


CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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April 8, 2022

TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst 

SUBJECT: April 13, 2022 Budget and Finance Committee Meeting

TABLE OF CONTENTS

| Item | File | Page |
|---------------------|--|------|
| 1 | 22-0172 Contract Amendment - Staples Contract & Commercial, LLC - Office Supplies - Not to Exceed \$16,500,000 | 1 |
| 2, 3, 4, 5, 6, 7 | 22-0175 Contract Amendment - CCT Technologies, Inc. dba Computerland of Silicon Valley - Technology Marketplace - Not to Exceed \$62,900,000 | |
| | 22-0176 Contract Amendment - Cornerstone Technology Partners II JV - Technology Marketplace - Not to Exceed \$31,200,000 | |
| | 22-0177 Contract Amendment - Insight Public Sector, Inc. - Technology Marketplace - Not to Exceed \$39,700,000 | |
| | 22-0178 Contract Amendment - InterVision Systems, LLC - Technology Marketplace - Not to Exceed \$44,400,000 | |
| | 22-0179 Contract Amendment - XTech JV - Technology Marketplace - Not to Exceed \$115,700,000 | |
| | 22-0180 Contract Amendment - Zones, LLC - Technology Marketplace - Not to Exceed \$23,600,000 | 4 |
| 10 | 22-0296 Acquisition of Real Property - Prologis, L.P. - 1236 Carroll Avenue - Not to Exceed \$40,000,000 - Approval of Memorandum of Understanding - Port - Not to Exceed \$6,000,000..... | 9 |
| 11 | 22-0294 TEFRA Approval - Issuance of Bonds by Infrastructure and Revitalization Financing District No. 1 (Treasure Island) - Not to Exceed \$30,000,000..... | 15 |

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|---|---|
| <p>Item 1 File 22-0172</p> | <p>Department: Office of Contract Administration (OCA)</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would approve Amendment No. 2 to the Office of Contract Administration’s (OCA) office supply purchasing contract with Staples Contract & Commercial, LLC (Staples), increasing the not-to-exceed amount by \$11,500,000, for a total not to exceed \$16,500,000, and extending the term by approximately one year and four months through July 2025. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The proposed contract with Staples piggybacks off a December 2019 competitive solicitation process completed Sourcewell, a State of Minnesota local government agency. Administrative Code Section 21.16(b) allows City departments to utilize the competitive procurement process of any other public agency. • Under the contract, Staples provides a wide range of office supplies and is used by all City departments, but it is most heavily used by the Human Services Agency (HSA), San Francisco Municipal Transportation Agency (SFMTA), Department of Election (REG), and San Francisco Police Department (SFPD). <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed not-to-exceed amount of \$16,500,000 was estimated using average actual monthly expenditures of \$276,250. • The contract is funded by the various City departments that make purchases through the contract. <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.

Administrative Code Section 21.16(b) allows City departments to utilize the competitive procurement process of any other public agency or non-profit made up of multiple public agencies to make purchases of commodities or services for the use of the City under the terms established in that agency's competitive procurement process and as agreed upon by the City and the procuring agency, upon making a determination that (i) the other agency's procurement process was competitive or the result of a sole-source award, and (ii) the use of the other agency's procurement would be in the City's best interests.

BACKGROUND

The City is a member of Sourcewell, a State of Minnesota local government agency and service cooperative created under the laws of the State of Minnesota. In December 2019, Sourcewell issued a Request for Proposals (RFP) to award office supply purchasing contracts to its members. Sourcewell received six proposals and scored them, as shown in Exhibit 1 below.

Exhibit 1: Proposals and Scores from RFP

| Proposer | Score (out of 1000) |
|------------------------------------|---------------------|
| Staples Contract & Commercial, LLC | 867 |
| Lakeshore Learning Materials | 812 |
| Premier & Companies | 787 |
| Eloquent Corp. | 742 |
| Beepsmart Communications Inc. | 708 |
| Zone Logistics, LLC | 671 |

Source: OCA

Staples Contract & Commercial, LLC (Staples) was deemed the highest scoring and lowest cost responsive and responsible proposer by Sourcewell and the Office of Contract Administration (OCA) decided to award a contract using the Sourcewell RFP under the authority of Administrative Code Section 21.16(b). In July 2020, OCA executed a contract with Staples for a term of approximately three years and eight months, from August 1, 2020 through April 6, 2024, with an amount not to exceed \$5,000,000, and an option to extend through July 2025, for a total term of up to five years. In September 2020, OCA executed Amendment No. 1 to the contract, amending the standards for toner and ink cartridges, with no change to the contract term or not-to-exceed amount. According to OCA, the \$5,000,000 contract expenditure authority is likely to be depleted in April 2022.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would approve Amendment No. 2 to OCA's contract with Staples, increasing the not-to-exceed amount by \$11,500,000, for a total not to exceed \$16,500,000, and extending the term by approximately one year and four months through July 2025. Amendment No. 2 would not change any other key contract terms.

Under the contract, Staples provides a wide range of office supplies, including paper or writing products, refills and consumables, boxes and storage supplies, packaging and shipping products, cleaning and facility supplies, organizers and boards, books and forms, measurement and calculation tools or devices, fasteners, tapes, and adhesives, mats and similar products, breakroom supplies, warehouse and materials handling supplies, first aid and safety supplies, office food service ware and supplies, promotional products and supplies, toner and ink, and cords and computer peripherals, such as headsets, keyboards, mice, and memory media. The contract may be used by all City departments, but it is most heavily used by the Human Services Agency (HSA), San Francisco Municipal Transportation Agency (SFMTA), Department of Election (REG), and San Francisco Police Department (SFPD).

FISCAL IMPACT

The proposed Amendment No. 2 would increase the not-to-exceed amount of the Staples contract by \$11,500,000, for a total not to exceed \$16,500,000. The proposed not-to-exceed amount of \$16,500,000 was estimated using average actual monthly expenditures through December 13, 2021. Actual and projected expenditures are shown in Exhibit 2 below.

Exhibit 2: Actual and Projected Contract Expenditures

| | |
|---|---------------------|
| Actual Expenditures (through 12/13/21) | \$4,419,997 |
| Actual Expenditures per Month ¹ | 276,250 |
| Projected Expenditures (43 months) | 11,818,742 |
| <i>Actual and Projected Expenditures Subtotal</i> | <i>\$16,298,739</i> |
| Contingency (1%) | 201,261 |
| Total Not-to-Exceed | \$16,500,000 |

Source: OCA

OCA included a buffer of \$201,261 (approximately 1.2 percent) in case expenditures slightly exceed projections. The contract is funded by the various City departments that make purchases through the contract.

