

MEMORANDUM

September 6, 2019

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational Presentation on the Phase 1 Budget, Parks Plan, and Parks and Public Space Management Agreement for the Mission Rock Project at Seawall Lot 337, bounded by China Basin Channel, Third Street, Mission Rock Street and San Francisco Bay

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

Executive Summary

On January 30, 2018, the Port Commission approved a mixed-use development project known as Mission Rock at Seawall Lot 337 and Pier 48 (the "Project"). Subsequently, on February 13, 2018, the San Francisco Board of Supervisors approved the Project and on August 15, 2018 the Port and Seawall Lot 337 Associates signed all Project-related documents.

The Port's partner for development of the Project is Seawall Lot 337 Associates, LLC ("Developer"), an affiliate of the San Francisco Giants and Tishman Speyer. The Project's development 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 submitted a Phase Submittal for Phase I of the Project, which was summarized in a memorandum for the July 9th Port Commission Informational Hearing. This memorandum provides detailed analysis of the proposed Phase Budget and Parks Plan. Port staff anticipate returning to the Port Commission to seek approval for:

- (1) Phase 1 Budget and other key implementing actions including the Affordable Housing Subsidy Plan and increases to the Community Facilities Special Tax Rates;

- (2) Mission Rock Parks Plan, as required in the Development Agreement; and
- (3) Resolution of support for the formation of a nonprofit, “Mission Rock Utilities” entity to operate a District Energy System (DES) and Non-Potable Water Plant (NPWP) providing recycled water and thermal energy to Mission Rock residents and commercial tenants.

This memorandum also provides information on a proposed Management Agreement between the Port and the Mission Rock nonprofit Master Association to operate the Mission Rock parks and public spaces, including terms related to maintenance, operations, programming, events, and sponsorships. Port staff intend to provide additional information based on Port Commission direction at a subsequent Port Commission meeting, with action on the proposed Management Agreement planned for late this fall.

Report Description

The staff analysis in this report includes the following components:

- I. Project Background
- II. Project Status
- III. Phase Budget
- IV. Phase 1 Budget Analysis and Total Project Analysis
- V. Criteria for Port Commission Approval of Phase 1 Budget
- VI. Key Implementing Actions for Phase 1 Budget Approval
- VII. Parks Plan
- VIII. Next Steps

I. Project Background

The entitled Mission Rock project anticipates approximately 1,200 units of new, rental housing, 1.4 million square feet of new commercial and office space, and rehabilitation of historic Pier 48, as well as space for small-scale manufacturing, retail and neighborhood services, waterfront parks, and public infrastructure. The Mission Rock mixed-use project is located at Seawall Lot (“SWL”) 337 and Pier 48 bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay.

The Project approved last year and now on the precipice of construction, represents 11 years of effort, led by the Port Commission, Port and City staff, and the Developer. These efforts include State legislation; neighborhood planning and neighborhood outreach; infrastructure planning and design; shoreline and sea level rise resiliency planning; development of a Special Use District; and successful collaborations with regulators and partner agencies related to topics like workforce development, affordable housing, transportation, public access, and park development.

II. Project Status

Following Port Commission approval 19 months ago, the Project team secured approvals from the following regulatory entities:

1. Bay Conservation and Development Commission
2. State Lands Commission
3. Board of Supervisors

After securing these approvals, the Port's development partner, the San Francisco Giants, entered into a partnership agreement with national developer Tishman Speyer to jointly execute the project. The Developer has assembled a comprehensive team of experienced horizontal and vertical development experts and has been working intensely to advance the Project on multiple fronts. Major milestones reached include the following submittals: Tentative Subdivision Map, sitewide Basis of Design, and first submittal of the Street Improvement Permit. Developer also: (a) has conducted a request for proposals process consistent with the requirements of the DDA and selected a general contractor, Granite Construction, to manage Phase 1 infrastructure construction, (b) has retained four architecture firms that have been working collaboratively on the designs of the Phase 1 buildings,¹ and (c) is exceeding the Workforce Development Plan's 10% local business enterprise (LBE) goal for pre-construction contract expenditures. At the August 7th San Francisco Public Works Director's Hearing, no members of the public commented on the Mission Rock Tentative Map and approval is expected shortly.

III. Phase Budget

With each Phase Submittal the Developer is required to submit a proposed Phase Budget in a form reasonably acceptable to the Port. Each proposal for a Phase Budget will be a refinement of the phase proforma, consistent with the DDA funding goals, project requirements, and budget guidelines (see **Exhibit 1** for DDA Excerpts relevant to the Phase Budget approval). The Phase Budget is required to provide an overview of the expected cost and payment sources for the phase improvements in sufficient detail for the Port to determine consistency with the approved transaction documents. This requirement is intended to provide the Port Commission with an opportunity to understand the feasibility of each phase of the project, prior to approving hard cost expenditures.

Port staff has confirmed the Phase 1 Budget is complete pursuant to the requirements in the DDA and has found it to be consistent with the Funding Goals, Project Requirements and Budget Guidelines.

¹ Schematic designs for the buildings are expected to be submitted late this summer or early in the fall.

The Phase 1 budget is made up of:

- **Project Costs:** projected hard and soft costs and return on Developer equity.
- **Project Revenues:** revenues from
 - the four, Phase 1 prepaid leases and
 - public financing sources, including:
 - Community Facilities District (CFD) bond proceeds
 - CFD paygo (i.e., CFD taxes not dedicated to bond debt service)
 - Infrastructure Financing District (IFD) paygo (i.e., IFD taxes not dedicated to bond debt service)

The Phase 1 program is illustrated in **Figure 1** below. As staff described during the July 9 Port Commission meeting item on Mission Rock, the Phase 1 program includes China Basin Park, a new east-west street from 3rd Street to Terry Francois, two new north-south streets, and parcels A (residential), B (commercial), F (residential), and G (commercial). The proposed Phase 1 is a change from the anticipated Phase 1 at approvals as it swaps parcel F into Phase 1 and moves parcel K to a later phase. The Developer proposed replacing parcel K with parcel F in order to increase the number of housing units in Phase 1 and to enhance placemaking through the creation of a fully built-out intersection at Shared Public Way and Exposition Street. As described during the July 9 meeting, Port staff evaluated the proposed change in phasing from the original Phase 1 and found that it meets the criteria in the DDA that Port staff must consider in approving the boundary change.



Figure 1. Original and Proposed Phase 1

The Phase 1 Budget sources and uses are summarized in **Table 1**.

Table 1. Phase 1 Overview of Sources and Uses*

Phase 1 Budget (\$ millions)			
Description	Entitlement	Phase 1	Total Phase
Total Horizontal Costs	29.3	145.4	174.8
Developer Return*	16.9	73.8	90.7
Total Phase 1 Uses	46.2	219.3	265.5
Net Development Rights Payments	42.2	-	42.2
CFD Bonds - Unimproved Land	4.0	31.2	35.2
CFD Bonds - Completed Buildings	-	140.8	140.8
CFD Excess Pay Go Increment	-	47.2	47.2
Total Phase 1 Project Sources	46.2	219.3	265.5

*Numbers in table are rounded and thus may not appear to sum precisely.

Project Costs

Summary of Costs

The Developer's Phase 1 budget includes an estimated \$89.7 million in hard costs and \$55.7 million in soft costs for a horizontal development cost estimate of \$145.4 million, as summarized in **Table 2** below. The Developer's Phase 1 budget also includes \$29.3 million in entitlement costs, which reflects the final, audited entitlement costs. Together, entitlement and Phase 1 horizontal costs total \$174.8 million.

