



MEMORANDUM

July 9, 2021

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

FROM: Elaine Forbes 
Executive Director

SUBJECT: Informational presentation on: (1) Phase 1 Revised Budget and (2) Modified China Basin Park Construction Sequencing 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: Informational Only – No Action Required

Executive Summary

On September 24, 2019, by Resolution No. 19-39, the Port Commission approved the \$145 million Mission Rock Phase 1 budget. Subsequently, despite significant constraints due to the Covid-19 pandemic, the project team successfully obtained the project-wide Street Improvement Permit (“SIP”), Phase 1 Final Map, and Phase 1 Notice to Proceed. Construction of Phase 1 horizontal infrastructure commenced in late 2020 and is scheduled to be complete in late 2022.

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, this past April, the Developer notified the Port of Phase 1 cost increases primarily attributable to 1.) higher than expected costs to approve the use of Lightweight Cellular Concrete (“LCC”) in the project’s streets; 2.) an enhanced design of the China Basin Park; 3.) rising construction materials costs; 4.) increased City agency costs due to additional staff time to review of unique project conditions; 5.) higher costs for electricity facilities to accommodate both PG&E and SFPUC onsite on a temporary basis; and 6.) impacts from Covid-19, among others.

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The net result of these cost increases – after value engineering and delaying costs that can be sequenced – results in a Phase 1 budget of \$184.2 million. The DDA sets forth an approval process for increases to infrastructure costs based upon five criterion related to demonstrating sufficient sources of funding and the costs being reasonable to implement the DDA. Higher costs to implement the DDA will negatively impact the Port's net present value revenues from the project; however, on a nominal dollar basis the Port's revenues from the project remain strong.¹ Based upon Port staff's review of the cost increase request and DDA criteria – along with our real estate and engineering consultant's analyses, the cost increases appear reasonable and the Project does have sufficient sources to repay Phase 1 horizontal infrastructure costs. This conclusion is based on numerous assumptions about future development. Cost escalation and timing of phases are crucial assumptions. To narrow the likelihood of a delay in the next phase, Port staff and the Developer have agreed to a monetary penalty if Phase 2 is delayed, and staff have implemented other tools contemplated in the DDA for a Phase 1 cost increase.

The below staff report includes the following sections:

- I. Project Background and Status
- II. Phase 1 Budget Challenges
- III. Phase 1 Budget: Proposed Solutions
- IV. Next Steps

I. Project Background and Status

Project Overview

At full build out, the Mission Rock project will include 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, a waterfront park, and public infrastructure.

Following Port Commission approval of the \$145 million Phase 1 budget in September 2019, the Project team has accomplished the following milestones:

1. Issuance of SFPW Director's Order authorizing use of lightweight cellular concrete (LCC) in the project's streets
2. Approval of project-wide Tentative Map and Phase 1 Final Map
3. Approval of China Basin Park Schematic Design
4. Issuance of Phase 1 Street Improvement Permit (SIP)
5. Issuance of Notice to Proceed with the installation of horizontal infrastructure
6. Secured Bond Financing for District Utilities
7. Closed on all four Phase 1 Parcel Leases
8. Approval of new street names honoring Dr. Maya Angelou and Toni Stone

¹ This is primarily because higher costs also affect vertical construction costs, upon which the model projects assessed value and taxes. The Port benefits from out-year taxes, thus the net present value revenue can go down while the total nominal (meaning, escalated) revenues to the Port over a 75 year period can (and have) gone up.

