PORT OF SAN FRANCISCO WATERFRONT PLAN UPDATE

5/11/2016

Long Term Financing Reference Guide

LONG TERM FINANCING REFERENCE GUIDE

The following Reference Guide is intended to answer some common questions that pertain to the long-term financing tools that have been used or that are available to the Port of San Francisco as an enterprise agency of the City & County of San Francisco. Intended as a broad overview, this Reference Guide does not include all of the procedural or legal details that accompany such financing mechanisms. Port staff may augment the Reference Guide as the Waterfront Plan Update process continues. For example, information about grants and third-party contributions may be included, as another source of outside funds available to the Port.

I. GENERAL OBLIGATION BONDS

General Obligation (GO) bonds are bonds secured by the taxing authority of the City & County of San Francisco ("the City"). GO bonds carry the highest bond rating and produce the lowest borrowing cost. GO Bond proceeds are used to pay for projects that benefit citizens – such as public office buildings, parks, libraries, health care, fine arts or educational facilities – but that do not raise revenue. New GO bonds are typically issued as existing City debt is retired and/or as the property tax base grows.

1. Port participation in Parks Bond

The Port first participated in the City's GO bond program in 2008 and again in 2012 through the Parks Bond. This was accomplished as a result of Port staff following key steps that are required for departments to position themselves for public debt proceeds:

- Identify what upcoming planned GO bond issuance is the most suitable match for the specific Port project(s) to be funded, and obtain general approval from the Mayor's Office of Public Policy and Finance and the Mayor for inclusion in the GO bond issue.

- Poll the public to determine the levels of interest in the capital projects proposed for the bond issue. If the public appears to be sufficiently interested (GO bonds need to be approved by a 2/3% vote of the voters), the process can proceed to (c); if not the process ends.

- Approval by the City's Capital Planning Committee (CPC) of the proposed GO bond issuance and the capital projects to be funded. Pursuant to the City's Administrative Code, CPC review and recommendation to the Board of Supervisors is required before any GO bond issuance can be placed on the ballot for voter approval.

- Approval by the Mayor of the specific GO bond issue proposed voter approval.

- Approval by the Board of Supervisors to place the specific GO bond issue on the ballot for approval by the voters. Pursuant to State law, the Board of Supervisors must hold two public hearings on motion to place the bond issue on the ballot before it can be approved. Bond issue and be place on either the June or November ballots.

- The City Controller prepares ballot measure language related to the GO bond proposal.

- GO bonds must be approved by at least a 2/3rds vote of the City electorate voting on the measure, in accordance with the State constitution.

2. Legal constraints on use of GO Bond Proceeds

State and local laws and IRS regulations related to government and tax exempt debt place restrictions on the use of GO bond proceeds. As these laws apply to San Francisco, GO bond proceeds can only be used for the construction and/or acquisition of improvements to real property that is broadly available to the residents and visitors of San Francisco. GO bond proceeds cannot be used to finance the purchase of equipment or operating costs. Also, pursuant to the City Charter the amount of outstanding GO bonded indebtedness cannot exceed 3.00% of the total assessed valuation of taxable property within the City. Finally, in accordance with the City's debt policy, it is a policy of the City that the percentage of General Fund monies spent on General fund secured debt service be at or below 3.25% of General Fund discretionary revenues.

3. Source of debt service (i.e. The City's G/F Budget)

The source of repayment for GO bonds is the City's General Fund. More specifically, the source is the levying by the City of ad valorem property taxes.

