



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 8, 2024

IBA Report Number: 24-13

Docket Date: May 13, 2024

Item Number: 200

IBA Review of the Public Facing Electric Vehicle Charging Contract

OVERVIEW

The Sustainability and Mobility Department (SuMo) is bringing forward a contract to provide a single vendor with exclusive rights to build, install, and operate public facing electric vehicle (EV) charging equipment on City property and at City facilities. This contract would provide this exclusive right for 10 years. This contract was first presented to the Environment Committee on March 14, 2024. At that meeting, the Committee requested the Office of the IBA provide a written analysis on the financial risks and details of the contract. This report responds to that request.

BACKGROUND

The proposed public facing EV contract would give a selected group of vendors exclusive rights to build and install EV charging stations at all City facilities and on City property for a term of 10 years. This contract is being sought to assist the City with many of its EV charging infrastructure goals, including its obligations to install charging stations at new facilities and to achieve public EV adoption goals under the Climate Action Plan (CAP).

One of the CAP's goals is to have 25% of Vehicle Miles Traveled (VMT) in the City to be from electric or zero emissions vehicles by 2035. To achieve this, SuMo developed a Zero Emissions Vehicles Strategy, which has various strategies that seek to increase the adoption of EVs across the City, including in structurally excluded and disadvantaged communities. To this end, one of the identified strategies is providing publicly accessible EV charging stations at public facilities to provide charging options for individuals that might not have the ability to charge these vehicles at their homes.

The contract is a concession agreement, where a collection of private companies working under the primary vendor, True Upside Consulting, will be responsible for installing, operating, and maintaining the entire EV charging network at the City's public facing facilities, including

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libraries, recreation centers, beaches, police and fire stations, and other public parking areas. This will be separate from many of the efforts of the General Services Department to install EV charging infrastructure at the City's various operations yards for City fleet purposes.

This agreement was developed through a Request for Information process that sought to determine the needs and capabilities of the private sector to undertake this type of agreement. True Upside Consulting and its team were selected through a competitive Request for Proposal bidding process.

Under this agreement, the City controls the prioritization of various sites in order to ensure equitable outcomes and will require that a minimum number of ports are placed at all public facing City facilities. However, the vendor will have the flexibility to determine the appropriate number of any additional ports to be placed in service at each site, depending on market conditions and other factors.

The contractor will be responsible for all upfront installation costs, as well as operations and maintenance for the duration of the 10-year agreement. The City shares some of the financial risk for this contract, but that risk comes at the end of the agreement. During the ten-year term, the City will receive a set fee per port and a set percentage of revenue. The revenue received by the City will be placed in a separate fund, which can only be used for: (1) City administrative costs to oversee this contract; and (2) to purchase the installed EV infrastructure at the end of the 10-year agreement (end-of-term buyout). The buyout terms are set under the contract, including a depreciation schedule which lowers the City's buyout costs as the EV infrastructure ages. If the City does not wish to buyout the EV infrastructure, the funds will be returned to the contractor. The contract sets a not-to-exceed amount of \$60 million, although, as explained further below, the actual buyout is likely to be much lower. If the City does purchase the EV infrastructure, the City will have ability to use this equipment for subsequent EV charging contracts.

FISCAL AND POLICY DISCUSSION

Our Office reviewed this contract and identified two main areas of risk. First, utilization of the EV infrastructure could be below expectations, which would result in less revenue available to contribute towards the end-of-term buyout. And second, that the ultimate success of this endeavor relies on City staff proactively managing this contract while also successfully transitioning the infrastructure to a new vendor at the end of the agreement. We address both these issues below.

Financial Risk

While the City will not be responsible for any costs during the term of the agreement, there is financial risk to the City after the 10-year term. As discussed, the City will collect revenue from the contractor during this agreement which would offset end-of term buyout costs, but under most scenarios the City will have to pay more at the end of the 10 years than what it expects to collect in revenue during those 10 years. Here we look at the anticipated costs to acquire the EV charging infrastructure at the end of the 10-year contract, and what options will the City have to cover that extra cost.

Under the scenario that SuMo believes to be most likely, it is assumed that the contractor will install 1,250 charging ports across the City, with 600 slower charging ports (level 2 chargers) fully installed by the end of year five of the agreement, and 650 fast charging ports (level 3 chargers)

fully installed by the end of year six. Based on this assumption, the buyout cost to the City is estimated to total approximately \$30.0 million at the end of the ten years. To estimate City revenue, SuMo staff assume that the level 2 chargers will be used for an average of six hours per day, with the level 3 chargers ranging from five hours per day at the beginning of the term up to eight hours per day. The maximum rate of \$0.50 per hour is assumed for the first five years, with an increase to \$0.53 per hour around year six.¹ Under these assumptions, the City will have collected approximately \$23.0 million, resulting in net buyout cost to the City of \$7.0 million.

Staff's "Most Likely" Scenario (\$ in millions)					
Charger Type	# of Ports/ Chargers	Avg. Charging Hours	City Revenue	End-of- Term Buyout	Net-City Payout
Level 2 Chargers	600	6.0	\$ 6.4	\$ 4.9	\$ (1.4)
Level 3 Chargers	650	6.1	16.6	25.1	8.5
Total	1,250		\$ 23.0	\$ 30.0	\$ 7.0

The greatest risk here is associated with the potential that actual EV charger use may fall below assumptions. Since City revenue is most directly affected by usage, underutilization of this infrastructure would result in less revenue generated throughout the duration of the contract, resulting in less funding to pay for the end-of-term buyout. Our Office developed what we believe to be a worst-case “underutilization” scenario, which is presented below. Under this scenario, we assume that the average charging hours per port is one third staff’s assumptions above. Since underutilization is likely to lead to the contractor installing fewer chargers to match demand, we also assumed a lower number of charging ports installed. These changes reduce the City’s revenue to \$4.2 million, but also lower the potential buyout price to \$18.8 million, resulting in a potential City payout of \$14.6 million.