Table 2. Total Phase 1 Development Budget and Changes Since Project Approval

Cost Item	Current Phase 1 Budget	January 2018 Budget \$ (millions)	Variance \$ (millions)	Variance (%)
Entitlement	29.3	29		
Hard Costs				
China Basin Park	27.4	16.8	10.6	63%
Other Direct Cost (streets, utilities, etc.)	37.7	30.4	7.3	24%
Fee, Insurance, GCs, GMP Contingency	15	16.5	(1.5)	-9%
Total GMP Hard Costs	80.1	63.7	16.4	26%
Owner Direct + Owner Contingency	9.7	5.9	3.8	64%
Total Hard Costs	89.8	69.6	20.2	29%
Total Soft Costs	55.7	26.7	29.0	109%
Total Phase 1 Budget Horizontal Cost	145.4	96.3	49.1	51%
Total Phase 1 Budget w/ Entitlement	174.8			

Analysis of Phase 1 Costs

Port staff and the Port's consultants have conducted the following due diligence related to the Phase 1 costs and have concluded that the costs meet the DDA requirement for "reasonable projections". The due diligence and information supporting this conclusion includes:

- **Competitive bid.** Pursuant to the requirement set forth in the DDA that the developer solicit competitive bids, the Developer identified seven qualified general contractors before issuing a Request for Qualifications to each firm. Five of these firms were sent a Request for Proposal leading to interviews with each firm and the shortlisting of three firms which were interviewed a second time. From this competitive bid process, the Developer retained Granite Construction as the Mission Rock Phase 1 horizontal construction firm.²
- **Third-party review.** The Port retained M. Lee Corporation, a San Francisco-based cost estimating firm, to conduct a line-by-line analysis of the Developer's initial Phase 1 horizontal hard costs. While the Port's consultant raised questions on some line items, the review concluded the Developer's estimate of horizontal development hard costs to be commercially reasonable and consistent with project requirements. The consultant is now reviewing the Developer's final Phase 1 horizontal hard costs to confirm all revisions are commercially reasonable.
- **Compliance with DDA cost caps.** The DDA caps construction management fees, project management costs, and asset management costs at 15% of hard costs. The Phase Budget line items associated with this specific list are consistent with these DDA requirements.
- **Entitlement costs verified.** Following approvals in August 2018, the Port's consultant (JHS CPAs) conducted a detailed review of all entitlement costs to confirm actual payment of allowable entitlement expenditures. The Port's consultant under staff direction has verified that these costs are accurate and reimbursable entitlement expenditures.

Phase 1 Budget Costs: Takeaways

As noted above, the standard for approval of the Phase 1 costs is a "reasonable projections" standard. The due diligence summarized above supports the reasonableness of the Phase 1 costs. While these costs in **Table 1** are "reasonable", they are \$49.1 million above costs projected in January 2018. At project approvals in January 2018, the total Phase 1 horizontal development cost was estimated to be \$96.3 million (including estimate for inflation), versus \$145.4 million in the updated Phase 1 Budget. Including the entitlement costs, Phase 1 horizontal costs total \$174.8 million as compared to \$125.3 million at project approvals. Of this \$49.1 million overall budget increase, \$16.4 million is attributable to hard cost increase and \$29.0 million is attributable to soft costs increase.

² If the Phase 1 budget is approved by the Port Commission, the Developer can enter a Guaranteed Maximum Price (GMP) contract with the company.

The key differences and drivers of the substantial increase to the Phase 1 horizontal development budget are summarized below.

- **Heated construction cost environment.** The high cost of construction and the pace of construction inflation is well-documented in San Francisco. With a strong economy and a substantial pipeline of private and public projects, construction costs have been difficult to project in the absence of a formal bid process.
- **Increases to hard and soft costs** Hard costs for certain Phase 1 horizontal elements have increased since approvals as they have been updated to incorporate required changes or to reflect new design specifications. For example, the budget for parks and open space has increased from \$16.8 million to \$27.4 million, an increase of 63%. In addition to general construction cost escalation, the current park schematic design includes extensive shoreline improvements and other features not in the original concept design which will significantly enhance the recreational value and user experience of the park, but also add cost. Soft costs have also increased from 29% of the proposed Phase 1 budget at approvals (a figure derived via formula as 25% of projected hard costs) to 38% of the Phase 1 budget based on actual costs paid to date and projected spend based on actual committed contracts and estimates from consultants.

The Phase 1 Budget costs incorporate a number of cost-cutting measures to mitigate as much as possible the relatively high costs of Phase 1. These include shifting a park element to Phase 2 (boat launch will be in later phase while less expensive water access via ramp is still included in Phase 1) and allowing for portions of the District Energy System (DES) and Non-Potable Water Plant (NPWP) costs to be financed by the nonprofit district utilities manager in Phase 1.

It is also important to note that the use of Lightweight Cellular Concrete (LCC)³ as the ground improvement technique to support utilities and streets – as opposed to the pile-supported streets solution - is a difference from the January 2018 Phase 1 projected budget.

The project's Infrastructure Plan and companion documents required a technical committee – made up of members from the Port, Public Works, SFPUC, and the Developer to develop design criteria for the streets. That work identified code and performance issues with pile-supported streets. Also, cost estimates for pile-supported streets more than doubled upon development of detailed engineering criteria. This prompted reconsideration of other techniques to mitigate street settlement, including deep soil mixing (DSM), LCC and surcharge. This technical team determined that LCC is a technically sound solution in terms construction cost, low geotechnical risk, low environmental impacts, and long-term serviceability.

³ Lightweight cellular concrete, also referred to as foam concrete or Lightweight Fill is being used to mitigate settlement in the streets which would otherwise occur when the existing street grade is raised four to five feet to protect against sea level rise. Existing soil is removed to a depth of eight to ten feet and replaced with LCC which is approximately a quarter of the density of soil, significantly reducing the weight of the raised streets.

The initial installation and ongoing maintenance of LCC has been approved by the City based on terms negotiated between the Port, the Developer and the City's Infrastructure Task Force subject to additional due diligence, testing, peer review, insurance, and extended warranties. These discussions resulted in proposed agreements to distribute upfront and ongoing costs and risks, including: (1) project will fund all upfront costs, including peer review, performance mock-up, and warranty costs; (2) LCC will be approved in future phases if performance is demonstrated through previous phases; (3) the Management Entity for the site will fund backfilling for trenches in LCC streets; (4) CFD and IFD may be used to fund repairs for a period of 10 years after LCC warranty lapses; and (5) SFPUC accepts public utilities and Public Works accepts streets at site.



Figure 2. LCC use at Oakland 12th Street Project at Lake Merritt.

Returns on Costs Funded by Equity

Under the terms of the DDA, both the Developer and the Port may invest at-risk capital to fund project costs. While the Port may elect to make this investment, the Developer must fund horizontal costs with Developer equity, if public financing or land proceeds are not available. Developer equity invested in the project receives the higher of an 18% annual return and 1.5 times the peak equity invested in a phase (called a "1.5 multiple"). Port capital receives a 10% annual return. Both Developer and Port investments receive equal priority in terms of repayment, meaning that as public financing sources are available to pay off equity invested plus return, those sources are prioritized to repay equity invested, no matter which party made the investment.