4. History of GO Debt issued by City for benefit of Port

General Obligation Bonds Issued by the City for the Benefit of the Port Property

Debt Issue	Original Amount	Year Issued	Purpose	Unencumbered Balance as of 3/31/16
1971 CCSF Harbor Improvement Bonds[1]				
Series A	$20,000,000	1973	General harbor purposes	Bonds Fully Repaid
Series B	10,000,000	1975	General harbor purposes	Bonds Fully Repaid
Series C	4,000,000	1982	General harbor purposes	Bonds Fully Repaid
Total	$34,000,000			
2008 Clean & Safe Neighborhood Parks Bonds				
1st Sale	$3,676,947	2008	Construction of waterfront parks	$262,769
2nd Sale	$10,666,891	2010	Construction of waterfront parks	424,157
3rd Sale	$10,461,162	2012	Construction of waterfront parks	530,243
4th Sale	$8,695,000	2016	Construction of waterfront parks	$8,499,467
Total	$33,500,000			$9,716,636
2012 Clean & Safe Neighborhood Parks Bonds				
1st Sale	$18,200,000	2013	Construction of waterfront parks	$2,472,328
2nd Sale	13,200,000	2016	Construction of waterfront parks	$13,200,000
Total	$31,400,000			$15,672,328

[1] Under terms of the Burton Act which transferred the port from the State of California to the City, the City was required to issue $25 million in bonds to be used for harbor purposes within 10 years of the adoption of the Act. These 1971 Harbor Improvement Bonds partially fulfilled this obligation. As opposed to the other GO bonds issued for the benefit of the Port property, the City required the Port to pay the debt service on the 1971 Harbor Improvement Bonds.

II. REVENUE BONDS

Revenue bonds are commonly used by income producing entities like the Port. The Port Commission's authority to issue revenue bonds is codified in California statutes (reference: Section B7.305 of Appendix B (Port Agreements) to the San Francisco Charter).

1. Differences between GO and Revenue Bonds

GO and Revenue bonds are distinguished by their different sources of repayment and the ability to secure funds to make debt service payments.

GO bonds are backed by the full faith, credit and taxing authority of the entity issuing the bonds. In California, GO bonds are repayable from the proceeds of ad valorem property taxes and assessments which may be levied without limitation as to the rate or amount, levied by the issuer on the taxable property within its jurisdiction. As such, GO bonds are limited to those issuers who have the authority to levy taxes. Additionally, for San Francisco, GO bonds are only available for improvements to real property that is broadly available to the residents and visitors of San Francisco.

Revenue Bonds, in contrast, are secured by as pledge of, and are repayable from, a specific source of revenues generated by the issuer of the bonds. Revenue bonds are municipal bonds that finance income producing projects or entities. Revenue bonds may be issued by both issuers with and without taxing authority. For example, the Port of San Francisco is an issuer of revenue bonds, but has no authority to levy taxes. Revenue bonds may be used to finance improvements to property that leased to private entities, such as Port facilities leased to private tenants.

2. City process of authorizing Revenue Bonds

The City process for authorizing Port revenue bonds involves the following elements:

- Engaging the services of the Controller's Office of Public Finance. The Office is responsible for issuing and managing the City's GO obligations, and takes the lead in the process of issuing the Port's Revenue bonds. They coordinate and work with the City Attorney and the other City department's needed to complete the issuance process.

- Preparation of the legislation to authorize the issuance of sale of the Port's revenue bonds and to appropriate the bond proceeds to fund: (i) the cost of issuance, (ii) the required debt service reserve, and (iii) the project accounts of the capital projects to be funded by the issuance. The Port's Finance staff works with the Office of Public Finance and the City Attorney to prepare these documents.

- Approval by the City's Capital Planning Committee (CPC) of the capital projects to be funded by the Port's revenue bonds. All capital project funding requests must be reviewed and approved by the CPC. Port Finance staff is responsible for presenting the capital project funding requests to the CPC and for obtaining its approval.

- o Approval by the Mayor of the revenue bond issuance and the capital project appropriations supported by bond proceeds.

- o Approval by the Board of Supervisors of the legislation to authorize the issuance of sale of the Port's revenue bonds, the capital project appropriations, and all other documents necessary for the issuance revenue bonds.

