

MEMORANDUM

November 9, 2017

TO: MEMBERS, PORT COMMISSION
Hon. Willie Adams, President
Hon. Kimberly Brandon, Vice President
Hon. Leslie Katz
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational presentation regarding the Transaction Structure for the Mission Rock Development Project at Seawall Lot 337 and Pier 48, bounded by China Basin Channel, Third Street, Mission Rock Street and San Francisco Bay (AB 8719/Lot 002; AB 9900/Lots 048, 048H, & 62)

DIRECTOR'S RECOMMENDATION: Information Only; No Action Required

EXECUTIVE SUMMARY

Port and City staff have been working with Seawall Lot 337 Associates, LLC (“the Developer”) to develop proposed amendments to the Planning Code to add a Mission Rock Special Use District (“SUD”) and negotiate transactional agreements that together will allow for the development of the Mission Rock mixed-use project at Seawall Lot (“SWL”) 337 and Pier 48 (the “Project”). The Project includes construction of approximately 1,600 units of new rental housing and 1.4 million square feet of new commercial and office space, as well as space for small-scale manufacturing, retail, and neighborhood services, waterfront parks, public infrastructure, and sets forth a process aimed at rehabilitation of historic Pier 48 (“Project”).

The purpose of this report is to provide the final informational staff report to the Port Commission and the public regarding the planned development of the Mission Rock Site before the formal public approval process starts. This report includes:

- review of the proposed Mission Rock mixed Use Project Special Use District (“Mission Rock SUD”) in the context of existing City and Port plans, including a planned amendment to the Waterfront Land Use Plan;

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- a summary of the major terms of the transaction documents and the primary public financing strategies including sources and uses to pay for public infrastructure and maintenance in the Mission Rock SUD; and
- financial analysis of the proposed transaction.

BACKGROUND

On April 26, 2017, the San Francisco Planning Department issued a Draft Environmental Impact Report (“DEIR”) for the “Seawall Lot 337 and Pier 48 Mixed-Use Project EIR” (Case 2013-0208E). The public comment period for the DEIR closed on June 12, 2017. The San Francisco Planning Commission certified the Final Environmental Impact Report (“FEIR”) at its October 5, 2017 meeting. The appeal period ended on November 6, 2017 with no appeals filed against the Project’s FEIR.

At the June 13, 2017 Port Commission meeting, Port staff and the Developer provided an overview of the proposed Mission Rock design controls (“Design Controls”), the design standards and guidelines for the Project subject to future Port and Planning Commission approval. City staff will utilize the approved design standards to guide development of the Project.

On July 11, 2017, Port and the Developer staff presented descriptions of three transaction documents that will guide development of the site and integration of the Project into the surrounding neighborhood and City: the Transportation Plan; the Infrastructure Plan; and the Sustainability Strategy. These plans were prepared in consultation with City staff from multiple departments in accordance with adopted City policies.

On August 8, 2017, Port staff described the financing framework between the City, acting through the Port, and the Developer to guide development of the Project. Port and City staff are currently negotiating with the Developer on the financing plan (“Financing Plan”) for the Development and Disposition Agreement (“DDA”). The plan outlines options to finance the new neighborhood at Mission Rock, including new streets, parks and infrastructure, in accordance with adopted City policies and each Party’s financial objectives.

The City departments that have collaborated with Port staff to develop and review the proposed Project include:

Mayor’s Office of Housing and Community Development	(“MOHCD”)
Office of City Attorney Dennis Herrera	(“City Attorney”)
Office of Economic and Workforce Development	(“OEWD”)
San Francisco Municipal Transportation Agency	(“SFMTA”)
San Francisco Planning Department	(“Planning”)
San Francisco Public Utilities Commission	(“SFPUC”)
San Francisco Public Works	(“Public Works”)
Contract Monitoring Division	(“CMD”)

Port staff appreciates the vision, assistance and technical input from both the Developer and City staff; without this collective effort, the proposed Project would not be possible.

REPORT DESCRIPTION

Given the inherent complexity of the transaction, this report will not reiterate all of the details of past staff reports, but instead refers back to prior reports, where necessary. The staff analysis provided at the end of this report supports staff's planned request for the Port Commission project approval.

Creation of the Mission Rock SUD has been closely coordinated with City and Port plans to achieve a balance of maritime, neighborhood, transportation, open space, environmental sustainability and resilience benefits within Mission Rock as well as the surrounding neighborhoods of Mission Bay and South Beach and beyond. The staff analysis in this report includes the following components:

- I. Port Strategic Plan
- II. Land Use and Planning Context
- III. Streets and Infrastructure
- IV. Key Transaction Documents and Major Terms
- V. Public Financing Strategy
- VI. Financial Analysis of the Proposed Transaction
- VII. Next Steps

I. Port Strategic Plan

Subject to Port Commission and Board of Supervisors approval, the proposed Project will realize several objectives of the Port's 2016-2021 Strategic Plan including:

Renewal: Consistent with the Port Commission's emphasis on improving the Southern Waterfront, the Port's 5 Year Strategic Plan states:

"Prioritize three projects for 2020 – Pier 70, Seawall Lot 337/Pier 48 and the Blue Greenway – to create vibrant new neighborhoods for residents, commercial and industrial/PDR businesses and employees. Incorporate major new waterfront parks and public access while maintaining the integrity of industrial maritime berthing and ship repair operations."

Engagement: Throughout this process – from the initial site planning discussions through the preparation of the FEIR, Port and City staff and the Developer have engaged the Central Waterfront Advisory Group, the Mission Bay CAC, the Maritime Commerce Advisory Committee, the South Beach/Rincon/Mission Bay Neighborhood Group, the Dogpatch Neighborhood Association, the Potrero Hill Boosters, and other residents and businesses in the planning for Mission Rock.

Livability: The Mission Rock SUD will establish a new neighborhood with 40% of the housing units offered at below-market rates and public amenities such as parks, bicycle routes, and public facilities.

Stability: The Financing Plan will guide capital investment in Port assets that will improve financial performance without risking either the City's General Fund or, except for onsite rent revenues, the Port's Harbor Fund. In addition to addressing deferred maintenance and planned renewal requirements for Pier 48, investments at Mission Rock will generate significant, ongoing funding streams for future Port facility renewals and enhancements, and the project will result directly in more than \$160 million of investment in Port and City owned infrastructure.

Climate Change: The Project includes initial improvements to protect the Project from projected sea level rise for the year 2100. Under the DDA Financing Plan, the Port will ask the City to establish a special tax district to provide special taxes in the amount of approximately \$270 million to fund capital investments to address the threats of sea level rise to the Port's shoreline.

II. Land Use and Planning Context

Over the last 10 years, the Port has developed a comprehensive framework for the improvement of SWL 337, within the context of City plans for the UCSF Mission Bay campus, and larger Mission Bay mixed-use neighborhood. The Waterfront Land Use Plan recognized these forces would inform the Port's approach for new development, and directed that further community planning be conducted to define how SWL 337 should be developed and improved. In 2006, a Port Commission committee was created to guide a community planning process to carry out this community effort, which included strategies for rehabilitation of Pier 48, and stewardship of maritime uses at Pier 50. The public values and conclusions developed from that process shaped the development solicitation process that ultimately led to selecting Seawall Lot 337 Associates as the Port's development partner.

As has been detailed in previous Port Commission presentations, the Port has benefited from a collaborative, City-family effort to integrate land use, transportation, historic preservation, new public parks, maritime preservation, environmental, and resilience goals into the Mission Rock SUD and Design Controls. This body of work has also been integrated within the larger Mission Bay and Blue Greenway plan framework, and the Southern Bayfront Strategy that OEWD is leading.

To recognize this comprehensive planning effort, Port staff members propose that the Waterfront Plan be amended to reflect the Mission Rock SUD and Design Controls. The SUD and Design Controls contain the land use, design, environmental, and economic goals and criteria that will guide development and reflect changes to designated maritime areas that correspond with amendments to BCDC plans that the State

Legislature approved in AB 2797. AB 2797 removed the port priority use designation¹ from Pier 48, the wharf between Piers 48-50, and 6 acres on the eastern portion of SWL 337 and recognized Pier 48 as part of the northeastern waterfront, which exempts it from BCDC's 50% fill rule.

In 2015, the Port initiated a process to update the Waterfront Plan to address new and future conditions the Port is facing including: sea level rise, seismic risks, aging assets reaching the end of their useful lives, deterioration of historic facilities, transportation conflicts, open space and access, the waterfront's overall popularity, and its significant capital needs. Staff anticipates completion of this update in 2019.

Because Mission Rock SUD and Design Controls approvals precede the planned Waterfront Plan update, Port staff is recommending that the Port Commission adopt Waterfront Plan amendments conforming to the Mission Rock mixed-use project approvals. These amendments would recognize the Mission Rock SUD and Design Controls as the controlling documents that will guide the phased development of improvements.

The proposed amendments to the Waterfront Land Use Plan are shown in:

- Maritime Map A, p. 49A; and South Beach/China Basin Waterfront Subarea Map, p. 141A: delete Existing Maritime Area designation for Pier 48 and portion of SWL 337 and include following text within the SWL 337 site in both maps: "Mission Rock Special Use District".
- South Beach/China Basin Acceptable Use Table, p. 140A: Amend the existing row labeled "Pier 48, 48½, 50" to read "Pier 50. Delete the two existing rows labeled "Seawall Lot 337 (backland to Piers 48 & 50)" and "Seawall Lot 337 (wetlands)". Create a new row labeled "Seawall Lot 337, Pier 48 and Pier 48½", and add this statement in lieu of itemized acceptable: "Land use and zoning details in Mission Rock SUD".
- Development Standards, p. 151: Add a new subheading entitled: "Development Standards for Mission Rock Project". Under the subheading, add a statement: "The Mission Rock Project site includes Seawall Lot 337, Pier 48 and Pier 48½, and portions of Terry Francois Boulevard. See Mission Rock Special Use District and Design Controls Guidelines for details about allowable land uses, transportation and design requirements."
- Development Standards for Existing Maritime or Maritime Expansion Areas, p. 151: Amend the current "Piers 48, 50 and 54" development standard to delete reference to "Pier 48".

¹ Port Priority Use Area is defined in BCDC's Seaport Plan as areas within the San Francisco waterfront between China Basin and India Basin designated for active, near-term, and long-term marine terminal sites for marine terminal use.

- Waterfront Design and Access Element design criteria for SWL 337, p. 111: Delete the introductory description of SWL 337 site, and all design criteria. Add in the following text: “See Mission Rock Special Use District and Design Controls Guidelines for urban, architectural and historic design requirements and guidelines for this development project.”
- Waterfront Design and Access Element design criteria for Piers 48-54, p. 109: Amend map shading to exclude Pier 48. Delete reference to Pier 48 in introductory description of Piers 48-54. Delete three design criteria for Pier 48: “Orientation –Pier 48”; “Character – Pier 48”; Character – Pier 48 Bulkhead”.

Mission Rock Land Uses, Design and Design Review

Building off of and augmenting these prior plans, the proposed Mission Rock SUD and the Design Controls will provide land use controls, detailed development standards and guidelines for buildings, open space, and streetscape improvements. The Project will include a mix of commercial office uses, residential uses, and active ground floor uses spanning retail and PDR uses. **Exhibit A** shows the current land use plan.

The Design Control principles were developed through a collaborative process with City agencies, community stakeholders and the Developer’s design team led by Perkins+Will, and provide a framework to inform the future revitalization of Seawall Lot 337 and Pier 48. The design principles include:

- Extend the Mission Bay street and open space network into Mission Rock
- Create a network of public spaces
- Expand public access to the waterfront
- Promote a working waterfront to complement active maritime berthing and storage at Pier 48 and ship berthing, tug and barge operations and Port maintenance operations at Pier 50

New buildings within the site will complement the industrial waterfront setting and fabric in size, scale, and material. The open spaces will benefit from their locations and scale to celebrate the waterfront, activate adjacent retail, and enhance nearby buildings, framing the waterfront and creating a platform for a range of activities and experiences. When the neighborhood is built out, local interactions and a connection to the waterfront will support a new Mission Rock neighborhood.