9. Successful preparation, marketing, and sale of \$43.3 million CFD bonds
10. Awarded \$31.0 million in contracts and an additional \$62.6 million in LBE contract commitments (as of March 2021)
11. Commenced construction of Phase 1 horizontal infrastructure
12. Commenced construction of three of the four Phase 1 vertical buildings

Contracting

The Mission Rock project was one of the City's first development projects to commit to a Local Business Enterprise ("LBE") participation goal. Working collaboratively with general contractors, RDJ Enterprises, Monica Wilson, Port staff, and the San Francisco Contract Monitoring Division, the project team continues to implement additional barrier mitigation strategies to help identify and assist local and historically underrepresented businesses to be competitive during the bid and awarding process. The recent LBE report includes ~\$1.5 million (0.58% of 1Q21 awards) in contracts awarded to women-owned small businesses based in San Francisco and ~\$3.8 million (1.45% of 1Q21 awards) in contracts awarded to minority-owned small businesses based in San Francisco. In total, ~\$6.5 million (2.48% of 1Q21 awards) of contract dollars were awarded to LBE businesses. Four new LBE's have joined the project with formal awards in 1Q21: BEI Steel (Steel Stairs and Rails), Harris Hoisting (Hoist Operations), KCA (Surveying), YADEJS, Inc. (Cleaning).

Current local business enterprise awards totals 4% of vertical awards and 19% of horizontal awards. The project continues to trend towards the 20% overall LBE participation goal. As of March 2021, Mission Rock's total contracts to Local Business Enterprises totaled \$31.3 million, summing to 19% of overall horizontal contracting and 4% of total vertical contracting. In addition, the project has an additional \$62.6 million in commitments to LBE contractors (primarily on the vertical construction side); once these contracts are executed, the vertical LBE participation is expected to substantively increase.

Partnership's Phase 1 Progress

Port staff are gratified to report that this public-private partnership has advanced without any major slowdown due to the pandemic. **Figure 1** below illustrates expenditures (completed, begun, or to come) and the month that the expenditure began. During the heart of the shelter in place, the Developer has commenced construction on over \$1 billion in horizontal and vertical projects, a strong showing of commitment to the success of Mission Rock during what continues to be an unsteady real estate market.

The vast majority of this spend is related to the vertical projects and this progress has allowed the Port to increase the 2021 bond amounts:

Figure 1. Investment in Project: Spend Start Dates (millions)



II. Phase 1 Budget Challenges

Phase 1 Cost Increases

The approved 2019 Phase 1 Budget included 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. In Spring 2021, in accordance with requirements in the DDA, the Developer notified the Port of Phase 1 cost increases attributable to:

- higher than expected costs to approve the use of LCC in the project’s streets, and associated LCC warranty and monitoring costs
- an enhanced design of China Basin Park to include physical access to the shoreline and water
- rising construction material and labor costs
- continued design modifications at the request of city agencies
- unforeseen subsurface conditions and associated required design modifications
- unanticipated electrical utility modifications

- increased City agency review costs due to additional staff review of unique project conditions
- Impact of Covid-19

Note that the Port Commission approved the Phase 1 budget nearly 2 years ago. As shown below, costs for Phase 1, including the more fully designed portions of China Basin Park that were in preliminary conceptual design form at the time of the Phase 1 budget approval, have increased \$57 million to a total of \$202 million. Within the revised budget, the Developer has set aside \$7.9 million in contingency.

Analysis of Phase 1 Cost Increases

Port staff and the Port’s consultants have conducted due diligence related to the revised Phase 1 costs and have concluded that the costs meet the DDA requirement for “reasonable projections”. Specifically, the Port retained Hollins Consulting to meet with the Developer and conduct a line-by-line analysis of the Developer’s revised 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.

III. Phase 1 Budget: Proposed Solutions

Port staff and the Developer have worked together to analyze potential cost reductions and options for delivering Phase 1 and the remainder of the Mission Rock phases, with costs and revenues aligned such that both the Developer and the Port achieve their respective financial goals. Below is a summary of these efforts:

Reduce scope of improvements

- Reduced the interim improvements at Channel Street and south of Parcel F
 - Savings of approximately \$300-\$600k

Pursue lower-cost design alternatives

- Requested and got a State approved variance to allow LPW line to route below an existing NPW line rather than full reroute
 - Savings of approximately \$100k
- Developed a less expensive pavement design for the Toni Stone Crossing transition to Terry A. Francois Blvd.
 - \$75k was saved through utilizing an all-asphalt pavement section, in lieu of a standard DPW full PCC + AB section for the phase 1 temporary transition from Toni Stone to Terry A. Francois Blvd. Some savings in Phase 1, and some savings in

future phase with less demo to remove and rebuild permanent grade transition.