RECOMMENDATION

Approve the proposed resolution.

¹ OCA approximated that the time period of August 1, 2020 through December 13, 2021 was 16 months, and that the remaining term from December 14, 2021 through July 31, 2025 would be 43 months.

| | |
|--|---|
| Items 2 - 7 Files 22-0175 – 22-0180 | Department: Office of Contract Administration (OCA) |
| EXECUTIVE SUMMARY | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolutions would approve amendments to the Technology Marketplace contracts with the following vendors: (1) CCT Technologies Inc., increasing the not-to-exceed amount by \$18,900,000, for a total not to exceed \$62,900,000 (File 22-0175); (2) Cornerstone Technology Partners II JV, increasing the not-to-exceed amount by \$11,200,000, for a total not to exceed \$31,200,000 (File 22-0176); (3) Insight Public Sector Inc., increasing the not-to-exceed amount by \$11,700,000, for a total not to exceed \$39,700,000 (File 22-0177); (4) InterVision Systems, LLC, increasing the not-to-exceed amount by \$13,400,000, for a total not to exceed \$44,400,000 (File 22-0178); (5) XTech JV, increasing the not-to-exceed amount by \$35,700,000, for a total not to exceed \$115,700,000 (File 22-0179); and (6) Zones, LLC, increasing the not-to-exceed amount by \$3,600,000, for a total not to exceed \$23,600,000 (File 22-0180). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Office of Contract Administration (OCA) manages the Technology Marketplace, a set of Citywide agreements that provide information technology goods and services. City departments may make purchases from these agreements on an as-needed basis. The agreements expire in December 2023, after which OCA intends to issue a new competitive solicitation. • According to the original agreements, each vendor is an authorized reseller of various manufacturers, including Cisco, Dell, Hewlett Packard, IBM, Juniper, and VM Ware products. Vendors may also offer hardware maintenance, training, consulting, and cloud services and become authorized resellers of other manufacturers. City departments use these contracts based on their business needs and pay for services from their budgets. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed resolutions would increase the not-to-exceed amounts of the six contracts by a total of \$94,500,000. The amended not-to-exceed amounts are projections based on previous spending through January 31, 2022. • In addition to the Technology Marketplace, OCA has entered into stand-alone agreements for various technology products. Some of these agreements, such as the contract with InterVision Systems for Juniper Networks products (File 21-1228), essentially replace purchases that had previously been made through Technology Marketplace vendors. Therefore, future spending on these Technology Marketplace contracts may be less than what has been projected using past spending. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolutions. | |

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

The Office of Contract Administration (OCA) selects information technology firms through a competitive Request for Proposals (RFP) process to provide goods and services through the Technology Marketplace. City departments may purchase technology products and specialized services through the Technology Marketplace on an as-needed basis.

In 2018, OCA implemented Technology Marketplace 2.0, which allowed a broader pool of vendors. In its current form, the Technology Marketplace offers three tiers of as-needed contracts which are utilized by City departments based on their business needs. Tier 1 contracts have initial amounts of \$20 million each and require the vendor to provide a wide selection of technology products, professional and cloud services, maintenance, and training for City departments. Tier 2 contracts have initial amounts of \$3 million and offer a more limited set of options such as technology hardware and training. Finally, Tier 3 contracts which were awarded pursuant to a Micro LBE (Local Business Enterprise) Set Aside solicitation, have initial amounts of \$600,000 each which is equal to the Minimum Competitive Amount at the time of the solicitation.

In June 2018, OCA issued an RFP for Technology Marketplace 2.0 and received 21 Tier 1 proposals, of which 19 met the minimum requirements and minimum score of at least 60 out of 100 points. In January 2019, the Board of Supervisors approved contracts with the 19 vendors, including the following six vendors: (1) CCT Technologies, Inc., dba ComputerLand of Silicon Valley (File 18-1117); (2) Cornerstone Technology Partners II JV (File 18-1119); (3) Insight Public Sector Inc., formerly known as En Pointe Technologies Sales, LLC (File 18-1122); (4) InterVision Systems, LLC (File 18-1123); (5) XTech JV (File 18-1131); and (6) Zones, LLC (File 18-1132). Each contract had an initial term of approximately three years, from January 2019 through December 2021, with two one-year options to extend through December 2023, and an amount not to exceed \$20,000,000.

In September 2019, the Board of Supervisors approved Amendment 1 to the CCT Technology contract, increasing the not-to-exceed amount to \$23,000,000 (File 19-0877), and Amendment 1 to the XTech JV contract, increasing the not-to-exceed amount to \$44,000,000 (File 19-0878). In October 2020, the Board of Supervisors approved the following contract amendments: (1) Amendment 2 to the CCT Technology contract, increasing the not-to-exceed amount to \$44,000,000 (File 20-0936); (2) Amendment 1 to the Insight Public Sector contract, increasing the not-to-exceed amount to \$28,000,000 (File 20-0938); (3) Amendment 1 to the InterVision Systems contract, increasing the not-to-exceed amount to \$31,000,000 (File 20-0939); and (4) Amendment 2 to the XTech JV contract, increasing the not-to-exceed amount to \$80,000,000 (File 20-0940). In September 2021, OCA amended all Tier 1, 2, and 3 Technology Marketplace

contracts to exercise the options to extend through December 2023, with no changes to the not-to-exceed amounts, which did not require Board of Supervisors approval. The September 2021 contract amendments are the final contract extension authorized under the RFP for Technology Marketplace 2.0. According to Jonathan Jew, OCA IT Purchasing Supervisor, , OCA intends to issue an RFP for new Technology Marketplace contracts to be in place when the current contracts expire.

DETAILS OF PROPOSED LEGISLATION

The proposed resolutions would approve the following Technology Marketplace contract amendments:

1. Amendment 4 to the CCT Technologies contract, increasing the not-to-exceed amount by \$18,900,000, for a total not to exceed \$62,900,000 (File 22-0175);
2. Amendment 2 to the Cornerstone Technology Partners contract, increasing the not-to-exceed amount by \$11,200,000, for a total not to exceed \$31,200,000 (File 22-0176);
3. Amendment 3 to the Insight Public Sector contract, increasing the not-to-exceed amount by \$11,700,000, for a total not to exceed \$39,700,000 (File 22-0177);
4. Amendment 3 to the InterVision Systems contract, increasing the not-to-exceed amount by \$13,400,000, for a total not to exceed \$44,400,000 (File 22-0178);
5. Amendment 4 to the XTech JV contract, increasing the not-to-exceed amount by \$35,700,000, for a total not to exceed \$115,700,000 (File 22-0179); and
6. Amendment 2 to the Zones contract, increasing the not-to-exceed amount by \$3,600,000, for a total not to exceed \$23,600,000 (File 22-0180).

