

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst



SUBJECT: April 6, 2022 Budget and Finance Committee Meeting

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<p>Item 1 File 22-0144</p>	<p>Department: Department of Environment (ENV)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would retroactively approve a contract between the Department of the Environment (ENV) and Rebuilding Together San Francisco for the Fix Lead SF Program to reduce childhood lead poisoning, for a five-year term from March 2022 through February 2027, with an amount not to exceed \$14,300,000, and three one-year options to extend. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • In July 2019, 10 California cities and counties, including San Francisco, reached a \$305 million settlement with three companies to address lead-paint related hazards. The City will receive approximately \$21 million from the settlement and has started the Fix Lead SF program as a collaboration between ENV, the Department of Public Health (DPH), and the Office of Economic and Workforce Development (OEWD) with the mission of reducing the amount of lead risks in residential buildings. • Under the contract, Rebuilding Together would work with licensed lead professionals to identify and remove lead paint from residential buildings. The scope of services for the contract includes: (1) providing initial payment to inspectors, remediation supervisors, relocation providers, and tenants, with payments to be reimbursed by the City; (2) tenant relocation when deemed necessary by the City’s Project Monitor or the remediation supervisor; (3) contracting and management of lead professionals and relocation service providers; (4) documenting individual project progress, sending notifications to involved parties, maintaining project files, and monitoring project timelines through the City’s database; and (5) other tasks as requested, such as participating in program evaluation and providing access to additional networking opportunities for Fix Lead SF outreach. DPH anticipates performing approximately 358 lead abatement projects over five years. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed contract would have a total not to exceed amount of \$14,300,000 over five years, funded entirely by settlement funds. • Approximately 93 percent of projected expenditures are for pass-through payments to service providers and approximately seven percent of projected expenditures are for tasks performed by Rebuilding Together. • The proposed contract would be entirely funded by the settlement funds. After accounting for the contract, Fix Lead SF will have approximately \$6.7 million in remaining available settlement funds, which will largely be spent on DPH and ENV staff to evaluate applications and to monitor and certify projects. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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

In July 2019, 10 California cities and counties, including San Francisco, reached a \$305 million settlement with The Sherwin-Williams Company, ConAgra Grocery Products Company, and NL Industries, Inc. to address lead paint-related hazards. The City will receive approximately \$21 million from the settlement and has started the Fix Lead SF program as a collaboration between the Department of the Environment (ENV), Department of Public Health (DPH), and Office of Economic and Workforce Development (OEWD) with the mission to reduce the amount of lead risks in as many San Francisco residential units as possible. Fix Lead SF, under the lead of DPH, has decided to spend approximately 75 percent of funding on identifying and removing lead risks in residential buildings in San Francisco. ENV estimates that approximately 81 percent of San Francisco housing was built before 1978, when lead-based paint was banned in the United States.¹

In September 2021, ENV issued a Request for Proposals (RFP) to select a vendor to help administer the Fix Lead SF program. Rebuilding Together San Francisco (Rebuilding Together) submitted the only proposal and was deemed to meet the minimum requirements of the RFP.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve a contract between ENV and Rebuilding Together for the Fix Lead SF Program, for a five-year term from March 2022 through February 2027, with an amount not to exceed \$14,300,000, and three one-year options to extend through February 2030. As the contract term started March 1, 2022, approval of the proposed resolution should be considered retroactive.

Under the contract, Rebuilding Together would work with licensed lead professionals to identify and remove lead paint from residential buildings. The scope of services for the contract includes: (1) providing initial payment to inspectors, remediation supervisors, relocation providers, and tenants, with payments to be reimbursed by the City; (2) tenant relocation when deemed necessary by the City's Project Monitor or the remediation supervisor; (3) contracting and management of lead professionals and relocation service providers; (4) documenting individual project progress, sending notifications to involved parties, maintaining project files, and monitoring project timelines through the City's database; and (5) other tasks as requested, such

¹ According to a Santa Clara County Counsel webpage detailing the settlement terms, 318,535 residential units in San Francisco were built before 1980.

as participating in program evaluation and providing access to additional networking opportunities for Fix Lead SF outreach.

According to David Kashani, ENV Contracts and Grants Coordinator, the program would be eligible for property owners of San Francisco residential buildings built before 1950 with nine units or less and must have either at least one child living in the building less than six years old, or at least one child under six years old who visits often, or families expecting children soon.

