when the SFPUC is aware that a larger purchase commitment may have produced more favorable outcomes for ratepayers were the SFPUC able to execute a contract within the time-limited window. As such, SFPUC staff believes that Board of Supervisors approval of every power contract is not feasible or convenient, though the Department did so twice for two CC Power agreements in 2022 (Files 22-0145 and 22-0331, where the contract execution window was 90 days). In June 2022, the SFPUC Commission approved a resolution that delegated its authority to execute power contracts to the SFPUC General Manager (SFPUC Resolution 22-0109).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Administrative Code to approve the use of form contracts to purchase and sell electricity and related products by the SPFUC, grant Administrative and Environment Code waivers for these contracts, and delegate to the SFPUC General Manager authority under Charter Section 9.118 to execute certain contracts with terms in excess of 10 years or $10 million, or having anticipated revenue of over $1 million, for a period of five years through June 2027.

Under the proposed ordinance, SFPUC would use two industry standard agreements, the SFPUC's purchase, storage, and sale agreements, and form contracts developed by California Community Power (CC Power).[3] According to Assistant General Manager Hale, the Western Systems Power Pool Agreement and Edison Electric Institute Master Agreement[4] are widely used across the United States and have been used by SFPUC for decades and were included in the 2017 and 2019 delegations of authority approved by the Board of Supervisors. The CC Power form agreements include Buyer Liability Pass Through, Project Participation Share, and Coordinated Operations Agreements, and are consistent with the agreements approved by the Board of Supervisors with Tumbleweed Energy Storage LLC (File 22-0145) and Goal Line Energy Storage System 1, LLC (File 22-0331).

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[2] State law requires all electric service providers, including CleanPowerSF and Hetch Hetchy Power, to maintain certain quantities of Resource Adequacy (RA) to ensure sufficient electric generation resources to meet unusually high levels of consumer demand.

[3] CC Power is a Joint Powers Authority comprised of 10 California CCA programs, including CleanPowerSF.

[4] SFPUC is a member of the Western Systems Power Pool, which is a group of more than 300 publicly owned and private utilities. Edison Electric Institute is an association that represents investor-owned electric companies in the U.S. They have developed the master agreement in collaboration with 80 member utilities, power marketers, and customer representatives.

The form agreements do not include provisions required under the City's Administrative Code, such as: (1) non-discrimination in contracts (Chapter 12B); (2) MacBride Principles (Chapter 12F); (3) local business enterprise utilization and non-discrimination in contracting (Chapter 14B); (4) consideration of criminal history in hiring (Chapter 12T); (5) consideration of salary history in hiring (Chapter 12K); (6) prohibition on contracting in certain states (Chapter 12X); (7) first source hiring (Chapter 83); (8) competitive bidding requirements (Section 21.1); and (9) tropical hardwood and virgin redwood ban (Environment Code Chapter 8). The proposed ordinance would allow the General Manager to waive these provisions, where they find and document in writing that the transaction represents the best opportunity available to the City to obtain essential services and products in a manner beneficial to the City, for contracts procured through competitive bidding processes that include language requiring compliance with all applicable federal, state and local laws.

The proposed ordinance would delegate the Board of Supervisors' authority to enter into agreements with terms of at least 10 years or expenditures of at least $10 million, as well as with revenues of at least $1 million, to the SFPUC General Manager. The total annual expenditures for these contracts may not exceed $150 million, and the total annual revenues may not exceed $10 million. No contract entered into under this authority may exceed 25 years. SFPUC would be required to provide an annual report to the Board of Supervisors including the duration, product purchased, and cost of contracts entered into under the delegated authority, as well the rates charged to CleanPowerSF customers to recover program costs, and a comparison of those rates to the PG&E rates. The authority would sunset in five years.

FISCAL IMPACT

The authority delegated by the proposed ordinance would be used to enter into contracts with total annual expenditures of up to $150 million, or less than 50 percent of FY 2021-22 expenditures and FY 2022-23 and FY 2023-24 budgeted expenditures. The maximum total potential expenditures over the five-year term of the ordinance would be $750 million. According to Michael Hyams, CleanPowerSF Director, SFPUC's power supply budgetary expenditure projections are a combination of projected costs from existing multi-year contracts and estimates of future costs that are not yet contracted. In future years, SFPUC's un-contracted power supply grows, so SFPUC is constantly in the market adding new contracts to meet demand. This "laddering" of future contracts is a standard power portfolio risk management practice.

The delegated authority would also allow SFPUC to enter into contracts with total annual revenues of up to $10 million, for total maximum potential revenues of $50 million over the five-year term.[5] Costs for these contracts would be recovered from rates paid by Hetch Hetchy Power and CleanPowerSF customers.

[5] According to Assistant General Manager Hale, Hetch Hetchy Power typically produces more power than is needed for its customers, which are mostly municipal facilities. Hetch Hetchy Power and CleanPowerSF also purchase Resource Adequacy (RA) to meet state requirements. RA requirements are determined by the CAISO and CPUC and the calculations often change near the compliance deadline. As such, Hetch Hetchy Power and CleanPowerSF typically purchase excess RA capacity, which may be resold to other electric providers.

FY 2021-22 Revenues & Expenditures

According to Director Hyams, total power contract expenditures in FY 2021-22 were approximately $241.2 million for CleanPowerSF and $70.2 million for Hetch Hetchy Power, for total expenditures of approximately $311.4 million. FY 2021-22 power wholesale revenues were approximately $4.5 million for CleanPowerSF and $20.2 million for Hetch Hetchy Power, for total revenues of approximately $24.7 million. However, the Hetch Hetchy Power revenues include California Independent System Operator (CAISO) revenues that are not subject to the proposed ordinance because they are approved by the Board of Supervisors through the Scheduling Coordinator Agreement with APX (File 22-0074).[6] Director Hyams estimates that annual Hetch Hetchy Power sales that would be authorized under the proposed ordinance are approximately $5 million per year, but would vary depending on hydrologic conditions, wholesale market demand, and regulatory conditions.

POLICY CONSIDERATION

Waivers of Administrative Code and Environment Code Provisions

As noted above, the proposed ordinance would delegate authority to the SFPUC General Manager to waive certain standard contract and City code provisions. According to SFPUC, the City's standard contract terms identified in the proposed ordinance are not standard electric industry terms and many energy sellers reject such terms or will mark up the cost of energy to account for what they may consider a non-market condition and liability.

Delegation of Contracting Authority to SFPUC General Manager

The proposed ordinance would delegate the Board of Supervisors' authority to enter into power agreements with terms up to 25 years and that have combined annual expenditures of up to $150 million, and combined annual revenues of $10 million to the SFPUC General Manager. Since the SFPUC Commission has also delegated its approval authority to the General Manager, the terms of power purchase and sale agreements may not be publicly visible prior to the SFPUC entering into the agreements if the proposed ordinance is approved. SFPUC requests delegated authority due to the volatility and competition in the energy market, and the need to conduct business at an accelerated, commercial pace. As we noted above, the SFPUC has brought two power agreements to both its Commission and the Board of Supervisors in 2022.

As noted above, the proposed ordinance would require SFPUC to provide an annual report to the Board of Supervisors including the duration, product purchased, and cost of contracts entered

[6] The California Independent System Operator (CAISO) controls and operates the transporting of electric power over California's electric transmission system. The SFPUC does not meet the CAISO requirements 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 with APX for these services.

into under the delegated authority, as well the rates charged to CleanPowerSF customers to recover program costs, and a comparison of those rates to the PG&E rates.[7]

Because the proposed ordinance waives (1) standard contracting provisions required by the City's municipal codes, and (2) the Board of Supervisors' authority under Charter Section 9.118, authorizing the SFPUC to enter into contracts longer than 10 years or in an amount of $10 million or more without further Board of Supervisors approval, approval of the proposed ordinance is a policy matter for the Board of Supervisors.

RECOMMENDATION

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

[7] SFPUC Resolution 22-0109 requires the General Manager to report on a quarterly basis to the Commission, the duration, product purchased, and cost of contracts entered into pursuant to the delegated authority.

Item 7 File 22-0703	Department: Human Services Agency (HSA)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would (a) authorize HSA to amend emergency hotel booking agreements executed to provide non-congregate shelter to people experiencing homelessness by extending the terms through August 31, 2023; (b) waive certain requirements in the Administrative and Environment Codes for the agreements; (c) approve five agreements with anticipated expenditure exceeding $10 million; and (e) authorize HSA to modify such agreements when necessary.

Key Points

- The Human Services Agency (HSA) entered into booking agreements with 28 hotels to provide rooms for shelter-in-place, isolation and quarantine, and first responders. According to the Mayor's emergency proclamation and supplements, HSA did not need to adhere to competitive solicitation requirements or include terms otherwise required by the Municipal Code to enter into or amend the agreements. Extension of the terms of these hotel booking agreements beyond August 31, 2022 and continued waiving of restrictions in the Municipal Code requires approval of the Board of Supervisors by ordinance.
- HSA would extend the term of 11 hotel booking agreements beyond August 31, 2022 under the authority of the proposed ordinance.

Fiscal Impact

- The proposed ordinance would increase the not-to-exceed amounts by a total of $19.2 million across agreements with the Adante Hotel, the Cova Hotel, the Kimpton Buchanan Hotel, The Monarch, and Hotel Vertigo. Although no guests are staying at Kimpton Buchanan Hotel as of July 1, 2022, the agreement is being extended through December 31, 2022.

Policy Consideration

- HSH currently uses three hotels for non-congregate hotel-based emergency shelter sites, and DPH uses one hotel to operate managed alcohol programs. Hotel-based emergency shelter sites are more expensive on a per person per night basis compared to congregate temporary shelter sites ($244 compared to $105).

Recommendations

- Reduce the not-to-exceed amount of the Kimpton Buchanan Hotel by $1,372,120, from $14,064,232 to $12,692,112 to reflect an end date of September 30, 2022 rather than December 31, 2022 and approve the proposed ordinance 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.