Under the Design Controls, the following components of the Project will be subject to review and approval as follows:

- **New Development:** The developer will present new building designs to the public and Planning Department and Port staff will review new buildings for consistency with the standards and guidelines in the Design Controls. Based upon the consistency review, the Planning Director will recommend that the Port Executive Director approve or deny applications for proposed new buildings;

- **Historic Rehabilitation:** Port and Planning Department staff will review historic rehabilitation of Pier 48 for consistency with Secretary of the Interior’s Standards for Treatment of Historic Properties (“Secretary’s Standards”) and the standards and guidelines in the Design Controls as part of the Port’s building permit process, with a recommendation to the Port Executive Director, who will approve or deny plans for proposed historic rehabilitation; and consistent with past rehabilitation projects, it has been the Port’s practice to seek review and comment from the Historic Preservation Commission;
- **Parks and Open Space:** Design of parks and open space will undergo public design review by a design advisory committee appointed by the Port Executive Director. The committee will provide a recommendation to the Port Commission, which will approve or deny park designs.

Port staff will also recommend that the Developer and Vertical Developers provide informational presentations to the Central Waterfront Advisory Group regarding: 1) new building design; and 2) new parks design prior to Port Commission consideration of these Project components.

Embarcadero National Historic District

The Developer’s proposed development of Mission Rock encompasses Pier 48 which is a contributing resource within the Embarcadero National Historic District (“Historic District”). Seawall Lot 337 is outside the boundary of the Historic District. The historic preservation objectives that led to the creation of the Historic District in 2006 are supported by the Mission Rock SUD as discussed below.

The proposed Project would respect the adjacent industrial maritime uses at Pier 48 and Pier 50 through a rebuilt Terry A. Francois, Jr. Blvd. that will accommodate both maritime industrial operations and the Project’s land uses. Maintaining these uses preserves local jobs and the authenticity of the working maritime industrial waterfront and helps the public to experience and understand the history and significance of the site as a Historic District listed on the National Register of Historic Places.

While some incomplete recent reports have indicated that Pier 48 has been dropped from the Project, that is not the case. The Port and the Developer have negotiated provisions that will allow for a Pier 48 rehabilitation project to move forward based on the parties’ development of a feasible pier use plan and practicability in relation to the buildout of the remainder of the Project. The intention is to rehabilitate Pier 48 to accommodate new commercial/light industrial uses while maintaining the existing maritime operations and preserving the resource’s character-defining features and historic integrity. The major new construction proposed would be in an area adjacent to, but outside, the Historic District that is currently a large open, paved seawall lot. Focusing new infill development on the seawall lot respects the integrity of Pier 48 and therefore would complement the Historic District. The successful development of the entire Site including Pier 48 is significant to the Port’s overall economic goals and

achieving the vision set forth in the Port's extensive planning and community engagement effort.

Port staff and the project sponsor will work with the California Office of Historic Preservation ("OHP") and the National Park Service ("NPS") to qualify the future rehabilitation of Pier 48 for historic tax credits. Tax credits would allow the project sponsor to seek a tax credit of up to 20 percent of their eligible rehabilitation expenses. The use of historic tax credits would result in the review and approval of all proposed work and related site improvements by OHP and NPS for consistency with the Secretary Standards. Port staff notes that the current form of these tax credits would be greatly threatened by the tax reform proposal recently unveiled by members of Congress. The parties are monitoring this situation and the outcome will be incorporated into any future Pier 48 historic rehabilitation proposal.

Public Trust and SB815/AB2797

The entire Site is subject to the common law public trust for commerce, navigation and fisheries and the Burton Act statutory trust (collectively, the "Public Trust"). The California State Lands Commission ("State Lands") oversees public trust lands owned by the State of California and the activities of public trust grantees that administer public trust lands that have been granted by the State to local jurisdictions to manage on behalf of the people of California.

Use of Public Trust lands is generally limited to maritime commerce, navigation, fisheries, water-oriented recreation, including commercial facilities that must be located on or adjacent to water, and environmental stewardship and recreation, such as natural resource protection, wildlife habitat and study, and facilities for fishing, swimming, and boating. Ancillary or incidental uses that promote Public Trust uses or accommodate public enjoyment of Public Trust lands are also permitted, such as hotels, restaurants, and visitor-serving retail. Residential and general office uses are generally not permitted uses on Public Trust lands.

The Mission Rock Project has been planned and designed to produce multiple Public Trust benefits, in consultation with State Lands staff, and in accordance with Senate Bill 815 ("SB 815") (Stats. 2007, ch. 660), as modified by Assembly Bill 2797 ("AB 2797") (2016). These bills authorize the Port to lease all or any portion of SWL 337 free from the public use requirements for a term not to exceed 75 years, after completion of a Public Trust Study that is approved by State Lands.

Revenues generated from non-trust leases in excess of baseline revenue must be deposited in a separate fund and used for the preservation of the Port's historic piers and other historic structures (on condition that State Lands executive officer has approved the proposed uses of the historic structure), the construction and maintenance of waterfront plazas and open space recognized in BCD's San Francisco Waterfront Special Area Plan or, in accordance with AB 2797, Port advances for construction of infrastructure serving the project.

SB 815 also requires that the transportation needs of AT&T Park and Port facilities in the vicinity be addressed as part of considering the Mission Rock Project, including those associated with maintaining maritime and industrial uses in Pier 50. SB815 further recognizes that revenues from development of SWL 337 support the Port's capital plan, which is essential to furthering the purpose of the public trust to support projects including: 1) seismic, life-safety and structural improvements to piers, wharves, seawalls and other structures; 2) Remediation of hazardous materials; 3) improved storm water management facilities and other utility infrastructure.

The Port and the Developer must describe the proposed uses in the Mission Rock Project and demonstrate their value to the trust in the Public Trust Study, for review and approval by State Lands staff, before SWL 337 can be leased for non-trust uses.

San Francisco Bay Conservation and Development Commission

Areas of the Project up to 100 feet landward of Mean High Water (MHW) are subject to the permitting jurisdiction of the San Francisco Bay Conservation and Development Commission (“BCDC”). BCDC’s mandate is to regulate Bay and shoreline development, limit Bay fill (except in limited circumstances for water-oriented uses and minor fill for public access), and ensure maximum feasible public access to the Bay. BCDC’s statutory jurisdiction includes all tidal areas of the Bay and property within 100 feet of the MHW.

The Port and the Developer have met with BCDC staff and have presented to the BCDC Design Review Board (“DRB”). The Developer and the Port plan to submit an application for a Major Permit to authorize improvements within BCDC’s shoreline jurisdiction later this month. The DRB reviewed the project initially on December 5, 2016, and more recently on November 6, 2017. At its November 2017 meeting, the DRB commented positively about the design of the Project’s open space planning and directed BCDC staff to proceed with processing the Major Permit.

Mission Rock Public Benefits

OEWD, the Port, and the Developer have negotiated a public benefit package with community stakeholders that reflects the goals of the Port and State Lands, the local community, the Historic District, the San Francisco Bay Trail and is consistent with the goals expressed in the Southern Bayfront strategy. Key benefits include:

- **Affordable Housing:** Forty percent (40%) of all residential units will be inclusionary units and developed at the following affordability levels:

Levels of Affordability	
% of Total Units	AMI Levels
2%	45%

Levels of Affordability	
10%	55%
4%	90%
17%	120%
<u>7%</u>	150%
40%	

The Project’s housing program includes 24 inclusionary units that will be set aside to house persons transitioning out of public systems, such as the foster system, or homelessness (TAY units). It is anticipated that the vertical developer developing the TAY units will partner with a qualified non-profit services provider and, in consultation with such provider and the Port, MOHCD, the City’s Budget Office, and the City’s Department of Homelessness and Supportive Housing, will establish requirements to govern TAY units and any associated service space.

- **Transportation Funding and On-Site Services:** Transportation demand management on-site; approximately \$45 million in one-time capital funding from SFMTA’s project-generated Transportation Sustainability Fee to support neighborhood-supporting transportation infrastructure; and an additional fair share contribution to the SFMTA to add buses or other measures to increase capacity along the 10 Townsend and 30 Stockton lines.
- **Workforce Development Program:** 30% local hiring commitment, 20% local business enterprise (“LBE”) utilization, participation in OEWD’s “First Source” hiring program, and \$1M in funding to support expansion of community based workforce job readiness training, split evenly between OEWD and community benefit organizations.
- **Rehabilitation of Pier 48 Historic Structure:** The project will support the re-use and rehabilitation of Pier 48 in support of the Embarcadero National Historic District.
- **Parks:** The project will provide over 8 acres of new and expanded open space for a variety of activities, including a regional-sized, 4.4 acre China Basin Park on the north side of the Site fronting on San Francisco Bay, a 1.1 acre neighborhood central gathering place called Mission Rock Square, and a 0.5 acre hardscaped plaza at Channel Wharf.
- **Retail and Industrial Uses:** The project will provide 250,000 square feet of ground floor, neighborhood serving retail and maker space.
- **Community Facilities:** The project will contribute 15,000 square feet towards creating new space to serve the education and recreational needs of the community.

- **Sea Level Rise Protection:** The project's waterfront edge will be designed to protect buildings against the projected 2100 sea-level-rise estimates established by the state, and the grade of the entire site will be raised to elevate buildings and ensure that utilities function properly. In addition, a special tax will be placed on all newly-developed parcels to provide an ongoing revenue stream to protect Port property from sea level rise.

Current Seawall Lot 337 and Pier 48 Tenants

Current tenants in the Project Site include:

- CBS Outdoor (outdoor advertising on a billboard);
- Sprint Telecommunications (cellular antenna);
- SFCC Department of Elections (storage of equipment);
- Crosslink, dba Westar Marine Services (vessel berthing, storage); and
- China Basin Ballpark Company, LLC (San Francisco Giants parking; special events; the Yard).

Port staff has been in contact with the above tenants and will continue to keep them apprised of the project schedule.

Public Outreach

Public outreach and participation in the proposed Project has been strong and continuous. The Developer and the Port have hosted numerous local community meetings, workshops, and open houses to engage the community and seek meaningful, useful input that has shaped the project.

Outreach has included regular presentations at the Port Commission, Central Waterfront Advisory Group, Mission Bay Community Advisory Committee, Rincon Point South Beach Mission Bay Neighborhood Association, Maritime Community Advisory Committee, Dogpatch Neighborhood Association, and Potrero Boosters.

III. Streets and Infrastructure

The infrastructure analysis in this report builds off of the informational presentation of Mission Rock's Transportation Plan, Infrastructure Plan, and Sustainability Strategy from the July 11, 2017 Port Commission Meeting.

Infrastructure, Sustainability, Mapping

The Infrastructure Plan includes conceptual-level planning elements of all the infrastructure systems, including dry utility infrastructure to be installed in a “joint trench” (electricity, natural gas, and telecommunications), and wet utility infrastructure including water, wastewater, and stormwater management facilities. The Developer created the plan through studies and site investigations of existing conditions. The Infrastructure Plan describes the Developer’s obligations to complete streets and infrastructure to support development of the Mission Rock Site, including a fully reconstructed Terry A. Francois, Jr. Boulevard. With respect to the streetscape, the Developer studied the public realm, open spaces, and streetscapes in consultation with the Port and City Agencies to further the infrastructure planning concepts described in the Design Controls.

Based on these studies and site inspections, the Developer will next conduct deeper engineering studies in the form of Master Utility Plans – the next level of detail beyond the Infrastructure Plan – to form the engineering basis of design for the Project infrastructure. Through the Development Agreement, the City Agencies, the Developer, and the Port will agree to processes needed to develop permitted infrastructure drawings, ready for construction. The first phase of infrastructure construction is anticipated to begin as early as next winter.