The underlying amendments for InterVision (22-0178) and Xtech (22-0179) are each \$100,000 more than stated in each of the pending resolutions. However, OCA intends to correct the final contracts once the resolutions are approved by the Board of Supervisors.

The proposed contract amendments would not make other changes to the contracts.

The amended not-to-exceed amounts are projections based on previous spending through January 31, 2022, or approximately 37 months through the contract terms. According IT Purchasing Supervisor Jew, OCA chose to amend contracts with less than 30 percent of expenditure authority remaining.

Services Provided

According to the original agreements, each vendor is an authorized reseller of various manufacturers, including Cisco, Dell, Hewlett Packard, IBM, Juniper, and VM Ware products. Vendors may also offer hardware maintenance, training, consulting, and cloud services and become authorized resellers of other manufacturers. City departments use these contracts based on their business needs and pay for services from their budgets.

Technology Marketplace Purchases

According to IT Purchasing Supervisor Jew, City departments procuring goods or services through the Technology Marketplace must submit requisitions to OCA for approval. For commodity purchases over \$25,000, OCA conducts an informal competitive solicitation of Technology Marketplace vendors and approves vendors for each requisition based on cost. For professional services, City departments conduct the competitive solicitation, and provide bid documents with the requisition to OCA for approval. Transactions through the Technology Marketplace are limited to \$2.5 million.

FISCAL IMPACT

The proposed resolutions would increase the not-to-exceed amounts of the six contracts by a total of \$94,500,000. The proposed not-to-exceed amounts are projections based on actual average monthly expenditures, rounded to the nearest \$100,000. Actual and projected expenditures for each vendor are shown in Exhibit 1 below.

Exhibit 1: Actual and Projected Contract Expenditures

| Vendor | Actual Expenditures (through 1/31/22) | Actual Expenditures per Month | Projected Expenditures (23 Months) | Amended Not-to-Exceed (Actual + Projected Rounded to Nearest \$100,000) |
|--|---------------------------------------|-------------------------------|------------------------------------|---|
| CCT Technologies (File 22-0175) | \$38,787,870 | \$1,048,321 | \$24,111,378 | \$62,900,000 |
| Cornerstone Technology Partners (File 22-0176) | 19,230,841 | 519,752 | 11,954,306 | 31,200,000 |
| Insight Public Sector File (File 22-0177) | 24,466,199 | 661,249 | 15,208,718 | 39,700,000 |
| InterVision Systems (File 22-0178) | 27,388,323 | 740,225 | 17,025,174 | 44,400,000 |
| XTech JV (File 22-0179) | 71,367,235 | 1,928,844 | 44,363,416 | 115,700,000 |
| Zones (File 22-0180) | 14,546,538 | 393,150 | 9,042,443 | 23,600,000 |
| Total | \$195,787,006 | \$5,291,541 | \$121,705,436 | \$317,500,000 |

Source: OCA

Purchases through the Technology Marketplace are funded by various City departments that make the purchases. Actual expenditures by City department are shown in Attachment 1.

In addition to the Technology Marketplace, OCA has entered into stand-alone agreements for various technology products. Some of these agreements, such as the contract with InterVision Systems for Juniper Networks products (File 21-1228), essentially replace purchases that had previously been made through Technology Marketplace vendors. Therefore, future spending on these Technology Marketplace contracts may be less than what has been projected using past spending. However, according to OCA, the Technology Marketplace vendors may sell a wide range of products and services, so they may be able to use available expenditure authority to sell new products and services requested by City departments. The contracts are as-needed and will expire December 31, 2023 regardless of total actual expenditures.

RECOMMENDATION

Approve the proposed resolutions.

Attachment 1: Actual Expenditures for the Six Contracts by City Department

| Department | Amount (Through 1/31/22) |
|--|---------------------------------|
| Airport | \$45,521,677 |
| Department of Technology | 33,831,826 |
| Public Utilities Commission | 30,634,681 |
| Human Services Agency | 15,845,716 |
| Department of Public Health | 9,432,172 |
| Public Works | 9,007,465 |
| Public Library | 8,679,973 |
| City Administrator's Office | 6,022,583 |
| Police Department | 5,447,565 |
| Controller's Office | 4,767,348 |
| Treasurer/Tax Collector | 3,059,332 |
| Fire Department | 2,505,003 |
| General City Responsibility | 2,494,600 |
| Assessor/Recorder | 2,469,171 |
| City Planning | 2,324,274 |
| District Attorney's Office | 2,077,837 |
| Recreation and Park Department | 1,518,885 |
| Department of Emergency Management | 1,224,337 |
| Port | 886,191 |
| Department of Children, Youth, & their Families | 828,550 |
| Department of Building Inspection | 812,877 |
| Mayor's Office | 597,587 |
| City Attorney's Office | 560,261 |
| Department of Elections | 530,709 |
| Department of Human Resources | 510,268 |
| Other City Departments (Under \$500,000 in Expenditures) | 3,722,393 |
| Total | \$195,313,280 |

Source: OCA

| | |
|--|--|
| <p>Item 10 File 22-0296</p> | <p>Departments: Real Estate Division, Fire Department</p> |
| <p>EXECUTIVE SUMMARY</p> | |
| <p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would (i) approve a purchase and sale agreement with Prologis L.P. for the purchase of 1236 Carroll Avenue, (ii) approve a memorandum of understanding between the Real Estate Division, Fire Department, and Port Department to transfer Port property adjacent to 1236 Carroll Avenue to the Fire Department. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Fire Department has two training facilities on Treasure Island and in the Mission District. The City’s plan for a new consolidated fire training facility includes the purchase of land at 1236 Carroll Street, for which the Board of Supervisors has previously approved a purchase option, and the acquisition of adjacent Port-owned property, subject to approval of the State Lands Commission, the San Francisco Port Commission, and the State Legislature. The parcels will be combined to form a 7.54-acre site for the training facility. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The proposed resolution caps the acquisition of 1236 Carroll Street transaction amount at \$40 million, with \$38.5 million for the purchase of the land (per the option agreement) and up to \$1.5 million in closing costs. The cost of acquiring Port property is capped at \$6 million, including \$5.86 million for the land purchase plus \$140,000 in closing costs. • The 1236 Carrol Street acquisition will be funded by 2020 Earthquake Safety and Emergency Response general obligation bond proceeds; the General Fund will pay the Port acquisition. <p style="text-align: center;">Policy Considerations</p> <ul style="list-style-type: none"> • The Board of Supervisors authorized \$628 million in 2020 Earthquake Safety and Emergency Response general obligation bonds, including \$275 million for a fire training facility and upgrades to fire stations. According to Public Works, the cost to develop the fire training facility is \$210.7 million. Once the \$40 million in land acquisition costs and \$210.7 million in training facility development costs are paid, \$24.3 million in bond funds would remain, which is sufficient for a limited scope renovation of one fire station. • The Fire Department has not determined how it will repurpose the Mission training facility land once the new training facility is operational. The Board of Supervisors could consider alternative uses for Mission training area once it is vacated, such as affordable housing. • If state and local authorities do not approve the transfer of Port land, the most likely option would be that the fire training facility would have to be re-designed to accommodate the 4.91 acre land currently owned by Prologis at 1236 Carroll Street. According to Director Penick, in that event, the fire training facility at Treasure Island could still move to that space and the Fire Department would keep the training facility in the Mission District operational rather than consolidate it with the new facility contemplated at 1236 Carroll Street. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. | |