IBA Worst Case Scenario (\$ in millions)					
Charger Type	# of Ports/ Chargers	Avg. Charging Hours	City Revenue	End-of- Term Buyout	Net-City Payout
Level 2 Chargers	300	2.0	\$ 1.1	\$ 2.2	\$ 1.0
Level 3 Chargers	400	2.1	3.1	16.6	13.5
Total	700		\$ 4.2	\$ 18.8	\$ 14.6

Options to mitigate buyout costs beyond the revenue generated from this contract exist. The City could potentially finance buyout costs at the end of the agreement, committing revenues from a follow-on contract as a revenue to support the debt service costs for that financing. City staff anticipates soliciting a follow-up EV charging contract sometime around year eight of this contract. That should allow sufficient time to have a new vendor in place, which would then be responsible for the above-ground charging ports (the supporting infrastructure would be owned by

¹ This assumes that the vendor will seek a rate increase due to increases in electricity costs. All rate increases above \$0.50 will require review by the City.

the City). This subsequent contract could have more lucrative revenues, which could pay for the debt service costs associated with financing the end-of-term buyout. However, it is important to note that this will require that City staff to proactively plan for this transition eight to ten years from now (additional discussion on this is provided below).

Alternatively, at the end of the ten-year term Council could decide to forego purchasing the EV chargers and infrastructure. If this were to occur, accrued revenue would need to be returned to the contractor, and the City would not have to outlay any additional funds. While this provides financial flexibility to the City, exercising this option could cause other issues, such as stranded EV charging infrastructure that could not be used by the prior or a new vendor.

While the City shares some risk associated with underutilization of the EV charging ports, the contract does equally share the financial benefits for grant opportunities to cover the costs of installing EV chargers. Every grant dollar that is received by the contractor is credited to the City, reducing the buyout price at the end of the agreement. According to SuMo, there are numerous grants at both the State and federal level to install charging stations at public facilities. Our Office also ran our worst-case scenario but assumed that grants would cover 30% of the total installation costs. In this scenario, the net buyout price for the City was reduced to \$8.9 million.

IBA Worst Case Scenario with Grants (\$ in millions)					
Charger Type	# of Ports/ Chargers	Avg. Charging Hours	City Revenue	End-of- Term Buyout	Net-City Payout
Level 2 Chargers	300	2.0	\$ 1.1	\$ 1.5	\$ 0.4
Level 3 Chargers	400	2.1	3.1	11.6	8.5
Total	700		\$ 4.2	\$ 13.1	\$ 8.9

We also note that under staff's scenario achieving 30% grant coverage for install costs would result in a buyout cost of \$21.0 million. With the revenue assumption of \$23.0 million, revenue would potentially exceed the buyout price.

Staff's "Most Likely" Scenario with Grants (\$ in millions)					
Charger Type	# of Ports/ Chargers	Avg. Charging Hours	City Revenue	End-of- Term Buyout	Net-City Payout
Level 2 Chargers	600	6.0	\$ 6.4	\$ 3.5	\$ (2.9)
Level 3 Chargers	650	6.1	16.6	17.5	1.0
Total	1,250		\$ 23.0	\$ 21.0	\$ (2.0)

Given our analysis, we project that the total amount of money the City would have to payout at the end of the contract in ten years ranges from nothing (assuming some grant funding and staff's utilization rates) to \$14.6 million (assuming no grant funding and more conservative utilization rates). This represents the band of financial risk associated with this contract; Council should weigh this against the Climate Action Plan policy objectives that this contract could achieve.

City Oversight

Given the number of variables that could affect this contract and its financials, including utilization of the chargers and revenue generation, the other risk to this contract is a lack of adequate staff oversight. Given the ten-year term, it should not be assumed that the same staff implementing this contract today will remain with the City for the duration of the contract, so if this contract is approved it will be critical for subsequent staff overseeing the contract to both maintain effective oversight of the contract itself, and to adequately plan for any subsequent follow-on contract.

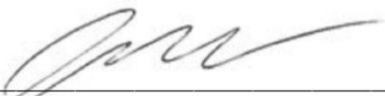
As noted, the City's financial options at the end of this agreement will be contingent upon City staff successfully executing a follow-on procurement during years eight through ten of this contract's term. Staff have indicated they will have a better grasp on potential buyout and revenue generation around year five of this agreement, since most of the ports are anticipated to be built out at that point. Successful implementation of this program is fully dependent on proactive staff and Council oversight of this program. **Our Office recommends that SuMo provide a written report and briefing on this contract to the Environment Committee, including data on the number of ports installed, utilization metrics, and revenue generated from this contract, on a yearly basis.**

CONCLUSION


At the request of the Environment Committee, our Office reviewed this item and calculated potential financial risks to the City. On the whole, we find the agreement to be a reasonable approach to providing a network of publicly accessible EV charging stations, which should help with the adoption of EV usage. The potential risk to the City comes at the end of the agreement, where staff currently project a net buyout price of approximately \$7.0 million. If actual EV charger use comes in below staff assumptions, our Office believes a potential worst-case buy-out cost could be \$14.6 million. Grants could also result in a lower buyout price under either scenario.

Additionally, our Office believes that the true key to this contract's success, and the most efficient way to mitigate the City's risk, is effective oversight of the program, by both City staff and the Council. Therefore, our Office recommends that SuMo provide a written report and briefing on this contract, including data on the number of charging ports installed, utilization metrics, and revenue generated from this contract, on a yearly basis.


Our Office thanks SuMo staff for walking us through the details of this proposal and answering our questions.



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