Phasing and Existing Conditions

The cost to deliver the new horizontal improvements, including soft costs and mitigation measures in the Project, is estimated at \$166 million. The Disposition and Development Agreement (“DDA”), including the Financing Plan and attached form of Acquisition and Reimbursement Agreement, describes the process by which the Developer will initially finance and be repaid for construction of horizontal improvements, and the process by which City agencies will inspect and finally acquire the public infrastructure in the Project.

The Infrastructure Plan requires the Developer to conduct a thorough investigation for determining the condition of existing assets, including the condition of the Port storm drain system, Port overhead electrical distribution systems and underground gas lines. The Developer will minimize access and utility impacts to Port tenants at Piers 48 and 50 as the work is implemented through phases as set out in the Schedule of Performance.

The Project will be developed in four phases (phase 1, phase 2, phase 3 and phase 4, each a “Phase”) subject to the approval process outlined in the DDA. Each Phase will include development parcels and associated infrastructure to serve the incremental build-out of the Project. Phase infrastructure will be defined in improvement plans and associated public improvement agreements for each Phase under the 2015 San Francisco Subdivision Regulations (“Subdivision Regulations”). The Developer proposes that “vertical” construction of buildings commence as the phase improvements (“horizontal improvements”) nears completion, a phasing plan dubbed “just in time”

infrastructure delivery, meaning that infrastructure is completed to serve a newly-built facility just in time for it to open.

Horizontal Hard and Soft Costs, Projected by Phase

Table 1 below shows the projected hard and soft infrastructure costs by Phase, which are subject to change based on market conditions, inflation, changes to Phases and changing legal requirements based on updated health and safety standards. Port staff and consultants are continuing to review these projected costs and will provide a final report to the Port Commission regarding costs based on this third-party review.

Table 1. Mission Rock Hard and Soft Cost Data (in millions of dollars)

Type of Improvement	Estimated Cost (2017 \$)				
	Phase 1 (including entitlements)	Phase 2	Phase 3	Phase 4	Total
Initial Demo: Grading & Compaction	\$1.81	\$0.60	\$0.60	\$0.60	\$3.62
Structured streets: Cut/Fill, Driven Piles, Concrete Trades	\$4.89	\$3.30	\$1.75	\$4.58	\$14.51
Streetscape: Sidewalks, Landscaping, Site Furnishings	\$1.33	\$1.12	\$0.52	\$0.84	\$3.80
Roadways: Asphalt Paving & Vehicular Paving	\$0.85	\$1.10	\$0.33	\$1.43	\$3.70
Parks & Open Space: Civil Work, Site Finishes, Site Furnishings	\$15.12	\$0.00	\$0.00	\$3.70	\$18.81
Store Columns	\$0.71	\$0.00	\$0.00	\$1.48	\$2.19
Soft Costs	\$14.92	\$1.53	\$0.80	\$3.15	\$20.41
Contingency	<u>\$2.47</u>	<u>\$0.61</u>	<u>\$0.32</u>	<u>\$1.26</u>	<u>\$4.66</u>
Total Infrastructure Budget	\$106.20	\$39.80	\$21.66	\$0.02	\$190.99

Codes, Regulations and Standards

The Infrastructure Plan relies on the Subdivision Regulations as the basis for design standards, criteria, and specifications for the Project infrastructure. Where specific provisions of the Infrastructure Plan differ from the Subdivision Regulations, the Developer will request a design modification from the Port and the agency (typically, the SFPUC and SFPW) that will accept the infrastructure and have it approved before relying upon such provisions.

The Infrastructure Plan also describes the infrastructure obligations of the City, Port and other City Agencies. The Developer will obtain approvals of final infrastructure design in accordance with the Port’s memorandum of understanding with other City agencies for interagency cooperation (“ICA”), which describes how City agencies will review infrastructure design and inspect and accept infrastructure.

The Infrastructure Plan focuses on the infrastructure required to build the Project as described in the Project Environmental Impact Report. The EIR also includes several Project variants, which may or may not be implemented. Table 2 describes the infrastructure elements.

Infrastructure Plan Element	Summary Description of Element
Environmental Management	Environmental management of soils under the existing Soil Management Plan, to be updated prior to commencing construction.
Demolition and Abatement	Demolition or abandonment of utility infrastructure; re-use of recycled materials on-site where feasible.
Geotechnical Improvements	Geotechnical improvements to improve seismic stability.
Site Grading and Drainage, including Sea Level Rise	Grading plans designed to remove new development areas from existing FEMA flood plain designation and provide future flood protection from sea level rise.
Street and Transportation Systems	Efficient site layout provides a dense, transit-oriented development that encourages bicycling and walking. Streets to be built over a structural support system to mitigate geotechnical challenges.
Open Space and Parks	New and expanded open space includes China Basin Park, Mission Rock Square, Channel Wharf, Channel Street, Channel Lane, and Pier 48 Aprons.
Low Pressure Water System	New reliable and efficient potable water system based upon reduced demands due to water conservation measures.

Table 2: Description of Infrastructure Elements	
Infrastructure Plan Element	Summary Description of Element
Non-Potable Recycled Water System	A District-scale system will collect graywater from 3 buildings to be reused for site-wide toilet and urinal flushing, irrigation, and cooling tower makeup.
Sewer System	Construction of a new Pump Station to accommodate existing and proposed flows from Mission Rock site; A new wastewater collection system; new stormwater management features
Auxiliary Water Supply System (“AWSS”)	Baseline scenario consists of a loop of 12-inch high-pressure pipes with four new hydrants, connecting to the existing AWSS distribution system in 3rd Street.
District Utility Infrastructure	Eco-District infrastructure to be built centrally within Block A - allowing for heating, cooling, and greywater treatment in a plant, and distributed throughout Mission Rock.
Dry Utility Systems	Replace overhead electrical distribution with a joint trench distribution system following the roadways. New power, gas and communication systems to serve the development.

City Acceptance of Infrastructure

The City will accept complete and functional infrastructure designed to serve the needs of the associated Phase of development for purposes of public maintenance and liability. Within the public right-of-way, complete and functional streets will include the aerial, surface, and subsurface public improvements necessary to safely operate the public street (except previously agreed deferred items).

Once the City accepts streets and associated infrastructure, the City will be responsible for its maintenance. The Port will review, permit and accept parks and will continue to own all of the land. Concurrent with Project approvals, the Port is seeking approval of the terms of a special tax to fund maintenance of parks and streets.

Port Infrastructure

Mission Rock is surrounded by existing streets and the waterfront at elevations that must be conformed to. Consistent with City policy direction, the site will be raised up to five feet so that building entryways can be set above future Sea Level Rise. The added weight from raising the site creates potential geotechnical impacts due to the presence of Bay Mud layers below. Investigations show the Bay Mud is very thick, making the site susceptible to settlement, lateral displacement, and liquefaction. Different strategies have been analyzed to mitigate the potential side effects. The preferred alternative is to build the streets on a structural support system or to build pile-supported streets.

The pile-supported street is akin to many of the Port's piers that are founded atop a structural system of piles, beams, girders, and decks. The pile-supported street is similar except this system will be over land. This solution to the site geotechnical challenges is not widely used; however Port staff and the Developer's engineers firmly supported this solution. The Port proposes to own and maintain the pile-supported street and potentially the connections of infrastructure from the surrounding streets to the Project's pile-supported streets. Further studies, a peer review, and thorough engineering analyses will be required before the work is permitted by the Port. The Port is working closely with Public Works, and the SFPUC to ensure appropriate infrastructure design, delivery and ownership.

Sustainability Strategy

The Mission Rock Sustainability Strategy summarizes how the Mission Rock Project will seek to attain high levels of performance in social, economic, and environmental sustainability, with a focus on equity, resilience, and climate protection. The Sustainability Strategy is a reference document. Requirements and goals are in regulatory documents that will be formally adopted, including the Infrastructure Plan, Master Utility Plans, and Design Controls. The strategy is premised on integrating sustainable features throughout the site, from the way buildings are designed to how water is used, from the provision of multi-modal transportation choices to how landscape design responds to the site.

The targets in the Sustainability Strategy will form the basis for regular monitoring. As part of each Phase submittal to the Port, the Developer will submit a report of performance against the Sustainability Strategy's metrics.

District Graywater

Health Code Article 12C was adopted to reduce the amount of potable water usage in large-scale developments. To address this requirement, the Developer proposes to build a centralized plant to clean graywater and distribute it back to buildings for non-potable uses such as toilet flushing, landscaping, and building cooling tower water.

Mapping

A significant part of Project implementation is creating separate legal parcels. The Developer will produce all maps for the Site in compliance with the San Francisco Subdivision Code and the California Subdivision Map Act (collectively, the "Map Act"). The Developer and Port staff will collaborate with Public Works and the County Surveyor to comply with the Map Act.

Sea Level Rise ("SLR")

The Project will be built to protect against SLR and designed to accommodate higher SLR through adaptive management that allows the Project infrastructure to be adjusted over time in response to SLR. Because the actual rate of future SLR is uncertain,

adaptive management is a proactive strategy that can respond to future SLR. The adaptive management strategy will include four basic fundamentals:

- Initial infrastructure design to accommodate reasonable SLR scenarios;
- Infrastructure design that can be adjusted in response to actual SLR;
- Monitoring scientific updates and actual SLR data; and
- Project-based public financing mechanisms to implement necessary improvements to address SLR to protect the Project.

Key physical design responses to SLR risks are summarized below.

- **Shoreline:** The shoreline area will be improved to provide protection against the current annual 1 percent chance (100-year flood) total water levels caused by a combination of tides, waves and shoreline geometry.
- **Building Finished Floor:** Buildings in the Project will be inboard (inland) of the perimeter protection, and finished floor elevations will be designed based on two conditions;
 - The first design standard is the 1 percent chance (100-year flood) still water level elevation, plus an allowance for 66-inches SLR, plus 6-inches of freeboard.
 - The second is the Bay Trail protection elevation plus additional elevation to provide for overland release of stormwater from the building pads to the shoreline.

IV. Key Terms of Transaction Documents

Summary of Key Documents

There are 6 principal transaction documents ("Transaction Documents") that will govern the proposed Project:

- A. Disposition and Development Agreement ("DDA") and its Financing Plan
- B. Development Agreement ("DA")
- C. Master Lease
- D. Pier 48 Lease
- E. Form of Vertical Disposition and Development Agreement ("VDDA")
- F. Form of Parcel Lease

This report section summarizes the major terms of each of these Transaction Documents. The DDA and its Financing Plan are described separately for clarity.

A. Disposition and Development Agreement

The DDA is the principal agreement governing development of the Project. The DDA and its exhibits provide the overall program and projected timing for development of the Project, including both "horizontal" and "vertical" development of the Project, delivery of public benefits and the financial structure for the transaction.

In general, the Developer will be responsible for horizontal development of the Project, which consists of entitlement and other pre-development work, subdivision, site preparation/stabilization, and design/construction work related to streets and sidewalks, public realm amenities (e.g., parks and open space), public utilities and shoreline improvements to create development parcels that support and protect buildings. Vertical development includes construction of commercial/residential and parking buildings consistent with the Mission Rock SUD and Design Controls and will be performed by vertical Developer Affiliates or third-parties.