Port staff recommend making no capital commitment at this time but will evaluate an investment during the capital planning process later in the year. If the Port forgoes a Port capital investment, Port revenues from this project will be derived primarily from ground rent from parcels in subsequent phases and outyear CFD and tax increment. This is the same structure as was projected at project approvals, in which Phase 1 costs require all available Phase 1 revenue sources (other than outyear sources).

The Phase Budget projects Developer peak equity invested in Phase 1 development costs to be \$86.4 million with a return on this investment of \$73.8 million, equal to an 18% return and a 1.85 multiple on the investment. **Table 3** summarizes these key Developer metrics, compared with those projected at approvals.

Table 3. Developer Metrics, Phase 1 Budget versus Projected at Phase 1 approvals

Item	Project Approvals	Current Phase 1 Submission
Peak Equity (millions)	\$37.4 m	\$86.4 m
Return to Equity (millions)	\$38.5 m	\$73.8 m
IRR	18.0%	18.0%
Multiple	2.03x	1.85x

Project Revenues

Summary of Revenues

The Phase 1 Budget revenues include \$42.2 million in net prepaid lease land value for the four Phase 1 parcels and \$223.2 million in CFD bond proceeds and paygo for total project sources of 265.5 million (numbers do not sum exactly because of rounding).

Revenues: Development Rights Payments

As reported at the July 9, 2019 Port Commission information item, the four development pads proposed for Phase 1 are parcels A, B, F, and G. Parcels A and F are primarily residential while Parcels B and G are office/commercial.

Fair Market Value for Parcels A, B, F, and G was established by the appraisal process outlined by the DDA. The DDA procedures require that an appraiser from the DDA-established pool of joint appraisers be retained by the Developer and the Port to conduct an appraisal, pursuant to the DDA-approved joint appraisal instructions. In addition to the joint appraiser (Newmark, Knight, Frank) that worked under the direction of the Developer and the Port, the Port separately retained peer review and advisory services from a locally-based appraiser, Runde & Associates. The appraisal process resulted in a fair market valuation of \$43 million for the four parcels.

It is important to note that this valuation relies upon two proposed Port Commission action items which are described below: (1) approval of a minimum, Phase-specific Jobs Housing Equivalency Fee which is higher than anywhere else in the City and (2) approval of CFD tax rates higher than the taxes projected at project approvals.

This valuation has been accepted by the Developer, which plans to exercise its option to act as a Vertical Developer under the vertical DDA terms outlines in the DDA. **Table 4** summarizes the appraised values for the four parcels, which represent the Development Rights Payments for Phase 1.

Table 4. Summary of Appraised Values

Item	Parcel			
	A	B	F	G
Parcel Size (SF)	43,413	41,101	25,110	33,055
Residential Unit Count	294	0	266	0
BMR Residential Unit Count	118		106	
Office SF	48,969	265,205	0	270,241
Total SF	393,869	281,639	314,508	303,011
Appraised Value of 75-year Prepaid Lease (\$ millions)	11.3	4.0	23.7	4.0
*Mission Rock Minimum Jobs Housing Equivalency Fee (\$ millions)⁴	59.7	(74.9)	75.6	(60.4)

*A negative value indicates that the Parcel is paying the JHEF amount; a positive value means the parcel receives JHEF subsidy. See **Exhibit 3** for further information on BMR units, including illustration of rental rates.

Public Financing

As anticipated at approvals, the majority of Phase 1 Project sources rely on public financing. These public financing sources are derived from CFD bonds and paygo revenue. The Port will use a combination of CFD Special Taxes (which are special taxes assessed above the typical 1% property tax rate) and IFD tax increment to support the issuance of CFD bonds. A combination of unimproved land bonds and Phase 1 building bonds indicate public financing proceeds and paygo revenue of \$223.2 million. The public financing revenue is based on CFD tax rates equal to those summarized in **Table 5** (page 16 of staff report).

Port staff reviewed the CFD bond projections along with a third-party consultant (Economic & Planning Systems) and the City's Office of Public Finance. The Phase 1 public financing has increased from revenue anticipated at approvals from \$170.4 to \$223.2 million. This significant increase is the result of: (1) increases in tax increment from the project, due in part to anticipated higher assessed values based on higher construction costs (this increase will be captured by increasing the CFD tax, sized to match tax increment), (2) restructuring of return eligibility requirements to be reimbursed by bond revenue, and (3) lower interest rates as compared to those assumed at project approval.

⁴ Note this Fee is significantly higher than the Jobs Housing Linkage Fee in San Francisco. The Affordable Housing Subsidy Plan for Mission Rock, if approved by the Port Commission, would set the minimum Mission Rock fee at this relatively high level in order to facilitate a land value transfer from office parcels to residential parcels so that the residential parcels offer a feasible investment.

IV. Phase 1 Budget Analysis and Total Project Analysis

Phase 1 Projections Are Balanced

In consultation with the Port's third-party consultant EPS, Port staff have found that the costs and revenues are balanced in the Phase 1 Budget in the Developer's current underwriting. This 'balance' means that the project revenues are sufficient to pay for the project costs.

Risks to Phase 1 Balancing and Risks to Future Phase Sources

While the Phase 1 budget balances, it is dependent on various schedules and projections that are subject to uncertainty. A significant change in any of the factors described below could have an adverse effect on the ability of Phase 1 to balance sources and uses.

- **Land value.** The Phase 1 budget includes revenues from the site in the form of \$43 million in appraiser-determined, fair market, prepaid lease land value for the four Phase 1 parcels. The approved DDA provides the Developer the option to proceed with horizontal, hard cost spending, in advance of execution of parcel leases. The Port and Developer propose a safeguard for this prepaid lease revenue for Phase 1, whereby the Developer may only begin spending on horizontal hard costs once all four Phase 1 parcel leases have closed. This provides a significant one-time source of funds to Phase 1 and avoids potential cash flow issues that could arise by exercising parcel options separately.
- **Special tax rates and public financing environment.** The majority of Phase 1 sources rely on public financing. The projected level of public financing assumes the CFD tax rates are approved by the Port Commission and Board of Supervisors and CFD bonds are marketable at an estimated interest rate. The interest rate assumed for bonds has been developed with input from a team of public finance experts,⁵ however, if the CFD tax rates are delayed or if the cost of public debt increases it could adversely impact project sources for this phase.
- **Bond timing and amounts.** The phase 1 timeline assumes a relatively fast pace of bond issuance. This timeline is reasonable according to the Port's economic and public financing consultants as well as the City's Office of Public Finance, assuming both the City and the Developer are motivated to proceed expeditiously. However, lengthy bond issuance delays because of administrative or other factors could negatively affect the performance of Phase 1. In addition to CFD debt secured by vertical improvements, the Developer's underwriting assumes a \$40 million land-secured bond. The timing and amount of this revenue is critical to making Phase 1 work.

⁵ The Port is aided by a public finance consultant, a CFD special tax administrative specialist, and a bond underwriter, in addition to staff from the City's Office of Public Finance

- **Cost Control.** Construction costs around the Bay Area have increased steadily over the life of the project. The Phase 1 Budget includes soft and hard cost estimates that represent a significant increase from the term sheet and project approvals. These cost projections have been found to be reasonable in light of a very expensive construction environment and significant regional demand for labor and materials. However, if costs continue to increase it may require increased use of Developer capital, which would be subject to the alternative (lower) return described in the DDA for Phase 1. To control the cost environment, the Developer is moving quickly to select a General Contractor and enter into a Guaranteed Maximum Price contract. This would provide an increased level of certainty around the cost environment.