The Mayor's 45th Supplement to the COVID-19 Emergency Proclamation states that any amendment to extend the term of hotel booking agreements for non-congregate shelter for people experiencing homelessness beyond August 31, 2022 and to waive applicable restrictions in the Municipal Code requires approval of the Board of Supervisors by Ordinance.

BACKGROUND

In response to the COVID-19 emergency, the City established the COVID-19 Alternative Shelter Program. This Program provided shelter in place sites, congregate setting sites and isolation and quarantine sites to COVID-vulnerable individuals, most of whom were experiencing homelessness. These shelters included hotel rooms, congregate units, and recreational vehicles. As discussed below, as of July 1, 2021, the operation of ongoing Alternative Shelter Programs moved back to home departments. The City is in the process of winding down the Shelter in Place Hotel program by the last quarter of calendar year 2022 although this may extend to the first quarter of 2023 if needed.

Emergency Hotel Booking Agreements

The Human Services Agency (HSA) entered into booking agreements with 28 hotels to provide rooms for shelter-in-place, isolation and quarantine, and first responders. According to the Mayor's emergency proclamation and supplements, HSA did not need to adhere to competitive solicitation and procurement procedures in the Administrative Code, obtain commission approval, or include terms otherwise required by the Administrative and Environment Codes (such as the Minimum Compensation Ordinance) to enter into or amend the agreements. As of June 28, 2022, spending under the emergency hotel booking agreements totaled $224.7 million according to HSA staff.

The Mayor's 45th Supplement to the COVID-19 Emergency Proclamation states that any amendment to extend the term of these hotel booking agreements beyond August 31, 2022 and to waive applicable restrictions in the Municipal Code requires approval of the Board of Supervisors by Ordinance. HSA intends to extend the term of 11 agreements beyond August 31, 2022 under the proposed ordinance as discussed below.

Under Charter Section 9.118, agreements and amendments below $10 million do not require approval by the Board of Supervisors. As of June 2022, the Board of Supervisors has approved two emergency hotel booking agreements for the Americania Hotel (File 12-1235) and Hotel Whitcomb (File 12-1236) with not-to-exceed amounts exceeding $10 million. HSA is requesting that the Board of Supervisors approve an additional five agreements with proposed not-to-exceed amounts exceeding $10 million, including agreements with the Adante Hotel, the Cova Hotel, the Kimpton Buchanan Hotel, The Monarch, and Hotel Vertigo.

HSA entered into the original booking agreements with the five hotels between April and July 2020 and subsequently amended the agreements twice to extend the term and increase the not-to-exceed amounts. HSA is proposing to amend the agreements for a third time to extend the terms beyond August 31, 2022 and increase the not-to-exceed amounts above $10 million. Details for the proposed third amendments to the booking agreements are shown in Exhibit 2.

Shelter in Place Hotel Program- Status as of July 2022

At its highest capacity, San Francisco's Shelter in Place Hotel Program, provided 2,288 rooms across 25 sites. According to Department of Homelessness and Supportive Housing (HSH) staff, the program has served over 3,700 guests, including adults, families, and Transitional Aged Youth (ages 18-24). The Program provides non-congregate temporary shelter for people experiencing homelessness who are most vulnerable to COVID-19. The City has begun the process of rehousing guests temporarily sheltered in Shelter in Place hotels and closing the hotels. HSH took over operations of the Shelter in Place Hotel Program in July 2021 after the City's COVID-19 Command Center was closed.

HSH is responsible for matching individuals with long-term placements and will continue through the last quarter of calendar year 2022 when HSH expects the last hotels to close. As of June 26, 2022, HSH has rehoused 1,140 Shelter in Place hotel guests out of 2,670 total exited hotel guests.[1] As of July 6, 2022, there were 745 active Shelter in Place Hotel guests, occupying 686 units (including units that may be occupied by more than one guest) in six hotels, and 74 percent of 933 available rooms were occupied. The hotels stopped accepting new guests in June 2021.

According to HSH staff, HSH notifies service providers at least three months in advance of starting the closure of that site so that HSH and the provider can ensure 90-day notification to guests prior to site closure and to allow HSH to assist guests with rehousing. Guests in hotels that are closing are either permanently housed or transferred to another Shelter in Place hotel to await housing placement. After the last guest exits, demobilization takes several weeks to allow repairs to be made and rooms restored to operational condition.

Other Hotel Uses

According to HSA staff, HSH began using three hotels that were previously closed as Shelter in Place Hotels as non-congregate emergency winter shelter programs, including the Good Hotel (117 rooms), the Cova Hotel (95 rooms), and the Adante Hotel (93 rooms). These sites serve all adults experiencing homelessness regardless of COVID-19 vulnerability. Staff report that

[1] According to HSH staff, many of the guests who left the program did so voluntarily. Others moved to another institutional setting (e.g., hospital or other residential non-psychiatric medical facility) or transferred to other shelter programs (e.g., Navigation Centers or Transitional Housing) based on their needs. An unspecified number were discharged from the program due to unsafe behavior.

occupancy is at capacity at these three sites as units are filled as they become available through the City's centralized shelter placement process.

In addition, DPH currently uses 10 of the 41 rooms at the Days Inn for the Managed Alcohol Programs according to HSA staff but will be increasing to 20 rooms and uses an additional eight rooms for the Alcohol Sobering Center.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) authorize HSA to amend emergency hotel booking agreements executed on or before February 10, 2022 to provide non-congregate shelter to people experiencing homelessness by extending the terms through August 31, 2023; (b) waive certain requirements in the Administrative and Environment Codes for the agreements; (c) approve five agreements with anticipated expenditure exceeding $10 million pursuant to Charter Section 9.118; and (e) authorize HSA to modify such agreements when necessary provided the modifications do not increase the obligations or liabilities to the City.

Term Extensions

According to HSA, HSA would extend the term of 11 hotel booking agreements beyond August 31, 2022 under the authority of the proposed ordinance. The agreements include: seven active Shelter in Place Hotels operated by HSH, three non-congregate hotel-based emergency shelters operated by HSH, and one DPH managed programs hotel. The 11 hotels are shown in Exhibit 1 below.

Exhibit 1: 11 Hotel Booking Agreements to be Extended Beyond August 2021

Site #	Site Name	Address	Number of Rooms	Not to Exceed Amount	Current End Date	Proposed Amendment End Date
HSH Operated SIP Hotels						
2	Americania Hotel	121 Seventh Street	143	16,430,164 [a]	8/31/2022	10/9/2022
10	Hotel Whitcomb	1231 Market Street	459	78,972,179 [a]	8/31/2022	12/1/2022
34	HI San Francisco City Center	685 Ellis Street	70	8,287,143	8/31/2022	12/31/2022
11	Buena Vista Motor Inn	1599 Lombard Street	51	4,206,036	8/31/2022	12/31/2022
36	Kimpton Buchanan Hotel	1800 Sutter Street	131	14,064,232 [b]	4/2/2022	12/31/2022
25	Hotel Vertigo	940 Sutter Street	110	12,273,030 [b]	7/2/2022	12/31/2022
30	The Monarch	1015 Geary Street	100	15,005,460 [b]	5/26/2022	8/31/2023 [c]
Subtotal, 7 Hotels			*1,064*	*149,238,244*		
HSH Non-Congregate Hotel-Based Emergency Shelter Sites						
4	Good Hotel	112 Seventh Street	117	9,453,033	8/31/2022	11/13/2022
38	Cova Hotel	655 Ellis Street	95	11,385,311 [b]	2/28/2022	8/31/2023
35	Adante Hotel	610 Geary Street	93	14,856,866 [b]	4/17/2022	8/31/2023
Subtotal, 3 Hotels			*305*	*35,695,210*		
DPH Managed Programs						
42	Days Inn (DPH)	465 Grove Street	41	6,099,515	8/31/2022	12/31/2022
Total, 11 Hotels			**1,410**	**191,032,969**		

Source: HSA

[a] Previously approved by the Board of Supervisors

[b] Proposed not to exceed amounts as discussed below

[c] According to HSA, The Monarch will transition to HSH non-congregate hotel-based shelter in September 2022

According to HSA, HSA intends to amend the end dates for eight of the 11 agreements to end on or before December 31, 2022 and to amend the end dates for the remaining three agreements to end on August 31, 2023 for hotels that will be used as non-congregate hotel-based emergency shelter sites.

Exemptions from the Administrative Code and the Environment Code

Under the proposed ordinance, the hotel booking agreements would continue to be exempt from the following requirements of the Administrative and Environment Codes:

- Salary History Ordinance (Admin. Code Chapter 12K)
- Minimum Compensation Ordinance (Admin. Code Chapter 12P)
- Consideration of Criminal History in Hiring and Employment Decisions (Admin. Code Chapter 12T)
- Slavery Era Disclosure Ordinance (Admin. Code Chapter 12Y)
- Local Business Enterprise and Non-Discrimination in Contracting Ordinance (Admin. Code Chapter 14B)
- First Source Hiring Program (Admin. Code Chapter 83)

- Sugar-Sweetened Beverage Funding Ban Ordinance (Admin. Code Chapter 101)
- Tropical Hardwood and Virgin Redwood Ban (Environ. Code Chapter 8)
- Arsenic and Treated Wood Products (Environ. Code Chapter 13)
- Food Service and Packaging Waste Reduction Ordinance (Environ. Code Chapter 16)
- Bottled Water Ordinance (Environ. Code Chapter 24)

Agreements Exceeding $10 Million

The proposed ordinance would approve five hotel booking agreements with not-to-exceed amounts exceeding $10 million, including agreements with the Adante Hotel, the Cova Hotel, the Kimpton Buchanan Hotel, The Monarch, and Hotel Vertigo. Four of the agreements would be approved retroactively as all agreements except for the Cova Hotel agreement have expired as of July 2, 2022. Details for the proposed third amendments to the booking agreements are shown in Exhibit 2 below.

