




MEMORANDUM

March 4, 2022

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Doreen Woo Ho, Vice President
Hon. Kimberly Brandon
Hon. John Burton
Hon. Gail Gilman

FROM: Elaine Forbes
Executive Director 

SUBJECT: Informational Presentation on Mission Rock Project Updates and Intent for Port to Enter into Agreement to Purchase Non-Potable Water from Mission Rock Utilities for China Basin Park and other to be Port accepted areas of the Mission Rock Site at Seawall Lot 337, bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

The "Mission Rock Project" (or "Project"), located at Seawall Lot 337, bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay, is now over one year into Phase 1A horizontal and vertical construction activities. The Developer team has been relatively successful in managing global supply chain challenges to date and has been able to maintain significant construction progress. Recent site activities include Parcel G façade installation, which is over halfway up the building, Parcel B steel erection which topped out on February 25, 2022, and Parcel A tower structure, currently past level 14 and expected to top out in May 2022. The final Phase 1 building, a residential tower at Parcel F, is in the final permit review process for an anticipated groundbreaking in April 2022.

This memorandum summarizes Project's construction progress and provides new information on a key element of the Project's Sustainability Strategy: production of District-scale, recycled water to substantially *decrease* the use of potable (fresh) water, for non-

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potable water uses (e.g., irrigation, toilet flushing, and cooling tower). Consistent with a 2019 Port Commission Resolution No. 19-40 supporting the formation of a nonprofit to build, own, and operate District-scale utilities, the Developer and partners have formed Mission Rock Utilities to deliver a thermal District Energy System and non-potable water system. For financing to construct the systems, Mission Rock Utilities must demonstrate that it has customers. As the owner of future parks, the Port must secure water for irrigation. To that end, Port staff and Mission Rock Utilities are negotiating a non-potable water purchase agreement including a contract term, minimum water production provisions, and maximum contract cost. Port staff will return to the Port Commission in the coming weeks with a proposed purchase agreement for consideration.

STRATEGIC OBJECTIVES

The Mission Rock Project supports the Port's Strategic Plan strategies of Stability and Productivity.

- **#6 Productive.** Redevelopment of a surface parking lot into the Mission Rock neighborhood supports the goal of enhancing the economic vitality of the Port.
- **#7 Stability.** Establishment of IFD and CFD financing districts are projected to have capacity for a variety of Port capital projects.

MISSION ROCK PROJECT BACKGROUND

The entitled Mission Rock project anticipates approximately 1,200 units of new, rental housing, 1.4 million square feet of new commercial and office space, the rehabilitation of historic Pier 48, as well as space for small-scale manufacturing, retail, neighborhood services, waterfront parks, and public infrastructure. The mixed-use Mission Rock Project is located on about 28 acres, including SWL 337 and Pier 48.

Approved in 2018 and now an active construction site, the Project represents 12 years of effort, led by the Port Commission, Port and City staff, and Mission Rock Partners, a partnership between the San Francisco Giants and Tishman Speyer (Developer).

Phase 1 includes the following program elements:

- 537 apartment units
 - 199 of which are below market rate units
- 588,000 gross square feet office
- 87,000 gross square feet of retail
- District energy system located in Parcel A which will serve all of Mission Rock
- District scale Non-Potable Water Plant located in Parcel B which will serve all of Mission Rock's indoor and outdoor recycled water needs

Key public benefits include affordable housing, parks and open space, sustainability strategy goals, and achievement of workforce and local hire requirements and goals agreed upon in the Project's Development and Disposition Agreement and the Development Agreement.

MISSION ROCK LOCAL BUSINESS ENTERPRISE UPDATE

The Mission Rock project was one of the City's first development projects to commit to a Local Business Enterprise ("LBE") participation goal. Working collaboratively with general contractors, RDJ Enterprises, Monica Wilson, Port staff, and the San Francisco Contract Monitoring Division, the project team continues to implement additional barrier mitigation strategies to help identify and assist local and historically underrepresented businesses to be competitive during the bid and awarding process.

During 3Q 2021, Mission Rock Partners realized an increase in overall LBE participation by \$7,282,206, while also increasing contract dollars awarded to minority- and women-owned local businesses. The equity efforts through 3Q 2021 have resulted in \$52,950,087 LBE value awarded to minority-owned and woman-owned companies, equal to 80% of LBE contract values awarded. Additionally, minority-owned LBE awards increased from \$31,334,568 at end of 2Q 2021, to \$33,836,030 cumulative through 3Q 2021, increasing from 5.52% of total project awards to 6.50% of total project awards.

