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: November 8, 2023 Budget and Finance Committee Meeting

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Item 1 **File 23-1084**	**Department:** Environment (ENV)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would retroactively authorize the Department of Environment (SF Environment) to accept and expend a grant in the amount of $605,620 from the US Department of Energy Vehicle Technology Office. The grant requires that SF Environment match the federal funds at a 1:1 ratio during the approximately three-year grant period, from September 12, 2023 through September 11, 2026.

Key Points

- On September 13, 2021, the California Energy Commission (CEC) Alternative and Renewable Fuel and Vehicle Technology Program selected SF Environment to receive a grant of $2,384,797. Approximately $815,781 of the CEC funding was budgeted for establishing a pilot program for app-based delivery workers to use electric bicycles to make deliveries in San Francisco. SF Environment is working with GRID Alternatives, an Oakland-based non-profit, to recruit delivery workers and to analyze and report on program outcomes.
- The ongoing pilot program provides electric bicycles to 30 San Francisco food delivery workers to use for making deliveries. The program compares these electric bicycle app-based delivery workers to a control group of 30 car-driving app-based delivery workers, monitoring an array of metrics including delivery efficiency, worker revenue, traffic congestion, and estimated transportation-related emission reductions.
- In August 2022, SF Environment responded to a US Department of Energy Funding Opportunity Announcement, seeking to expand the pilot program to up to 80 electric bicycle delivery workers, and up to 80 car drivers. In May 2023, the US Department of Energy announced the award of $605,000 in additional funding for SF Environment to expand the pilot program. Project deliverables include an online resource that quantifies the savings potential of using an electric bicycle over driving a car for any given delivery trip.

Fiscal Impact

- The total budget of the e-bike pilot project and proposed expansion is $1,443,193, which is funded by $815,781 in state funding, the proposed $605,320 in federal funding, and approximately $8,000. SF Environment intends to use the state funding for the matching fund requirement of the proposed grant.

Recommendation

- 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

Electric Bicycle Pilot Program

On September 13, 2021, the California Energy Commission (CEC) Alternative and Renewable Fuel and Vehicle Technology Program selected the San Francisco Environment Department (SF Environment) to receive a grant of $2,384,797 following a competitive application process (File 22-0268). The grant period is from January 26, 2022 through June 30, 2025. According to SF Environment, approximately $815,781 of the CEC funding was budgeted for establishing a pilot program for app-based delivery workers to use electric bicycles to make deliveries in San Francisco. As of September 15, 2023, SF Environment reports having spent approximately $232,000 on the pilot program so far.

The ongoing pilot program provides electric bicycles to 30 San Francisco food delivery workers to use for making deliveries. The program compares these electric bicycle app-based delivery workers to a control group of 30 car driving app-based delivery workers, monitoring an array of metrics including delivery efficiency, worker revenue, traffic congestion, and estimated transportation-related emission reductions. Participants for the electric bicycles program are chosen from a pool of applicants that have committed to delivering on a part-time basis through mobile food ordering platforms such as GrubHub, Uber Eats, or Door Dash. Program participants receive bike helmets, bike locks, bike bags, and training on how to safely use electric bikes. Upon completion of the program period, riders also get to keep the bicycles. In return, program participants are required to take three surveys and participate in data collection. SF Environment states that vehicle delivery drivers in the program's control group receive $100 stipends for participating.

The first cohort of 15 electric bicycle delivery workers began in June 2023 and has now concluded their five-month pilot period. SF Environment says that the data gathered during this period is currently being analyzed. The second cohort of 15 electric bicycle delivery workers was launched in September 2023 and will finish their pilot period in January 2024.

Program Expansion

In August 2022, SF Environment responded to a US Department of Energy Funding Opportunity Announcement, seeking to expand the electric bicycle delivery pilot program. In May 2023, the US Department of Energy announced the award of $605,000 in additional funding for the San Francisco Department of Environment to expand the pilot program, now called the "Decarbonizing Deliveries in San Francisco Project." SF Environment expects that the project will establish a business case for delivery companies to increase use of electric bicycles instead of driving for delivery workers.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would retroactively[1] authorize the San Francisco Environment Department (SF Environment) to accept and expend a grant in the amount of $605,620 from the US Department of Energy Vehicle Technology Office. The grant requires that SF Environment match the federal funds at a 1:1 ratio[2] during the grant period. The grant performance period is over an approximately three-year period, from September 12, 2023 through September 11, 2026, with pre-award costs from May 16 through September 12, 2023 reimbursable.