Exhibit 2: Proposed Third Amendments to 5 Hotel Booking Agreements Exceeding $10 Million

	Kimpton Buchanan Hotel	Hotel Vertigo	Adante Hotel	Cova Hotel	The Monarch
Address	1800 Sutter Street	940 Sutter Street	610 Geary Street	655 Ellis Street	1015 Geary Street
Number of Rooms	131 rooms	110 rooms	93 rooms	95 rooms	100 rooms
Term Begin Date	6/1/2020	4/25/2020	5/14/2020	5/26/2020	8/4/2020
Current End Date	4/2/2022	7/2/2022	4/17/2022	8/31/2022	5/26/2022
Proposed End Date	12/31/2022	12/31/2022	8/31/2023	8/31/2023	8/31/2023
Proposed Term length	943 nights	980 nights	1,204 nights	1,192 nights	1,122 nights
Current Not to Exceed Amount	$9,992,615	$9,993,753	$9,938,515	$8,514,330	$9,986,100
Proposed Room Costs	$12,229,767	$10,672,200	$8,386,275	$8,703,140	$8,480,400
Proposed Food Service Costs	n/a	n/a	$5,212,650	$1,376,700	$5,253,000
Proposed Contingency (15% of room costs)	$1,834,465	$1,600,830	$1,257,941	$1,305,471	$1,272,060
Proposed Not to Exceed Amount	$14,064,232	$12,273,030	$14,856,866	$11,385,311	$15,005,460
Proposed Average Daily Room Rate	$99 per night	$99 per night	$75 per night	$77 per night	$76 per night
Proposed Average Daily Food Service Rate	n/a	n/a	$47 per night	$69 per night*	$47 per night
Change in Term Length	273 nights	182 nights	501 nights	365 nights	462 nights
Change in Not to Exceed Amount	$4,071,618	$2,279,277	$4,918,352	$2,870,981	$5,019,360

Source: Proposed amended agreements

*Food service rate through 12/22/20. Food service was terminated at the Cova Hotel thereafter.

FISCAL IMPACT

The proposed ordinance would increase the not-to-exceed amounts by a total of $19.2 million and extend the terms for five agreements as shown in Exhibit 2 above. The contract not to exceed amounts include a 15 percent contingency for reimbursable expenses above the monthly room rate. According to HSA staff, the contingency amount is for use at the City's discretion and is primarily intended for repair costs at contract close-out. According to the agreements, the City may be responsible for all repair costs associated with restoring the hotel to its previous condition, even if they exceed the contingency amount. To date, no hotel close out costs have exceeded the total contract costs. However, at least two hotels, Hotel Union Square and Tilden, have demanded repair costs above the not to exceed contract amounts. Additionally, three other hotels, Americania, Vertigo, and Good hotels have indicated they will be submitting claims and/or demands that will exceed the not to exceed amount upon conclusion of the contract terms. HSA is working with the City Attorney's Office to resolve these issues.

HSA intends to extend the terms for an additional six agreements under the authority granted by the proposed ordinance but will not plan increase the not-to-exceed amounts at this time. However, HSA staff report that they may seek to increase the amount of the Hotel Whitcomb agreement in the future, subject to Board of Supervisors' approval.

Spend to Date

Budgeted and actual expenditures as of June 28, 2022 for the five agreements are shown below. Actual spending has exceeded the current not-to-exceed amount for the Kimpton Buchanan Hotel by $609,578. According to HSA, HSA is awaiting approval of the proposed ordinance to pay the outstanding amount.

Exhibit 3: Actual Spending for Five Agreements

Site Name	Current End Date	Current Not-to-Exceed Amount	Actual Spend to Date (As of 6/28/22)	Remaining Amount	Percent Spend
Kimpton Buchanan Hotel	4/2/2022	$9,992,615	$10,602,193	($609,578)	106%
Hotel Vertigo	7/2/2022	9,993,753	9,148,423	845,330	92%
Cova Hotel	8/31/2022	8,514,330	7,364,157	1,150,173	86%
The Monarch	5/26/2022	9,986,100	9,795,758	190,342	98%
Adante Hotel	4/17/2022	9,938,515	9,938,142	373	100%
Total		**$48,425,313**	**$46,848,673**	**$1,576,640**	**97%**

Source: HSA

Funding Sources

Approximately 91 percent of expenditures to date on Shelter in Place hotel agreements are eligible for reimbursement by the Federal Emergency Management Agency (FEMA). Under the most recent extension of funding availability, beginning July 1, 2022, FEMA will only cover 90 percent of eligible costs and require a 10 percent match, thus reducing the percentage of shelter in place costs eligible for reimbursement to approximately 82 percent (eligible reimbursement multiplied by 90%). The expiration date of FEMA funding availability is unknown at this time. FEMA will provide a 30-day notice of when its provision of funding for the Shelter In Place hotel programs will be discontinued. Remaining costs for the Shelter in Place hotel program are funded by other previously-appropriated federal, state, and local sources, including the State's Project Roomkey Allocation (expiring in June 2023), the Federal Emergency Solutions Grant and Community Development Block Grant, the State Homeless Housing, Assistance and Prevention Grant, and local funding from the City's General Fund and Proposition C.

Kimpton Buchanan Hotel

According to HSA, the Kimpton Buchanan Hotel closed to guests on June 30, 2022 and began demobilizing. Although no guests are staying at the hotel as of July 1, 2022, the agreement is being extended through December 31, 2022 because when these dates were developed, HSA was unsure of the end date and how demobilization would go. Clients from this hotel are being relocated relatively early. HSA can send a 30-day notice to terminate the contract earlier than December 31, 2022. We recommend that the Board of Supervisors reduce the not-to-exceed amount by $1,372,120, from $14,064,232 to $12,692,112 to reflect an end date of September 30, 2022 rather than December 31, 2022. 12,692,112

POLICY CONSIDERATION

Use of Hotels for HSH Emergency Shelter Sites and DPH Programs

HSH currently uses three hotels for non-congregate hotel-based emergency shelter sites and plans to use The Monarch as an emergency shelter site beginning in September 2022. In addition, DPH uses one hotel to operate managed alcohol programs and an alcohol sobering center under emergency hotel booking agreements. HSA intends to extend the agreement with Days Inn (under the authority granted by the proposed ordinance) for DPH managed programs through December 31, 2022 while DPH searches for an appropriate long-term site for these programs.

As of July 2022, the daily room rates for the five hotels are as follows:

- Good Hotel: $79 per night
- Cova Hotel: $73 per night (under the proposed amended agreement)
- Adante Hotel: $70 per night
- The Monarch: $70 per night (under the proposed amended agreement)
- Days Inn: $89 per night

Based on prior reporting, we estimate the current cost of temporary congregate shelters to be $105 per person per night, a figure which includes property rental costs (which are often minimal because they are on public land) and programming. According to HSH, the total per night service costs for the emergency hotels is approximately $244, a figure which includes property rental costs, programming, food, and security. The higher cost reflects the non-congregate setting.

RECOMMENDATIONS

1. Reduce the not-to-exceed amount of the Kimpton Buchanan Hotel by $1,372,120, from $14,064,232 to $12,692,112 to reflect an end date of September 30, 2022 rather than December 31, 2022.
2. Approve the proposed ordinance as amended.

Item 9 **File 22-0759**	**Department:** Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution approves an amended and restated loan agreement between MOHCD and Potrero Housing Associates II, L.P. to finance Potrero Block B by increasing the loan by $15,473,093 to a total not-to-exceed amount of $17,680,000.

Key Points

- Potrero HOPE SF is a 38-acre site that will provide up to 1,700 units of housing by replacing the 619 units of public housing on the site, adding over 180 affordable residential units (up to 60 percent AMI), and developing up to 800 market rate units. MOHCD selected BRIDGE Housing as the non-profit developer of the Potrero site through a competitive process.
- Potrero Block B is part of Phase 2 of the Potrero Hope SF project and is located at 1801 25th Street. The proposed project will be a seven-story building, with 157 units, including 40 one-bedroom units, 53 two-bedroom units, 51 three-bedroom units, 11 four-bedroom units, and two manager's units. Of the 155 units (excluding manager's units), 117 will serve as replacement units for existing Potrero public housing residents and 38 will be new affordable lottery units. The project's area median incomes (AMI) range from 30% MOHCD AMI up to 50% MOHCD AMI.

Fiscal Impact

- The total development cost for the 157 units of housing is $188.6 million. The City subsidy per housing unit based on the $17,680,000 loan amount is $112,611.
- Sources of the loan include: 2015 General Obligation Bonds, 2019 General Obligation Bonds, HOME Investment Partnership Program funds, and The Low and Moderate Income Housing Asset Fund.

Policy Consideration

- Project delays have contributed to estimated increases in costs for Potrero HOPE SF infrastructure and affordable housing.

Recommendation

- Because the proposed Loan Agreement to provide permanent gap financing to Potrero Block B is consistent with prior Board actions, we recommend approval.

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

In 2007, the San Francisco Housing Authority in partnership with the Mayor's Office of Housing and Community Development (MOHCD) launched the HOPE SF initiative to revitalize the City's most distressed public housing sites into mixed-income communities comprised of affordable housing, including replacement units for existing public housing and new affordable units, and production of market rate housing. Potrero Terrace and Annex ("Potrero") is one of the four HOPE SF sites undergoing revitalization as part of the HOPE SF initiative. Potrero is located on the south slope of Potrero Hill and was comprised of 619 units of public housing across 38 acres.

In 2007 the San Francisco Housing Authority released a Request for Qualifications for developers to develop the Potrero HOPE SF sites. In 2008, the Housing Authority selected BRIDGE Housing Corporation and BRIDGE Urban Infill Land Development LLP to develop the master development plan for the Potrero site. In 2010, the Master Plan for the site was finalized and the project began its environmental review and land use approval process with the Planning Development. BRIDGE established a separate entity named BRIDGE-Potrero Community Associates, LLC to plan and develop the project. In March 2015, BRIDGE-Potrero Community Associates, LLC entered into a Second Amended and Restated Exclusive Negotiating Rights Agreement with the San Francisco Housing Authority for exclusive rights to negotiate development of the Potrero project.