Overall Project Returns to Port

The main drivers of changes to Port Revenues since approval are: (1) public financing since bonding capacity, interest rate, and implementation changes all resulted in increased bond proceeds, (2) construction cost increases on horizontal and vertical development, which result in more preferred return to the Developer and decreases to land value, and (3) changes to the development program and phasing structure, which among other changes, increase residential and office square footage in Phase 1. That said, the changes to the Port's revenue since those projected at approvals are relatively small, showing a slight increase in projected Port revenues.

- **Port Revenue.** The returns to the Port from Phase 1 are generally equivalent to those anticipated at project approvals. Just as at project approvals, all four of the parcel leases are prepaid leases and Shoreline CFD taxes are reinvested in the Phase 1 horizontal project costs. Across all four phases of the project, the latest projections indicate that the Port will receive \$190 million in NPV terms over the life of the project as compared to \$198 million at project approval. Port revenues are composed of unrestricted and restricted ground rent, participation (percentage rent from parcel leases, participation in refinancing and sale of leases, and transfer taxes), tax increment and other special taxes, and resiliency special tax dedicated to shoreline needs. **Exhibit 2** provides further information on projected revenue.
- **Port Capital Advances.** The Port Commission has the option to invest Port Capital into the project and to earn a 10% cumulative annual return, compounded quarterly, on this investment. Investment of Port Capital would increase Port's return from the Project, concurrent with the Developer's returns. Staff do not recommend that the Port Commission commit to use Port Capital to fund Phase Improvements at this time. Instead, Staff will consider the option to make such an investment in relation to all other requests for Port Capital funding as part of the 2021-2025 Five Year Capital Improvement Program, which is being finalized in early 2020. Should funds become available, Staff will confer with the Developer and return to the Port Commission for approval of such an investment.

V. Criteria for Commission Approval of Phase 1 Budget

The DDA sets forth the Port Commission's criteria in reviewing the phase Budget as follows:

“Criteria for Approval. The Port Commission will approve the Phase Budget or modification if it reasonably finds that the Phase Budget or modification:

- (i) is consistent with the Funding Goals and Project Requirements and satisfies the Budget Guidelines;
- (ii) is based on reasonable projections;
- (iii) provides for sources sufficient to fund the Phase and any carryover from Prior Phases;
- (iv) would not adversely affect Project Payment Sources available to satisfy the Project Payment Obligation for any Later Phases and the Project as a whole; and
- (v) would not impair the Port's fiduciary obligations under Applicable Port Laws.

Port staff, along with the team members mentioned elsewhere in this memorandum, have reviewed the Phase 1 budget submission and found the submission complies with the conditions prescribed by the DDA. These criteria are addressed in order below:

- (i) Staff and the Port's third-party consultant team have reviewed the Phase 1 submission and found it to be in compliance with the funding goals, requirements and budget guidelines as described by the DDA.
- (ii) Staff, the Port's third-party economic consultant, and the Port's cost estimate reviewing consultant have reviewed the Phase 1 budget project cost and return projections and have found them to be reasonable and with sufficient allowance for inflation and contractor contingencies.
- (iii) Staff and the Port's third-party economic consultants have concluded that the Phase 1 budget provides for sources sufficient to fund the Phase. However, the viability of subsequent phases is subject to interest rate risk, market and development risk, and continued construction cost escalation. The Phase 1 budget shows significant cost escalation as compared to project approvals, partially offset by a favorable interest rate environment. If cost escalation continues or if the cost of public debt goes up, it may require the use of project sources to balance costs in subsequent phases. This would adversely affect payment sources in those phases and the Port's financial position. Those future phases though, are subject to Port Commission approval.
- (iv) Staff and the Port's third-party economic consultant have determined that the proposed Phase 1 budget would not adversely affect Project Payment

Sources available to satisfy the Project Payment Obligation for any Later Phases and the Project as a whole based on the Developer's underwriting, subject to the caveats described in criteria (iii) above.

- (v) The proposed Phase 1 budget would not impair the Port's fiduciary obligations under Applicable Port Laws. No City General Funds or Port Harbor Funds are pledged or made liable under this Phase 1 Budget. If Project sources are insufficient to cover costs the remainder will carryover into the next phase submittal.

Effect of Commission Approval of Phase Budget

Port Commission Approval of the Phase 1 budget will (i) establish the outside date for the Developer to complete Phase 1 improvements, (ii) obligate the Port to submit a Fiscal Year budget consistent with the Phase Budget, (iii) authorize the Chief Harbor Engineer and the Director of Public Works to issue relevant construction permits, and (iv) establish the upper limit of Developer spending that is eligible for reimbursement at the 18 percent developer return rate under the project's financing plan.

Approval of a phase budget that includes any Port Capital advances would also serve as a binding commitment to invest Port capital in the project. However, since the Phase 1 budget does presently not include Port capital advances, this commitment is not relevant at this time.

VI. Key Implementing Actions for Phase 1 Budget Approval

In addition to approval of the Phase 1 Budget, the Phase 1 Budget relies on the below implementing actions. These actions were either explicitly contemplated in the DDA or are allowed in the DDA.

Affordable Housing Subsidy Plan and Jobs Housing Equivalency Fee

The DDA requires that the Port Commission, as part of the Phase 1 Budget approval, also approve an Affordable Housing Subsidy Plan (AHSP) which sets forth the process the Port will use to allocate Jobs Housing Equivalency Fees (JHEFs) collected from commercial uses in a phase to the provision of affordable housing in the same phase. The DDA allows the Port Commission to set the minimum Mission Rock JHEF

The proposed Phase 1 Affordable Housing Subsidy Plan requires that Phase 1 office projects pay the JHEF when the first building permit is issued. The two Phase 1 residential projects will request a proportionate share of the JHEF when the residential building foundations have been completed. The proportionate share will be based upon each parcels provision of BMR units, by affordability level. If the residential projects proceed in advance of the office projects, the office projects will be required to pay the JHEF in advance of their first building permit.

The Developer has proposed that the Port increase the JHEF above the minimum required in the project's Development Agreement. Specifically, the Phase 1 Budget includes between \$74.9 million and \$90.2 million in fees from commercial Parcel B and between \$60.4 million and \$91.1 million in fees from commercial Parcel G; all fees will go to fund development of BMR units in Parcels A and F. The low end of these ranges represent the anticipated fees paid and anticipated fees received included in the appraised values of the sites. The Developer has proposed to increase the fees paid up to the \$90.2 million and \$91.1 million values described above, with no reduction in the value of the office land. Port staff are supportive of providing an appropriate subsidy to BMR units. Port staff are completing diligence on the high end of this range and will conclude this work for the anticipated Port Commission's action item on the Phase 1 budget.

Entitlement Cost Allocation to Subsequent Phases

The Developer incurred \$29.3 million in entitlement costs. These costs were subject to the 18 percent developer return and accrued interest until entitlements were achieved, at which point interest and return were frozen. With the 18% return, the entitlement sum is \$47.9 million. The Developer has proposed that \$1.7 million of this amount be repaid in a subsequent project phase. As this amount no longer accrues interest, this helps the project's economics and will not greatly impact project payment sources in later phases and as a result Port staff are supportive of this request. In addition, each subsequent phase budget is subject to Port Commission's approval, providing the Commission an opportunity to evaluate the impact of the inclusion of these costs through the review and approval of later phase budget submittals.

