

MEMORANDUM

February 9, 2018

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational presentation on the Phase Submittal for Phase 1 of the 28-Acre Site at Pier 70 located between 20th, Michigan, and 22nd Streets and San Francisco Bay

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

Executive Summary

On September 26, 2017, the Port Commission approved a mixed-use development project on the 28-Acre Site, the Illinois/20th Street parcel known as Parcel K, and the Hoedown Yard (the "Project"). Subsequently, on October 31st, 2017, the San Francisco Board of Supervisors finally approval the Project, and on November 15th, 2017, Mayor Lee signed all Project-related legislation.

The Port's development partner for development of the 28-Acre Site is FC Pier 70, LLC ("Developer"), an affiliate of Forest City Realty Trust, Inc. The 28-Acre Site project is governed by the Disposition and Development Agreement ("DDA") and related agreements between the Port and the Developer. Consistent with the requirements of the DDA, the Developer has submitted a Phase Submittal for Phase I of the 28-Acre Site development. This memorandum provides a summary of the Phase Submittal, the review and approval process, Port staff's recommendation regarding the investment of Port Capital, and next steps.

Scope of Phase 1 Improvements

The Phase Submittal for Phase 1 includes the construction of infrastructure, extension of the street grid, new parks and open space, and preparation of development pads that will result in the development of up to 720 residential units, 356,000 gross square feet ("gsf") of office, and 115,000 gsf of retail, arts, and light industrial space. Approximately \$128 million of Developer capital will be required to construct the Phase 1 improvements.

The following is a summary of the infrastructure and public benefits that are included in the Developer's Phase 1 Application, as further detailed in Exhibit 1:

- Streets: Maryland Street, Louisiana Street, 20th Street between Louisiana and Maryland, and 21st Street between Louisiana and Maryland Streets, as well as new intersection and signalization improvements for gateway streets (20th Street and 22nd Street at Illinois Street);
- Utilities: a low pressure water main; a non-potable water main; an auxiliary water supply main and hydrants; a combined sewer main and sewer storage facility; and dry utility systems, including electricity, natural gas, and communications;
- Parks and Open Space: 3.4 acres of new parks, including the 2.3-acre Slipway Commons, which will run through the center of the site to the Bay;
- Transportation: the establishment of a Transportation Management Agency; transportation demand management measures such as bike parking, bike share stations, car share parking, and transit subsidies; new bike lanes; and pedestrian safety improvements; and
- Public Benefits:
 - *Historic Buildings*: rehabilitation of historic buildings 12 and 2;
 - *Affordable Housing*: up to 87 inclusionary housing units and 105 stand-alone affordable housing units;
 - *PDR Space*: up to 50,000 square feet of production, distribution and repair uses in Building 12;
 - *Child Care*: one child care facility with a minimum capacity of 50 children;
 - *Workforce*: funding for workforce development, including Tech SF, City Build and YCD; a local hire programming that includes 30% percent local hire for construction jobs and participation in the First Source hiring program; and a 17% LBE goal.

Review and Approval

Port staff is currently reviewing the Phase Submittal for completeness. Once staff finds the submittal complete, staff will transmit the submittal to the Executive Director for review. Pursuant to Section 3.2(e) of the DDA, the Executive Director must then approve the Phase Submittal within 30 days if she finds in her reasonable discretion that the Phase Submittal 1) meets DDA and regulatory requirements and 2) delivers a mix of market rate development, public infrastructure and other public benefits that are consistent with the Phasing Plan attached to the DDA. If the Executive Director determines that the Phase Submittal includes major modifications to the Phasing Plan or Schedule of Performance that do not allow for development of the site in an orderly and proportional manner or meet the Project's funding goals, she will refer the Phase Submittal to the Port Commission for consideration.

Port Capital

Pursuant to the Financing Plan attached to the DDA, during its review of a Phase Budget, the Port may commit to use Port Capital by providing notice to the Developer. Port Capital expended on public infrastructure in the project earns a 10% annual Return

on Port Capital, payable after all prior Developer Capital and associated Developer Return is repaid.

As detailed in **Agenda Item 11B** regarding the Fiscal Year (FY) 2018-19 and FY 2019-20 Biennial Capital Budget, Port staff has just completed a thorough review of capital sources and needs to identify projects that best support the Port’s capital priorities and help address the department’s \$1.5 billion capital backlog. That process, which evaluated an investment in the 28-Acre Site against 65 other capital projects, culminated in a \$54.1 million proposal that emphasizes investments in state of good repair, health and safety, and improvements necessary to complete priority leasing opportunities. The 28-Acre Site investment was evaluated on its merit of providing sufficient revenue in the future to justify postponing other capital improvements.

After evaluating several possible investment levels in the 28-Acre Site, Port staff recommends a \$6.5 million capital election for Phase 1. This investment is projected to generate a positive return by the seventh year of the project (2025) and will generate an additional \$9.9 million return compared to the Project “Base Case”, which assumes no Port contribution. These funds are comprised of approximately \$8.5 million in land proceeds that will come directly to the Port’s Harbor Fund for reinvestment and \$1.3 million in Infrastructure Finance District (IFD) and Community Facilities District (CFD) proceeds that may be used to support historic infrastructure and shoreline improvements. As detailed in **Table 1**, below, Port staff recommends funding this investment through a variety of sources, including \$1.2 million in the proposed capital budget and \$5.3 million from existing project funds.

Table 1: Pier 70 Investment – Sources and Returns (*Nominal - Compared to Base*)

Port Investment	\$ 6,500,000
Current Available Funding	\$ 5,300,000
<i>Waterfront Development Project</i>	<i>\$ 2,030,000</i>
<i>20th Street Improvements</i>	<i>\$ 3,270,000</i>
New Funding, FY 2018-19	\$ 1,200,000
Port Returns	\$ 16,413,522
Capital Distribution (est. 2025)	\$ 6,500,000
Return on Investment (10 years)	\$ 8,514,731
IFD & CFD Proceeds (10 years)	\$ 1,398,790
Net Return to the Port	\$ 9,913,522

While a larger capital contribution would generate even greater return to the Port, this level of investment is balanced with other renewal and life-safety needs that are funded through the proposed capital budget. A greater investment would force the Port to forego time sensitive, mission-critical work or miss other opportunities for enhancements that improve state of good repair and increase Port revenue.

Public Outreach

Consistent with the Special Use District legislation approved by the Board of Supervisors, the Developer made informational presentations regarding the Phase Submittal to the Historic Preservation Commission on January 17, 2018 and to the Planning Commission on January 25, 2018. The Developer also made an informational presentation to the Central Waterfront Advisory Group on February 5, 2018, consistent with the DDA. CWAG had no comments on the Phase Submittal.

Next Steps

In March, following approval of the Phase Submittal and closing of the Master Lease, which will provide access to the 28-Acre Site, the Developer intends to commence site preparation, including the demolition of certain structures (Buildings 16, 19, 25, 32, and 66) and overall site-wide grading. The Developer anticipates starting the construction of infrastructure in Quarter 3 of 2018.

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EXHIBITS

Exhibit 1: Summary of Phase Submittal for Phase 1