MANDATE STATEMENT

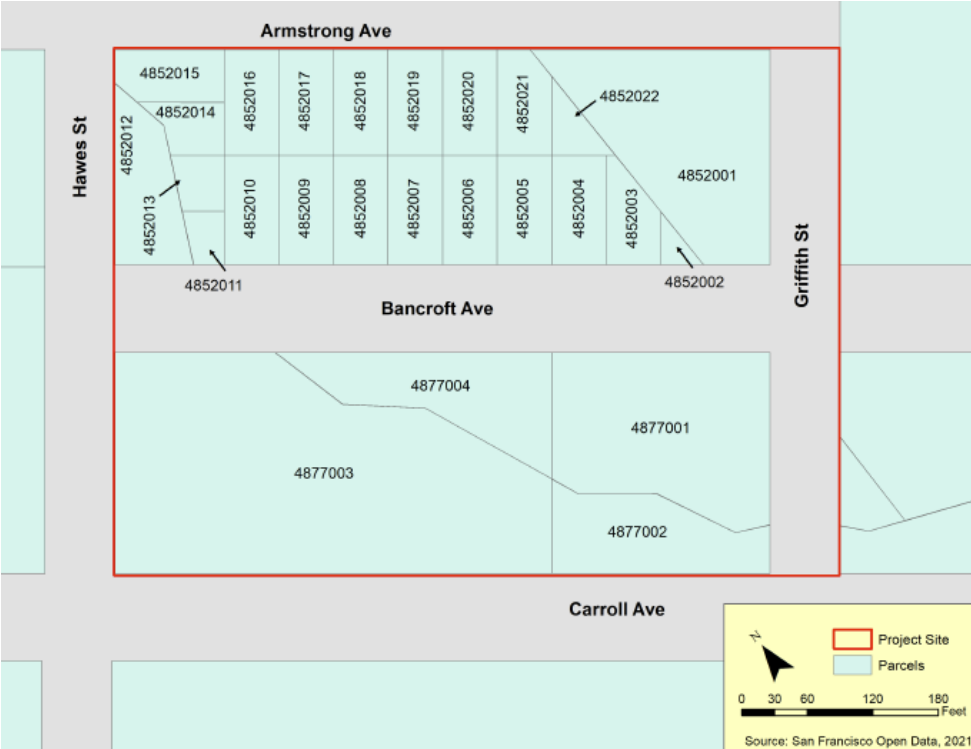
Administrative Code Section 23.3 states that the Board of Supervisors must approve acquisitions of real property by resolution. An appraisal of the property is required if the Real Estate Division determines that the fair market value is greater than \$10,000 and an appraisal review if the fair market value is greater than \$200,000.

BACKGROUND**Fire Training Facility**

The Fire Department has two training facilities, one on Treasure Island and one in the Mission District. According to the City's ten-year Capital Plan for Fiscal Years 2022-2031, the Fire Department will need a replacement training facility by 2024 because the Mission District facility is too small to meet Department needs and the Treasure Island facility will be demolished as part of the Treasure Island development plan. The Fire Department intends to demolish the Mission District training facility and expand the adjacent Fire Station 7 seven in its place.

The October 2018 Pre-Design Planning Study, conducted by Telamon Engineering Consultants, Inc. and McClaren, Wilson, & Lawrie Inc. for the Fire Department and Department of Public Works, found that a new training facility would require from 7.0 acres (for a multi-story facility) to 7.8 acres (for a ground-level facility). The City's plan for the new fire training facility includes the purchase of land at 1236 Carroll Street, for which the Board of Supervisors has previously approved a purchase option (File 21-0509), and the acquisition of adjacent Port-owned property. The parcels will be combined to form the site of the 7.54-acre site for the fire training facility. Exhibit 1 below shows a map of the planned site.

Exhibit 1: Proposed Fire Training Facility Site



Source: Planning Department Final Mitigated Negative Declaration for San Francisco Fire Training Facility, December 30, 2021

Notes: Block 4877, lots 001 – 004 and Block 4852, lots 002 - 022 are subject of the proposed purchase and sale agreement with Prologis. Block 4852, lot 001 and portions of Griffith Street and Bancroft Street are under jurisdiction of the Port.

Purchase Option Agreement for 1236 Carroll Street

In May 2021, the Board of Supervisors approved a purchase option agreement with Prologis, L.P., to purchase 1236 Carroll Street in San Francisco by June 1, 2022 (File 21-0509). Actions that would need to be taken prior to exercise of the purchase option include (i) satisfying any conditions or requirements under the California Environmental Quality Act (CEQA), and (ii) Board of Supervisors’ approval of the final purchase of the property. The City may withdraw from the Agreement with two-day written notice.

The purchase option agreement locked in a purchase price of \$38.5 million for the property. The consideration for the purchase option was \$15,000 per month which is not credited towards the purchase price. The purchase price was consistent with the third-party appraisal conducted by R. Blum and Associates in January 2021 and confirmed by an appraisal review conducted by Clifford Advisory, LLC in March 2021.

Environmental Review

In February 2022, the Board of Supervisors approved a motion adopting the California Environmental Quality Act (CEQA) findings, adopting a mitigation, monitoring and reporting

program, and adopting the Final Mitigated Negative Declaration in connection with the proposed San Francisco Fire Department Training Facility at 1236 Carroll Avenue, including the adjacent Port property that is expected to be transferred to the Fire Department (22-0054). Final project design may be subject to further CEQA analysis if it differs materially from the Final Mitigated Negative Declaration.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (i) approve a purchase and sale agreement with Prologis L.P. for the purchase of 1236 Carroll Avenue, (ii) approve a memorandum of understanding between the Real Estate Division, Fire Department, and Port Department to transfer Port property adjacent to 1236 Carroll Avenue to the Fire Department, (ii) place both properties under the jurisdiction of the Fire Department, and (iv) adopt the Planning Department's findings that the contemplated transactions are consistent with the General Plan and the eight priority policies of Planning Code Section 101.1.