All lead remediation subcontractors must be certified by the California Department of Public Health (CDPH), which publishes a list of certified professionals. Rebuilding Together would notify qualified contractors who have expressed interest in the program of bid walks for each project. Contractors would then competitively bid on each project, with selection based on various criteria. If tenants need to be relocated, they would either be relocated with family or friends, in an available unit within the same building, or in a lead-safe hotel nearby. ENV anticipates that tenants would not have to be relocated for more than 20 days.

According to Contracts and Grants Coordinator Kashani, contract performance would be monitored on an ongoing basis, as ENV's Project Monitor would be interacting with Rebuilding Together almost daily. The Fix Lead SF program will have regular meetings (at least monthly) to discuss progress and resolve any barriers to successful completion of projects. ENV will track timeliness of accomplishing tasks through a database. Tenants who require relocation will be surveyed regarding their satisfaction with Rebuilding Together managing their relocation. The performance benchmarks for Rebuilding Together will be paying lead professionals' invoices in 10 days or less and ensuring that contractors complete lead abatement within 10 days and inspectors submit reports within five business days for tenants to start re-occupancy within 20 days.

FISCAL IMPACT

The proposed contract would have a total not to exceed amount of \$14,300,000 over five years. Projected expenditures by task are shown in Exhibit 1 below.

Exhibit 1: Projected Contract Expenditures by Task

Task	Hours	Average Billing Rate ²	Total
Provide Payment to Service Providers	500	\$88.52	\$44,260
Coordinate Tenant Relocation	2,486	93.91	233,450
Manage Lead Professional Service Providers	6,600	97.01	630,252
Provide Administrative/Recordkeeping Assistance	500	88.52	44,260
<i>Subtotal</i>	<i>10,086</i>	<i>95.40</i>	<i>\$962,222</i>
Pass-Through Payments to Service Providers			13,337,778
Total			\$14,300,000

Source: Proposed contract.

² The proposed contract specifies hourly billing rates of \$118.93 for the Project Manager, \$100.52 for the Executive Director, and \$52.11 for the Program Assistant. The average billing rates shown are the weighted average for each task based on the estimated hours needed by each position to complete the task.

As shown above, approximately 93 percent of projected expenditures are for pass-through payments to service providers and approximately seven percent of projected expenditures are for tasks performed by Rebuilding Together.

ENV anticipates performing approximately 70 lead abatement projects per year, as well as eight pilot projects to get the program started, for a total of 358 over the five-year term of the contract. The estimated cost per project is approximately \$40,000. According to Contracts and Grants Coordinator Kashani, this amount was based on a similar project conducted by the Mayor's Office of Housing and Community Development (MOHCD), which had an average cost of \$35,000 per contract. ENV anticipates that costs will be slightly higher because these projects involve lead abatement as opposed to lead stabilization.

The proposed contract would be entirely funded by the settlement funds. After accounting for the contract, Fix Lead SF will have approximately \$6.7 million in remaining available settlement funds. According to Contracts and Grants Coordinator Kashani, the remaining funds will be used for ENV and DPH staff salaries, the building of a program database, and outreach professional services and materials over the past two years and next five years of project implementation. Approximately \$1,056,993 funded City staff in FY 2020-22, \$3,205,537 will fund 2.75 City FTE from FY 2022-23 through FY 2026-27, \$350,000 will fund program outreach, \$100,000 will fund miscellaneous expenses, such as database development, and \$2,000,000 will be available as a contingency for additional staff salaries if the contract is extended. City staff at DPH and ENV will evaluate applications as well as monitor and certify projects.

RECOMMENDATION

Approve the proposed resolution.

Item 2 File 22-0268	Department: Department of the Environment (ENV)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • 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. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • 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. The Department of Environment selected both contractors on a sole source basis because the because the application period (August 12, 2020 to October 23, 2020) did not allow enough time for a competitive solicitation process. In addition, the Department intends to create a map tool to show existing electric vehicle charging stations and obtain input on future stations. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • 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 proposed grant funds 2.47 FTE at the Department of Environment to manage and provide analytical support to the projects. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

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 proposed grant does not require retroactive approval because it is not effective until acceptance is approved by the Board of Supervisors. The Department therefore intends to request a correction to the proposed resolution to remove the references to retroactive approval.

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 charging infrastructure; (2) increasing public awareness of electric vehicles; and (3) accelerating transportation mode shift by establishing a pilot for app-based workers to use electric bicycles to make deliveries.