Table 3: DDA Major Terms	
Topic	Description
Term	The earlier of 30 years or upon Port's issuance of Final Certificate of Occupancy for the Project and acceptance of the Final Audit but for rights and obligations which survive the DDA termination contained in any or all project transaction documents.
Project Description	<p>At build-out, the Project will include</p> <ol style="list-style-type: none"> 1. 1,000-1,950 new residential units, at least 40% of which will be constructed as inclusionary affordable units for low- to moderate-income households; 2. approximately 1 to 1.4 million gsf of new commercial/office space and 250,000 gsf of active/retail and production space which is intended to include a dynamic range of space for shops, restaurants, cafés, neighborhood-serving retail uses; 3. approximately 8 acres of major new and expanded parks, pedestrian plazas and rehabilitated public piers and wharves; 4. 3,000 structured parking spaces to serve the Project and patrons of AT&T Park 5. Sustainability and resilient design strategies to address projected Sea Level Rise and provide leadership in long-term sustainability planning and design; 6. active on-site transportation demand management and payment of impact fees to the Municipal Transportation Agency for use on the Project and in the neighborhood; 7. the creation of an estimated 13,500 temporary construction jobs and 11,000 permanent jobs on and off-site.
Development Phases	<ul style="list-style-type: none"> • The Project is expected to be developed in four Phases. Each Phase will include vertical development parcels and other areas that will be developed with streets, parks, and public access and open space areas. • Before the Developer can begin construction of a Phase (i) the Port Director must determine that a "Phase Submittal" is in compliance

Table 3: DDA Major Terms

Topic	Description
	<p>with guidelines which establish the location and uses of development parcels, boundaries, phase improvements, and associated public benefits and (ii) the Port Commission must approve a "Phase Budget" with projections of the expected costs of the horizontal development and the sources of payment of those costs, including Developer Return, via both prepaid rent - also referred to as Development Rights Payments - and other public finance mechanisms as necessary to fund the cost of horizontal development.</p>
Schedule of Performance	<ul style="list-style-type: none"> • The Schedule of Performance ("SOP") establishes outside dates for (i) submittal of Phase Submittals and (ii) commencement of horizontal improvements, including streets, utilities and parks. • The outside date for commencement of construction of all Phase 1 improvements is 8 years from the Entitlement Date of the DDA, except that this period is shortened to 6 years if the Developer does not submit Phase Submittals within 3 years of the Entitlement Date. The outside date for commencement of construction of each subsequent Phase is the earlier of 5 years after completion of vertical construction of the prior Phase or 14 years after the Entitlement Date for Phase 2, 20 years after the Entitlement Date for Phase 3, and 25 years after the Entitlement Date for Phase 4. The DDA will also include a mechanism by which the Port, subject to certain restrictions, including phase feasibility, can require the Developer to move ahead with horizontal development if required to serve Development Parcels leased through a third party offering, as described below. • Remedies include termination of the DDA if the Developer fails to meet its obligations to commence construction by the Outside Dates, subject to Excusable Delay. • The SOP will be extended for Excusable Delay (delays outside of the Developer's control), defined to include (i) force majeure, (ii) Down Market Delay, and (iii) Environmental Delay.
Developer Option for Vertical Development	<ul style="list-style-type: none"> • The Developer has options to acquire a Parcel Lease for each of the vertical development parcels. • The Port will ground lease option parcels for 75 years, subject to rights and obligations set forth in SB 815, AB 2797, and other applicable transaction documents. • The Developer's right to exercise its option to acquire Parcel Leases for each option parcel must be exercised prior to the Outside Date for commencement of horizontal construction of the Phase in which the Parcel Lease is located. • The Port will have the right to exercise a Put Option under which, if the Port can demonstrate that a particular parcel has sufficient value to satisfy tests for feasibility and/or reserve rent, would obligate the Developer to either exercise its option or allow the Port

Table 3: DDA Major Terms

Topic	Description
	to engage in a public offering process to lease the applicable parcel(s) to third parties based upon criteria set forth in the Port's put to the Developer.
Process for Lease of Option Parcels	<ul style="list-style-type: none"> • The Developer may initiate the option process at any time after the Phase Submittal, subject to the Outside Date, by written notice. • The parties will mutually engage an appraiser to determine the fair market value of the leasehold as pre-paid, annual or hybrid (pre-paid and annual) in accordance with form appraisal instructions. To the extent either party objects to the jointly selected appraiser's determination of value the parties agree to engage in appraisal dispute resolution procedures. • The Developer must exercise each parcel lease option(s) no later than 30 days after each final determination of fair market value. If, during the appraisal process, it is determined that a Down Market Delay exists, then the SOP will be extended subject to the provisions of a Down Market Delay. • If the Developer exercises its option, the Port and an affiliate of the Developer (the "Vertical Developer Affiliate") will enter into a Vertical DDA ("VDDA") and Parcel Lease for the Port's delivery of the parcel.
Public Offering	<ul style="list-style-type: none"> • If the Port delivers a Put Notice to the Developer and the Developer does not exercise its option, the Port may offer the parcel to qualified bidders and include in such offering the minimum required Development Rights Payment, the Minimum Annual Base Rent, which will be no less than the Reserve Rent, and the Minimum Bid Price, consistent with the then-approved Phase Budget. Any Public Offering will be subject to the terms and requirements as would be applicable to the Developer if it exercised its option, including payment of any required Development Rights Payment and execution of the required form of Parcel Lease and VDDA. The Developer may participate in the public offering process. Nonconforming bids in response to the Public Offering will not be accepted. If no offers are received under which the Annual Ground Rent exceeds the Reserve Rent, then the Developer's option rights as to the parcel are restored and, at the Developer's election, a Down Market Delay is deemed to be in effect. • The Port's approval of a Phase Budget does not waive the Port's right to decline to enter into a Parcel Lease in which the Annual Ground Rent is not at least equal to the Reserve Rent, unless the Phase Budget specifically provides. • If the Port does not enter into a VDDA through the public offering process, the Port will remove the option parcel from the market, the Developer's option will spring back until expiration of the option period.

Table 3: DDA Major Terms

Topic	Description
Associated Public Benefits	<p>The Developer's obligations to deliver various public benefits are:</p> <ul style="list-style-type: none"> • Parks: At full build-out, provide approximately 8 acres of major new and expanded public parks, open spaces, pedestrian plazas and rehabilitated public piers and wharves • Mixed-Use Community: Dynamic range of space for shops, restaurants, cafés, neighborhood-serving retail uses, such as a grocery store, and community use spaces, as well as commercial/office and light industrial space. • Transportation: Project specific fee to transit, bicycle, and pedestrian improvements consistent with Planning Code Section 411A.7, including improvements that will improve transportation access and mobility in the surrounding neighborhoods and implementation of a Transportation Demand Management Plan. • Childcare: Child care equivalency fee paid to assist one or more Vertical Developers to provide childcare facilities. • Sustainability: Strategies to enhance livability, health and wellness, mobility and connectivity, ecosystem stewardship, climate protection, and resource efficiency. • Public Art: Provided in parks and open spaces as part of the Horizontal Improvements. • Affordable Housing: See discussion below. • Workforce Training: See discussion below.
Events of Default	<ul style="list-style-type: none"> • The DDA defines two types of defaults: typical "Events of Default" with specified contract remedies and more serious "Material Breaches" that allow the Port to terminate all or part of the DDA. • Material Breaches include an unpermitted transfer of the Developer's rights, the Developer's failure to comply with the SOP (subject to Excused Delay), failure to provide the required security for its obligations, and failure to reimburse the Port and City for administrative costs of the Project. • The Port may offer the development opportunity for the terminated portions of the DDA to third parties, but will not permit uses that are incompatible with any of the Developer's retained rights under the DDA. • If the Developer fails to cure a Material Default and the Port terminates before Lead Parcels are conveyed, the Developer is entitled to reimbursement of Horizontal Development Costs incurred before Termination without any the Developer Return if the Port elects to take a project assignment (i.e., an assignment of all Project documents). • If the DDA is terminated due to the Developer default after the Lead Parcels have been conveyed, but before the Phase Improvements in Phase 1 are Substantially Completed, then the Developer will be entitled to reimbursement of Horizontal Development Costs incurred by the Developer before the

Table 3: DDA Major Terms

Topic	Description
	<p>Termination Date, in accordance with the Finance Plan and Acquisition Agreement, but only to the extent available from Lease Revenues and Public Financing Sources generated by Phase 1 Development Parcels for which the Developer has exercised its Option and Closed Escrow before the Termination Date (or, if VDDA is entered into prior to Termination Date, and escrow closes after the Termination Date pursuant to that VDDA).</p> <ul style="list-style-type: none"> • If the DDA is terminated due to the Developer default as to any other Phase and before those Phase Improvements are Substantially Completed, then the Developer will be entitled to reimbursement of Horizontal Development Costs incurred by the Developer before the Termination Date, plus a reduced the Developer Return, in accordance with the Finance Plan and Acquisition Agreement; provided, however, that (i) Horizontal Development Costs will be reimbursed only to the extent of Project Payment Sources generated by Development Parcels that have closed escrow before the Termination Date (or, if VDDA is entered into prior to Termination Date, and escrow closes after the Termination Date pursuant to that VDDA), (ii) and reduced the Developer return will be reimbursed only to the extent of Project Payment Sources generated by Development Parcels for which the Developer has exercised its Option and that have closed escrow before the termination date (or, if VDDA is entered into prior to Termination Date, and escrow closes after the Termination Date pursuant to that VDDA).
Construction Procedures	<ul style="list-style-type: none"> • Procedures for review and approval of construction documents for Horizontal Improvements will be included in the Interagency Coordination Agreement ("ICA"). Port staff will review and approve Construction Documents for consistency with the DA Requirements in accordance with the procedures for review and approval set forth in the ICA. • The Port will have certain review rights over the Developer's horizontal general contractor selection, bid packages, financial capacity, as well as review of change orders with a cost increase exceeding a certain threshold.
Schematic Design Review of Parks; Review of Signage	<ul style="list-style-type: none"> • The Port Commission must approve the schematic design of the parks, streetscape and open space signage within the Project after review by a design advisory committee that the Port Director will designate.
Deferred Infrastructure	<ul style="list-style-type: none"> • The Developer and Port may elect to require that Vertical Developers assume responsibility for construction of infrastructure within streets, sidewalks and park areas adjacent to the applicable development parcel ("Deferred Infrastructure").
Horizontal Improvements	<ul style="list-style-type: none"> • Except for Deferred Infrastructure, the Developer must complete all work necessary to prepare Development Parcels for transfer to Vertical Developers, including creating separate legal parcels on a

Table 3: DDA Major Terms

Topic	Description
	subdivision map, construction of horizontal improvements, and providing or securing the installation of public utilities to serve the development parcel.
Security	<ul style="list-style-type: none"> • To the extent applicable, the Developer will provide Adequate Security from one or more qualified Obligor, for the Developer's contractual Phase obligations under the DDA.
Transfers	<ul style="list-style-type: none"> • The Developer has a right to make an initial transfer (prior to Phase 1) without Port consent to a transferee meeting net worth and experience requirements, so long as a Giants affiliate maintains a minimum of a 10% equity position in the project and major decision rights. • After the completion of any Phase containing the Project's shared public way and the main parking facility, the Developer may transfer its obligations under the DDA as to any Phase to an Affiliate at any time without Port's prior consent. • The Developer may transfer the DDA before Phase Approval for any Phase (except Phase 1) to a non-affiliate with the Port's consent, not unreasonably withheld. • The Developer may transfer the DDA after Phase Approval for any Phase (except Phase 1) to a non-affiliate with the Port's consent, not unreasonably withheld, subject to certain conditions.
Affordable Housing Plan Exhibit	<p>The Affordable Housing Plan describes the following measures to ensure that at least 40% of all residential units in the Project are affordable, inclusionary units for low- and moderate-income households (between 45% to 150% of Area Median Income).</p> <ul style="list-style-type: none"> • Vertical Developers of commercial and retail space will pay a Mission Rock Inclusionary Housing Fee, similar to the City's jobs/housing linkage program, to support the development of the affordable inclusionary units at the Project Site. • A portion of the affordable inclusionary units will be set aside for youth transitioning out of foster care or other public systems. • Affordable inclusionary units will be delivered in each phase and on each residential parcel creating a true mixed-income community.
Workforce Development Plan	<p>The Workforce Development Plan requires the Developer and its contractors and subcontractors, Vertical Developers and tenants to comply with applicable provisions. Workforce plan obligations include the following:</p> <ul style="list-style-type: none"> • 30% local hiring goals and apprenticeship goals applicable to certain construction work for Local Residents and Disadvantaged Workers established for both the Developer and Vertical Developers. • Employers must enter a First Source Hiring Agreement that will require participation in the City's Workforce System, including good

Table 3: DDA Major Terms	
Topic	Description
	<p>faith efforts to meet hiring goals in entry-level positions as specified in the Workforce plan. The Developer and Vertical Developers must work with the Mayor’s Office of Economic and Workforce Development (“OEWD”) to make good faith efforts to hire entry level positions for specified pre-construction architectural and engineering services, janitorial, security, landscape and maintenance activities.</p> <ul style="list-style-type: none"> • Providing a total of \$1,000,000 in funding for OEWD job readiness and training programs and community based organizations (“Workforce Funding”). The cost of the Workforce Funding will be shared among the Vertical Developers on a per parcel basis, excepting the Vertical Developers of the Parking Structure(s). • The Developer and Vertical Developers must comply with the Local Business Enterprise (“LBE”) Utilization Plan to make good faith efforts to meet the outreach goals applicable to design and construction work.
Transportation Plan	<p>Key provisions of the Transportation Plan and Transportation Demand Management Program (“TDM Program”) include the following:</p> <ul style="list-style-type: none"> • Vertical Developers must pay transportation fees that SFMTA will use and allocate for transportation improvements to transit, bicycle, and pedestrian improvements, including improvements in the vicinity of the Project. • The Developer, building owners, and tenants must implement the TDM Program designed to reduce Project-related vehicle miles traveled (“VMT”) by 20%.
Office Development (Prop M, Planning Code §§ 320-325)	The timing and amount of office square footage that may be constructed in each Phase will be addressed in detail in the DDA.