Pilot Expansion via Federal Funding

The grant and matching funds would be used to finance an expansion of SF Environment's existing pilot program to provide electric bicycles to app-based delivery workers in San Francisco to use in making their deliveries instead of driving personal vehicles. The expanded project is called "Decarbonizing Deliveries in San Francisco", and with the federal funding, participation would scale from a sample size of 30 electric bicycle delivery workers and 30 car driving delivery workers, to up to 80 electric bicycle delivery workers, and up to 80 car drivers.

The project will build upon the existing pilot program infrastructure, including hiring additional staff and garnering more data that the SF Environment anticipates will help demonstrate the benefits of using electric bicycles for app-based deliveries. Project deliverables include an online resource that quantifies the savings potential of using an electric bicycle over driving a car for any given delivery trip.

Contractual Services

The federal grant application requires applicants to identify an organization as a co-applicant. SF Environment chose GRID Alternatives, Inc., an Oakland-based non-profit corporation, to serve as the program implementation partner. GRID Alternatives has been SF Environment's ongoing subcontractor for the CEC-funded electric bicycle pilot program and will help scale the program, including procuring and maintaining the electric bicycles and recruiting delivery workers to participate. The San Francisco Bicycle Coalition, a non-profit organization, will host electric bicycle rider safety trainings. ENV will competitively procure a data collection partner and use pre-qualified contractors for website development and translation.

Program Monitoring

Attachment 2 to the draft grant agreement between SF Environment and the US Department of Energy describes in detail the grant performance monitoring and reporting requirements. SF Environment is to provide reports throughout the duration of the grant, including quarterly project management reports, quarterly financial reports, an annual summary of

[1] The Environment Department is seeking retroactive authorization to accept and expend the grant funds because the grant performance period started on September 15, 2023. The Department is waiting for Board of Supervisors approval before finalizing the grant agreement with the US Department of Energy and accepting the funds.

[2] The Department's matching fund amount ($605,633) is $13 higher than the federal grant ($605,620), despite only 1:1 match requirement, due to allocation methodology for indirect costs.

accomplishments, scientific and technical information reports (to ensure public access to the results of federally funded research), and a closeout report.

FISCAL IMPACT

Exhibit 1 below shows the sources and uses of the e-bike pilot project and the expansion that the proposed grant would fund. SF Environment intends to use the previously awarded California Energy Commission grant to fully fund the $605,633 match requirement of the proposed grant. SF Environment states that it does not intend to use the General Fund for the grant match. The total project budget is $1,443,193.

Exhibit 1. Decarbonizing Deliveries in San Francisco Project Budget

	Pilot Program	Proposed Expansion	Total
Sources			
CA Energy Commission	$815,781	$0	$815,781
GRID Alternatives	$0	$7,292	$7,292
LAFCo	$13,500	$0	$13,500
SFPUC	$1,000	$0	$1,000
US Dept of Energy	$0	$605,620	$605,620
Total Sources	**$830,281**	**$612,912**	**$1,443,193**
Uses			
ENV Staff	$207,168	$59,453	$266,621
GRID Alternatives	$449,293	$420,314	$869,607
Data Collection Partner	$80,000	$60,000	$140,000
SF Bike Coalition	$16,500	$33,165	$49,665
Translation Vendor	$0	$5,000	$5,000
LAFCo Staff	$13,500	$0	$13,500
SFPUC Staff	$1,000	$0	$1,000
Web Vendor	$0	$23,807	$23,807
Materials	$9,578	$0	$9,578
Travel	$0	$3,204	$3,204
Indirect Costs	$53,242	$7,969	$61,211
Total Uses	**$830,281**	**$612,912**	**$1,443,193**

Source: Environment Department

RECOMMENDATION

Approve the proposed resolution.

Item 7 **File 23-0999**	**Department:** Department of Public Health (DPH), Real Estate Division (RED)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution retroactively authorizes the Director of Property, on behalf of the Department of Public Health, to execute a fourth amendment to a lease agreement, between 716 Sacramento LLC and DLS Sacramento LLC, as landlords, and the City as tenant, for 9,250 square feet of property located at 716-720 Sacramento Street. The amendment would extend the term for three years from July 1, 2023 to June 30, 2026, with two additional one-year options to extend.

Key Points

- The Department of Public Health (DPH) would continue to use 9,250 square feet of office space in the building located at 716-720 Sacramento Street for the Chinatown Child Development Center. DPH has leased this space since 1996. According to DPH, as of October 2023, there are 27 staff who work at the site (23 City staff and four contracted interns) and there is no expectation of staff expansion.
- The lease has been on holdover status since June 30, 2023 due to the time needed to order an appraisal during negotiations with the landlord, as well as staff turnover at the Real Estate Division.