1236 Carroll Street Purchase and Sale Agreement

Under the proposed purchase and sale agreement, the purchase price remains \$38.5 million, as per the purchase option agreement. The proposed resolution would allow spending of up to \$1.5 million in closing costs, for a total not to exceed amount of \$40 million for the purchase of 1236 Carroll Street. The 2021 appraisal was not updated because the purchase price is locked under the previously approved purchase option agreement, described above. According Andrico Penick, Director of Real Estate, the Board of Supervisors approval of the Final Mitigated Negative Declaration and General Plan approval in the proposed resolution are sufficient to satisfy the environmental review requirements to exercise the purchase option.

Real Estate & Port Memorandum of Understanding

The proposed memorandum of understanding between the Real Estate Division, Fire Department, and Port Department would allow for the transfer of Port property to the Fire Department. The proposed \$6 million not to exceed amount for purchase of the Port-owned land and closing costs is consistent with an appraised valuation completed by R. Blum & Associates. As of this writing an appraisal review is underway but not available for our review. As noted below, the transaction requires approval of the State Legislature, State Lands Commission, and San Francisco Port Commission and sale proceeds will be dedicated to Port capital projects.

The Port-owned land adjacent to 1236 Carroll Street is currently vacant.

Estimated Costs and Timeline to Develop Fire Training Facility

According to Charles Higuera, Public Works project manager of the Earthquake Safety & Emergency Response Program, the current cost to develop the fire training facility is \$210.7 million. Construction is expected to take 30 months and occur between October 2024 and March 2027.

FISCAL IMPACT

The proposed resolution caps the acquisition of 1236 Carroll Street transaction amount at \$40 million, with \$38.5 million for the purchase of the land (per the option agreement) and up to \$1.5 million in closing costs. The cost of acquiring Port property is capped at \$6 million, including \$5.86 million for the land purchase plus \$140,000 in closing costs. Exhibit 2 below summarizes the costs of the land acquisitions approve by the proposed resolution as well as the estimated cost to develop the fire training facility.

Exhibit 2: Land Acquisition & Development Costs for Fire Training Facility

| | |
|---|----------------------|
| Land Acquisitions (File 22-0296) | |
| 1236 Carroll Street | \$38,500,000 |
| Port Property | 5,860,000 |
| Closing Costs | 1,640,000 |
| Subtotal, Land Acquisition | \$46,000,000 |
| Fire Training Facility Development | |
| Soft Costs | \$54,635,315 |
| Hard Costs | 156,100,900 |
| Subtotal, Development Costs | \$210,736,215 |
| Total | \$256,736,215 |

Source: Real Estate Division and Public Works

Note: Hard costs for the fire training facility development are based on a 2020 report commission by Public Works which estimated total development costs at \$147.3 million plus a 6% cost escalation to account for passage of time and increases in costs. Soft costs are estimated by Public Works to be 35% of the total hard costs.

The \$40 million acquisition costs for 1236 Carroll Street and \$210.7 million and facility development costs will be funded by 2020 Earthquake Safety and Emergency Response general obligation bond proceeds. Bond funds may not be used to pay for the Port property, which instead will be paid for by a General Fund account in the Fire Department’s FY 2021-22 budget.

POLICY CONSIDERATION

Earthquake Safety and Emergency Response Bonds

In January 2021, the Board of Supervisors authorized the issuance of \$628 million in 2020 Earthquake Safety and Emergency Response general obligation bonds, including \$275 million for a fire training facility and upgrades to fire stations (File 20-1294). Once the \$40 million in land acquisition costs for 1236 Carroll Street and \$210.7 million in training facility development costs are paid, \$24.3 million in bond funds would remain for fire station improvements. According to the FY 2022-2031 Capital Plan, Fire Stations 3, 7, 8, & 40 are prioritized for seismic safety improvements. Based on the cost of prior seismic improvement projects to fire stations, the

Budget & Legislative Analyst estimates the remaining \$24.3 million in bond funding would be sufficient for a limited scope renovation of one fire station.

Mission Fire Training Facility

After the new fire training facility at 1236 Carroll is operational, the Fire Department will consider other uses for the training site on Folsom Street. According to Mark Corso, Fire Department Deputy Director of Finance & Planning, those other uses are still to be determined. The Board of Supervisors could also consider alternative uses for the training facility site on Folsom Street once it is vacated, such as affordable housing.

Pending State and Local Approvals of Port-Owned Land

The Real Estate Division is seeking approval of the acquisition of land at 1236 Carroll Street prior to expiration of the option agreement in June 2022 and approval of the City’s acquisition of Port-owned land prior to state and local approval prior to the approval of state and local authorities of the acquisition.

Port-owned land is held as a public trust, in which the State granted title to the Port with restrictions on how the land may be used. The California Constitution authorizes the State Legislature to terminate the public trust if it determines that the land is no longer needed for the public trust’s purposes. Assembly Bill 2607, which is under consideration by the State Legislature, would remove public trust requirements for the Port-owned land adjacent to 1236 Carroll Street and allow the transfer of the land from the Port to the City to develop the fire training facility, subject to approval of the State Lands Commission, the San Francisco Port Commission, and the Board of Supervisors. The State Lands Commission has stated it has no concerns with Assembly Bill 2607, according to analysis of the bill by State Assembly Natural Resource Committee staff. Final approval of Assembly Bill 2607, which would authorize the Port-owned land transfer, is expected between September 2022 – November 2022. If approved, the Governor would sign no later than December 31, 2022. The State Lands Commission would then consider approval and assess the fair market value of the transactions. The Port Commission is considering approval of the proposed memorandum of understanding on April 12, 2022, after to the issuance of this report but prior to consideration of the Budget & Finance Committee. Director Penick believes all state and local approvals will be obtained and has provided documentation confirming the fair market value of the transaction.

The Port-owned land is approximately 2.63 acres or 35 percent of the total 7.54 acres of the proposed acquisitions. If state and local authorities do not approve the transfer of Port land, the most likely option would be that the fire training facility would have to be re-designed to accommodate the 4.91 acre land currently owned by Prologis at 1236 Carroll Street. According to Director Penick, in that event, the fire training facility at Treasure Island could still move to that space and the Fire Department would keep the training facility in the Mission District operational rather than consolidate it with the new facility contemplated at 1236 Carroll Street.