B. Financing Plan

The Financing Plan will be attached to the DDA. Table 4 is a summary of the material terms of the Financing Plan.

Table 4: Financing Plan	
Topic	Description
Purpose and Goals	<p>The Financing Plan establishes the contractual framework for financing horizontal development and for the distribution of net proceeds from the development of the Project. The basic principles underlying the Financing Plan include the following:</p> <ul style="list-style-type: none"> • The Developer is responsible for funding all entitlement costs and the costs to design and construct Horizontal improvements to the

Table 4: Financing Plan

Topic	Description
	<p>extent other Project sources are not available.</p> <ul style="list-style-type: none"> • No City General Funds or Port Harbor Funds are pledged for the Project. The Port Commission will have the option in its sole discretion to invest Port Capital in the Project and to earn a 10% cumulative annual return, compounded quarterly, on this investment. • In addition, the Port will benefit from or receive a number of other Project-generated revenues, including the following: <ul style="list-style-type: none"> • A special tax on residential and office development to fund shoreline protection along the City's waterfront; and • A special tax on all development parcels to fund the operations and maintenance of parks, streets, and open space within the Project. • The Port will use community facilities district ("CFD") proceeds and infrastructure financing district ("IFD") proceeds, together, the "Public Financing Sources") to the extent legally permissible to satisfy the Project Payment Obligation. • Approximately 65% of every dollar of tax increment will be pledged as "Project Tax Increment" available to secure certain Mello-Roos bonds, which pay Project-related costs and allowable Developer Return, and to repay the Port, with interest, for Port Capital. Once the Project Payment Obligation has been satisfied, the Project Tax Increment will be used to repay the Port, with interest, for Port Advances of prepaid rent, and then to fund shoreline improvements.
Proforma Assumptions	In structuring the Financing Plan, the Developer, City and Port staff, and consultants used "proforma" analysis of estimated Project revenues and costs to estimate the overall financial feasibility of the Project.
Additional Sources	The City, the Port, and the Developer will cooperate to identify additional funding sources and incentives that might be available for the Project, such as grants for transit-oriented development, and sustainable development, subject to conditions in the Financing Plan.
Financing Districts	<p>The City will form one or more CFDs over the Project Site that will be authorized to levy the following:</p> <ul style="list-style-type: none"> • A Facilities Special Tax A, to be levied on residential and office development; • A Facilities Special Tax B to be levied on office development only; • A Shoreline Special Tax, to be levied on residential rental and office development; and • Services Special Tax, to be levied on residential and office development. <p>To preserve the Port's land value, the Facilities Special Tax A (but not Special Tax B, the Shoreline Special Tax or Services Special Tax) on residential and office parcels are anticipated to be offset by available Project Tax Increment.</p>

Table 4: Financing Plan	
Topic	Description
	CFD and IFD proceeds will only be used for authorized improvements. To minimize the accrual of Developer Return and maximize the efficiency of Project-based financing, the Port will make DRP Advances to pay the Project Payment Obligation. The Port will record each "Port Advance" in a promissory note that the CFDs and IFD will be obligated to pay after the Project Payment Obligation is satisfied.
Conveyance of Lead Parcels	Proceeds from the Port's conveyance of the Lead Parcels will be the primary source to pay the Entitlement Sum (the Developer's entitlement costs and the Developer Return accrued through the effective date of the DDA). The Entitlement Sum does not accrue Developer Return following the effective date. Lead Parcels will be conveyed as fully prepaid 75-year leases, against which the Developer will be entitled to credit bid the Entitlement Sum.

C. Development Agreement

The DA vests the Developer's entitlements for the project site. The DA is a contract between the City and SWL 337 Associates that is authorized under state and local law which obligates the Developer to provide certain public benefits to the City, directly or through Vertical Developers, that are greater than what the City could exact under existing law. Table 5 is a summary of the material terms of the DA.

Table 5: Development Agreement Major Terms	
Topic	Description
Public Benefits	<p><u>Generally:</u> The City is authorized to enter the DA and grant the Developer certain vested rights because the Developer is providing certain public benefits to the City that are beyond those achievable by the City through existing law, including:</p> <ul style="list-style-type: none"> • Approximately 8 acres of new and expanded parks, open spaces, streets, plazas and shoreline area improvements; • A CFD service district will provide funding for long term management and maintenance of public spaces and public right of ways through special service taxes levied on development parcels; • At least 40% of the residential units will be inclusionary units affordable to low and moderate income households (45% to 150% of Area Median Income); • child care equivalency fee paid to assist one or more Vertical Developers to provide on-site child care facilities; • community use space(s); • developer fees in lieu of, but equivalent to, the City's Transportation Sustainability Fee, which SFMTA will apply towards transit, bicycle and pedestrian safety improvements, including improvements in the vicinity of the project; • TDM Program to reduce estimated one-way vehicle trips by at least 20%;

Table 5: Development Agreement Major Terms	
Topic	Description
	<ul style="list-style-type: none"> • local entry level hiring goals and requirements, a local business opportunity program, and workforce readiness and training funds totaling \$1M, as provided in the Workforce Development Plan and Local Business Enterprise Utilization Plan; • Design strategies and CFD funding to respond to anticipated sea level rise; • Sustainability measures described in the Sustainability Strategy.
Term and Termination	The DA term will be generally concurrent with the term of the DDA.
Project / Vested Rights	<ul style="list-style-type: none"> • The DA grants the Developer the right to develop the Project site in accordance with and subject to the applicable Project approvals and Transaction Documents, applicable existing City laws and certain future changes in laws (collectively, "DA Requirements") to the extent permitted under the DA. • The City agrees to process all future approvals in accordance with the DA Requirements. • New City laws and policies will apply to development of Project site only in limited circumstances. • Building Code standards in effect at the time of construction will apply to vertical development. • For horizontal development, then-current standards will apply on a per-Phase basis so long as they are in place Citywide or Portwide; they would not require the retrofit, removal, supplementation or reconstruction of previously approved or constructed public open space, right of way or utility infrastructure, and they would not result in a material increase in the cost of the Project. • All City agencies must process future approvals in accordance with the ICA and to approve applications that are consistent with prior approvals and the DA Requirements.
Fees and Exactions	<p>The City agrees not to impose any Impact Fees or Exactions other than those identified in the DA at the specified rates, which will be subject to the annual escalation under Planning Code section 409:</p> <ul style="list-style-type: none"> • The Mission Rock Transportation Fee will be payable on all development; • The Mission Rock Inclusionary Housing Fee will be payable on office and other nonresidential uses; and • Child care equivalency fee paid to assist one or more Vertical Developers to provide childcare facilities within the Project or pay those unused fees to the applicable City agency. <p>The Developer must also pay:</p> <ul style="list-style-type: none"> • SFPUC water and wastewater capacity charge fees in effect on the date of connection, and a \$1.5M AWSS fair share contribution for the City's auxiliary water supply; and • Any school impact fees payable under state law and at rates in effect at the time of the assessment.

Table 5: Development Agreement Major Terms	
Topic	Description
Annual Review and Compliance	The DA includes procedures for the Developer to provide annual reports for the Planning Director's determination of DA compliance.
Assignment	The DA will treat any horizontal or vertical developer that assumes development obligations as a party to the DA.

D. Master Lease

The Master Lease sets the terms and conditions under which Seawall Lot 337 Associates, LLC, or an affiliated successor entity, will lease the Project from the Port for the purposes of constructing Horizontal Infrastructure like parks, roads and utilities in accordance with the DDA, and, in the interim, for parking, Special Events and ancillary uses related thereto. Individual development parcels will be removed from the Master Lease and will subsequently be governed by a VDDA and a Parcel Lease. Table 6 is a summary of the material terms of the Master Lease.

Table 6: Master Lease Major Terms	
Topic	Description
Adjustment of Premises	The Master Lease includes a procedure for the partial release of development parcels that will be conveyed to Vertical Developers or to the City for public improvements, as contemplated under the DDA.
Delivery of Premises	The Premises will be delivered in its "as is" condition, subject only to title exceptions permitted under the conveyance procedures of the DDA
Term	Maximum of 30 years
Rent	<p><u>Base Rent:</u> Prior to conveyance of Phase 1 Parcels, \$2.04M. After conveyance of Phase 1 Parcels, new Base Rent is calculated by multiplying \$2.4M by pro rata share of parking spaces available in remaining lot. No Base Rent after completion of Parking Structure, though Percentage Parking Rent and other components of rent described below will continue to apply.</p> <p><u>Percentage Parking Rent:</u> Prior to conveyance of Phase 1 Parcels, 56% of Gross Revenue from Parking Operations, less parking taxes and 85% of Extraordinary Expenses. After conveyance of Phase 1 Parcels, 66% of Gross Revenue from Parking Operations, less parking taxes and Extraordinary Expenses.</p> <p><u>Special Event Rent:</u> Special Event Fees will continue generally as reflected in current lease subject to inflation-based adjustment.</p> <p><u>Vertical Improvement Staging Rent:</u> Areas required for construction staging by Vertical Developers will be subleased at fair market value. To the extent that such rents exceed a pro rata share of Base Rent (or Port parameter rent after completion of Parking Structure) the Port will receive 66% of the excess. Once Parking Structure is complete, parties share the sublease revenue 2/3 to Port and 1/3 to the Developer.</p> <p><u>Activations:</u> No rent due for the Yard in existing location or Master-developer related project management offices. Except for the Yard as noted above, the Port shall be entitled to receive participation in lease revenues received by</p>