District Energy System and Non-Potable Water Plant Managed by Third-Party

Mission Rock's unique site characteristics offer an opportunity for the neighborhood to pursue district wide, centralized energy and recycled water solutions. Phase 1 will include two key elements of the Infrastructure and Sustainability Plans: a Central District Energy System (DES) and a District scale Non-Potable Water Plant (NPWP) located in Parcel A and B respectively. Though located in just two of the Project's 11 total buildings, these facilities will serve the entire Mission Rock site freeing up valuable space in the other nine buildings for more productive uses.

For a variety of reasons including size (systems are relatively small from SFPUC's perspective, serving only Mission Rock) and ongoing costs (rental costs for space within Parcels A and B), SFPUC will not operate these systems. SFPUC has encouraged the project team to integrate these District-scale elements in order to achieve Sustainability Goals.⁶

After consulting with SFPUC staff, Port staff support nonprofit management of these systems. The Developer proposes to partner with a District-scale utility provider to form a

⁶ The overall cost impact of these systems does not have a negative effect on the Phase 1 Budget. This is because costs which could have been funded by public financing sources have instead been allocated to the nonprofit DES and NPWP operator. Privately financing these systems frees up scarce public finance dollars to repay more expensive Developer equity

nonprofit, “Mission Rock Utilities”, to provide thermal energy and recycled water services to customers within Mission Rock through the design and construction of a new district energy system and black water recycling system. The operator achieving nonprofit status will benefit the Mission Rock project by bringing lower-cost financing to support construction of the two systems, which translates into lower utility rates and lower building operating costs. Port staff will prepare a resolution of support for Port Commission consideration at a subsequent meeting.

CFD Tax Rates

Tax increment from the project has increased due in part to anticipated higher assessed values based on higher construction costs. This increase is further captured by increasing the CFD tax rates, which are sized to match the projected tax increment. **Table 5** describes the new CFD tax rates as compared to January 2018 project approvals.

Table 5. CFD Special Tax Rates – Current Rates vs. Project Approvals

Item	Current Special Tax Rates		Approvals Special Tax Rates	
	Office	Market Rate Residential	Office	Market Rate Residential
Development Tax	\$6.50	\$8.58	\$4.01	\$6.54
Office Special Tax		n/a		n/a
Phase 1	\$1.92		\$2.17	
Phases 2-4	\$1.61		\$1.55	
Shoreline Resiliency Tax	\$1.82	n/a	\$0.62	\$1.01
Operating CFD Tax	\$1.40	\$1.15	\$1.35	\$1.11

VII. Parks Plan

The Project DDA and the DA require that the Port Commission adopt a Parks Plan for Mission Rock open spaces. The *Parks Plan* was submitted as part of the Phase 1 Submittal and aims to create a framework for the management and regulation of the public parks and open spaces at Mission Rock. Port staff will present the Parks Plan for Port Commission consideration on September 24, 2019. It is anticipated that Port staff will present the Parks Management Agreement and the Pilot Mission Rock Sponsorship Program for Port Commission consideration on October 22, 2019.

Additionally, the Port Commission will also have an opportunity to review the Schematic Design of China Basin Park this Fall and the Developer will host a public presentation of its design prior to submittal of Schematic Design Application for review by the Southern Waterfront Design Advisory Committee.

The Parks Plan consists of the following sections: Goals and Objectives, Overview of Spaces, Park Rules and Standards, Management Entity, Operations and Management,

Concessions, Programming and Activation, Event Definitions and Limitations, Approvals and Permitting, and Budget and Funding. The below sections describe key sections of the Parks Plan.

Management Approach

The Port partnering with a single Management Entity would facilitate day-to-day management of the Mission Rock Parks and Open Spaces. This approach allows for activation of the Mission Rock Parks, focused, on-site management, and immediate-neighborhood engagement. This approach also allows the Port to retain control of the Parks and Open Spaces through a management contract, while ensuring that the spaces remain public, welcoming, and inviting to all. A partnering approach allows for cohesive and collaborative management, while leveraging outside investment to ensure that Port Parks and Open Spaces provide broad public access and a robust public activation program.

Later in the Fall, Port Staff will present for Port Commission review the proposed Operation, Management, and Concession Agreement (the “Agreement”) between Mission Rock Master Developer and the Port. The proposed Agreement will be a contract between the Port and the Mission Rock Management Entity for the Management Entity to provide parks and open space operations, maintenance, programming, and activation services.

Goals and Objectives.

The goals of the Parks Plan are as follows:

- Deliver vibrant, well-managed, and beautiful parks and open space that will be activated and well-used, with a variety of public programming and amenities to enhance the appeal of parks and open space to all.
- Generate and maintain real estate value at the Port.
- Aim for financial viability by controlling operating expenses and generating revenues, making the parks and open space as financially self-sufficient as possible.
- Form a governance structure for the parks and open space to clearly assign and coordinate decision-making and operating responsibilities among the various public and private entities, foster responsiveness to stakeholder concerns, and sustain the success of the parks and open space in perpetuity.

The objectives of the Parks Plan are as follows:

- Manage and maintain parks and open space parks and streets to world-class standards, in a way that is consistent with or exceeds other open spaces throughout San Francisco.

- Provide parks and open space that are safe, secure, welcoming, and always feel public to all residents and visitors.
- Activate parks and open space public realm with events and activities to create a vibrant and safe environment at all times of the day and throughout the week and the year.
- Create a parks and open space public realm that meets the needs of the neighborhood and appeals and attracts a diverse audience beyond the borders of the neighborhood.
- Create a parks and open space public realm that generates public benefit for the greater community and the region.
- Engage the waterfront and create a great place to be along the waterfront.
- Establish a public realm that balances maintenance expenses with open space revenue generation to achieve long-term financial sustainability.
- Comply with Waterfront Plan policies as amended from time to time.

Overview of Spaces

The parks and open space network will be a fundamental part of the urban design and definition of the Mission Rock Neighborhood. Five public spaces, located along the waterfront and at the core of Mission Rock, will provide a comprehensive variety of recreational opportunities. Mission Rock will include this network of waterfront public spaces:

- China Basin Park
- Mission Rock Square
- Channel Street and Channel Lane
- Channel Wharf
- Pier 48 Apron

These public spaces will be designed to take advantage of views, access to the waterfront, sunshine, and adjacent active ground-floor uses. The arrangement of these public spaces will also establish destinations within the neighborhood that anchor the public realm. These destinations will maximize the variety of landscape-based experiences and create memorable landmarks within Mission Rock's pedestrian network. Public spaces at Mission Rock will be consistent with Public Trust Uses and will conform to State Lands Commission and BCDC requirements where applicable. All open spaces will provide active, curated programs to attract visitors and create a lively network of well-loved public spaces along San Francisco's waterfront.

Park Rules and Standards

The Public Spaces shall be made available exclusively to the public for unrestricted public access for walking, bicycling, sitting, viewing, fishing, picnicking, boat launching, swimming, and related purposes. Park hours shall be from 6am to 10pm.

Restroom hours from 8am to 8pm. General Public Access may be modified for specified Ticketed Public Events and Private Events, as permitted by the Port. Areas along the Bay Trail/Blue Greenway and major pedestrian and bicycle routes will remain open or be re-routed in the case of construction, maintenance, or special events to allow for pedestrian and bicycle thru traffic and circulation at all times. The Plan outlines prohibited activities and details how the public will be informed and engaged on park activities and management.