- Bldg. B Sanitary Sewer system discharge to existing City sewer in 3rd street was originally planned to be gravity but was in conflict with PG&E existing high voltage electrical duct bank. Rather than incur a large rerouting cost, the project design team worked with SFPUC to generate a workable sewer force-main option and Mission Rock Utilities – the private district utility for Mission Rock – accepted ownership of improvements to make the lower-cost option acceptable to PUC and Port.
 - Overall cost savings was minimal, but rather than cause significant schedule delays, developer took on an extensive (~4 months) design iteration process with SFPUC and DPW to make the force main sewer option work, rather than moving forward with the ~\$500k reroute cost of the existing PG&E duct bank to allow for conventional gravity sewer. The Developer also took on future O&M responsibilities by deviating from SFPUC standard to save the project near term construction costs.
- Convert some paver/site concrete to landscaping
 - Approximate savings of \$30K
- Reduce structural soil extents while maintaining healthy growing conditions for trees –
 - \$100-200k
- Change streetscape finishes from unit pavers to decorative concrete
 - Savings of \$2.0M for converting pavers to cast in place concrete
 - Savings of \$1.0M for converting lifted grove wood decking to cast in place concrete
- Eliminate stone columns and use permeable LCC at China Basin Park to reduce ground improvement cost
 - Savings of 2-3MM for stone columns
 - Savings of 1-2 MM for permeable LCC and related savings in earthwork excavation/disposal

Strategically procure materials/scopes of work

- Combine certain SIP & CBP scope packages to capture economy-of-scale savings
 - Included above but an estimated 5% of overall savings
- Utilizing CM/GC process managed by Webcor, reach an extensive bidder network and leverage relationships to secure competitive subcontractor pricing.
 - Estimate of 1% of procurement which is roughly \$600k

Efficiently manage site resources

- Working with City & Port to re-use asphalt grindings from existing parking lot demo as road base
 - Could generate an estimated \$200-300 but this has not yet been approved, despite extensive documentation submitted showing that material meets spec, is approved by geotechnical engineer, does not pose any environmental risk and is used by most cities and Caltrans.
- Developed onsite water treatment plant to treat ground water and use for onsite dust control rather than discharge to City sewer
 - Cost savings analysis in process.

Notably, presentations during project approvals and the project DDA contemplated Phase 1 costs potentially exceeding Phase 1 sources of funds. This is because Phase 1 is burdened with much more than its share of horizontal costs. Phase 1 includes 4 of the 12 vertical parcels, but nearly 40% of project's horizontal improvement areas, including the project's signature waterfront park. Phase 1 revenues also must support sitewide entitlement costs, a sitewide infrastructure basis of design, project-wide Tentative Map, approval of lightweight cellular concrete and significant precedential documentation. Below are the tools staff propose for re-aligning costs and funding sources.

Sequencing In-Water Park Work with Phase 2 Budget Sources

Port staff and the Developer propose sequencing the construction of China Basin Park into "inland" and "in-water" portions (as shown in **Figure 2**). Developing China Basin Park in this sequence means that costs are spent over time, allowing more revenue streams to come online to support expenditures.

Under this sequencing plan, the inland portion of the park would be delivered in mid-2023 along with the occupancy of Parcels A and G. Sequencing the construction in this manner is expected to move \$23 million in expenditures from the revised Phase 1 budget to the next phase budget.

Construction of the in-water portion of the park would commence once: (a) the Developer has obtained required regulatory permits from the Army Corp of Engineers, BCDC, and RWQCB, and (b) the Port Commission has approved the Phase 2 Budget. The Project schedule anticipates that the Developer will achieve all of these milestones by the end of 2022 and will be prepared to commence and complete the in-water construction during that year's in-water work window.