Table 6: Master Lease Major Terms

Topic	Description
	<p>Tenant.</p> <p><u>Overhang Rent Credit</u>: In Phase 1, if the actual amount of development costs exceed the amount in the approved Phase Budget the Developer will provide developer capital to fund such overruns, up to \$10M (the "Overhang"). Such costs would bear a return of 400 basis points over LIBOR, capped at 9% annually, compounded quarterly. Until these Overhang costs are fully repaid, the Developer is entitled to a credit against rent under the Master Lease in an amount sufficient to amortize the total of the Overhang costs, plus return, over the remaining term of the Master Lease.</p>
Security Deposit	Equal to two months' base rent.
Permitted Use	<p><u>Permitted Uses</u>: (i) parking for bicycles and motor vehicles; (ii) Special Events; (iii) within Activation Areas, any Activation Uses; (iv) auxiliary uses in connection with Ballpark Events and Special Events, such as temporary wireless and media communication equipment and sale of merchandise, food, and beverages; (v) installation and maintenance of signage; (vi) temporary streets in locations determined by Tenant; (vii) development of the Horizontal Improvements; (ix) construction staging in connection with the development of Horizontal Improvements or Vertical Improvements; (x) model units and sales/leasing offices relating to Vertical Improvements; (xi) a Project management office; and (xii) any other uses authorized by the Port in writing.</p>
Repair and Maintenance	<p>Tenant is obligated to maintain and repair Premises and Improvements and Horizontal Improvements on the Premises. Port is not obligated to make any repairs, replacement or renewals of any kind, nature or description whatsoever to the Premises nor to any improvements on the Premises during the Term of the Master Lease. Until acceptance of improvements by Port/City, the cost of such repair and maintenance will be paid from CFD Maintenance Taxes, to the extent available, and otherwise will be funded by the Developer and included in Horizontal Development Costs.</p>
Horizontal Improvements	<p>The Developer to construct the Horizontal Improvements in accordance with the DDA. Tenant will own all such improvements until they are accepted, then the Master Lease will be partially terminated to exclude the property on which the accepted Horizontal Improvements are located.</p>
Transfers	<p>Tenant has the right to transfer the Master Lease without the Port's consent in connection with a Transfer of the DDA or to an Affiliate, provided the transferee assumes all obligations of the Tenant and meets a minimum net worth requirement. Tenant must obtain the Port's prior written consent for any other Transfer.</p>
Subletting	<p>Tenant has the right to sublease portions of the Premises to an affiliate Permitted Transferee and to certain third parties without the Port's prior consent, provided certain criteria are met such as, that the sublease use is a permitted use.</p>
Hazardous Materials	<p>Tenant agrees to comply with all environmental laws, and will not permit the handling of hazardous materials on the Premises without prior written consent of the Port, subject to certain exceptions.</p>

Table 6: Master Lease Major Terms	
Topic	Description
Mortgages	The Master Lease provides Tenant with customary mortgagee protection rights.
Indemnity	Tenant is obligated to indemnify, defend and hold harmless Port and City parties for all claims other than certain claims arising from the actions of Port and the City parties and certain claims arising from pre-existing hazardous materials.
Default	Port may terminate the Master Lease only for certain events of default under the Master Lease.

E. Pier 48 Interim Lease

The Pier 48 Interim Lease sets the terms and conditions under which Seawall Lot 337 Associates, LLC, or an affiliated successor entity, will lease Pier 48 from the Port for the purposes of parking, Special Events and ancillary uses related thereto. Table 7 is a summary of the material terms of the Interim Lease.

Table 7: Pier 48 Interim Lease Major Terms	
Topic	Description
Delivery of Premises	The Premises will be delivered in its "as is" condition, subject only to title exceptions permitted under the Pier 48 Lease. Shed B to be delivered upon the relocation of the Department of Elections. Premises will exclude existing cell site and berthing agreements for apron use provided that apron use shall be coordinated with Tenant's use of the Premises.
Term	10 years, with 2, 3-year extensions. The initial term or any extension term will end early upon completion of the Mission Rock Parking Structure. Port can terminate lease after commencement to facilitate long-term investment and use of the Site if: (i) termination is required in order to deliver possession to a developer/long-term user for rehabilitation and occupancy of the Pier, and (ii) alternate parking resources in comparable locations have been secured. .
Long Term Planning	The parties shall work in good faith to determine whether a long-term use can be accommodated in Pier 48 (e.g., Anchor Steam Brewery). In the event feasible alternatives are identified, Port and the Master Developer will negotiate to reach agreement on the terms of a lease for the Master Developer to rehabilitate Pier 48, with improvements to accommodate the long term use. If no agreement is reached, Port has the right to issue an RFP or similar solicitation, provided Master Developer, at its option, has the right to respond to the RFP or forgo the right to respond and collaborate with the Port on the solicitation.
Rent	<u>Interim Base Rent</u> : For Shed A and C, initially \$350,000, adjusted after the first year of operations to be 85% of the rent payable in the first year, Thereafter, Base Rent will be adjusted every 3 years, to equal 85% of the average of the rent paid in the prior 3 years. For Shed B, base rent based on available parking spaces.

Table 7: Pier 48 Interim Lease Major Terms	
Topic	Description
	<u>Rent for Parking Operations:</u> Percentage rent (66% of parking revenues) after deduction of parking taxes and reasonable extraordinary expenses. <u>Rent for Special Events:</u> Tenant to pay Port 50% of revenue derived from the rental of the facility for special events. Tenant shall charge market rates for use of the facility, but not less than a mutually agreed upon base rate, for special events. The rates shall be based on the size and duration of each special event, and the Port and Tenant may periodically update such rates as applicable.
Security Deposit	Equal to two months' base rent.
Permitted Use	Parking for bicycles and motor vehicles; (ii) Special Events; and (iii) any other uses agreed to by the parties.
Repair and Maintenance	Port and the Developer are negotiating the final terms for maintenance and repair responsibility and will bring those terms for approval at the next Port Commission meeting as part of the overall Project approvals.
Subletting	Tenant has the right to sublease portions of the Premises to a Permitted Transferee and to a third party without the Port's prior consent, provided certain criteria are met and subject to revenue sharing with Port in certain circumstances.
Hazardous Materials	Tenant agrees to comply with all environmental laws, and will not permit the handling of hazardous materials on the Premises without prior written consent of the Port, subject to certain exceptions. Tenant agrees to notify the Port if hazardous materials are released on the premises and must pay for all environmental remediation at its sole cost, if hazardous materials are released or conditions exacerbated due to its use.
Indemnity	Tenant is obligated to indemnify, defend and hold harmless Port and City parties for all claims other than certain claims arising from the actions of Port and the City parties and certain claims arising from pre-existing hazardous materials,
Default	Port has customary termination rights for default.

F. Form of Vertical Disposition and Development Agreement

The Vertical DDA is a form attached to the DDA. It sets forth the conditions to a Vertical Developer's acquisition of the parcel lease of each "Development Parcel" within the Project Site of Mission Rock. It also sets forth applicable Port and City requirements if the Vertical Developer constructs the applicable vertical improvements and any related "deferred infrastructure". Terms and conditions regarding the construction obligations and coordination of infrastructure with the Developer will be addressed in a separate Vertical Coordination Agreement directly between the Developer and the Vertical Developer. The Vertical DDA will terminate upon completion of the development project and any deferred infrastructure. Table 8 is a summary of the material terms of the Vertical DDA.

Table 8: Vertical DDA Major Terms	
Topic	Description
Parties	City, operating by and through the Port, and a Vertical Developer, which will be an affiliate of the Developer if the Developer exercises its Option, or may be an unaffiliated developer if the parcel is subject to a public offering.
Property	The property will be the applicable Development Parcel to be acquired by the Vertical Developer.
Form of Conveyance of Property	The Port will convey the Development Parcel by the Parcel Lease
Acquisition Price	The acquisition price (i.e., with total value split between prepaid rent and Annual Ground Rent) will be established by appraisal or through the public offering process described in the DDA.
Payment of Acquisition Price; Deposit	<ul style="list-style-type: none"> • Initial deposit of 10% of the Acquisition Price; becomes non-refundable at expiration of the contingency period. • Closing must occur within 90-days, in each case after end of 60-day contingency period. • Payments made by Vertical Developer Affiliates may be made by Credit Bid as described in the Financing Plan; payments by third parties will be made in cash.
Acknowledgement re: CFD	Vertical Developer agrees to deliver to Port (prior to Close of Escrow) an acknowledgement regarding the terms of the CFD and CFD assessments, and to comply with the CFD and CFD assessment requirements.
Condition of Property	Vertical Developer acknowledges that it will acquire the premises in its 'AS IS' condition and provides a general release of City and Port.
Closing Expenses	Vertical Developer will pay any real property transfer taxes, personal property transfer taxes, escrow fees, recording charges and other escrow costs and charges.
Defaults, Remedies and Liquidated Damages Before Close of Escrow	<ul style="list-style-type: none"> • If escrow fails to close due to a Vertical Developer default, Port's sole remedy is to terminate the VDDA and receive the Deposit as liquidated damages. • If Port defaults before close of escrow, Vertical Developer may terminate and receive a return of the Deposit or sue for specific performance.
Obligation to Construct Vertical Project	Each VDDA will include a schedule of performance for development of the Parcel that would require commencement of the vertical improvements within 3 years after the close of escrow and completion within 5 years, subject to up to 3 years of extension and force majeure. Force Majeure capped at 2 years. Extensions may be exercised in three month increments (up to 24 months total) by pre-paying three months of the annual Special Taxes applicable to the parcel.
Construction of Infrastructure	Vertical Developer is solely responsible for developing all improvements within the parcel leased Property, which may include certain deferred infrastructure not constructed by the Developer.
Port/City Costs	Port and City are entitled to reimbursement for costs incurred in performing their obligations under the VDDA and any changes to VDDA requested by Vertical Developer that are not otherwise covered by permit and administrative fees.

Table 8: Vertical DDA Major Terms	
Topic	Description
Default by Vertical the Developer	<ul style="list-style-type: none"> • If Vertical Developer defaults under the VDDA, it will trigger a default under the corresponding Parcel Lease. • If Vertical Developer defaults due to a failure to timely commence or complete construction of the vertical improvements, then Port may take back the parcel. If Port takes back the parcel and Vertical Developer has pre-paid any portion of the rent under the Parcel Lease, Vertical Developer will have the right to recover 85% of the lesser of any pre-paid rent or any pre-paid rent paid by a new vertical developer with respect to the parcel.
Transfers and Assignments	<ul style="list-style-type: none"> • Before close of escrow, Vertical Developer may transfer its interest in the VDDA to an affiliate without Port consent so long as minimum net worth requirement is met, but must obtain Port's consent, which it may withhold at its sole discretion, for transfer to third-parties. • After close of escrow and prior to Certificate of Completion, Vertical Developer may transfer its interest in the VDDA in conjunction with a transfer of the Parcel Lease or as approved by the Port in accordance with the Parcel Lease. Any Transfer to non-Affiliates is subject to Port's reasonable consent.
Indemnification	Vertical Developer is obligated to indemnify, defend and hold harmless Port and City parties for all claims other than certain claims arising from the actions of Port and the City parties. Vertical Developer is obligated to indemnify, defend and hold harmless Port, and City Parties for losses with respect to Hazardous Materials in accordance with the Parcel Lease.

G. Parcel Lease

The Parcel Lease is a form attached to the Vertical DDA that will serve as the template by which Vertical Developers will acquire rights to development parcels ("Parcel Lease"). Table 9 is a summary of the material terms of the Parcel Lease.