Fiscal Impact

- In the first year of the proposed lease extension, DPH would pay $370,000 in annual rent, or $40 per square foot. This is a decrease of $160,959, or 30.3 percent, less than the annual rent from July 2022 to July 2023 of $530,959, or $57.40 per square foot. According to the Real Estate Division, the proposed rent is at or below market rate, based on an appraisal conducted in February 2023.
- Over the three-year term of the proposed extension, the total rent to be paid by the DPH is $1,143,633. This figure includes an annual base rent increase of 3 percent, per lease term. Total operating costs are estimated to be $179,617. The total $1,323,250 in rent and operating costs for the initial three-year term would be paid from the City's General Fund in DPH's annual budget.

Recommendations

- Amend the proposed resolution to approve the lease amendment retroactive to July 1, 2023.
- Approve the proposed resolution, as amended.

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

Since 1996, the Department of Public Health (DPH) has leased 9,250 square feet of office space in the building located at 716-720 Sacramento Street. DPH currently uses the space to operate its Chinatown Child Development Center, a clinic which provides behavioral health services to children and families.

In March 2018, the Board of Supervisors approved the third amendment to exercise one five-year option to extend the term from July 1, 2018 through June 30, 2023, with an initial annual base rent of $471,750, or $51 per square foot (File 18-0155). The lease provided for rent adjustments of three percent annually and provided one (1) five-year option to extend through June 30, 2028, which is subject to Board of Supervisors approval.

Holdover Status

The original lease expired on June 30, 2023. According to the Real Estate Division staff, the lease has been on holdover status[1] since June 30, 2023 due to the time needed to order an appraisal during negotiations with the landlord, as well as staff turnover at the Real Estate Division. Consequently, the City negotiated a decrease in rent during the holdover period from $57.40 per square foot to $40 per square feet) during the holdover period.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution retroactively authorizes the Director of Property, on behalf of the Department of Public Health, to execute a fourth amendment to a lease between 716 Sacramento LLC[2] and DLS Sacramento LLC[3], as landlords, and the City, as tenant, for 9,250 square feet of property located at 716-720 Sacramento Street. The proposed amendment would extend the term from July 1, 2023 to June 30, 2026, with two additional one-year options to extend, for a total of December 1, 1996 to June 30, 2026. The initial monthly base rent will be $30,833.33 for a total annual base rent of $370,000 ($40 per square foot). Exhibit 1 below summarizes the terms and conditions of the lease.

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[1] Per the provisions of Section 23.13 Holding Over clause in the original lease, which states that the City may continue to occupy the premises after the lease expires.

[2] At an undivided 73.4 percent interest in the property.

[3] At an undivided 26.6 percent interest in the property.

Exhibit 1. Key Provisions of Proposed Lease Extension

	Proposed Lease Extension
Premises	9,250 square feet at building located at 716-720 Sacramento Street
Base Rent (annual)	$370,000 ($40 per square foot)
Term	Three years (July 1, 2023 to June 30, 2026)
Options to extend	Two options to extend for one year each (with base rent at 95% of prevailing market rent)
Base Rent Adjustment Amount	3% per year
Operating Expenses	City's pro rata share (74 percent) of operating costs (e.g., taxes, insurance). Landlord to pay for refuse removal and pest control. City pays for utilities and janitorial services.
Tenant Improvements	None
Parking	None
Early Termination Option	None

Source: Lease Agreement

The proposed draft lease amendment in the legislative file states that the initial annual base rent during the extension period is $454,668.67 (or $49.15 per square foot); however, this is an error. The proposed resolution correctly states that the initial annual base rent for the extension period is $40 per square foot. According to Claudia Gorham, Deputy Managing Director of the Real Estate Division, the fully executed lease will be revised to reflect the $40 per square foot rent.

Services

The lease agreement states that the City's percentage share of the building's property taxes and other operating costs is 74 percent. According to the original lease, the City's percentage share for any expense year must not exceed 2 percent of the annual rent. The City pays for all separately metered utilities, and the landlord pays for all other utilities. The landlord will also provide refuse removal, pest control services, maintenance and repairs of the exterior and structural portions of the building at no cost. The City will provide for janitorial services and maintenance and repairs of the interior portions of the premises at its own cost. These lease terms would remain the same under the proposed extension.

Building Usage

The Department of Public Health would continue to use the premises at 716-720 Sacramento Street for the Chinatown Child Development Center. According to the Department of Public Health, as of October 2023, there are 27 staff who work at the site (23 City staff and four contracted interns) and there is no expectation of staff expansion. In addition, the cost of direct services at the site is $3,227,930 in FY 2021-22. The Department reports that the clinic served 328 patients in 2022. The premises include three conference rooms for family therapy sessions, group meetings, play therapy and community events and meetings, as well as 22 offices for private therapy consultations with staff.