Management Entity

Under an agreement to be reviewed and approved by the Port Commission at a future hearing, the Management Entity shall be the Port's exclusive operator, manager, and concessionaire for the Public Spaces. The Management Entity will be responsible for interfacing with the public. The Management Entity will be a nonprofit entity, governed by a Board of Directors and led by a General Manger. Responsibilities for operations, management, and concessions of the Public Spaces may include, but are not limited to:

- Updating annual operations and management plans and schedules
- Updating annual operating budgets
- Generation of revenue for the operations, management, programming, and activation of the public spaces
- Implementing and executing all necessary tasks to successfully operate, manage, program, and activate the public spaces
- Reporting on performance
- Conducting appropriate community outreach and engagement

Parks Management

Operations and Management

Maintaining appropriate levels of safety, security, and cleanliness along with great amenities are key parts of the operations to ensure Mission Rock's Public Space is world-class. In order to deliver the broad public access and a robust public activation program for all to enjoy, the Developer has proposed and Port staff agree that the Master Entity will employ approximately eight (8) staff members, that may include the following positions with the following FTE allocations:

Table 6. Proposed Management Entity – Managerial Staff

Position	# of Staff	% FTE	Total FTE Allocation
Facilities Engineer	1	50%	50%
Parks & Facilities Director	1	100%	100%
Sitewide General Manager	1	10%	10%
Programming Director	1	100%	100%
Special Events Coordinator	1	100%	100%
Community Relations & Communications Director	1	100%	100%
Programming Hosts/Park Ambassadors	2	100%	200%
TOTAL	8		6.6 FTEs

In addition to the potential management staff listed above, the proposed staffing plans for security, sanitation, and repairs/maintenance, and horticulture and trees are detailed below:

Table 7. Security Staffing

Security		# of Staff	% FTE	FTE Allocation
Security Shift 1: 8:00 AM - 4:30 PM	Contractor	2	100%	2.00
Security Shift 2: 4:00 PM - 12:30 AM	Contractor	2	100%	2.00
Security Shift 3: 12:00 AM - 8:30 AM	Contractor	2	100%	2.00
Supervisor	Contractor	1	25%	0.25
TOTAL		7		6.25

Table 8. Sanitation Staffing

Sanitation		# of Staff	% FTE	FTE Allocation
Shift 1: 7:00 AM - 3:30 PM	Contractor	2	100%	2.00
Shift 2: 11:30 AM - 8:00 PM	Contractor	2	100%	2.00
Supervisor	Contractor	1	25%	0.25
TOTAL		5		4.25

Table 9. Horticulture Staffing

Horticulture/Trees (2x/Wk)		# of Staff	% FTE	FTE Allocation
Shift 1: 7:00 AM - 3:30 PM	Contractor	2	100%	2.00
		2		2

Concessions

The parks and open space will include opportunities for retail and other concessions. While the Development as a whole will have roughly 200,000 square feet of retail space, the retail and concessions within the parks and open space will total approximately 5,100 square feet. There will be up to two (2) restaurant spaces totaling 3,000-6,000 square feet (contingent upon the number of public restroom facilities), up to four (4) food kiosks of up to 200 square feet each, and one (1) kayak rental kiosk totaling 200 square feet. All concession agreements shall require the use of a point of sale system reasonably approved by the Port.

The Management Entity shall lead all subleasing of the concession space but shall be subject to Port consent requirements. It is anticipated that the Master Entity can generate approximately \$718,000 in annual leasing revenue.

Programming and Activation

Programming is a key to the success of the public space network at the site, bringing people to public spaces again and again, and fostering a community sense of ownership of the space. That said, public spaces must also provide ample space for members of the public seeking an “unprogrammed” or quiet contemplation park experience. The Parks Plan proposes adoption of the limitations on programming set forth in the Project’s BCDC Permit which is also consistent with the limitation on park events in the Project’s approved DA. The initial limitations per year include those shown in **Table 10**.

Table 10. Event Limitations Matrix

	Public Events			Private Events	Promotional Events
Size	Small	Medium	Large	Small to Medium	Small
Exclusivity	Open to Public (may require ticket or registration)			Not Open to Public (Invitation Only)	Open to Public (no ticket or registration)
China Basin Park	Unlimited free event days	Up to 100 event days per calendar year; no more than 4 weekend days per month; up to 24 can be paid ticketed event days	Not permitted	Up to 18 event days per calendar year throughout (private events are counted toward the 100 medium events)	Up to 50 event days per calendar year; limited to 5,000 SF in total size; no more than 4 locations within a Public Space
Mission Rock Square	Unlimited free event days	Up to 100 event days per calendar year; no more than 6 weekend days per month; up to 24 can be paid event days		Up to 18 event days per calendar year throughout (private events, are counted toward the 100 medium/large events)	Up to 50 event days per calendar year; limited to 5,000 SF in total size; no more than 4 locations within a Public Space

Event Definitions:

- **Small Event:** A single event or related events occupying less than 10,000 square feet in the footprint of a space

- Medium Event: An event occupying more than 10,000 square feet, but less than 30% of the footprint of a space.
- Large Event: An event occupying at least 30%, but no more than 70% of the footprint of a space

Event Conditions:

- The total number of ticketed public and private events shall not exceed the number of free public events in the same fiscal year
- Medium to large events are generally limited in duration of 10 consecutive days including set-up and take-down
- No medium event in China Basin Park may occupy more than 57,500 square feet
- No more than two unrelated small events that collectively occupy more than 10,000 square feet of any given public access area may occur simultaneously

The Management Entity shall lead all special event permitting and will actively program the parks, all programming shall be subject to Port consent requirements. It is anticipated that the Master Entity can generate approximately \$888,000 in annual special events revenue and an additional \$72,000 in annual specialty market revenue for a total of \$960,000.

Approvals and Permitting

Master Entity shall, at its sole cost and expense, obtain other necessary permits and approvals issued by other governmental agencies. Proof of permits and approvals shall be submitted to the Port for review prior to first day of load in for each event. Parties agree to identifying timelines for submittals of proof of permits and approvals through the approvals and permitting process. Upon the Master Entity's failure to submit to the Port the necessary permits and approvals by the dates specified in the approvals and permitting process, the Port may, at its sole discretion, terminate this Agreement or disallow any specific event or events.

Budget and Funding

The Managing Entity will be responsible for generating the revenue to support the public realm's operations. This relationship would be memorialized through the Operation, Management, and Concession Agreement (the "Agreement") between Mission Rock Master Developer and the Port. The Agreement would grant the Management Entity control of all net revenue generated in the public spaces, with surplus revenue due to the Port. It is projected that a budget of approximately \$5.1 million will be required to operate, manage, and maintain the Mission Rock Parks and Open Space. **Table 11** below outlines the proposed budget.

It is important to note that this budget provides a robust activation plan and a commensurate level of spending on programming. To the extent these revenues are not achieved, a minimum level of parks and public space maintenance funding will be provided in perpetuity through CFD maintenance services taxes (once the CFD is formed

later this year) and/or through Management Association dues (which will be recorded against each parcel).