Table 9: Parcel Lease Major Terms	
Topic	Description
Parties to Agreement	City and County of San Francisco acting by and through the San Francisco Port Commission ("Port") as Landlord, and Vertical Developer entity to be determined ("Tenant") as Tenant
Premises	Development parcels within the Project Site that are conveyed to Vertical Developers under the DDA.
Term	75 years (subject to SB 815)
Rent	<u>Base Rent</u> : Some Parcel Leases will be prepaid in full. Monthly base rent for hybrid leases will be determined by converting fair market fee value to an annual rent according to a formula applied by the appraiser engaged through the DDA conveyance procedures or through the public offering process. Where rent is not fully pre-paid, monthly base rent amount will be fixed in the

Table 9: Parcel Lease Major Terms

Topic	Description
	<p>Parcel Lease and adjusted every 10th year based on 85% of the average of the previous 3 years of rent.</p> <p><u>Reserve Rent:</u> Site-wide (excluding Lead Parcels, parking structure Parcel D, and Pier 48) base rent will be \$3.5 million, which will be allocated proportionally to parcels at the time of the first Phase Submittal.</p> <p><u>Percentage Rent:</u> Percentage rent will be based upon a percent of adjusted gross income or net operating income.</p>
Port Participation in Proceeds from Sale and Refinance	<p>If a non-Affiliate transfer occurs prior to the issuance of a building permit, 100% of net proceeds will be captured as a Project Payment Source. If the transfer occurs after the issuance of a building permit, Port participates in 1.5% of net sale proceeds. Port will also participate in 1.5% of refinancing proceeds.</p>
Permitted Use	<p>Permitted uses will be those uses allowable under the Mission Rock SUD and Design Controls.</p> <p>The Tenant of residential parcels must also comply with applicable provisions of the Housing Plan that requires 40% inclusionary units Project-wide. Specific requirements for each residential parcel, as established in the Phase Submittal consistent with the Housing Plan, will be a requirement of the Parcel Lease.</p>
Mitigation and Improvement Measures	<p>Tenant must comply with the MMRP measures applicable to the development parcel.</p>
Jobs and Equal Opportunity	<p>Tenant must comply with the applicable requirements of the Workforce Development Plan.</p>
Maintenance and Repair	<p>Tenant is obligated to maintain and operate the Premises, maintain and repair the improvements, provide the Port with a periodic facilities condition report after 20 years (and every 10 years thereafter until year 50 and then every 5 years thereafter) and maintain adequate capital reserves.</p>
Subletting	<p>Tenant has right to sublet the Premises to non-affiliates without Port's prior approval, so long as the subleases meet certain conditions.</p>
Mortgages	<p>Tenant has right to grant mortgages of Tenant's interest in the Parcel Lease, any subleases and any personal property on ground-leased Premises, subject to customary mortgagee protection provisions.</p>
Transfer	<p>Port has reasonable approval rights to a transfer prior to issuance of certificate of occupancy. After certificate of occupancy is issued, Tenant may assign the lease subject to prior notice to Transferee meeting certain conditions such as net worth and experience.</p>
CFD Matters	<p>Tenant must acknowledge and agree to comply with obligations of community facility district applying to the Development Parcel.</p>
Default	<p>In the event of default, Port may exercise a termination right only for certain material defaults that occur after notice and cure, including failure to pay rent or taxes, VDDA default, abandonment, use of the premises for prohibited uses, failure to adequately maintain the premises and failure to comply with</p>

Table 9: Parcel Lease Major Terms	
Topic	Description
	requirements re: hazardous materials.
Indemnification	Tenant is obligated to indemnify, defend and hold harmless Port and City parties for all claims other than certain claims arising from the actions of Port and the City parties.

V. Public Financing Strategy

The Financing Plan creates a framework under which staff will recommend that the City establish several public financing districts to fund public infrastructure and historic rehabilitation.

Port IFD No. 3, Project Area I (Mission Rock)

Consistent with IFD law (Gov't Code §§ 53395-53397.11) and the City's *Guidelines for the Establishment and Use of an Infrastructure Financing District with Project Areas on Land Under the Jurisdiction of the San Francisco Port Commission*,² staff will recommend that the City add Project Area I and Sub-Project Areas I-1 through I-13 (inclusive) encompassing the Mission Rock SUD area to the existing Portwide IFD to capture future growth in property taxes that will occur as a result of the Project.

The IFD will capture the City's share of tax increment (about 65 percent) from each sub-project area in IFD Project Area I for 45 years. Tax increment from the IFD will fund public streets, utilities, parks, historic rehabilitation and sea-level-rise protection improvements. Through a special trustee authorized by the Port Commission, the Port will use these funds to acquire public improvements constructed by the Developer at its own cost, or to pay directly for these improvements.

IFD Legislative Process

Table 10 below shows legislation introduced by Mayor Edwin Lee and Supervisor Jane Kim on October 17, 2017 and subsequent legislation that will be required to form these districts.

Table 10: IFD Legislation		
File #	Introduction Date	Description
171117	10/17/17	Resolution of Intention to establish Mission Rock Project Area I and Sub-Project Areas I-1 through I-13 of City and

² For a copy of Board of Supervisors Resolution 123-13 related to the policy, see: <https://sfgov.legistar.com/LegislationDetail.aspx?ID=1323177&GUID=19D641A0-A64B-4F34-B428-D7C7FCD037A4&Options=ID|Text|&Search=130264>

Table 10: IFD Legislation		
File #	Introduction Date	Description
		County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco).
171118	10/17/17	Resolution of Intention to issue bonds in an amount not to exceed \$1.09 billion for Project Area I, for the City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco).
TBD	XXX/17	Ordinance forming the Infrastructure Financing District Project Area I (including its sub-project areas) and adopting the Infrastructure Financing Plan (Appendix I Mission Rock).
TBD	XXX/17	Resolution Authorizing Issuance of Bonds in an amount not to exceed \$1.37 billion for Project Area I for the City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco).

Community Facilities District

Port and City staff will also recommend that the City form a CFD over the Mission Rock SUD. The CFD will levy special taxes to provide separate streams of funding for the purposes described below. Staff will recommend that the Board of Supervisors approve rates and methods of apportionment that establish tax rates by use type and authorize the issuance of CFD bonds and the use of bond proceeds and annual special taxes to:

- reimburse the Developer for project entitlement costs, including Port and City costs;
- reimburse the Port and the Developer for construction costs for public improvements or pay directly for these improvements;
- fund shoreline improvements including the seawall and similar improvements to protect against sea-level rise; and
- fund ongoing, perpetual maintenance funds for operations, capital repairs, and maintenance costs of parks, open space, streets and sidewalks.

The proposed use of CFD special taxes will comply with amendments to the City’s local Mello-Roos law (“Local Financing Law”) proposed as part of the legislation for the Pier 70 28-Acre Site project.

Both the amendments to the Local Financing Law, and the legislation to form the CFDs over the Mission Rock SUD will trail project approval. The Port’s special tax consultant has recommended pursuing the formation of the CFD when taxable parcels have been created within the Mission Rock SUD, which is currently projected to occur in early to

mid-2018. Staff intend to attach projected tax rates for each property type to the Financing Plan for consideration during project approvals.

The use of CFD backed by IFD tax increment in the proposed Project is designed to combine the benefits of land-secured financing under the Mello-Roos Act, which generally provides for lower interest rates and costs of debt issuance than private debt or equity, with the benefits of the Port's IFD Law, which allows capture of the local share of tax increment at Mission Rock.

To the extent that land value in the Project is sufficient at the time of bond issuance to meet a 3:1 value to debt ratio, this strategy will allow issuance of CFD bonds many years before an IFD bond could be issued. By making available CFD bond proceeds early in each Phase of development, the Port will be able to quickly repay the Developer capital, and in some instances, to pay directly for the costs of Project infrastructure, at a much lower cost than the cost of the Developer capital.

In addition, the parties propose to levy additional CFD taxes to increase the public financing capacity of the project and to establish a long-term revenue stream for shoreline protection (for use anywhere in the Port's jurisdiction).

VI. Financial Analysis of the Proposed Transaction

This report section includes Port staff's financial analysis of the proposed transaction, based on recent proforma analysis. In preparation for the Port Commission's final consideration of the transaction, Port staff will continue to analyze key inputs and may revise the analysis accordingly in the December 12, 2017 Port Commission staff report.

Entitlement Costs

Mission Rock has incurred entitlement costs that will be reimbursed from project sources. These expenses include horizontal and vertical Entitlement Costs incurred and paid by the Developer between January 1, 2012, as provided under the Exclusive Negotiating Agreement between the Port and Mission Rock, and the Project Approval Date to entitle the Project. Entitlement expenses that are eligible for reimbursement include:

1. preliminary planning, design work, and due diligence;
2. environmental review under CEQA;
3. negotiating the financial and other terms of the Transaction Documents;
4. obtaining Project Approvals, including community outreach; and
5. the Developer's corporate office, personnel, and overhead costs directly required to achieve the above project requirements.

The following expenses are not eligible for reimbursement:

1. the Developer's corporate office, personnel, and overhead costs, except as noted as eligible;
2. staff, consultant, advertising, and any other costs incurred to lobby or campaign for the Project;
3. charitable and political contributions; and
4. general accounting errors (i.e. duplication, miscoding etc.).

Under the terms of the Financing Plan and as agreed to between the Port and Mission Rock City, the Developer will submit a preliminary Entitlement Cost Statement that includes expenses and accrued Developer Return starting no earlier than May 25, 2010 and ending at a period approximately 90 days prior to project approval. Within 90 days following Project Approval, the Developer will provide a supplemental Entitlement Cost Statement that includes expenses and accrued Developer Return through the date of Project Approval.

The Project proforma currently includes a projected entitlement sum of \$25 million. The Port has secured a third party reviewer to validate the Developer's preliminary and supplemental Entitlement Cost Statements and establish a final Entitlement Sum. The Port is obligated to pay the amount of the Entitlement Sum reflected in the final, reviewed, and approved Entitlement Cost Statement. The staff report for the Mission Rock approval action will include the results of the Port's third-party review.

Developer Capital and Return

Project costs will be funded by Developer capital, bond proceeds, development rights payments, annual special taxes and tax increment, and Port capital (funds the Port Commission elects, in its sole discretion to invest in the Project). While all of these sources may be deployed to directly fund Project costs under the deal structure, Developer capital is projected to be relied upon as the primary early source of project funding because development rights payments, bond proceeds, and annual special taxes and tax increment revenues are anticipated to be available at Project outset in relatively limited quantities and to grow over Project buildout (i.e. these sources will repay developer equity).

The proposed reliance on Developer capital, particularly during the early stages of a project, is typical for new neighborhood developments with significant amounts of horizontal investment required. In addition to Entitlement Costs described above, total Project costs for infrastructure, parks, and open space (aka "horizontal") are estimated to be \$190.0 million in 2017 dollars. The base case model estimates that \$156.0 million or 82% of Project costs, including entitlement, infrastructure, parks, and open space investments, will be funded directly by Developer capital.

Developer capital for Project will be repaid with a return equal to the greater of: (1) 1.5 times the highest unreimbursed equity in a given phase ("peak equity" by phase) and (2) an interest rate of 18% per year, compounded quarterly. The only exception to this is

return on developer capital on entitlement spending, which accrues interest until entitlements are achieved and then interest and return are frozen.

It is important to note that the Developer return in the project Term Sheet was set at the greater of a 1.5 multiple and 20 percent. Since Term Sheet, the Port and the Developer have agreed to a lower the Developer return on outstanding capital in exchange for a greater share of annual rent. The Term Sheet provided the Developer 20 percent of ground rent revenues above \$4.5 million for 45 years. In exchange for the lower 18 percent return metric, the Developer will receive a share of ground rent revenue above \$2.5 million as follows: 45 percent for years 1 to 25; 35 percent for years 26-50; and 25 percent for years 51 to 75. The parties have also agreed on a negotiated minimum standard for overall Project Developer returns. Together, these agreements better align the parties' interests in ensuring an efficient mix of horizontal development sources (Developer Capital, CFD and IFD revenues and, if authorized and appropriated, Port capital) in order to preserving as much land value as possible for future rent payments to the Port.

The return on Developer capital was a key point of negotiations and was carefully scrutinized by the City, Port, and consultant teams. The staff's due diligence on this return on equity resulted in a strong confidence that this level of preferred return to the Developer is consistent with market requirements for investors. The due diligence and rationale for this return include:

- **Interviews with market actors.** Prior to Term Sheet approval in 2012, two of the Port's consultant firms independently contacted 22 investors and developers. Through these interviews, the Port's consultants found that: (1) all respondents specified expected returns on entitlement expenditures between 22 and 35 percent and (2) all respondents except for one indicated that expected returns for a horizontal investment similar to the Waterfront Site to be above 20 percent. The blended 18% return the Port has agreed to for the Developer's entitlement and horizontal equity investments is consistent with or lower than the expected returns that were found in the marketplace through this interview process.
- **Blended rate.** The 18% return applies to both entitlement (until the entitlement is completed) and infrastructure costs over four phases of buildout. Dollars invested early in the project, e.g., Entitlement Costs from 2010 through 2017 are exposed to a greater risk of loss (and thus, require a higher return) than dollars invested in, for example, Phase 3, after much of the infrastructure and vertical buildings have been built. Investors will require higher returns on spending to achieve entitlements and lower returns towards the end of the Project.
- **"Similar" projects.** It is difficult to find similar projects (e.g., size, market, environmental condition, entitlement risks) and similar financial structures. Keeping that comparability issue in mind, below are several project examples and preferred unleveraged returns on equity negotiated by the parties:

- Hunters Point Shipyard/Candlestick – 22.5% return
- Treasure Island – 18% return, then share with Navy. TIDA shares after 22.5% return.
- Alameda Point Site A – 18% return
- Pier 70 – 18% return, then share in 45% of net land revenues

Proforma Results

The Port and Mission Rock Development LLC teams collaborated to develop an annual cashflow model for the project including the amount and timing of: infrastructure expenditures, land proceeds (prepaid or hybrid ground leases), and public finance proceeds. This tool has been used throughout project planning and transaction negotiation to evaluate expected project financial performance for each party.