FISCAL IMPACT

In the first year of the proposed lease extension, DPH would pay $370,000 in annual rent, or $40 per square foot. This is a decrease of $160,959, or 30.3 percent, less than the current annual rent from July 2022 to July 2023 of $530,959, or $57.40 per square foot. According to the Real Estate Division, the proposed rent is at or below market rate, based on an appraisal conducted in February 2023 by Colliers International.

As shown in Exhibit 2 below, over the three-year term of the proposed extension, total rent to be paid by the Department of Public Health (DPH) is $1,143,633. This figure includes an annual base rent increase of 3 percent, per lease term. Total operating costs are estimated to be $179,617. The total costs would be paid from the City's General Fund in DPH's annual budget.

Exhibit 2. Total Costs by Year Under Proposed Lease Extension

Lease Year	Annual Rent	Operating Costs[4]	Total
Year 1	$370,000	$56,976	$426,976
Year 2	381,100	59,825	$440,925
Year 3	392,533	62,816	$455,349
Total	**$1,143,633**	**$179,617**	**$1,323,250**

Source: Lease Agreement

RECOMMENDATIONS

1. Amend the proposed resolution to approve the lease amendment retroactive to July 1, 2023.
2. Approve the proposed resolution, as amended.

[4] According to the Real Estate Division, the Department of Public Health estimates five percent escalations for tax, insurance, janitorial and common area maintenance charges.

Item 8 **File 23-1000**	**Department:** Department of Technology (DT), Real Estate Division (RED)

Legislative Objectives

- The proposed resolution authorizes the Director of Property, on behalf of the Department of Technology, to execute a new lease agreement for 2205 Jenning Street between J.D. Harney, Inc., John Daniel Harney and Bernadette Patricia Harney, and MM1495Wall LP, as landlord, and the City, as tenant. The new lease agreement would commence upon approval of this resolution and extend for three years until December 31, 2026 and has one option to extend for five years. The initial annual base rent is $264,000 ($17.60 per square foot) and would increase by 3 percent per year.

Key Points

- The premises are comprised of 10,000 square feet of warehouse space which would continue to be used by the Department of Technology's Public Safety Division to store equipment, and 5,000 square feet of yard space for City vehicles. There are no employees stationed at 2205 Jennings Street; it is a drop off, pick up storage location only.
- The lease term expires December 31, 2026, which is also the expiration date of another leased site at 200 Paul Avenue. This will provide the Department of Technology the flexibility to consolidate both sites at that time, if practical.

Fiscal Impact

- Over the initial three-year term of the proposed lease, total rent to be paid by the City's Department of Technology is $815,997, funded by the General Fund.
- The proposed rent is a 48 percent increase over the City's current lease for the site, which was entered into in 2021 and has been on holdover status since December 2021. The short-term monthly base rent was below market value and was capped at just below $15,000 per month to allow the lease to be approved administratively. According to the Real Estate Division, the short-term lease base rent amount was negotiated with the understanding that the long-term base rent amount would be higher to make the short-term base rent viable for the landlord. The Real Estate Division determined that the proposed base rent is at or below the fair market rent based on a review of comparable properties in the area in October 2023.

Recommendation

- 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

The San Francisco Department of Technology's (DT) Public Safety Division is responsible for maintaining telecommunications infrastructure for City departments, including law enforcement agencies and emergency responders. Since 2017, the Public Safety Division has leased 77,934 square feet, including 53,934 square feet of warehouse and office space and 24,000 square feet of yard area at 200 Paul Avenue to provide office space for the maintenance and repair of telecommunications equipment and storage for trucks, vehicles, and trailers. The Public Safety Division also previously leased 4,908 square feet of yard space at 1755 Egbert Avenue to provide additional storage of vehicles, materials, and equipment near the 200 Paul Avenue premises. In July 2021, 1755 Egbert Avenue was sold, and the City was given 60 days to vacate the property.

2205 Jennings Street Lease

In July 2021, the Real Estate Division negotiated a short-term lease on behalf of the Department of Technology for 15,000 square feet of warehouse and yard space located at 2205 Jennings Street, in the Bayview neighborhood. At the time, the lease agreement was negotiated on a short-term basis because the Department of Technology wanted to occupy the space as soon as possible, following the notice to vacate 1755 Egbert Avenue, less than one mile away. Both parties agreed a long-term lease would be forthcoming.