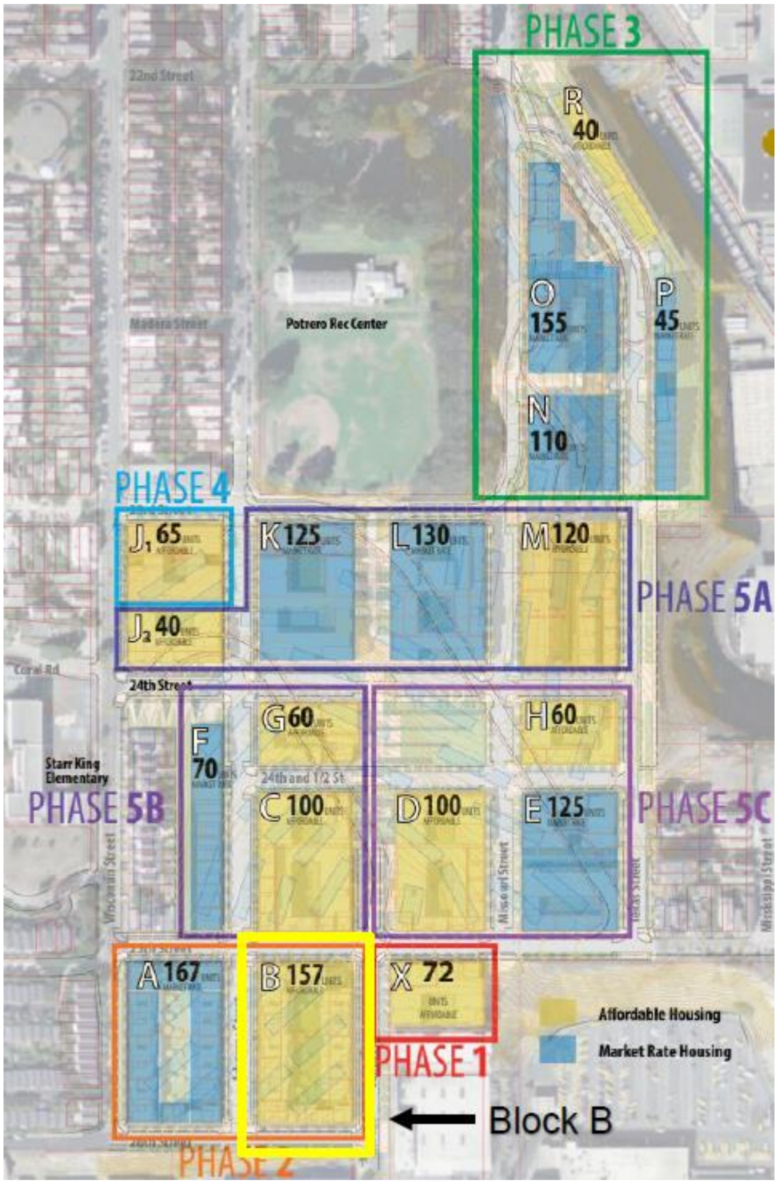
In 2017, the Board of Supervisors approved a development agreement (File 16-1161) and a master development agreement (File 16-1355) between the San Francisco Housing Authority, the City, and BRIDGE to develop the Potrero HOPE SF project. The proposed Potrero development will provide up to 1,700 units of housing by replacing the 619 units of public housing on the site, adding over 180 affordable residential units (up to 60 percent AMI), and developing up to 800 market rate units. The master plan also includes developing new street and utility infrastructure, 3.5 acres of new open spaces, and an estimated 50,000 square feet of new neighborhood space.

The Potrero HOPE SF project is being developed across five main phases over 25 years. In June 2019, the Phase I infrastructure and construction of 72 units of affordable housing development (1101 Connecticut) was completed. Phase 2 infrastructure construction began in February 2021 and is anticipated to be completed in December 2022.

Potrero Block B

Potrero Block B is part of Phase 2 of the Potrero Hope SF project and is located at 1801 25th Street. According to the MOHCD loan evaluation, construction is scheduled to start in July 2022 and to be completed in June 2024. Potrero Block B is shown in Exhibit 1 below.

Exhibit 1: Potrero HOPE SF Block B



Source: MOHCD

The proposed project will be a seven-story building, with 157 units, including 40 one-bedroom units, 53 two-bedroom units, 51 three-bedroom units, 11 four-bedroom units, and two manager's units. Of the 155 units (excluding manager's units), 117 will serve as replacement units for existing Potrero public housing residents and 38 will be new affordable lottery units.

The project's area median incomes (AMI) range from 30% MOHCD AMI up to 50% MOHCD AMI. The property will be managed by Bridge Property Management Company, an affiliate of BRIDGE Housing Corporation. Project amenities include a large courtyard for residents, a public mini park, 108 parking spaces, and an onsite early childhood education center.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) approve a loan agreement between MOHCD and Potrero Housing Associates II, L.P., a California limited partnership formed by parent entity Bridge Housing Corporation, in an amount not to exceed $17,680,000 for a minimum term of 57 years to finance the construction of Potrero Block B, a 100 percent affordable, 157-unit multifamily rental housing development (including 2 staff units) for low-income households, and (2) confirm that the loan agreement is consistent with the Mitigation Monitoring and Reporting Program under the California Environmental Quality Act (CEQA), the City's General Plan, and policy priorities of Planning Code Section 101.1.

Affordability Restrictions

The proposed loan agreement includes a Declaration of Restrictions that controls the affordability of the units in the proposed development for the life of the project. Of the 157 total units, 49 are restricted at 30% MOHCD AMI, 106 are restricted at 50% MOHCD AMI, one manager's unit is restricted at 60% MOHCD AMI, and one manager's unit is unrestricted. Seventy-five percent of these (117 units) will be set aside as replacement units for existing Potrero public housing residents, with 108 supported by Project Based Section 8 rental subsidy (PBV) and nine by Rental Assistance Demonstration (RAD) subsidy.

Sponsor Performance

According to the MOHCD loan evaluation, the project sponsor has experienced significant turnover in project management staff working on the Potrero HOPE SF project, contributing to delays in Potrero Block B and other projects, and as a condition of previous loans with MOHCD, BRIDGE regularly provides a staffing report to MOHCD. The existing loan agreement between MOHCD and BRIDGE-Potrero Community Associates, LLC, for Phase 2 infrastructure development state that in the event that this is needed, BRIDGE will utilize funding from the developer fee to pay for the consultant (File 20-1365). To date, MOHCD has been monitoring staffing monthly and has found that staffing levels are appropriate and stable for Potrero Block B.

FISCAL IMPACT

The total development cost for the 157 units of housing is $188.6 million, as shown in Exhibit 1 below. Of the approximate $188.6 million, $18.2 million (9.7%) are City funds (including $526,868 in accrued deferred interest), $127.1 million (67.4%) are State funds, and $43.3 million (23.0%) are private funds.

Exhibit 1: Total Development Sources and Uses of Funds

	City	State	Private	Total
Sources				
MOHCD Loans	$17,680,000			$17,680,000
Affordable Housing & Sustainable Communities (AHSC) Loan		20,000,000		20,000,000
HCD Accelerator Loan		94,836,486		94,836,486
Infill Infrastructure Grant (IIG)		11,699,000		11,699,000
Permanent Loan			43,305,000	43,305,000
Accrued Deferred Interest	526,868	570,793		1,097,661
Total Sources	**$18,206,868**	**$127,106,279**	**$43,305,000**	**$188,618,147**
Uses				
Acquisition	11,251			11,251
Hard Costs	7,831,800	106,258,676	36,228,257	150,318,733
Soft Costs	7,122,537	16,239,449	6,980,265	30,342,251
Permanent Loan Gap Interest Coverage	1,991,708			1,991,708
Reserves	749,572	2,658,154	96,478	3,504,204
Developer Fees	500,000	1,950,000		2,450,000
Total Uses	**$18,206,868**	**$127,106,279**	**$43,305,000**	**$188,618,147**

Source: MOHCD

Total development costs include $1,991,708 in permanent loan gap interest coverage to be used only if the permanent loan amount is further reduced due to rising interest rates. The permanent loan interest rate increased from 3.79 percent to 5.248 percent and is projected to continue rising according to the MOHCD loan evaluation. If the interest coverage is not needed, the MOHCD gap loan will be reduced.

Companion resolutions subject to Board of Supervisors' approval would allow MOHCD to execute standard agreements with the California Department of Housing and Community Development (HCD) for the following loan and grant awards for the construction of Potrero Block B (also shown in Exhibit 1 above):

- HCD Accelerator loan totaling $94,836,486 (File 22-0768)
- Affordable Housing & Sustainable Communities (AHSC) loan totaling $20,000,000 (File 22-0764)
- Infill Infrastructure Grant (IIG) totaling $11,699,000 (File 22-0763). This grant will be used to repay part of MOHCD's Potrero Phase 2 infrastructure loan.

Funding Sources

MOHCD previously entered into a loan agreement with Potrero Housing Associates II, L.P. for $2,206,907 to pay for initial planning and development costs; MOHCD proposes to amend the existing agreement, increasing the loan amount by $15,473,093 to complete development and construction activities, including permanent financing related to the Project, for a total City loan amount of $17,680,000. Sources of funds for the proposed amended and restated loan of 17,680,000 include:

- 3,261,366 in 2015 General Obligation Bond Funds;[1]
- 1,327,889 in 2019 General Obligation Bond Funds;[2]
- 9,169,425 in HOME Investment Partnership Program funds provided by the U.S. Department of Housing and Urban Development (HUD) to increase the housing stock for low- and very low-income persons; and
- 3,921,320 in Low- and Moderate-Income Housing Asset Fund funds.[3]

The City's Subsidy per Housing Unit

The City subsidy per housing unit is $112,611, as shown in Exhibit 2 below. The subsidy calculation does not include MOHCD's $29.1 million gap loan for Phase 2 infrastructure development for Blocks A and B (File 20-1365).[4] This subsidy amount includes the 157 housing units and is 60 percent below average compared to the average of comparable projects ($278,354 per unit). However, the total development cost per unit is above average as discussed below.