EV Fast Charging Plaza & Stations

The proposed scope of work includes construction of one EV fast charging plaza in a designated Disadvantaged Community¹ and eight fast chargers² 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 on a sole source basis by the Department of the Environment because the application period (August 12, 2020 to October 23, 2020) did not allow enough time for a competitive solicitation process. The Department of the Environment selected the vendor because of an existing relationship with EVgo and their experience in building electric vehicle fast charging plazas and installing fast charging stations.

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 will also fund the Department of the Environment's public-private partnership³ 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.

E-Bicycles

The grant will also fund a pilot program to provide electric bicycles to 35 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, EVgo was selected on a sole source basis by the Department of the Environment because the application period (August 12, 2020 to October 23, 2020) did not allow enough time for a competitive solicitation process. The Department of the Environment selected the vendor because of an existing relationship with GRID Alternative and their experience in implementing clean mobility deployments. 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.

Other Services

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.

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.

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).

- The 5644 Environmental Principal responsibilities include the following: (1) grant administration, invoicing, reporting and point of contact for the grant funder, (2) lead the

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

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

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

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. 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
<i>Subtotal, Labor</i>	<i>\$884,512⁵</i>	<i>\$90,000⁶</i>	<i>\$974,512</i>
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
<i>Subtotal, Subcontractors</i>	<i>\$1,232,325</i>	<i>\$784,390</i>	<i>\$2,016,715</i>
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 35 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.

RECOMMENDATION

Approve the proposed resolution.

Item 9 File 22-0171	Department: Public Health (DPH)
EXECUTIVE SUMMARY	
<p>Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution authorizes the lease of 2712 Mission Street to the City (the tenant) from Barak D. & Taly L. Jolish Living Trust, Zepporah Glass Trust and Oded Schwartz & Ruth Rosenthal Trust (the landlord) for an initial 10 year term from March 26, 2022 through March 25, 2032 and a base rent of \$795,200 per year (\$24.85 per square foot per year). <p>Key Points</p> <ul style="list-style-type: none"> • The Department of Public Health (DPH) has leased 2712 Mission Street since 2001, and the site currently holds the Mission Mental Health Clinic. The clinic provides Spanish/English bilingual mental health care and has a special focus on the LGBTQ community and the Latinx community. • The lease terms include an initial 10 year term, one five-year option to extend that may be exercised without further Board of Supervisors approval, a right of first offer to purchase, and base rent that increases between three and five percent annually. • The City is also responsible for janitorial and security costs, utility costs, real estate taxes, and building maintenance. • The transaction did not require an appraisal; however, according to an analysis of comparable properties done by the Real Estate Division, the base rent is at or below market value. <p>Fiscal Impact</p> <ul style="list-style-type: none"> • We estimate that the rent and operating costs for the initial 10 year term would total between \$12.3 million and \$13.2 million. If the five-year option to extend is exercised, we estimate the costs for the option term would be between \$7.5 million and \$9 million, for a total cost of \$19.8 million and \$22.2 million. <p>Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all leases on behalf of the City as tenant by resolution for which the term is longer than a year and costs over \$15,000 per month.

BACKGROUND

Current Lease

The Department of Public Health (DPH) has leased 2712 Mission Street since 2001. DPH has an existing lease with Redwood Mortgage Investors VIII for the entire premises of 2712 Mission Street that is dated January 6, 2012 and expires on March 25, 2022. The premises are 32,000 square feet and the rent of the current lease is \$31.30 per square foot per year. The site was initially selected for its suitability for the clinic, its location to the population the clinic serves, and its proximity to public transportation.

Mission Mental Health Clinic

Mission Mental Health Clinic is a specialty mental health provider for DPH. The clinic is comprised of three programs: Outpatient, Mission Intensive Care Management, and African American Alternatives Intensive Care Management. The clinic also offers some primary care services. The clinic receives referrals from community organizations, SF General Hospital, the criminal justice system, the foster care mental health system, and other primary care providers, as well as patients who come to the clinic during drop-in hours. The clinic provides culturally-informed, Spanish/English bilingual mental health care and has a special focus on the LGBTQ community and the Latinx community. In addition to the 48 DPH clinicians and psychiatric assessment teams, the building also houses 12 Homelessness and Supportive Housing staff members who staff the SF Homeless Outreach Team.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the lease of 2712 Mission Street to the City (the tenant) from Barak D. & Taly L. Jolish Living Trust, Zepporah Glass Trust and Oded Schwartz & Ruth Rosenthal Trust (the landlord) for an initial 10 year term from March 26, 2022 through March 25, 2032 and a base rent of \$795,200 per year (\$24.85 per square foot per year) with annual rent increases based on the Consumer Price Index (between three and five percent per year). There is also one five-year option to extend and a right of first offer of purchase to the City, which may be exercised without further Board of Supervisors approval so long as the rent during the option term is at or below market rent.