Table 11. Revenue and Expenses

Projected Revenue	Full Buildout	%
Concessions, Restaurants & Retail	\$ 718,000	15%
Specialty Markets	\$ 72,000	1%
Public Realm Sponsorships	\$ 945,000	19%
Park Event Usage	\$ 888,000	18%
SUBTOTAL	\$ 2,623,000	
CFD or Association Fees	\$ 2,405,757	48%
SUBTOTAL	\$ 2,405,757	
TOTAL	\$ 5,028,757	100%

Projected Expenses	Full Buildout	%
Operations & Maintenance	\$ 1,194,763	24%
Utilities	\$ 530,625	11%
Security	\$ 679,144	14%
Programming	\$ 1,098,300	22%
General & Administration	\$ 697,826	14%
Contingency	\$ 396,997	8%
Annual Reserve	\$ 431,102	9%
TOTAL	\$ 5,028,757	100%

All Revenue (including, but not limited to Association Fees and/or CFD Taxes; Concessions, Restaurants, & Retail; Specialty Markets; Sponsorships; or Other Revenue generated on or through the management of the premises) shall be allocated as follows:

- First to budgeted expenses for operations of the Public Spaces;
- Second to operating reserves; and
- Third to capital repair reserves;
- Fourth to Port Harbor Revenue Fund

The Parks Operations and Management Budget will be subject to annual Port Commission approval.

VIII. Next Steps

Preparing this Phase 1 Budget informational item required collaboration of numerous parties including from key City agencies (Public Works, SFPUC, OEWD, MOHCD, City Planning, SFMTA, and Office of Public Finance, among others) and the Port’s development partner. While this first phase budget submittal is a major milestone, there are several next steps to facilitate phase 1 implementation described below.

- **Public outreach.** Port staff will discuss the Phase 1 budget and Parks Plan at each of the upcoming September meetings of CWAG, NEWAG, and SWAC.
- **Phase 1 budget and Parks Plan approval.** Port staff to present Phase Budget & Parks Plan for Port Commission consideration on September 24, 2019
- **Mission Rock Utilities.** Port staff will present a resolution of support for the formation of a nonprofit to operate DES and NPWP for Port Commission consideration on September 24, 2019
- **Park design review.** China Basin Park open house to review park design in October; schematic design review by Port's Design Advisory Committee in November; and Port Commission consideration of approval of park design in December.

Prepared by: Crezia Tano-Lee, Manager
Business Strategy + Optimization

Raven Anderson
Development Project Manager

Phil Williamson
Senior Project Manager

Rebecca Benassini
Assistant Deputy Director

For: Michael Martin, Deputy Director of
Real Estate and Development

EXHIBITS

1. DDA Excerpts
2. Port Revenues
3. Phase 1 Housing Unit Mix
4. Mission Rock Jobs Housing Equivalency Fee

Exhibit 1. Relevant Sections of Mission Rock DDA.

3.3. Phase Budget.

(a) Budget Guidelines. With each Phase Submittal, Developer will submit a proposed Phase Budget in a form reasonably acceptable to the Port. Each proposal for a Phase Budget or revised Phase Budget will be a refinement of the Phase Proforma, consistent with the Funding Goals, Project Requirements, and the Budget Guidelines, and include:

(i) The proposal will include actual dates and amounts of Soft Costs paid, listed by line item up to a specified date before submitting the Phase Budget, with detailed line item estimates of additional Soft Costs that Developer expects to incur over the Estimated Construction Schedule.

(ii) The proposal will provide line item estimates of Hard Costs that Developer expects to incur over the Estimated Construction Schedule based on design information then available. Estimates will include an allowance for inflation and include contractor contingency consistent with **Article** "Construction Generally".

(iii) The proposed Developer Contingency for Hard Costs and Soft Costs will be supported by information used to develop the amounts, including commercially reasonable assumptions for unknown conditions, further design development, concealed subsurface conditions, escalation, and Force Majeure.

(iv) Based on projected spending dates, Estimated Construction Duration, and Estimated Construction Schedule, the proposal will include reasonable projections of:

(1) Developer Return (separately estimating Allowed Developer Return, Additional Developer Return, and Alternative Developer Return), Peak Developer Equity, and Minimum Phase Return; and

(2) Interest on DRP Advances and, if Port Capital Advances are anticipated, Port Return (separately estimating Allowed Port Return, Additional Port Return, and Alternative Port Return).

(v) Any unpaid Developer Balance and Port Balance from Prior Phases will be included.

(vi) The proposal for any Phase after Phase 1 will include, if applicable, Alternative Return Rent Credits to be applied to the Phase 1 Overage under the Master Lease in accordance with *FP § 2.6 (Phase 1 Cost Containment)*.

(vii) Based on pre-Phase consultations, Developer will include projected amounts and dates that the following Public Financing Sources will be available:

(1) proceeds of Mello-Roos Bonds issued in the Phase, subject to Port and City discretion under the Financing Plan; and

(2) any other Project Payment Sources reasonably anticipated, including anticipated "pay-as-you-go" Public Financing Sources not pledged or required to pay debt service on Bonds.

(viii) The proposal must provide for:

(1) Parcel DRPs that, together with other Project Payment Sources, are sufficient to pay estimated Capital Costs; and

(2) Project Payment Sources that are not subject to the Interest Cost Limitation sufficient to fund all Additional Return through the end of the Phase.

(b) Budget Narrative. Each Phase Budget proposal will include a narrative statement covering at least the following:

(i) a discussion of any material updates to assumptions underlying the most recent Phase Proforma or Phase Budget for that Phase;

(ii) any proposed changes to the land uses designated for Development Parcels in the Phase, and, if Developer expects to exercise its Option for any Flex Parcel, the proposed land use for the parcel;

(iii) a proposed Phase Schedule that specifies the Estimated Construction Duration and Estimated Construction Schedule, accounting for any Site Preparation, construction of other Horizontal Improvements, and phasing of Development Parcels and Horizontal Improvements based on commercially reasonable assumptions for unknown conditions;

(iv) an estimate of the aggregate Fair Market Value of each Development Parcel in the Current Phase;

(v) projections of the Jobs/Housing Equivalency Fees payable on Commercial Parcels in the Phase, the minimum amount payable on each Commercial Parcel in accordance with *DA § 5.4(b)(ii) (Jobs/Housing Equivalency Fee)*, and any proposed variances from the approved Affordable Housing Subsidy Plan; and

(vi) if applicable, a proposal to limit in the Phase Budget the amount of Project Payment Sources generated by the Current Phase that will be applied to unpaid Capital Costs of any Prior Phase that would otherwise have priority over Capital Costs of the Current Phase, which the Port Commission may approve or disapprove in its sole discretion.

3.5. Phase Budget Review Process.

(a) Staff Review. In general, Port staff will have 15 days after the Port finds Developer's Phase Submittal to be complete to review the Phase Budget. If Developer resubmits a Phase Budget to reflect revisions required in other parts of the Phase Submittal, Port staff will have 30 days to review the Phase Budget. Port staff will provide responses to Developer on the following issues.

(i) Port staff will indicate whether the proposed Phase Budget fails to comply with the requirements of **Section 3.3** (Phase Budget) and, if pertinent, measures Developer must take to satisfy those requirements.

(ii) Port staff will indicate whether they believe that Developer's estimate of Horizontal Development Costs and Estimated Construction Schedule in the proposed Phase Budget are commercially unreasonable or inconsistent with the Project Requirements and, if so, the basis for that belief.

(iii) After consulting with the Controller, the Port will address any proposed revisions to the timing and amount of any Bond issuance.

(iv) The Port will make a nonbinding statement of intent to make Port Capital Advances during the Phase or update any previous statement made during progress meetings under **Subsection 3.1(a)** (Progress Meetings).

(b) Port Commission Approval. Each Phase Budget will be subject to approval by the Port Commission in accordance with **Subsection 5.3(c)** (Port Commission Meetings), but Port staff will not be required to submit a proposed Phase Budget to the Port

Commission unless staff has found that the proposed Phase Budget complies with **Section 3.3** (Phase Budget). The Port Commission's resolution may delegate authority for the Port Director to approve specific Phase Budget line items, within specified parameters.