Some representative LBE-MBE companies awarded new or additional contracts in the 3Q 2021 term include: De Haro Ramirez Group, Spencer Masonry, SME Steel, BEI Steel, HVYW8 Trucking, Ground Control, YCAT and Marinship.

The project continues to trend towards the 20% overall LBE participation goal. As of September 2021, Mission Rock's total contracts to Local Business Enterprises totaled \$72.84 million, summing to 13.23% of overall.

The above data from the Developer is under thorough review by Port staff and will be confirmed and verified during the normal course of our quarterly review.

MISSION ROCK CONSTRUCTION UPDATE

Vertical construction continues to meet milestones project-wide despite the supply chain shortages and rising costs for materials. The Mission Rock project team celebrated the topping off on Parcel G early this past fall and has since begun installation of the pre-cast paneling for the exterior skin of the building. This work will continue into the early months of 2022, while simultaneously building out the core elements (doors, frames, mechanical, electrical, & plumbing) of the structure.

Parcel A began construction on the foundation and concrete decks for the Annex & Tower, and recently poured the concrete stairs framing the entrance of the Canyon. Fabrication of DES pumps and fans is underway, the pipes were completed this year and DES installation will happen throughout 2022 with a goal to be online by the end of 2022.

The Mission Rock project team celebrated the topping off on Parcel B on February 25, 2022. This structure will house the Black water Treatment facility and Fire Water Tanks. Construction of the Black water Treatment Tank is currently underway, and the construction of the vertical walls for the Fire Water Tank will begin early 2022.

Parcel F will begin construction Spring 2022 and construction of the in-land portion of China Basin Park will commence in March 2022.

MISSION ROCK BUDGET UPDATE

This past November, the Project team issued special tax bonds Series 2021 B & C (taxable and tax exempt, respectively) generating net proceeds of approximately \$55.7M. On a blended basis, the rate for the bonds issued and disbursed in 2021 across Series A, B & C rate was approximately 4.38%, with just over a total of \$99M in total net bond proceeds disbursed and applied to offset horizontal costs of the Project.

In light of significant construction cost increases, the Developer is focusing tremendous efforts on procurement and commencing construction on Parcel F and China Basin Park. Material construction cost increases are currently expected to impact future phase vertical land values and horizontal costs. The Developer will continue to work with Port staff over the course of 2022 to incorporate any updates to the horizontal underwriting, particularly as the Project team continues to refine Phase 2 estimates and corresponding residual land values. The Developer continues to monitor the construction cost and interest rate environment and will provide periodic updates to the Port Staff and Commission.

MISSION ROCK SUSTAINABILITY STRATEGY OVERVIEW

As originally reported to the Port Commission as part of a July 2017 staff report, the Mission Rock Sustainability Strategy summarizes how the Project will attain high levels of performance in social, economic, and environmental sustainability, with a focus on equity, resilience and climate protection. The Sustainability Strategy assumes that sustainability is not an isolated feature of the Project, but rather a way of thinking, designing, and implementing the Project that will be integrated into many elements of its neighborhood, from the way structures are designed to how water is used, from the provision of multi-modal transportation choices to landscape design. The Sustainability Strategy was approved by the Port Commission as DDA Exhibit B8.

These approaches are integrated throughout the Project's key planning documents, including the SUD Design Controls, Transportation Plan, and Infrastructure Plan. The Sustainability Strategy acts as a reference document which consolidates and summarizes all of the sustainability elements into one place.

- **Livability.** The Project will bring people together through an inviting and welcoming balance of uses including grocery, restaurants, laundry, childcare, space for artists and makers, 8 acres of open space; and through events such as open-air markets, concerts, films, and other special events.
- **Prosperity.** The Project aims to support employment and innovation onsite over the long-term. It sets targets of 10,000 permanent jobs and 11,000 construction jobs, with at least 20% LBE and Local Hire commitments for the construction jobs utilizing our local workforce. It also targets a robust mix of commercial office, residential, and a variety of ground floor retail spaces at full build-out.