RECOMMENDATION

Approve the proposed resolution.

| | |
|---------------------------------------|---|
| Item 11 File 22-0294 | Department: Controller’s Office |
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the issuance of bonds, paid by incremental property tax revenue generated by Treasure Island Infrastructure and Revitalization Financing District (IRFD) No. 1, in an amount not to exceed \$30 million and approve related documents.

Key Points

- The Treasure Island/Yerba Buena Development Project (Project) is part of the Treasure Island Development Authority’s (TIDA) ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a residential and commercial development. The Project will include 8,000 residential units, including 2,173 affordable units (27 percent), as well as retail and commercial space, a hotel, and public open space.
- The Board of Supervisors previously approved the formation of the Treasure Island IRFD No. 1, adopted the Infrastructure Financing Plan, and authorized the issuance of up to \$780 million in tax increment bonds to finance eligible project costs. In February 2022, the Board of Supervisors approved the addition of territory to the IRFD and amendments to the Infrastructure Financing Plan.
- Proceeds from the proposed bonds would be used to reimburse eligible project costs, including public facilities (such as roads, sidewalks, parks, and shoreline improvements) and affordable housing. The bonds would be repaid with tax increment revenue collected within the IRFD.

Fiscal Impact

- The proposed bonds are anticipated to generate \$22,010,000 in bond proceeds, have a 29-year term, and an estimated true interest cost of 4.92 percent. Total debt service is expected to be \$40,615,000 or approximately \$1,359,500, on average, per year.
- The proposed bonds are expected to be issued by June 2022.
- The Bonds would be limited obligations of the IRFD, not the City, and are secured and payable only from the pledged tax increment of the IRFD.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Government Code Section 53369 *et seq.* authorizes the Board of Supervisors to establish an Infrastructure and Revitalization Financing District (IRFD) and to act as the legislative body for the IRFD.

BACKGROUND

The Treasure Island/Yerba Buena Development Project (Project) is part of the Treasure Island Development Authority's (TIDA) ongoing project to transition Treasure Island and a portion of Yerba Buena Island from a former military base to a residential and commercial development. In 2011, the Board of Supervisors approved the Development Agreement between the City and Treasure Island Community Development, LLC (TICD), the master developer for the Treasure Island development project, and the Disposition and Development Agreement (DDA) between TIDA and TICD (Files 11-0226 and 11-0291). The Project will include 8,000 residential units, including 2,173 affordable units (27 percent), as well as retail and commercial space, a hotel, and public open space. The 2011 DDA anticipated a twenty-year development timeline, with project completion anticipated in 2030. According to a November 2021 schedule of performance adjustment letter, TIDA anticipates project completion by 2039 for parks, with vertical buildout occurring by 2035. The letter reflects the third revision to the Schedule of Performance attached to the DDA and extends the previous development timeline by two years based on "the current status of design and construction and the time that it has taken to secure project approvals, most notably Subphase Street Improvement Permit Approvals."

Financing Plan

The Financing Plan attached to these agreements obligates the City to provide funding for certain public improvements through: (a) the issuance of special tax bonds issued by one or more community facilities districts (CFDs); and (b) tax increment revenue bonds issued by the Treasure Island Infrastructure and Revitalization Financing District.

Special Tax District

The 1982 Mello-Roos Community Facilities Act allows for the formation of CFDs to fund public infrastructure improvements by levying special taxes on taxable property within a CFD. In 2017, the Board of Supervisors approved a resolution forming Community Facilities District No. 2016-1 on Treasure Island and determining necessity to incur bonded indebtedness in an amount not to exceed \$5 billion to finance eligible project costs, with the issuance of up to \$250 million of special tax bonds authorized for Improvement Area No. 1 of the CFD (Files 16-1122 and 16-1127) and the remaining \$4.75 billion identified for future annexations of new Improvement Areas. Subsequently, up to \$278.2 million in special tax bonds were authorized at the annexation of Improvement Area No. 2 (File 20-0977) and up to \$731.4 million in special tax bonds were authorized at the annexation of Improvement Area No. 3. To date, the Board of Supervisors has

approved three issuances of special tax bonds (Files 20-0978, 21-0508, and 21-1054), and the City has issued a total of \$83.6 million on behalf of the CFD across the three issuances.

Infrastructure and Revitalization Financing District

State Infrastructure and Revitalization Financing District (IRFD) law allows for a portion of property tax revenues to be allocated to IRFDs to pay for public improvements. In 2017, the Board of Supervisors approved the formation of the Treasure Island IRFD No. 1, adopted the Infrastructure Financing Plan, and authorized the issuance of up to \$780 million in tax increment bonds to finance eligible project costs (Files 16-1120 and 16-1121). Each bond issuance (of the \$780 million total authorized) is subject to Board of Supervisors' approval of the terms of sale and related documents. In February 2022, the Board of Supervisors approved the addition of territory to the IRFD and amendments to the Infrastructure Financing Plan (File 21-1196).

The Treasure Island IRFD includes five project areas on Yerba Buena Island (Project Area A) and Treasure Island (Project Areas B, C, D, and E), which represent the Project's initial phases of development. The five project areas included in the IRFD are shown in Attachment 1.

The IRFD Financing Plan stipulates how incremental property tax revenue generated by project areas within the IRFD will be used to reimburse eligible project costs, including public facilities (such as roads, sidewalks, parks, and shoreline improvements) and affordable housing. Each project area within the IRFD can have a different start date and extend for 40 years from the start date. Each project area can generate property tax increment and issue debt against the property tax increment at different times. Project Area A began generating tax increment for the IRFD in FY 2019-20, and Project Areas B and E will begin generating tax increment in FY 2022-23 according to the March 22, 2022 Office of Public Finance memo to the Board of Supervisors.

The City's share of the 1.0 percent property tax rate is 0.646.¹ According to the Infrastructure Financing Plan, 0.566 is pledged as "net available increment" to pay for IRFD improvements and 0.08 is pledged as "conditional City increment" that will accrue to the City's General Fund if not required for the repayment of bonds.² According to the Infrastructure Financing Plan, 82.5 percent of increment property tax allocated to the IRFD will be used to finance facilities and 17.5 percent will be dedicated to TIDA to finance affordable housing.

¹ The approximate 0.354 remaining share of tax increment would accrue to other taxing entities, such as the State Education Revenue Augmentation Fund and the San Francisco Unified School District.