(c) Deferral of Port Commission Action.

(i) Developer may elect to submit a preliminary Phase Budget and other information regarding Site Preparation and defer Port Commission consideration of a complete Phase Budget to a date closer to Developer's anticipated commencement of construction of Phase-specific Improvements.

(ii) The Port may elect to issue a construction permit authorizing Developer to begin Site Preparation before the pertinent Phase Approval in accordance with **Section 14.2** (Site Preparation).

(d) Port Commission Schedule. Subject to **Subsection 7.2(a)** (Phase 1 Election), Port staff will submit the proposed Phase Budget for approval at the Port Commission's next available meeting if any of the following circumstances apply.

(i) Developer has exercised one or more Options for Development Parcels in the Current Phase.

(ii) The Port intends to exercise its Put Option with respect to any Development Parcels in the Current Phase.

(iii) Developer is requesting Port Commission approval of a Phase Budget with contingencies for certain line items intended to allow Developer to respond quickly to changes in market conditions affecting the Current Phase.

(iv) Developer is requesting Port Commission approval of increases or other material modifications to a previously approved Phase Budget.

(e) Criteria for Approval. The Port Commission will approve the Phase Budget or modification if it reasonably finds that the Phase Budget or modification:

(i) is consistent with the Funding Goals and Project Requirements and satisfies the Budget Guidelines;

(ii) is based on reasonable projections;

(iii) provides for sources sufficient to fund the Phase and any carryover from Prior Phases;

(iv) would not adversely affect Project Payment Sources available to satisfy the Project Payment Obligation for any Later Phases and the Project as a whole; and

(v) would not impair the Port's fiduciary obligations under Applicable Port Laws.

(f) Resubmission. The Port Commission's failure to approve a proposed Phase Budget or modification will be without prejudice to Developer's right to resubmit a revised proposal under this Section.

(g) Reserve Rent. The Port Commission's approval of a Phase Budget will not waive the Port's right to decline to enter into a Parcel Lease for an Option Parcel under which Annual Ground Rent is less than its Reserve Rent Allocation, unless explicitly approved in the Phase Budget.

(h) Phase Budget Updates and Revisions.

(i) With its submittal of Phase Quarterly Reports, Supplements, and Acquisition Price Updates, Developer will update the Phase Budget, subject to

Subsection 3.5(i) (Effect of Phase Budget Approval), to reflect the application of Developer Contingency to:

- (1) current market conditions and projections; and
- (2) contract prices as they are procured under **Article 13** (Construction Generally).

(ii) At any time, Developer may submit a request for Port Commission approval of a revised Phase Budget to respond to changed circumstances. Each request will describe any material modifications to any of the information previously submitted under **Section 3.3** (Phase Budget). The Port will review each request in accordance with **Section 3.5** (Phase Budget Review Process) and approve revisions necessary to authorize payment of Horizontal Development Costs reasonably required to implement this DDA.

(i) Effect of Phase Budget Approval. The Port Commission's approval of a Phase Budget will have the effects described below.

(i) The approval will establish the benchmarks for the Phase Schedule, including the Outside Date for Developer to finally complete Phase Improvements, which will be the last day of the Estimated Construction Schedule, subject to **Subsection 1.1(b)** (Term) and **Article 4** (Excusable Delay).

(ii) Unless the Parties agree otherwise, the Port will be obligated to submit a Port FY Budget for each City Fiscal Year during the Phase that is consistent with the approved Phase Budget. Nothing in this clause will limit the Port's discretion regarding the issuance of Bonds under *FP art. 5 (Mello-Roos Bonds)*. If the Phase Budget includes Port Capital Advances, Port Commission approval will be the Port's binding commitment to make one or more Port Capital Advances in the amounts and on the dates in the Phase Budget except to the extent the Parties later agree otherwise.

(iii) The Chief Harbor Engineer and the Director of Public Works will be authorized to issue construction permits to Developer for approved Phase Improvements in accordance with **Article 12** (Improvement Plans) and approved Improvement Plans approved under the ICA, subject to **Article 14** (Horizontal Development) and **Article 4** (Excusable Delay).

(iv) The Phase Budget, including all allowances, contractor contingencies, Developer Contingency, and approved amendments, will establish the upper limit of spending by Developer that will be authorized for reimbursement under the Financing Plan.

(v) If the Port Commission approved Developer's proposal under **clause (v)** of **Subsection 3.3(b)** (Budget Narrative), the Phase Budget will limit the amount of Project Payment Sources generated by the Current Phase that will be applied to unpaid Capital Costs of any Prior Phase that would otherwise have priority over Capital Costs of the Current Phase.

Exhibit 2. Port Revenues

Port Revenue Metrics	Net Present Value @ 6% (2012 \$s, millions)		Nominal total over 75 years	
	Project Approvals Estimate	Current Estimate	Project Approvals Estimate	Current Estimate
Unrestricted Base+ Participation Rent	\$59.4	\$64.3	\$620.3	\$641.1
Transfer Fees	\$5.6	\$5.6	\$10.9	\$10.9
Shoreline Taxes	\$35.4	\$34.9	\$534.0	\$460.3
Port Land Repayment	\$58.1	\$40.3	\$268.5	\$242.4
Other IFD Pledged Development Tax Through Year 45	\$25.5	\$30.6	\$364.8	\$396.6
JHLF	(\$0.2)	--	(\$0.4)	--
Pier 48 Rev	<u>\$13.9</u>	<u>\$13.9</u>	<u>\$16.4</u>	<u>\$16.4</u>
Total	\$197.7	\$189.5	\$1,814.6	\$1,767.8

Exhibit 3: Illustrative Rental Rates by Area Median Income & Size

Type of Unit	Unit Size (sf)	AMI Level	Estimated Rent (\$ per month)
Studio	424	Market Rate	2,840
Studio	424	90% AMI	1,811
Studio	424	120% AMI	2,434
Studio	424	150% AMI	2,840
1 Bedroom	640	Market Rate	3,710
1 Bedroom	640	90% AMI	2,067
1 Bedroom	640	120% AMI	2,777
1 Bedroom	640	150% AMI	3,487
2 Bedroom	946	Market Rate	5,770
2 Bedroom	946	90% AMI	2,313
2 Bedroom	946	120% AMI	3,111
2 Bedroom	946	150% AMI	3,911
3 Bedroom	1252	Market Rate	6,635
3 Bedroom	1252	90% AMI	2,555
3 Bedroom	1252	120% AMI	3,444
3 Bedroom	1252	150% AMI	4,331

Exhibit 4: Mission Rock Potential Jobs Housing Equivalency Fee

Item	Parcel				Total
	A	B	F	G	
Parcel Size (SF)	43,413	41,101	25,110	33,055	142,679
Residential Unit Count	294	0	266	0	560
BMR Residential Unit Count	118		106		224
Office SF	48,969	265,205	0	270,241	584,415
Range of JHEF - Paid by Commercial					
Typical Citywide Fee		\$7.6		\$8.1	\$15.7
Proposed Minimum Fee		\$74.9		\$60.4	\$135.4
Proposed Maximum Fee		\$90.2		\$91.1	\$181.3
Affordable Housing Subsidy Received - Received for BMR Production					
Typical Citywide Fee	\$7.4		\$8.3		\$15.7
Proposed Minimum Fee	\$59.7		\$75.7		\$135.4
Proposed Maximum Fee	\$77.7		\$103.6		\$181.3