Port staff and Developer reviewed this sequencing concept with the Port's Southern Advisory Committee at its June 23, 2021 meeting. The committee understood that the sequencing would allow delivery of the entirety of China Basin Park, as required permits and revenue streams from Phase 2 are brought forward. Port staff explained that the current project schedule indicates this construction will proceed relatively seamlessly, from the green area (shown in **Figure 2** below) and then moving to the waterside of China

Basin Park. Staff cautioned though, that permitting requirements and the timing of funding from Phase 2 may mean a delay wherein the green portions of the Park are delivered and open while the team works to achieve permits and secures Phase 2 revenue and then mobilizes on the waterside, while the green portions of the Park remain open.

Figure 2. Sequencing of Improvements

Current Phase

- Streets, Infrastructure (Red)
- Inland CBP (Green)
- Public Restrooms
- Buildings

Sequenced Phase

- CBP Shoreline (Orange)
- F&B Pavilion (Purple)

Future Phase (Grey)

- Buildings
- Pier 48
- Mission Rock Square
- Knuckle Wharf Improvements



Apply The DDA Reduced Return Tool for Phase 1 Cost Overages

The DDA includes a section pertaining to the case at hand – where Phase 1 costs exceed the originally approved Phase 1 budget. Pursuant to the DDA, the first \$10 million in Phase 1 cost overruns will be subject to a significantly lower return for the Developer (equal to LIBOR plus 400 basis points, which would equal 4.10% as of June 30) as compared to the approved 18% return.

Penalties for Phase 2 Delay

The above tools help to mitigate Port revenue losses due to the Phase 1 cost increase challenges. It is important to note though that the financial success of the project, for both the Developer and the Port, hinges on the development of Phases 2-4. Because Phase 1 supports a significant portion of sitewide costs, subsequent phases have more opportunities for revenue sharing than Phase 1.

Accordingly, Port staff and Developer propose that the Developer will submit a complete Phase 2 Phase Submittal and Phase Budget by December 31, 2022 or Developer will be subject to an unreimbursable penalty of \$25,000 per quarter during a first year of delay,

rising to \$30,000 per quarter, and \$40,000 per quarter if the delay continues for 2 and 3 years, respectively.

Other Solutions Considered But Not Proposed For Approval at this Time

Port staff and Developer considered other potential solutions that were ultimately not recommended for the reasons below.

- 1. Port Capital.** 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. Port staff considered using Port Capital to fund a portion of the Phase 1 cost increase which would provide the Port a 10% return on funds. However, the Port's significantly constrained resources due to the Covid-19 economic downturn led staff to reject this possibility at this time.
- 2. No Phase 1 Budget Increase.** Port staff and Developer considered no increase to the Phase 1 Budget. In this case, the Developer would invest up to the \$145M budget which would not deliver any portion of China Basin Park, until Phase 2 budget approval. Given the Port's and Developer's steadfast commitment to delivery of China Basin Park in Phase 1 of the project, the project team rejected this alternative as too far out of line with the Project's commitments to China Basin Park delivered in Phase 1.
- 3. Future Phases Shoreline Tax.** Port staff also considered committing future-phase Shoreline Taxes to the in-water portions of China Basin Park in Phase 1. As future phase costs and revenues are defined, this funding tool may be analyzed, in concert with changes to other revenue streams, to secure Mission Rock's public parks and infrastructure. However, without more certainty on Phase 2 costs and revenues, Port staff rejected devoting any other revenue streams to Phase 1, in advance of a Phase 2 approval.