² According to the March 22, 2022 Office of Public Finance memo, this additional tax increment is not anticipated to be used to pay debt service but would serve as additional debt service coverage and credit enhancement to achieve lower interest rates. The conditional City tax increment would be returned to the General Fund if not needed for debt service.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would supplement Resolution 7-17 (File 16-1121) and authorize the issuance of bonds in an amount not to exceed \$30 million and approve related documents, including an Official Statement, one or more Indentures of Trust, Bond Purchase Agreements and Continuing Disclosure Certificates and a Special Fund Administration Agreement. The proposed resolution would also approve bonds for purposes of Internal Revenue Code, Section 147 (f) and approve a debt policy for the IRFD.

Facilities and Housing Tax-Exempt Bonds

The bonds would be sold as separate series for facilities (2022A Facilities Bonds) and housing (2022B Housing Bonds). The bonds would be sold without a rating because they would likely not qualify for an investment grade rating due to the early stage of development and the highly concentrated tax base according to the Office of Public Finance.

It is anticipated that both bond series will be issued on a tax-exempt basis. Issuance of the Housing Bonds on a tax-exempt basis requires that:

- The IRFD issue the Housing Bonds as qualified 501(c)(3) private activity bonds under Internal Revenue Code Section 145, which requires that the property financed by the bonds be owned by either a nonprofit corporation or a state or local government unit.
- In addition, according to Section 147(f) of the Internal Revenue Code, the bonds must be approved by an “applicable elected representative” of both (a) the governmental unit issuing the bonds or on behalf of which the bonds will be issued, and (b) the governmental unit that has jurisdiction over the geographic area in which the project is issued, after a public hearing.

The housing project that is proposed to be financed by the Housing Bonds is located on Treasure Island at 78 Johnson Street, which is owned by a nonprofit corporation (Mercy Housing). Approval of gap financing for this project is pending at the Board of Supervisors and will be reviewed by our Office. Under the proposed resolution, the Board of Supervisors would approve the issuance of the Bonds to comply with Section 147(f). The Office of Public Finance held a telephonic public hearing on April 7, 2022 regarding the issuance of the bonds and the financing plan of the affordable housing.

Debt Management Policy

The proposed resolution would adopt debt policies for the IRFD to comply with California Government Code Section 8855(i), which requires bond issuers to adopt debt policies that contain certain criteria. The IRFD’s debt policies would consist of: (a) the City’s Debt Management Policy as it relates to tax increment bonds and internal control procedures; and (b) the DDA Financing Plan and the IRFD Financing Plan as it relates to the remaining criteria to comply with the California Government Code.

Indentures of Trust

The indentures of trust establish the terms by which the trustee administers and disburses bond payments. The net available increment would be separately pledged under separate indentures of trust to each series based on the shares determined in the Infrastructure Financing Plan (82.5 percent to the Facilities Bonds and 17.5 percent to the Housing Bonds). The pledge of conditional City increment would be split between the two series based on the same proportions.

Preliminary Official Statement & Continuing Disclosure Statement

The Preliminary Official Statement describes the legal structure of the bonds as well as sources of revenue and major risks related to repayment for the benefit of prospective investors. The Preliminary Official Statement will be finalized after it is approved by the Board of Supervisors and Mayor and prior to the sale of the bonds. The proposed resolution allows the IRFD to issue an annual Continuing Disclosure Statement, which provides financial information relevant for existing and prospective bond investors.

Bond Purchase Agreements

The IRFD intends to issue the proposed bonds as a negotiated, rather than a competitive sale. According to the March 22, 2022 Office of Public Finance memo, the Bonds are outside of the City's customary credit profile and a negotiated sale provides more flexibility in the timing of the sale, which can help achieve a more favorable price for the bonds. The memo also notes that the bonds will be the first issued by an IRFD or any other non-redevelopment agency tax increment district in California. This is in line with the City's debt policy which states "it is usually not feasible to issue bonds through a competitive sale for certain types of financings, such as... non-traditional structures... and specialized financings like Mello-Roos."

The Bond Purchase Agreement provides the terms of sale of the bonds to the underwriters by the IRFD. The IRFD would first sell the bonds to the California Statewide Communities Development Authority, a third-party statewide joint powers authority, of which the City is a member.³ The California Statewide Communities Development Authority would then sell the bonds to the underwriters. The Bond Purchase Agreement is between the IRFD, the California Statewide Communities Development Authority, and Stifel, Nicolaus & Company, Incorporated and Backstrom McCarley Berry & Company, LLC, the underwriters for the proposed bonds. According to the Office of Public Finance, the underwriters were selected from the Office of Public Finance's pool of qualified underwriters, which was established through a competitive process.

³ According to the Office of Public Finance memo, this sale structure allows the IRFD to sell the bonds on a negotiated basis in accordance with State IRFD law. Prior to their dissolution, redevelopment agencies commonly used this sale structure to issue tax allocation bonds.

Special Fund Administration Agreement

The Special Fund Administration Agreement provides for the administration of certain funds and accounts related to the CFD and IRFD by a trustee pursuant to the DDA Financing Plan and State law.

FISCAL IMPACT

Exhibit 1 below shows the sources and uses of the proposed bonds. The IRFD expects to issue \$21,685,000 of tax increment bonds and to obtain a premium of \$325,000, which is subject to market conditions at the time of sale.

Exhibit 1: 2022 Facilities and Housing Bonds Sources and Uses

| Sources | 2022A Facilities Bonds | 2022B Housing Bonds | Total Bonds |
|------------------------------------|------------------------|---------------------|---------------------|
| Estimated Par Amount | \$17,910,000 | \$3,775,000 | \$21,685,000 |
| Premium | 268,000 | 57,000 | 325,000 |
| Total Sources | \$18,178,000 | \$3,832,000 | \$22,010,000 |
| Uses | | | |
| Project Fund | 16,201,700 | 3,413,800 | 19,615,500 |
| Debt Service Reserve Fund | 1,121,500 | 238,000 | 1,359,500 |
| Delivery Expenses | | | |
| Cost of Issuance | 557,500 | 117,500 | 675,000 |
| Underwriter's Discount | <u>297,300</u> | <u>62,700</u> | <u>360,000</u> |
| <i>Subtotal, Delivery Expenses</i> | <i>854,800</i> | <i>180,200</i> | <i>1,035,000</i> |
| Total Uses | \$18,178,000 | \$3,832,000 | \$22,010,000 |
| Reserve for Market Uncertainty* | | | 7,990,000 |
| Not to Exceed Par Amount | | | \$30,000,000 |

Source: Stifel and CSG Advisors, Inc. per Good Faith Estimates

*The requested not-to-exceed par amount of \$30,000,000 exceeds current estimates by \$7.99 million. According to the Office of Public Finance, this additional amount provides flexibility and may allow the IRFD to benefit from more favorable market conditions at the time of sale should they occur, such as changes in market interest rates after authorization by the Board of Supervisors and before sale of the bonds.