Lease Details

Exhibit 1 below shows the proposed lease terms.

Exhibit 1: Proposed Lease Terms

Premises	Two-story brick building with a basement; plus any other improvements to the land
Rental area	32,000 square feet
Base rent	\$24.85 per square foot per year (\$795,200 annually)
Base rent adjustments	Three to five percent per year
Term start and end	March 26, 2022 through March 25, 2032
Option to extend	One five-year option to extend
Utility costs	Paid by City
Janitorial & Security Services	Paid by City
Real Estate Taxes & Building Maintenance	Paid by City
Right to purchase	City gets first offer to purchase if owner chooses to sell

Source: Real Estate Division

Consistent with the current lease, the proposed lease stipulates that the City is responsible for maintenance of the interior of the premises. The lease also requires that the City pay for all utilities it uses on the site. According to Director of Real Estate Andrico Penick, the site does not need any capital improvements and is able to meet the needs of the Mission Mental Health Clinic in its current condition. The premises include the building (a two-story brick building with a basement) and any other improvements on the land.

According to Director Penick, the owner has no interest in selling the building so there is currently no option to purchase the site. However, the City has negotiated the right of first offer of purchase in the lease so that if the landlord decides to sell, the City has the ability to purchase the site.

This lease includes the addition of the City paying expenses typically associated with the landlord, such as real estate taxes, insurance, elevator maintenance, and HVAC maintenance. However, it includes a clause that protects the City from reassessments in property taxes.

Site Appraisal

The site did not require an appraisal because the cost of the lease is less than \$45 per square foot per year. However, the Real Estate Division analyzed the rental rates of similar properties to determine that the rate at 2712 Mission Street is at or below fair market value. According to information provided to our office, the Real Estate Division analyzed over 20 completed leases dated August 2020 to September 2021 and identified six properties that were comparable to 2712 Mission Street.

Site Size and Use

DPH plans to continue to use the site as a mental health clinic, providing bilingual mental health care and primary care to adults. DPH currently has 60 FTEs at the site, and the site serves approximately 829 clients per month, or an average of 40 clients per day. Including the clients, there is an average of 320 square feet per person in this site. Given the nature of the use of this site (clinical/medical as well as clerical/office), the square footage is appropriate.

FISCAL IMPACT

The proposed resolution authorizes the lease of 2712 Mission Street to the City for a base rent of \$795,200 annually, or \$24.85 per square foot per year. Exhibit 2 shows a breakdown of the rent and associated costs with the lease of the site:

Exhibit 2: Annual Base Rent and Operating Costs for 2712 Mission Street Lease

Item	Cost
Rent	\$795,200
Real Estate Taxes & Building Maintenance	204,160
Janitorial & Security	62,280
Utilities	18,432
Total	\$1,080,072

Source: Real Estate Division. Note: Utilities calculated based on 2019 estimates at clinic’s full capacity.

Note: Maintenance includes janitorial and security services

As shown in Exhibit 2 above, the total annual base costs for the proposed lease are \$1.1 million. The proposed lease limits annual rent increases to between three percent and five percent, based on regional CPI. Therefore, the rent and operating costs for the initial 10 year term would be between \$12.3 million and \$13.2 million, assuming service costs escalate at three percent annually and real estate taxes escalate at two percent annually. If the five-year option to extend is exercised, we estimate the costs for the option term would be between \$7.5 million and \$9 million, for a total cost of \$19.8 million and \$22.2 million.

The proposed lease costs are funded by the General Fund in FY 2021-22.

Change in Costs

According to Director Penick, the current rent on the existing lease is \$31.30 per square foot per year, or \$6.45 more than the initial base rent of \$24.85 per square foot per year. The base rent in the proposed lease is decreasing from the current rent; however, the total rent in the proposed agreement now includes real estate taxes and building maintenance costs, estimated at \$6.38 per square foot, or an initial rent of \$31.23 per square foot. Janitorial and security costs will continue to be paid by the City in the proposed lease.

The total program costs, including the 60 DPH and HSH staff, for the Mission Mental Health Clinic were \$9.4 million in FY 2019-20 and is funded entirely by the General Fund.

RECOMMENDATION

Approve the proposed resolution.