Exhibit 2: City Subsidy for Affordable Housing Units

Number of Units	157
Number of Bedrooms	348
Total residential area (sq. ft.)	254,517
Total City subsidy	$17,680,000
City Subsidy per unit	$112,611
City Subsidy per bedroom	$50,805
City Subsidy per sq. ft.	$69

Source: MOHCD

Total Development Cost

According to a cost comparison of new affordable multifamily housing projects in the MOHCD loan evaluation of the proposed gap loan, the total development cost per unit is 38 percent above average compared to comparable projects, and somewhat less above average (24 percent) on a per bedroom basis. The total development cost per unit for Potrero Block B is $1,201,389

[1] In November 2015, San Francisco voters approved Proposition A, which provided for the issuance of up to $310 million in general obligation funds to finance the acquisition, rehabilitation, and construction of affordable housing.

[2] In November 2019, San Francisco voters approved Proposition A, which provided for the issuance of up to $600 million in general obligation funds to finance the acquisition, rehabilitation, and construction of affordable housing.

[3] Upon dissolution of state redevelopment agencies, MOHCD (as the Successor Housing Agency) created the Low- and Moderate-Income Housing Asset Fund to collect proceeds from former redevelopment agency housing assets transferred to the City.

[4] The Phase 2 infrastructure development loan totaling $29,141,134, includes two bridge loans totaling $13,199,000 pending receipt of HCD grants for a residual loan amount of $15,942,134.

compared to $870,012 for comparable projects, and the total development cost per bedroom is $542,006 compared to $436,886 for comparable projects. Projects included in the comparison are similar projects in size, unit count, target population, and construction type. Comparison projects also include other HOPE SF projects.

According to the MOHCD loan evaluation, Potrero Block B's construction costs in particular are above average due to:

- The steepness of the project site which prevents construction efficiencies from a simpler, boxy form. As a result, the buildings are terraced, creating many separate roof areas and a complicated façade.
- Planning guidelines for Potrero projects (as well as Sunnydale projects) that require entry stoops on first floor units.
- The inclusion of a PUC switchgear room that will serve future Potrero HOPE SF buildings and a community mini park.
- A higher parking ratio (0.75:1) compared to other projects due to on-street parking issues and inadequate public transportation, and
- Cost accelerators shared by other HOPE SF projects, including off-street parking, large number of multi-bedroom units, and in-unit laundry hookups for three- and four-bedroom units.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for Potrero Block B, the project will have sufficient revenues to cover operating expenses, operating reserves, permanent loan payments, management fees, and partial principal payments on the MOHCD and HCD AHSC loans. Project revenues consist of tenant rents and tenant assistance payments for a total of 117 units (75 percent of all units), including Project Based Section 8 rental subsidies (PBVs) for 108 units and Rental Assistance Demonstration (RAD) subsidies for nine units. Total operating expenses for the project include ground lease base rent payments to the San Francisco Housing Authority.

POLICY CONSIDERATION

Total Potrero HOPE SF Development Costs

Current estimated development costs as of 2022 for Potrero HOPE SF infrastructure and affordable housing are $961 million, which is an increase of approximately 17 percent from the original estimated development costs in 2017 of $821 million[5]. According to MOHCD staff, the increases in development costs are due to an increase in costs for Phase 1 development of Block X, and an increase in Phase 2 infrastructure costs due the San Francisco's high construction costs

[5] The amount of $961 million includes total costs of developing Potrero HOPE SF affordable housing (vertical development) and infrastructure (horizontal) development costs for Block X and Block B.

and project delays. Permanent gap financing of Phase 2, which was originally scheduled for FY 2017-18 is delayed by approximately four years.

The current estimated funding gap as of 2022 for Potrero HOPE SF infrastructure and affordable housing development is $488 million, which includes MOHCD gap funding and other sources.[6] This is an increase of approximately 55 percent from the original estimated MOHCD subsidy in 2017 of $314 million. The increase in the MOHCD subsidy is due to the estimated increase in total development costs and reductions in available financing from other non-City sources.

Because the proposed Loan Agreement to provide permanent gap financing to Potrero Block B is consistent with prior Board actions, we recommend approval.

RECOMMENDATION

Approve the proposed resolution.

[6] The $488.2 million subsidy to Potrero HOPE SF does not include additional subsidies to infrastructure development.

Item 13 File 22-0767	Department: Mayor's Office of Housing & Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: (1) approve a $2,656,208 loan agreement for a term of 57 years between the City and MP Francis Scott Key 2 Associates, L.P. and (2) approve a $45,543,792 amended and restated loan agreement for a term of 57 years between the City and MP Francis Scott Key 1, LLC

Key Points

- The Shirley Chisholm Village project will include a combination of 135 low-income and moderate-income affordable housing rental units including one on-site manager's unit. The site is owned by the School District (SFUSD) and located at Irving and 43rd Avenue.
- The project site will be subdivided into two parcels: one for the 35 low-income units and one for the 100 moderate income units. MP Francis Scott Key 1 is borrower for the moderate-income parcel and MP Francis Scott Key 2 Associates, L.P. is borrower for the low-income parcel, which is eligible for tax credits. The moderate-income units are not eligible for tax credits.
- MOHCD will establish a tiered prioritization system for applicants: tier one includes SFUSD teachers and paraeducators (such as instructional aides), tier two includes any SFUSD employee, and a third tier for any remaining units that will be open to the general public.

Fiscal Impact

- The total estimated cost to develop the 135-unit project is $104.1 million, of which the City is providing $48.2 million, funded primarily by 2015 General Obligation Bond proceeds, ERAF funds, and inclusionary fees. The other funding sources include private mortgages, tax credit equity, and a loan from MidPen Housing Corporation, a corporate affiliate of the developer, which, as with the City loans, will be repaid by residual project income.

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

Project

The Shirley Chisholm Village project will include a combination of 135 low-income and moderate-income affordable housing rental units including one on-site manager's unit: 34 units for educators and families making 40 to 60 percent area median income (AMI), 100 units for educators and their families making between 80 and 120 percent AMI, and 1 manager's unit. The unit mix will include 24 studios, 43 one-bedrooms, 58 two-bedrooms, and 9 three bedrooms. The project will be a five -story building with ground floor space that includes a lobby, community spaces, gym, and office for building management and onsite services as well as a courtyard for residents and public open space.

The site, owned by the School District (SFUSD) and located at Irving and 43rd Avenue, consists of a parking lot, skate park, community garden, playground, and the Frances Scott Key Annex, a SFUSD storage site. SFUSD will ground lease the site to the housing operator for 99 years once the developer secures construction financing.

Target Population

MOHCD will establish a tiered prioritization system for applicants: tier one includes SFUSD teachers and paraeducators (such as instructional aides), tier two includes any SFUSD employee, and a third tier for any remaining units that will be open to the general public. Applicants within each tier will be prioritized according to Administrative Code Chapter 47.[1] Leasing units to the general public requires permission from the School District.

According to the Memorandum of Understanding between the City and SFUSD, School District applicants must be current SFUSD employees, though they may retain their tenancy if they later retire.

Construction is expected to take place from August 2022 to August 2024 and lease-up is anticipated to take place between October 2023 and January 2025.

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[1] Under Chapter 47, affordable housing applicants are selected from the lottery in the following order of priority: (1) applicants who have been displaced by Redevelopment Agency projects, (2) applicants displaced by an Ellis Act, owner move-in eviction, fire, or applicants vacating a unit that is no longer income-restricted, (3) applicants living within a half mile or the same Supervisorial District as an affordable housing unit, and (4) applicants who live or work in San Francisco. According to the Memorandum of Understanding between MOCHD and SFUSD, the School District employees 3,600 teachers and 6,000 other employees for education functions and administration.

Developer Selection

The Mayor's Office of Housing and Community Development (MOHCD) issued a Request for Proposals (RFP) to develop Francis Scott Key Annex in October 2017. Proposals were evaluated based on experience with affordable housing development, development concept and preliminary site plans, and financing and cost control plans. The RFP stated that the goal of the project was to have 40 percent of units serve paraeducators making up to 60 percent of area median income (AMI) and 60 percent of units serve teachers making up to 130 percent of AMI.

A project submitted by MidPen Housing (developer and housing operator) scored the highest out of four proposals and was selected for funding in March 2018.[2]

Predevelopment Funding

In December 2018, MOCHD provided a $3,000,000 predevelopment loan to MidPen. That City loan was funded by $2.95 million in 2015 General Obligation Bond proceeds and $50,000 from the Housing Trust Fund and has been spent.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

(1) approve a $2,656,208 loan agreement for a term of 57 years between the City and MP Francis Scott Key 2 Associates, L.P.

(2) approve a $45,543,792 amended and restated loan agreement for a term of 57 years between the City and MP Francis Scott Key 1, LLC

(3) find that the loan and ground lease are consistent with the City's General Plan and policy priorities in the Planning Code;

Legal Structure of Borrowers

The project site will be subdivided into two parcels: one for the 35 low-income units and one for the 100 moderate income units. MP Francis Scott Key 1 is borrower for the moderate-income parcel and MP Francis Scott Key 2 Associates, L.P. is borrower for the low-income parcel, which is eligible for tax credits. The moderate-income units are not eligible for tax credits.

Under Internal Revenue Service (IRS) regulations and for the purpose of eligibility for low-income housing tax credits, the non-profit (tax exempt) partner in the limited partnership serves as the general manager and retains a nominal percentage interest, and the investors (which are not tax exempt) serve as limited partners, obtaining the majority financial interest, including profits, losses, deductions, and credits.