The original lease agreement between the City and J.D. Harney, Inc., John Daniel Harney and Bernadette Patricia Harney, and MM1495Wall LP, as landlord, was for a five-month period, commencing August 5, 2021 through December 31, 2021, at a monthly base rent amount of $14,900 ($11.92 per square foot per year). According to the Real Estate Division, this was below fair market value. The short-term monthly base rent was capped just below $15,000 per month to allow the lease to be approved administratively under Administrative Code Section 23.27. Therefore, no adjustment to the base rent was written into the lease.

Preparation of a draft long-term lease agreement was delayed due to negotiations of the lease terms and staff turnover at the Real Estate Division, so the original lease has been in holdover status since January 2022. The City has been paying $14,900 per month, or $178,800 per year, for the premises at 2205 Jennings Street since August 2021.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution authorizes the Director of Property, on behalf of the Department of Technology, to execute a new lease agreement between J.D. Harney, Inc., John Daniel Harney and Bernadette Patricia Harney, and MM1495Wall LP, as landlord, and the City, as tenant. The lease is for 10,000 square feet of warehouse space and 5,000 square feet of yard space located at 2205 Jennings Street, San Francisco. The new lease agreement would commence upon approval of this resolution and extend for three years until December 31, 2026 and has one option to extend for five years. The initial annual base rent is $264,000 ($17.60 per square foot) and would increase by 3 percent per year. Exhibit 1 below summarizes the lease terms and conditions.

Exhibit 1. Summary of Proposed Lease

	Proposed Lease
Premises	10,000 square feet of warehouse space and 5,000 square feet of fenced yard space for parking
Base Rent (annual)	$264,000 ($17.60 per square foot)
Utilities	Not included. City to pay separately.
Property Taxes and Operating Costs	City to pay 50% of increase in real estate taxes operating costs above 2023 level
Term	Three years, ending December 31, 2026
Options to extend	One option to extend for five years
Base Rent Adjustment Amount	3% increase per year
Base Rent for the Extended Term	Equal to the greater of: (a) the existing base rent increased by 3%, or (b) prevailing market rent of comparable space
Tenant Improvements	None

Source: Draft Lease Agreement

Note: Lease term commences upon approval of the proposed resolution.

Building Usage

The premises are comprised of 10,000 square feet of warehouse space which would continue to be used by the Department of Technology to store equipment and 5,000 square feet of yard space for City vehicles. There are no employees stationed at 2205 Jennings Street; it is a drop off, pick up storage location only.

The lease term expires December 31, 2026, which is also the expiration date of the 200 Paul Avenue lease. This will provide the Department of Technology the flexibility to consolidate both sites at that time, if practical.

Utilities and Services

Under the agreement, the City pays utilities separately from the rent. The City is also responsible for its share (50 percent) of the increase in building operating costs and property taxes above their amounts in 2023.

Fair Market Rent Determination

The Real Estate Division determined that the proposed base rent is at or below the fair market rent based on a review of comparable properties in the area in October 2023. Annual rent of $17.60 per square foot for the 15,000 square foot premises was based on annual rent of $20.40 per square foot of warehouse space and $12.00 per square foot of yard space. Because the proposed rent is less than $45 per square foot per year, the lease does not require an appraisal under Administrative Code Chapter 23.

FISCAL IMPACT

As shown in Exhibit 2 below, over the initial three-year term of the proposed lease, total rent to be paid by the City's Department of Technology is $815,997. This figure includes an annual base rent increase of 3 percent per year, per lease term. The total cost would be paid from the City's General Fund, in the Department of Technology's annual budget.

Exhibit 2. Total Costs by Year Under Proposed Lease

Lease Year	Annual Rent
Year 1	$264,000
Year 2	271,920
Year 3	280,077
Total	**$815,997**

Source: Proposed Lease

Total costs under the lease also include utilities, incremental increases to property taxes and insurance. The City Real Estate Division could not provide exact figures for these costs but did say they would be minimal given that no employees are stationed at the property. In 2023, utilities averaged $250 per month, projected to total approximately $3,000 for the year.

Transitioning from the existing short-term lease to the long-term proposed lease agreement will involve an increase in the monthly base rent by $7,100 (48 percent), or from $14,900 to $22,000. As mentioned previously, the short-term monthly base rent was below market value and was capped at just below $15,000 per month to allow the lease to be approved administratively. According to the Real Estate Division, the short-term lease base rent amount was negotiated with the understanding that the long-term base rent amount would be higher to make the short-term base rent viable for the landlord.

RECOMMENDATION

Approve the proposed resolution.