Phase 1 Budget: Financial Analysis

With the application of the solutions proposed above, the Phase 1 Budget is proposed as follows:

September 2019 Approved Budget:	\$145 million
Proposed Increased Phase 1 Budget:	\$207.2 million
Move In-Water Work and Food & Bev Pavilion to Phase 2	(less) <u>(\$23 million)</u>
Proposed Phase 1 Budget for Approval:	\$184.1 million

Table 1. Phase 1 2019 Budget and Proposed Budget

Cost Item	2019 Port Approved Budget	Proposed Budget	Proposed Change
Hard Costs			
Hard Costs	52,659,913	69,385,516	16,725,603
Inland CBP	27,397,300	33,395,979	5,998,679
Owner Costs	9,688,437	5,292,826	(4,395,611)
Total Hard Costs*	89,745,650	108,074,321	18,328,671
Soft Costs			
General**	\$38,583,205	\$53,476,902	14,893,697
Developer Items	\$13,461,848	\$18,907,674	5,445,826
Open Space	\$1,652,500	\$1,652,500	-
Soft Cost Contingency	\$1,984,086	\$1,984,086	-
Total Soft Costs	\$55,681,639	\$76,021,162	20,339,523
Totals	145,427,289	184,095,483	38,668,194

*Includes \$4.59 m in hard cost contingencies. Adding this to the \$1.98 m in soft cost contingency sums to \$6.57 m or 3.6% of the total \$184.1 m proposed budget.

**Includes about \$4m in additional legal, accounting, and tax consultant costs; \$3.5m in architectural and engineering design costs associated with multiple submittals & reviews for City's infrastructure agencies; and \$2m additional costs in fees, permits, and bond surety costs.

In the table below, the impact of the proposed budget increase is shown on projected Port revenue from the whole project.² To isolate variables and scenarios, the table shows several results which build, on to the next, as described below. Note that model result #3 *Shoreline Tax* is a scenario that is subject to future negotiation and would require Port Commission approval. Port staff are not seeking consideration of dedicating more Shoreline Tax to the project at this time because both parties require more information – to be developed as part of Phase 2 – to inform any decision regarding those taxes.

- **2019 Model.** Reports projected results at the time of the Phase 1 budget approval in September 2019.
- **2021, #1 Time Updates.** Reports revenues based upon model updates over last two years since 2019, including actual timing of expenditures and revenues over that time period and updated market assumptions and phase costs for Phases 2-4.
- **2021, #2a Cost Increase.** Builds upon #1 model by including Phase 1 costs increasing to \$184 million and the full park Shoreline and other park enhancements in Phase 2.

² It is worth noting that these projections include several assumptions about future market conditions which will be reflected in future parcels' Fair Market Values, construction costs, financing, and timing of actions by the Developer, the Port, and the City. As such, actual results will vary and Port staff will continue to update the Port Commission on progress.

- **2021, #2b Cost Increase.** Builds upon #1 model by including Phase 1 costs increasing to \$184 million, but excludes Shoreline and other park enhancements from project.
- **2021, #3 Shoreline Tax to Project.** Builds upon #2 model by dedicating more Shoreline Taxes to the project.
- **2021, #4 Market Upside.** Builds upon #2 model with a market upside by increasing commercial rents by 3%, and the resulting impact to implied parcel values

As shown, the Port's NPV revenue decreased between 2019 and 2021, largely due to bond revenues coming in later than planned 2019 and land values coming in lower in future phases due to increased vertical construction costs and lower rental rates (as have been reset by the pandemic). The Phase 1 cost increase significantly reduces Port revenues. These revenues can be brought back up though, should the Port choose to invest more Shoreline Taxes into the project (subject to future approvals) or should the market improve.

Table 2. Summary of Potential Port Revenue Results

REVENUE ITEM	2019 MODEL	2021 MODELING SCENARIOS (MILLIONS)				
		#1. Time Updates	#2a. +Cost Increase w/full park	#2b. Cost Increase w/less park	#3. +Shoreline Tax to Project	#4 2+Market Upside
		2019 Model + 2021 Timing + Market + other updates	Model #1 + \$179M Phase 1 Budget + \$23M for Phase 2 park enhancements	Model #1 + \$179M Phase 1 Budget, <u>exclude</u> \$23M park enhancements	Model #2 + Shoreline Tax to Phase 2	Model #2 + Market Upside
TOTAL PORT REVENUE (NOMINAL)	\$1,768	\$1,939	\$685	\$1,939	\$1,929	\$1,936
TOTAL PORT REVENUE (NPV W/ 6% DISCOUNT)	\$190	\$179	\$67	\$181	\$174	\$178