MP Francis Scott Key 2 Associates, L.P. is composed of MP Francis Scott Key 2 LLC., the general partner managed by Mid-Peninsula Hermanas Inc, an affiliate of MidPen Housing Corporation

[2] The RFP selection panel was appointed by the MOHCD Director and composed of two staff from MOHCD, two from SFUSD, one staff from OCII, a member of the Arts Commission, and a member of the community.

and MidPen Housing Corporation, an initial limited partner that will be replaced by a tax-credit investor.

MP Francis Scott Key 1, LLC is managed by Mid-Peninsula Hermanas Inc., who will operate the entire housing project.

Affordability Restrictions

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in each loan agreement there will be declaration of restrictions recorded. These agreements specify the affordability levels for each unit and require the non-profit housing operator to maintain these for the duration of the agreements unless agreed to by the City. The loan agreement requires that units be made available first to SFUSD educators, next to SFUSD employees, and finally to the general public (as noted above).

FISCAL IMPACT

As noted above, the City is providing two loans: one for the low-income portion of the project and one for the moderate-income portion. The proposed $45.5 million amended and restated loan agreement for the moderate-income units includes the original $3.0 million predevelopment loan provided by MOHCD. The total estimated cost to develop the 135-unit project is $104.1 million. Exhibit 1 below shows the permanent financing sources and uses of funding.

Exhibit 1: Sources and Uses of Development Financing

	Low Income Units	Moderate Income Units	Total
Sources			
Proposed City Loan	2,656,208	45,543,792	48,200,000
Mortgage	1,349,000	25,065,000	26,414,000
Tax Credit Equity	24,747,525	0	24,747,525
MidPen Loan	0	4,700,000	4,700,000
Total Sources	**28,752,733**	**75,308,792**	**104,061,525**
Uses			
Acquisition	29,816	85,186	115,002
Hard Costs	22,354,293	64,073,664	86,427,957
Soft Costs	4,968,724	10,049,942	15,018,666
Developer Fee	1,400,000	1,100,000	2,500,000
Total Uses	**28,752,833**	**75,308,792**	**104,061,625**

Source: MOHCD

As shown above, the proposed $48.2 million MOHCD gap loans will be combined with a private mortgage, tax credit equity, and a loan from MidPen Housing Corporation, a corporate affiliate of the developer, which, as with the City loans, will be repaid by residual project income. Under the proposed moderate-income loan agreement, MidPen would receive 90 percent of the project's residual income during the loan's 15-year term (with the remaining 10 percent to the City), after which the City would retain 2/3 of residual project income to repay the City's loans. The MidPen loan has a five percent interest rate, and the City loan has a three percent interest rate.

The sources of funding for new MOHCD $48.2 million gap loans include the following:

• Citywide Affordable Housing Program Funds	2,656,208
• Inclusionary Fees	6,643,792
• Excess Education Revenue Augmentation Fund	10,000,000
• Housing Trust Fund	50,000
• 2015 General Obligation Bond	28,850,000
Total	**48,200,000**

City's Subsidy of Development Costs

Total development costs are $104.1 million or $770,827 per unit. The City's total subsidy for the housing development costs is $48.2 million or 46.3 percent of the total development costs. This is equal to a per unit City subsidy of $357,037, as shown in Exhibit 2 below.

Exhibit 2: Unit Costs

Units	135
Residential Square Feet	130,596
Development Cost	$104,061,625
City Funding	$48,200,000
Development Cost / Unit	$770,827
City Subsidy / Unit	$357,037
Cost per square foot	$797

Source: MOCHD

Operating Revenues

Operating income consists primarily of tenant rents, which is capped at 30 percent of the income level for each unit (as noted above, income levels for affordable housing units project will range from 40 percent to 120 percent of AMI), estimated at $4 million in year one of the project.

Operating Costs

For the moderate-income portion of the project, building operating costs are less than operating revenues, allowing for debt payments and project reserve deposits. According to MOHCD's cash flow projections, the project will generate sufficient income to make residual receipts payments on MidPen and City loan. After repayment of the MidPen loan in year 15 of the project, the moderate-income project will generate over $400,000 in residual income for MOHCD. For the low-income portion of the project, MOHCD projects that the project will be able to cover operating costs, reserve deposits, and debt payments but will not generate residual income most years.

RECOMMENDATION

Approve the proposed resolution.

Item 14 **File 22-0755**	**Department:** Health Service System (HSS)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year 2023.

Key Points

- The HSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board adopts the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by HSS employers and members. Most plans have no benefit changes, except for the City's vision plan, which is adding a benefit for non-prescription glasses.
- The Health Service Board is required to conduct a survey of the 10 most populous California counties each year to determine the average of the health premium contributions made by these counties to inform the City's contribution for retiree healthcare premiums. Based on this survey, the $780.76 average contribution per month for retiree healthcare premiums paid by the City is $23.45 or approximately 3.1 percent more than the average monthly contribution of $757.31 in 2022. As noted below, the overall cost of benefits for active and retired employees is increasing by 3.21 percent.

Fiscal Impact

- The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in 2023 is $755,939,539 which is a $23,332,761 or 3.18 percent increase from $732,606,778 in 2022. The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees is $102,028,370 in 2023, or 3.21 percent more than the 2022 costs of $98,858,682.
- In 2023, the average medical monthly contribution per member will be $149.55 per member per month for all members (actives/retirees combined), $175.83 per member per month for active employees, and $114.78 per member per month for retirees.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT

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

BACKGROUND

The Health Service Board oversees the San Francisco Health Service System (HSS). The HSS administers non-pension benefits, including health, vision, dental and other benefits, such as life and long-term disability insurance. The Health Service Board provides the annual health, vision, dental and other insurance plans, and the respective plan premiums and premium equivalents to be paid by HSS employers and members.

- HSS employers include the City and County of San Francisco (City), the San Francisco Unified School District (SFUSD), the San Francisco Community College District (SFCCD), and the San Francisco Superior Court (Superior Court).
- HSS members are active and retired employees of the above noted employers, their dependents, and members of eligible boards and commissions. Dependents include children, spouses, domestic partners, surviving spouses of deceased members, and other legal dependents.

City and Employee Contribution Models

Most contribution formulas for City employees negotiated as part of their labor agreements fall into the following two percentage-based employee premium contribution models:

- Under the ‘93/93/83 Contribution Model’, the City contributes up to 93 percent of the total health insurance premium for employee-only and employee plus one dependent coverage, capped at 93 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Mr. Iftikhar Hussain, Chief Financial Officer at the San Francisco Health Service System, there are 43,054 members (excluding dependents) who are covered by this contribution model.
- Under the ‘100/96/83 Contribution Model’, the City contributes 100 percent of total health insurance premiums for employee-only coverage. The City contributes up to 96 percent of the total health insurance premiums for employees with one dependent, capped at 96 percent of the second-highest cost plan. The City also contributes up to 83 percent of the total health insurance premium for employees with two or more dependents, capped at 83 percent of the second-highest cost plan. According to Mr.

Hussain, there are 11,452 members (excluding dependents) who are covered by this contribution model.

Retiree Health Plan Premium Contributions

The 10-county survey average is used as a basis for calculating the employer contribution to the monthly health plan premium for all retirees.[1] Based on the survey, the 10-county average employer contribution for calendar year 2023 is $780.76 per member per month. The $780.76 average contribution per month for retiree healthcare premiums paid by the City is $23.45 or approximately 3.1 percent more than the average monthly contribution of $757.31 in 2022.

Health Service System Trust Fund

Under Charter Section A8.428, employer and HSS member contributions to health plan premiums are deposited in the Health Service System Trust Fund. As of June 30, 2021, the Health Service System Trust Fund balance was $125,901,507 and is projected to be $123,226,801 as of June 2022.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would approve the San Francisco Health Service System's (HSS) health, vision, and dental plans as well as life insurance and long-term disability insurance plans and contribution rates for calendar year (CY) 2023. The total cost of the plans would be $857,967,909 or 3.19 percent more than the $831,465,461 costs in 2022. Of the total, the City's costs would be $755,939,539, with the balance of $102,028,370 paid by employees and retirees. Table 1 below provides a summary of health insurance costs for 2023.

The Health Service Board approved the following health, vision, dental, life and long-term disability insurance plans and premiums for the period from January 1, 2023 through December 31, 2023 on the following dates in 2022: March 10, April 14, May 12 and June 9.

Health Plans and Premiums

Kaiser Permanente HMO[2]

Kaiser Permanente (Kaiser) covers active, early retirees[3] and Medicare retirees. The total Kaiser HMO premium amounts to be paid by the City as employer are $346,374,101, or 3.26 percent, more in CY 2023 than in CY 2022. These amounts are shown in Table 1 below.

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[1] In June 2014, the impact of the "average contribution" on HSS rates was eliminated in the calculation of premiums for almost all active employees represented by most unions, in exchange for a percentage-based employee premium contribution model noted above. Presently, HSS utilizes the 10-County Survey amount as one of the elements that determine HSS employer contributions for retirees. In the event the premium is higher than the 10-county "average contribution", the City will pay the "average contribution" amount. In the event the premium is less than the "average contribution," the City will pay one hundred percent of the premium.

[2] An HMO (Health Maintenance Organization) offers care through a closed panel of providers, in which members select a primary care physician, who manages their care. The HMOs pay the medical groups on a per capita basis.

[3] Retired employees of less than 65 years of age and therefore not eligible for Medicare.

There are no plan design changes approved by the Health Service Board for active employees, early retirees or Medicare retirees for 2023.

Blue Shield of California HMOs

The total Blue Shield of California (BSC) Access+ and Trio plans are flex-funded[4] HMOs for active employees and early retirees. The BSC flex-funded HMO plan premium amounts paid by the City as employer are $261,194,887, or 1.9 percent, more in CY 2023 than in CY 2022. No plan design changes were approved for the Blue Shield Access+ and Trio plans by the Health Service Board for 2023.