The proposed resolution limits the underwriter's discount to 1.75 percent of the bonds' par value. Based on the values in Exhibit 1 above, the estimated underwriter's discount is 1.66 percent of the bonds' par value. The debt service reserve amount is based on one year's debt service on the bonds and will depend on market conditions at the time of sale. Costs of issuance include legal and consultant fees.

Project Costs Funded by Facilities and Housing Bonds

The proceeds of the 2022A Facilities Bonds would finance or reimburse expenditures on public improvements for the project incurred by the developer, such as geotechnical work on Treasure Island, utility improvements, street and sidewalk improvements, purchases of land from the U.S. Navy made by the developer on behalf of TIDA, and related pre-development costs.

The proceeds of the 2022B Housing Bonds are expected to be used by TIDA and MOHCD to finance a loan for a proposed affordable housing development by Mercy Housing on Treasure Island. The proposed affordable housing development includes 138 units, including 23 one-bedrooms, 60 two-bedrooms, 40 three-bedrooms, 14 four-bedrooms, and a manager's unit. The 137 units (excluding the manager's unit) include 71 replacement units for Catholic Charities' One Treasure Island units supported by a Continuum of Care contract, 23 non-income restricted units for existing Treasure Island residents, and 43 new affordable lottery units. Construction is planned to begin in May 2022 and to be completed by March 2024 according to the Office of Public Finance memo.

Debt Service

The proposed bonds are anticipated to have a 29-year term and an estimated true interest cost of 4.92 percent based on market conditions as of March 2022. Total debt service is expected to be \$40,615,000 (including the anticipated total par amount of \$21,685,000 and estimated total interest of \$18,930,000) or approximately \$1,359,500, on average, per year. Under the Subordinate Pledge Agreement, the bonds would be repaid with tax increment revenue collected within the IRFD. The Office of Public Finance expects the bonds will be issued by June 2022.

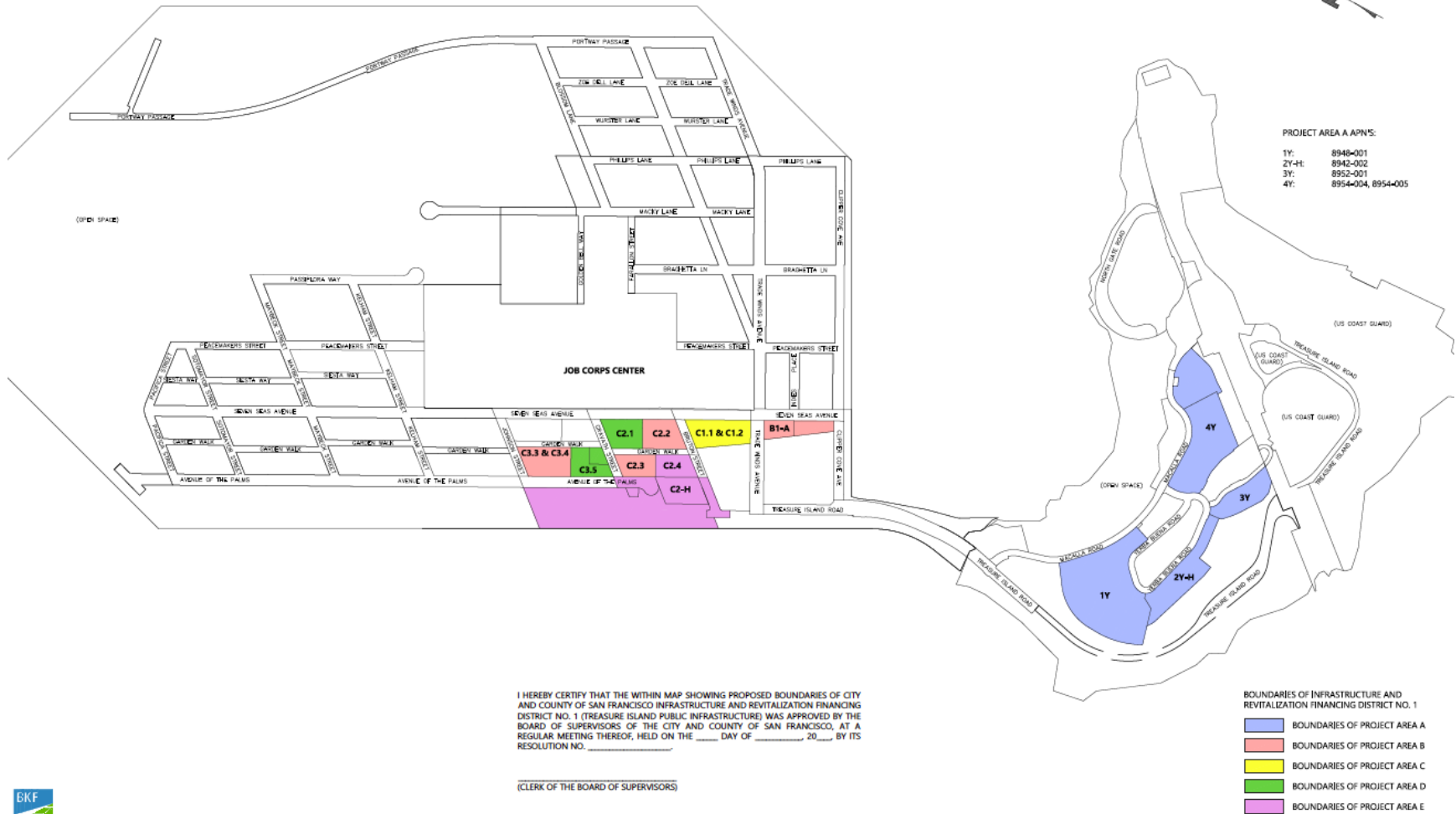
City Not Liable for Bond Repayment

The Bonds would be limited obligations of the IRFD and are secured and payable only from the pledged tax increment of the IRFD. The City's General Fund is not liable for the repayment of the bonds except for the pledged conditional City increment of the IRFD. Although the bonds are not obligations of the City, the Office of Public Finance memo notes that the IRFD "bears the 'City and County of San Francisco' name and market recognition, and as such the City is subject to reputation risk in the event the Bonds' security becomes strained."

RECOMMENDATION

Approve the proposed resolution.

Attachment 1: Treasure Island IRFD No. 1 Boundaries



Source: Amended and Restated Infrastructure Financing Plan