With the Phase 1 budget increase, the Developer's projected returns for Phase 1 drop from 18% to 17.8% In addition and as noted above, the Developer has put a tremendous amount of capital at risk during unprecedented and unsteady market conditions. The Developer closed on all 4 Phase 1 Parcel Leases, at values determined pre-pandemic. The Developer has commenced construction on three of the four parcels, within a year of signing the VDDA (which is over two years in advance of the VDDA required timing), allowing the Port to leverage the value created on the site for increased bond issuances at a period of time with favorable interest rates. In addition, the Developer has proceeded with a district-scale thermal energy plant and blackwater treatment plant, but has financed these improvements separately, allowing the improvements to be delivered in Phase 1, but without receiving the 18% Developer return on these improvements.

IV. Next Steps

Staff will continue to analyze the revised budget proposal before returning to the Port Commission with a recommendation on the revised Phase 1 budget and the sequencing of improvements at China Basin Park.

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Senior Project Manager

For: Rebecca Benassini, Deputy Director of
Real Estate and Development

EXHIBITS

1. DDA Excerpts including Phase Budget Approval Criteria and notes related to those criteria

Exhibit 1 – DDA Excerpts and Port Staff Analysis

The DDA sets forth the Port Commission’s criteria in reviewing the revised 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:*

- (1)** *is consistent with the Funding Goals and Project Requirements and satisfies the Budget Guidelines;*
- (2)** *is based on reasonable projections;*
- (3)** *provides for sources sufficient to fund the Phase and any carryover from Prior Phases;*
- (4)** *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*
- (5)** *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 revised 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 revised Phase 1 budget 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 revised Phase 1 budget project cost and return projections and have found them to be reasonable
- (iii) Staff and the Port’s third-party economic consultants have concluded that the revised 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 revised Phase 1 budget shows significant cost escalation as compared to the approved Phase 1 budget. 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 revised 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 revised 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.

The DDA also sets forth the Port Commission's criteria in reviewing proposed changes to an approved phase work scope as follows:

Changes to the Phase 1 Scope (Shoreline Improvements to be captured in Phase 2 Scope / Budget) (DDA Section 3.7)

Note: The Shoreline Improvements were not included in the Phase 1 Port Commission Approval, but have been subsequently reviewed.

(a) Changed Conditions. The Parties agree that many factors, including general economic conditions, local housing, office, and retail markets, capital markets, general market acceptability, and local tax burdens will affect the rate at which various residential and commercial uses within the Project can be developed and absorbed.

(b) Developer Request. Developer may request changes to a Phase Approval or changes to the Phasing Plan and related changes to any applicable Outside Dates. Except when Subsection 2.5(a) (Garage Phasing) applies, the Port will grant or withhold its approval based on whether, in its reasonable judgment, the modified Phase Approval or Phasing Plan would be consistent with the Phasing Goals.

The sequencing of China Basin Park construction, wherein the inland portion of the park is constructed and opened initially, while the project team assembles in-water construction permits, prepares construction for the annual in-water work window, and assembles Phase 2 funding for the Shoreline portion of the park, meets the Phasing Goals. This sequencing allows the entire inland portion of the Park, including the important Bay Trail, to open along with the rest of Phase 1 infrastructure. The Shoreline portion of the Park will follow either immediately (as the project schedule shows today) or when permits and Phase 2 funding allow. All the while, the vast majority of the Park will be open to the public in Phase 1, consistent with Project commitments and good practices of construction sequencing.

Other Phase Cost Controls

The DDA provides specific cost control steps the Developer and Port must follow, including:

- Developer and Port agree on list of general contractors who may participate in the General Contractor (GC) selection process.

- Developer may use a guaranteed maximum price contract for each phase; Developer has used this contracting type for Phase 1.
- GC must competitively bid subcontracts, but may seek approval of sole source subcontracting if costs are commercially reasonable or subcontractor is only such service or materials provider in the Bay Area.
- Developer must notify Port of any change orders above \$250,000.