Blue Shield of California PPO (with Accolade)[5]

Beginning in CY 2022, as a result of a competitive, public Request for Proposal (RFP)[6] process, the Health Service Board approved in February 2021 a change in the third-party administrator for the self-funded PPO medical plan from UnitedHealthcare to Blue Shield of California (with Accolade) for active employees and early retirees. Accolade is the service partner for Blue Shield for additional member engagement, navigational and clinical advocacy services. The PPO premium amounts paid by the City as employer are $33,121,822, or 5.08 percent, more in CY 2023 than the CY 2022 UnitedHealthcare PPO plan premiums.

There are no 2023 PPO plan design changes approved by the Health Service Board for active employees and early retirees; the 2022 PPO benefit plan will be transferring the administration from UnitedHealthcare to Blue Shield of California (with Accolade) effective CY 2023.

Health Net CanopyCare HMO

In CY 2022, as a result of a competitive, public RFP process[7], the Health Service Board approved in February 2021 the addition of a new flex-funded HMO plan offering through Health Net in partnership with CanopyCare. CanopyCare provides access to the Canopy Health Alliance of over 5,000 providers in five large medical groups and major regional medical centers and hospitals covering the greater Bay Area. Going into its second year as a plan option, the Health Net CanopyCare HMO plan total cost rates will decrease by 10.24 percent for the 2023 plan year. There are no 2023 plan design changes. The projected 2023 cost for the City is $2,381,317.

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

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

[6] On September 14, 2020, HSS issued an RFP to enter into one or more agreements with selected respondents to provide comprehensive medical and pharmacy health benefits and coverage solutions for HSS members who are active employees, non-Medicare-eligible retirees and non-Medicare-eligible dependents, with coverage beginning January 1, 2022.The selection panel included six experts from Bay Area municipal health benefits administration agencies, and a former chief medical officer for the health insurance marketplace for California.

[7] Ibid.

UnitedHealthcare (UHC) PPO for non-Kaiser, "Split Families" in 2023

A unique circumstance occurs for early retiree families not enrolled in Kaiser with a family member eligible for Medicare. This occurs when the early retiree is enrolled in the Blue Shield plan and one member is Medicare eligible. This is a mixed Medicare or "Split Family" due to the mixture of eligibility. To accommodate these situations, HSS contracts with UnitedHealthcare (UHC) to be the third-party administrator for the self-funded PPO for early retirees, and the Medicare eligible family member is enrolled in the UHC Medicare Advantage PPO plan (mentioned below). Additionally, non-Medicare family members in retiree families can continue to also elect the Blue Shield of California Access+ or Blue Shield of California Trio HMO plans when one or more members of the retiree's family elects the UHC Medicare Advantage (MA) PPO plan. No plan design changes were approved by the Health Service Board for 2023. The premium amounts paid by the City as employer are $3,879,772, or 3.82 percent, more in CY 2023 than the CY 2022.

UHC will remain the administrator of the Non-Medicare PPO plan for individuals who are part of a retiree family where one or more family member is not yet Medicare-eligible and enrolls in the Non-Medicare PPO plan, and one or more family member is Medicare-eligible and enrolls in the UHC Medicare Advantage PPO plan.

UHC Medicare Advantage (MA) PPO

The total UHC Medicare Advantage PPO Plan premium amounts paid by the City as employer are $65,715,674, or 4.44 percent, more in CY 2023 than in CY 2022.

The UHC Medicare Advantage PPO Plan, covers all non-Kaiser Medicare eligible retirees. No plan changes were approved by the Health Service Board for 2023.

Vision Plan

Members enrolled in any of the health plans receive vision benefits through Vision Service Plan (VSP), a third-party insurer. The cost of the Basic Plan vision benefit is included in the cost of the medical plan for all monthly health plan premiums.

In 2023, the Basic Plan will increase by 5 percent due to enhanced benefits (providing non-prescription sunglasses or blue-light glasses in lieu of prescription eyewear), and Premier Plan rates will increase by 8.7 percent due to claims trend and enhanced benefits. There is a $0.28 million increase to the City cost for VSP vision rates from 2022 to 2023. Employees and retirees pay the full premium difference between Premier Plan rates and Basic Plan rates, in the form of member contributions.

Dental Plans

HSS offers three dental plans, including one PPO (Delta Dental PPO) and two HMOs (DeltaCare USA and UnitedHealthcare Dental). The City pays most of the cost of dental benefits for active employees enrolled in the Delta Dental PPO, and the full cost of the dental HMOs for active employees. Retirees pay the full cost of their dental plans.

For plan year 2022, the City will contribute (1) the total premium toward each of the dental HMO plans for City active employees, and (2) the monthly premium minus employee contributions ranging from $5.00 for employee only coverage to $15.00 per month for full family coverage, for the self-funded Dental PPO plan. Member contributions for the three dental plans remain unchanged from the 2023 plan year.

The total dental plan premium amounts across the three active employee dental plans paid by the City as employer are $5.21 million more in CY 2023 than in CY 2022, or an increase of 16.64 percent, for a projected total amount of $36,536,208. This is due in part to the return of pre-pandemic utilization levels and plan design changes approved by the Health Service Board from 2022 to 2023. These changes include excluding paid claim costs associated with diagnostic and preventative dental care in the active employee PPO plan from application to the annual benefit plan maximum. This is intended to remove a possible barrier for a member seeking diagnostic and preventative services.

Life and Long-Term Disability Insurance

The Hartford Life and Accident Insurance Company (The Hartford) is the insuring entity for the HSS life insurance, accidental death and dismemberment insurance, and long-term disability insurance. Premiums will decrease 22.3 percent from 2022 to 2023.

Federal Affordable Care Act Requirements

In 2010, the Patient Protection and Affordable Care Act (also known as the Affordable Care Act) created a Health Insurance Tax (HIT) and two direct fees were passed through to employers – the Transitional Reinsurance Fee (TRF) and the Patient Centered Outcomes Research Institute (PCORI) fee, as described below. The HIT and TRF are no longer in effect. The PCORI fee[8] was originally set to expire after 2019, but it was extended through 2029 as part of the SECURE Act passed by the federal government in December 2019. HSS pays this fee to the federal government for the current self-funded UHC PPO, while Kaiser and Blue Shield pay this fee on HSS's behalf as fully insured/flex funded plans. The fee was $2.79 per covered person per year in CY 2022 and is expected to be "slightly higher" in CY 2023, according to the City's actuarial consultant, Aon.

FISCAL IMPACT

2023 Total City Costs

As shown in Table 1 below, the total estimated cost for active and retired City employees for health, vision, and dental plans, as well as long-term disability and life insurance, will be $857,967,909 in 2023, which is a $26,502,448 or a 3.19 percent increase from $831,465,461 in 2022.

The total estimated costs for the health, vision, and dental plans, as well as long-term disability and life insurance, for the City as employer in 2023 is $755,939,539 which is a $23,332,761 or 3.18 percent increase from $732,606,778 in 2022. The total estimated costs for the health, vision,

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

and dental plans, as well as long-term disability and life insurance that will be paid by employees and retirees is $102,028,370 in 2023, or 3.21 percent more than the 2022 costs of $98,858,682.

According to HSS, in 2023, the average medical monthly contribution per member will be $149.55 per member per month for all members (actives/retirees combined), $175.83 per member per month for active employee, and $114.78 per member per month for retirees.

Table 1: Total Plan Costs for the City, Employees and Retirees in 2023 Compared to 2022 Current Membership[9]

	2022 Forecast	2023 Forecast	Increase / (Decrease)	Percent Change
City Costs Only				
Kaiser HMO (Actives and Retirees)	$335,430,690	$346,374,101	$10,943,411	3.26%
Blue Shield HMO (Actives and Early Retirees)	$256,323,771	$261,194,887	$4,871,116	1.90%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$31,519,411	$33,121,822	$1,602,411	5.08%
Health Net CanopyCare HMO (Actives and Early Retirees)	$2,653,107	$2,381,317	($271,789)	-10.24%
UHC PPO / EPO (Non-Medicare Split Family Lives) *	$3,736,921	$3,879,772	$142,851	3.82%
UHC MA PPO (Medicare Retirees)	$62,922,173	$65,715,674	$2,793,501	4.44%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	$692,586,072	$712,667,572	$20,081,500	2.90%
Dental (Actives Only)[10]	$31,323,403	$36,536,208	$5,212,805	16.64%
Long Term Disability and Life Insurance (Actives Only)[11]	$8,697,303	$6,735,759	($1,961,545)	-22.55%
Total City Costs	**$732,606,778**	**$755,939,539**	**$23,332,761**	**3.18%**
Employee and Retiree Costs Only				
Kaiser HMO (Actives and Retirees)	$41,371,166	$42,695,828	$1,324,662	3.20%
Blue Shield HMO (Actives and Early Retirees)	$33,757,177	$34,295,401	$538,224	1.59%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$8,070,265	$9,238,145	$1,167,880	14.47%
Health Net CanopyCare HMO (Actives and Early Retirees)	$304,321	$270,081	($34,239)	-11.25%
UHC PPO / EPO (Non-Medicare Split Family Lives) *	$5,605,382	$5,819,658	$214,276	3.82%
UHC MA PPO (Medicare Retirees)	$5,336,405	$5,494,214	$157,810	2.96%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	$94,444,715	$97,813,328	$3,368,613	3.57%
Dental (Actives Only)	$3,419,340	$3,419,340	$0	0.00%
Long Term Disability and Life Insurance (Actives Only)	$994,628	$795,702	($198,926)	-20.00%
Total Employee and Retiree Costs	**$98,858,682**	**$102,028,370**	**$3,169,687**	**3.21%**
Total Costs				
Kaiser HMO (Actives and Retirees)	$376,801,855	$389,069,928	$12,268,073	3.26%
Blue Shield HMO (Actives and Early Retirees)	$290,080,947	$295,490,288	$5,409,340	1.86%
Blue Shield-Accolade PPO (Actives and Early Retirees)	$39,589,675	$42,359,967	$2,770,291	7.00%
Health Net CanopyCare HMO (Actives and Early Retirees)	$2,957,427	$2,651,398	($306,029)	-10.35%
UHC PPO / EPO (Non-Medicare Split Family Lives) *	$9,342,303	$9,699,430	$357,127	3.82%
UHC MA PPO (Medicare Retirees)	$68,258,578	$71,209,889	$2,951,311	4.32%
Subtotal Health/Basic Vision Plans (Actives and Retirees)	$787,030,786	$810,480,900	$23,450,113	2.98%
Dental (Actives Only)	$34,742,743	$39,955,548	$5,212,805	15.00%
Long Term Disability and Life Insurance (Actives Only)	$9,691,931	$7,531,461	($2,160,470)	-22.29%
Total Costs	**$831,465,461**	**$857,967,909**	**$26,502,448**	**3.19%**