The estimates and assumptions in the model have been refined with input from a multi-disciplinary team including Port development, finance, and engineering staff and the Port's real estate economics and public finance consulting firms. Mission Rock Development LLC contracted with Hathaway Dinwiddie Construction and Nibbi Brothers joint venture to develop cost estimates for key infrastructure, park and open space, and vertical building cost estimates based on horizontal and vertical assumptions. The current costs – provided by Mission Rock Development LLC to the Port this summer reflect current dollar estimates of required site investments.

Market values for office, residential, and retail uses in the proforma reflect achievable real estate values (rather than top-of-the-market values) which have been reviewed by Port staff with real estate economics consulting support.

The key outputs of the model are the Developer expenditures, revenues, and internal rate of return, as well as Port cashflow in total nominal dollars and in net present value terms. The Port's revenue includes ground and participation rents and transfer fees, which will be deposited to the Harbor Fund and excess tax increment and Special Taxes, which will go towards a broad range of capital projects along the San Francisco Bayfront.

The Port's revenue streams broadly fall into four categories:

1. **Ground Rent (unrestricted and restricted).** Category includes annual ground rent above development rights and prepaid ground lease payments that must be contributed to the project in order for vertical developers and a horizontal Developer to achieve an 18% IRR.
2. **Participation.** This category of revenue includes retail percentage rent from parcel leases, participation in refinancing and sale of leases, and a transfer tax each time a building is resold, net of the Developer's participation on the share of this revenue. This category also includes the Port's participation on the horizontal returns above an 18% IRR.

All other Mission Rock tax increment and Special Taxes. Tax increment will be available to the Port to reimburse the initial land value invested into the Project. Additionally, Special Taxes of 0.25% of the assessed value on office parcels will be available to fund the Port needs after 30 years once the initial CFD bonds are paid off.

3. Tax increment dedicated to other Mission Rock needs. This is a modest but important revenue stream consisting of 0.1% of the assessed value generated by the Project. Phase 1 tax increment would be available after 30 years as initial bonds will be pledged to the Project. Phase 2, 3, and 4 proceeds will be available during the life of the Project with proceeds dedicated to shoreline improvements along San Francisco Bay to protect the City from seismic and flood risk, planning and adaption investments for sea level rise, and any further improvements that may be needed in the future to protect the Project Site.

The Base Case model projects the Developer achieving an 18.0% IRR (net of predevelopment) and net cashflow of \$68.7 million in NPV terms. The Port is projected to receive \$160.3 million in NPV terms, including funding for shoreline protection to protect the Port and the City (\$1.6 billion in nominal dollar terms). Figure 1 and Table 11 illustrate these results.

Figure 1. Port Revenue Projected Over Lease Terms

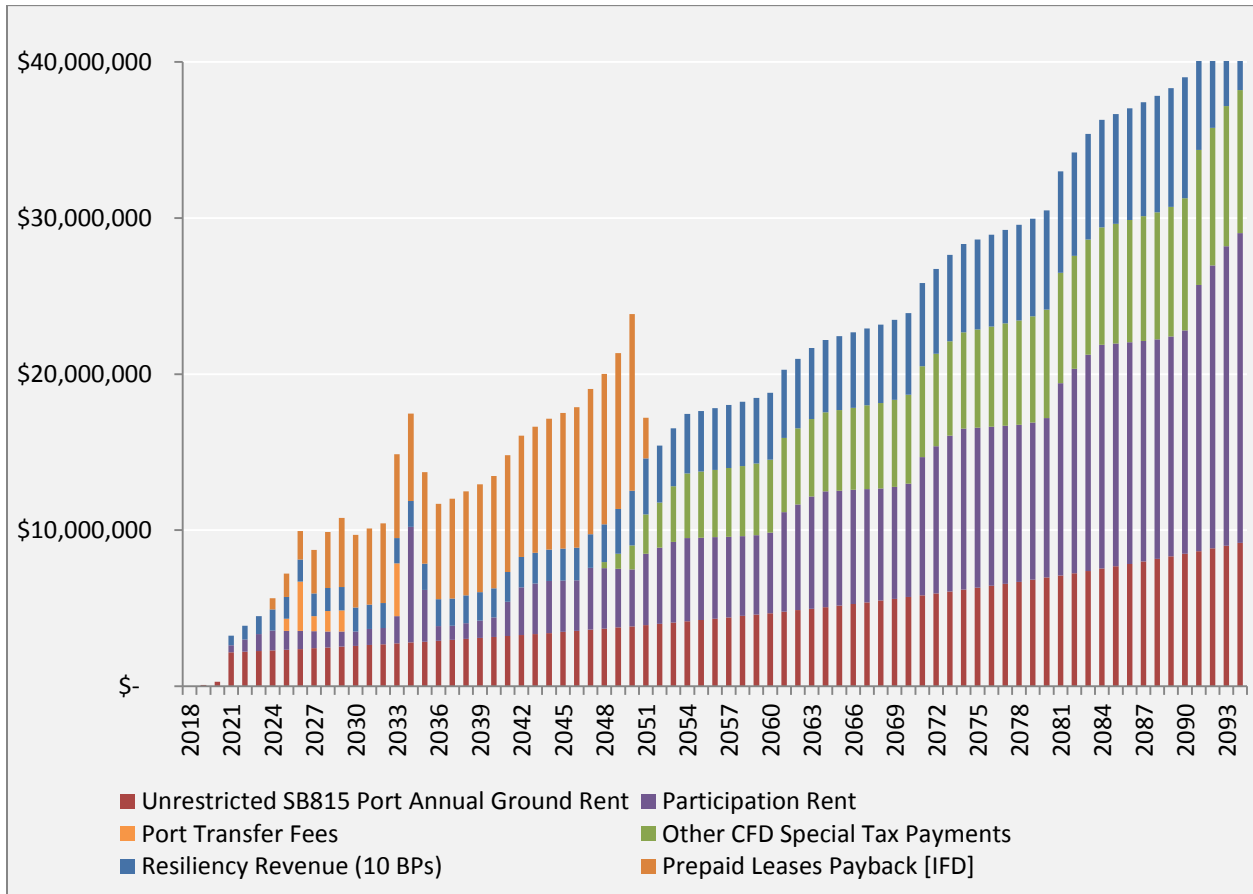


Table 11. Base Case Results

	Nominal Revenues	NPV Revenues at 6% (2012\$)
<u>Developer Cash Flow/Return Summary</u>		
Capital Contributions	(\$217,600,000)	(\$125,400,000)
Capital Distributions	\$217,600,000	\$108,200,000
Preferred Return		
Development Rights	\$67,600,000	\$42,300,000
Other Sources	\$37,600,000	\$10,100,000
Master Developer Participation	<u>\$330,500,000</u>	<u>\$33,500,000</u>
Total Developer Cash Flow	\$435,700,000	\$68,700,000
IRR (with entitlement)	15.30%	15.30%
IRR (without entitlement)	18.00%	18.00%
Multiple	1.80x	1.80x
<u>Port of San Francisco Cash Flow Summary</u>		
Unrestricted SB815 Port Annual Ground Rent	\$360,700,000	\$40,700,000
Restricted Port Annual Rent Above SB815	\$317,900,000	\$20,800,000
Annual Retail Percentage Rent	\$145,300,000	\$7,500,000
Port Transfer Fees	\$10,900,000	\$5,300,000
TI Revenue for Port Land Repayment	\$171,800,000	\$45,200,000
Other CFD Special Tax Payments (years 31-75)	\$271,800,000	\$11,000,000
Other (1)	<u>\$8,900,000</u>	<u>\$2,900,000</u>
Total Port of San Francisco Cash Flow	\$1,287,300,000	\$133,400,000
<u>Public Financing Sources for Shoreline Protection</u>		
Resiliency Revenue (10 BPs)	\$302,000,000	\$26,800,000

(1) Includes Jobs Housing Linkage Fee and Port's participation on horizontal returns.

Table 11 reports the estimated performance based upon best available assumptions. The Parties recognize that actual Project performance will vary from those shown on proforma. The key variables in the proforma are:

- **Infrastructure and vertical construction costs.** Costs have increased steadily since 2013. The Parties are cognizant of the construction cost environment in the Bay Area, which has experienced sustained and high increases in construction costs.

- **Rents and sales prices and income capitalization rates.** The parties have included market values for apartment and office rental rates which reflect current prices achievable in the market area and are intentionally below top-of-the-market values to avoid an overly-optimist view of a successful Project. Current market trends suggest a slight softening in the residential rental and office sectors heading into 2018.
- **Public financing interest rates.** Interest rates remain near historic lows. To be conservative, the proforma assumes a cost of public debt of 6%, whereas current interest rates for the type of land-secured debt anticipated for the project is currently closer to 5.5%.
- **Timing.** The Base Case proforma schedule includes steady development over time with a new phase developed every 18 months. This timeline assumes office receives timely Proposition M allocation. No lengthy delay periods from a flat market or a large market downturn are assumed. Delays in Project timing will negatively affect Project performance because the Developer may have design and phase preparation costs outstanding and accruing preferred return for longer than is modeled. Additionally, delay in office space will result in underfunding of the jobs-housing linkage fee, that is assumed to be shifted to residential parcels to enhance their feasibility.

As Port staff prepare for the formal project approval phase, staff will continue to review and analyze the structure and assumptions underlying the proforma, including costs, revenues, interest rates and timing, and will adjust staff's financial analysis accordingly.

Maintenance Funding

Consistent with the Term Sheet and the City's *Guidelines for the Establishment and Use of an Infrastructure Financing District with Project Areas on Land Under the Jurisdiction of the San Francisco Port Commission*, Port staff have negotiated a maintenance special tax across all properties in the Mission Rock SUD to fund maintenance of parks, street repair and periodic capital replacement of outdoor fixtures and equipment such as lights, bollards, benches, picnic tables and playground equipment.

In consultation with Port Maintenance staff, Finance and Administration staff and the Port's engineering consultant, Port staff will develop detailed staffing and budget estimates based on the Project's Design Controls and the Developer's proposed open space operations and maintenance plan. The resulting findings from this analysis will provide the basis for the recommended tax levels by land use.

VII. Next Steps

At the November 14, 2017 Port Commission meeting, Port staff will seek direction and comment from the Port Commission regarding the proposed transaction, and comment from the public.

Port staff will return to the Port Commission with required updated information and its recommendation to approve the proposed Project on December 12, 2017.

The actions that Port staff will recommend to the Port Commission at its November 14, 2017 meeting will include:

- Adopt CEQA findings and the Mitigation Monitoring and Reporting Program;
- Approve a Waterfront Land Use Plan amendment conforming to the Mission Rock SUD;
- Approve the Design Controls;
- Adopt public trust findings;
- Approve and recommend the Master Lease;
- Approve and recommend Board approval of the Disposition and Development Agreement, the development plan per Charter § B7.310, forms of Option Agreement, Vertical DDA, and Ground Lease for Option Parcels, and lease terms for Historic Pier 48;
- Approve and recommend the Tax Allocation MOU and ICA per Charter § B7.320;
- Consent to the Development Agreement and the Planning Code and Zoning Map Ordinances;
- Recommend an Administrative Code amendment to revise the Special Tax Financing Law; and
- Recommend formation proceedings to establish IFD sub-project areas over the Project Site and approve infrastructure financing plan appendices.

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Byron Rhett, Port Chief Operating Officer

Ken Rich, Office of Economic and Workforce
Development, Director of Development

Exhibit A: Mission Rock Land Use Plan

EXHIBIT A Mission Rock Land Use Plan