- **Health & Wellness.** The Project aims to support active lifestyles through walking, bicycling, paddling, and active recreation opportunities. The Project's parks and open space are adjacent to each residential building.
- **Ecosystems and Resource Stewardship.** The Project aims to improve and enhance the extent and quality of ecosystem services, habitat connectivity and biodiversity present on the site. The Project's blackwater system, will manage stormwater and reduce water usage onsite. Street trees and greenery on streets, in parks and on rooftops, will improve air quality, provide expanded habitat area, and provide opportunities for residents and visitors to connect with nature.
- **Climate Protection & Energy Efficiency.** Objectives of the Sustainability Strategy are the construction of buildings and infrastructure that achieve top-performing energy efficiency ratings; greenhouse gas emission reductions from energy use on-site; and reduction of urban heat island effects. Consistent with the Phase 1 approval, the Developer will also implement a site-wide district energy system appropriate for San Francisco's mild climate, which will supply hot and cold water from a single plant to each building through a network of underground distribution pipes. Mission Rock has achieved LEED-Gold certification for Neighborhood Development (ND), supporting a long-intended environmental milestone for the project.

Achieving Sustainability Targets.

Every aspect required under the Sustainability Strategy is included in approved regulatory documents including the DDA, Infrastructure Plan, and Design Controls. The targets in the Sustainability Strategy form the basis for regular monitoring.

The Mission Rock Sustainability Strategy includes goals to build healthy and energy-efficient buildings, reduce greenhouse gas emissions, and create a resilient site to protect against future sea level rise. Important targets of the Sustainability Strategy include obtaining 100% of operational energy from renewable sources and meeting 100% of non-potable water demand with non-potable sources.

Unique sustainability features include a thermal District Energy System (DES) designed to reduce carbon emissions and water use, and a district scale Black Water Recycling System (BWRS) that will provide recycled water to the entire project site. The DES will supply hot and cold water from a single plant through a network of underground distribution pipes for heating and cooling in each building. The BWRS will treat water collected from sinks, showers, and toilets in a central plant and supply recycled water to all buildings and open spaces for irrigation, toilet flushing, and cooling tower makeup water.

MISSION ROCK UTILITIES

On September 24, 2019, the Port Commission adopted resolution No. 19-40, supporting formation of Mission Rock Utilities, Inc. ("MRU") as a nonprofit entity to build and operate a

thermal district energy system and a black water recycling system for the Project. Mission Rock Utilities, LLC was formed as a Delaware Non-Stock Corporation in December 2019 for this purpose. Through the resolution, MRU and Port staff are encouraged to work towards the provision of recycled water to the Project. The primary purpose of MRU is the provision of utility services in a manner that meets the Project's goals for environmental sustainability and cost efficiency. MRU will only serve the Project, providing thermal energy for heating and cooling buildings and recycled water for non-potable uses such as toilet flushing and irrigation.

AGREEMENT TO PURCHASE NON-POTABLE WATER

To provide the recycled water contemplated under the Mission Rock Sustainability Strategy, Port staff and MRU are negotiating an agreement for the Port to purchase recycled water ("Recycled Water Agreement") from MRU for use in the Project's public open space, China Basin Park ("CBP") included. The Mission Rock Master Declaration obligates the Project's other building owners to connect with the blackwater system so long as such system is built. Port staff intend to return to the Port Commission for approval of the final Recycled Water Agreement this April, and then seek approval at the Board of Supervisors soon thereafter. Some features of the Recycled Water Agreement are expected to include:

- Cost-based rate pricing shared equitably throughout the Project, subject to Port's cost cap.
- An annual or monthly cost cap on the Port's obligations to purchase water based on the cost cap.
- MRU generating enough recycled water within the Mission Rock site (up to 8,800 gallons per day for Port alone at full build-out of the Mission Rock project) such that 100% of the non-potable water needs within the Mission Rock site are met from black water system.

Additionally, Port staff anticipates that negotiations for this agreement will include other matters such as the treatment of Port's liability, should a third party ultimately manage the Project's open space area; the nature of Port's obligation to purchase the recycled water with respect to City purchasing requirements under the City's Administrative Code; and various regulatory matters that pertain to the Port and City's applicable contract codes.

Notwithstanding the rights and obligations conferred to the Port through the Recycled Water Agreement, the Port is also negotiating a lease with an affiliate of the Developer to manage China Basin Park and other open space improvements on behalf of the Port. Should those negotiations be successful, the tenant under a China Basin Park lease will effectively assume the Port's role of purchasing recycled water from MRU as part of its overall park management.

CONCLUSION

The Mission Rock Project's aggressive yet achievable Sustainability Strategy contributes to a vibrant, accessible, environmentally thoughtful approach to building a new neighborhood. These tools will help the City and region grow responsibly while supporting the financial and functional needs of an active new waterfront neighborhood. Port staff looks forward to returning to Port Commission in the weeks ahead to seek approval of the finally negotiated Recycled Water Agreement.

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