Source: San Francisco Health Service System

Note: In 2023, UHC will administer all three plans for Non-Medicare Split Family covered lives where one or more family members is Medicare and covered in the UHC MA PPO plan. In 2022, UHC administered the PPO plan and BSC administered the HMO-style plans (Access+ and Trio) for these Non-Medicare Split Family covered lives where one

[9] According to HSS, both 2022 and 20223 forecasted costs are based on the April 2022 headcount.
[10] Dental costs are fully paid by retirees.
[11] Long term disability and life insurance plans are not offered to retirees.

or more family members is Medicare and covered in the UHC MA PPO plan. BSC Split Family life costs in 2022 are included in the UHC PPO / EPO Split Family Lives rows in the table above for ease of comparison between years.

RECOMMENDATION

Approve the proposed ordinance.

Item 15 **File 22-0538**	**Department:** Public Works

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend the Public Works Code to create a pilot program that would allow property owners in commercial areas to opt into graffiti abatement by Public Works at no cost to the property owner and affirm the Planning Department's determination under the California Environmental Quality Act (CEQA). The pilot program would last for 27 months.

Key Points

- The Public Works Code requires property owners to abate graffiti from their property or receive a Notice of Violation. Property owners can request hearings to demonstrate hardship, in which case, Public Works may remove the graffiti at no cost. If property owners do not remove the graffiti or request a hearing within 30 days, the City initiates proceedings to abate the graffiti, charging property owners a minimum of $500 for associated costs. Public Works abates graffiti on public property.
- Commercial areas to be included in the proposed pilot program include Neighborhood Commercial and Neighborhood Commercial Transit Districts (including individually named districts), as well as the following commercial districts located in Chinatown: the Chinatown Community Business District, the Chinatown Residential/Neighborhood Commercial District, and the Chinatown Visitor Retail District. Property owners located in a Community Benefits District or Green Benefits District must demonstrate that their district lacks sufficient funding for graffiti abatement to participate in the program.

Fiscal Impact

- Public Works estimates the proposed pilot program would cost $1,989,916 in FY 2022-23 and $1,863,021 in FY 2023-24 based on seasonal graffiti abatement, rather than year-round abatement. Cost estimates include positions to abate graffiti and conduct inspections, and associated equipment and materials. According to Public Works staff, the Department would hire as-needed laborers to provide graffiti abatement for commercial properties under the proposed pilot, which would occur seasonally rather than year-round.
- The Board of Supervisors added $2 million in FY 2022-23 and in FY 2023-24 during the Budget and Appropriations Committee phase of the budget, which is pending before the Board of Supervisors, to fund the proposed program.

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

It is unlawful for San Francisco property owners to allow graffiti to remain on their property under Public Works Code Article 23. Public Works is responsible for painting over or otherwise removing graffiti on public property and issuing Notices of Violations to private property owners when property contains graffiti in violation of the code. The Department of Sanitation and Streets will be responsible for graffiti abatement starting in October 2022. Property owners can request hearings to demonstrate hardship, in which case, Public Works may remove the graffiti at no cost. If property owners do not remove the graffiti or request a hearing within 30 days, the City initiates proceedings to abate the graffiti, charging property owners a minimum of $500 for associated costs.

According to Public Works, average monthly service orders for graffiti abatement on public and private property increased from 3,055 in FY 2019-20 to 4,146 in FY 2020-21, an increase of 36 percent, and subsequently declined to 3,706 in FY 2021-22. During the COVID emergency, Public Works has provided graffiti abatement at no cost to certain commercial districts to alleviate the impact to San Francisco businesses. In October 2020, Public Works provided graffiti abatement twice per week to commercial areas located in the Mission and Chinatown. Public Works also provides graffiti abatement (as well as litter removal, steam cleaning, and trash pickup) to a different commercial district every week through its CleanCorridorsSF pilot program, launched in 2020. In April 2021, the Board of Supervisors approved an ordinance that required Public Works to temporarily suspend posting graffiti notices of violation to private property owners and waived certain unpaid fees and fines assessed under Article 23 until 90 days after the expiration of the Mayor's Emergency Proclamation regarding the COVID-19 pandemic (File 21-0258).

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend the Public Works Code to create a pilot program that would allow property owners in commercial areas to opt into graffiti abatement by Public Works at no cost to the property owner and affirm the Planning Department's determination under the California Environmental Quality Act (CEQA). The pilot program would last for 27 months.

Commercial areas to be included in the proposed pilot program include Neighborhood Commercial and Neighborhood Commercial Transit Districts (including individually named districts),[1] as well as the following commercial districts located in Chinatown: the Chinatown

[1] According to Planning Code Section 702, Neighborhood Commercial Districts are "low to high density mixed-use neighborhoods of varying scale established around historical neighborhood commercial centers" and Neighborhood

Community Business District, the Chinatown Residential/Neighborhood Commercial District, and the Chinatown Visitor Retail District.[2] Property owners located in a Community Benefits District or Green Benefits District must demonstrate that their district lacks sufficient funding for graffiti abatement to participate in the program.

Estimated Workload

In FY 2021-22, the average number of monthly service orders for graffiti abatement on public and private property was 3,706, including an average of 562 service orders (15 percent) along commercial corridors, as shown in Exhibit 1 below. This overstates the anticipated workload from the proposed pilot program because it includes service orders for public property (which are already covered by existing graffiti abatement activities) in addition to private property (which would reflect new graffiti abatement activities by the pilot program). Public Works estimates that approximately 411 or 59% percent of service orders along commercial corridors in FY 2021-22 were for private property.

Exhibit 1: Average Monthly Graffiti Service Orders Citywide and along Commercial Corridors

	Citywide	Along Commercial Corridors	
	Average Monthly Graffiti Service Orders (Public and Private Property)	Average Monthly Graffiti Service Orders (Public and Private Property)	Percent of Total
FY 2018-19	2,571	709	28%
FY 2019-20	3,055	624	20%
FY 2020-21	4,146	768	19%
FY 2021-22	3,706	562	15%

Source: Public Works

According to Public Works staff, the Department would hire as-needed laborers to provide graffiti abatement for commercial properties under the proposed pilot, which would occur seasonally rather than year-round.

FISCAL IMPACT

Public Works estimates the proposed pilot program would cost $1,989,916 in FY 2022-23 and $1,863,021 in FY 2023-24 based on seasonal graffiti abatement, rather than year-round abatement, as shown in Exhibit 2 below. The Board of Supervisors added $2 million in FY 2022-

Commercial Transit Districts are “transit-oriented moderate- to high-density mixed-use neighborhoods of varying scale concentrated near transit services.” Individually named Neighborhood Commercial Districts and Neighborhood Commercial Transit Districts (e.g., Castro Street Neighborhood Commercial District) provide more targeted zoning controls based on the needs of their respective neighborhoods.

[2] Chinatown commercial districts listed above are defined in Planning Code Sections 810, 812, and 811 respectively.

23 and in FY 2023-24 during the Budget and Appropriations Committee phase of the budget, which pending before the Board of Supervisors.

Exhibit 2: Public Works' Cost Estimates for Proposed Pilot Program

	FY 2022-23 Cost	FY 2023-24 Cost
Labor	**$1,325,245**	**$1,685,621**
Salaries and Benefits (7.0 FTE)	761,543	971,655
7215 General Laborer Supervisor I (1.0 FTE)	108,839	138,864
7514 General Laborer (3.0 FTE)	293,600	374,874
6230 Street Inspector (2.0 FTE)	239,105	304,916
1842 Management Assistant (1.0)	119,999	153,001
Department Overhead	376,925	471,157
Division Overhead	186,776	242,809
Non-Labor	**$664,672**	**$177,400**
Materials and Supplies	161,922	133,300
Materials and Supplies for Painting	115,000	132,250
Tablets and Radios	1,000	1,050
Paint Color Matching Equipment, Sprayer, Mixer, Paint Tint-Shaker (2)	45,922	
Equipment	460,750	
Inspector Vehicles (?)	90,000	
Graffiti Abatement Vans (2)	250,000	
Steamer Unit with Truck and Water (1)	120,750	
Services of Other Departments	42,000	44,100
City Attorney - Consultation for Work on Private Property	42,000	44,100
Total	**$1,989,916**	**$1,863,021**

Source: DPW

Cost estimates do not include graffiti abatement above street level, which would be addressed by a private contractor that currently provides this service to Public Works; the costs of service are billed to the private property owner.

Staffing

Budget estimates include salaries and benefits for 7.0 new full-time equivalent (FTE) positions, which are fully annualized in FY 2023-24, to conduct inspections (3.0 FTE) and abate graffiti (4.0 FTE). Public Works current staffing for graffiti abatement activities includes 1 FTE 7215 General Laborer Supervisor II, 2 FTE 7215 General Laborer Supervisor I, and 11 FTE 7514 General Laborers to abate graffiti on public property (14.0 FTEs) and 3.0 FTE 6229 Street Inspection Trainees and 1.0 FTE 2917 Analyst to inspect and notify property owners about graffiti on private property (4.0 FTEs).

RECOMMENDATION

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