3. Voter approval requirements

In accordance with the City Charter, the City's general Revenue Bonds must be approved by a majority of the City electorate voting on the measure. No voter approval, however, is required if the bonds meet one of eight criteria specified by the Charter. Revenue Bonds issued by the Port Commission are exempt from the voter approval requirement.

4. Legal restrictions on use of Revenue Bond proceeds

In the case of the Port, there are both legal, contractual and policy restrictions on the use of Revenue Bond proceeds. Port revenue bond proceeds cannot be used to fund operating expenses. Port revenue bond proceeds can also only be used for purposes that are consistent with the Burton Act, the state legislation that transferred the Port to the City and County of San Francisco. Under the Act, the Port Commission has an obligation to promote the use and development of the Port for public trust purposes of maritime-related fisheries, commerce, navigation and recreation and open space.

In addition to the above, Port revenue bonds must comply with various Federal Internal Revenue Service rules and regulations, depending on the tax status under which the bonds are sold to investors. These rules place various restrictions on the use of bond proceeds.

5. Market Analysis of Port Revenue Bonds

Potential purchasers of the Port's revenue bonds consider many factors, including, but not limited to the information provided in the Port's financial statements. Investors primarily use a document called an Official Statement (OS) when making their decision about whether or not to invest in a particular bond being offered for sale.

An OS is a document prepared by or on behalf of the issuer of municipal bonds in connection with an offering to sell bonds that discloses material information on the offering of such bonds. Official statements typically include information regarding the purposes of the issue, how the bonds will be repaid, and the financial and economic characteristics of the issuer, conduit borrower or other obligated person with respect to the offered bonds. Investors and market intermediaries may use this information to evaluate the credit quality of the bonds and potential risks of the offering.

Included in the OS is the rating, if any, that the three major credit rating agencies (Standard & Poor's, Moody's Investor Services, and Fitch Ratings) have assigned to the bonds being offered for sale. It is extremely important to have to bond offerings rated by the major credit rating agencies in order to ensure access to the public capital markets. The Port's debt policy requires that a public offering of Port bonds either: (i) be rated no lower than an" A" category or equivalent by at least two of the three major credit rating agencies; or (ii) that the bond will or can be insured by a Bond insurer which is rated "AAA" or equivalent by at least two of the three major credit rating agencies.

Financial and other information that investors would evaluate when making their decision on whether or not to purchase Port revenue bonds include:

- Leverage – The ratio of the Port's (Total Liabilities + Deferred Inflows) to the Port's Total Net Position as shown on the Port's balance sheet. All else being equal, the lower the number the better. Investors will also look at the trend over time.

- Amount of Cash on Hand – The amount of cash that the Port has which is unrestricted as to its use. The level of these cash holdings and their relationship to the Port's operating and maintenance expenses (operating expenses less amortization and depreciation) are indicators of the Port's liquidity. All else being equal, the higher the numbers the better. Investors will also look at the trend over time.

- Debt Service Coverage – The ratio of Net Revenues to the Port's debt service on its outstanding revenue bonds. [Also the ratio of Net Revenues to the Port's debt service on all of its outstanding debt (both revenue bonds and non-revenue bond debt)]. The calculation of debt service coverage can be found in the continuing disclosure reports that are prepared by the Port's Finance Department, and found on the Port's website.

- Operating Income and Change in Net Position Before Capital Contributions – Two measures of operating performance, and all else being equal, the larger the numbers the better.

- Customer Concentration – Measured as the percentage of the Port's operating revenue that is generated by Port's 10 largest customers. This is a measure of how dependent the Port is on a small handful of tenants. All else being equal, the lower the number the better. Investors will also look at the trend over time. A different, but related measure is the industry concentration of its tenant and customer mix. All else being equal, the lower the industry concentration the better.

- Future Commitments and Contingencies – Investors look at the broad array of future commitments and obligations both actual and potential, when making decisions about whether or not to invest in a particular bond being offered for sale. Some areas of interest include future pension obligations for current and retired Port employees, and the size of the backlog for deferred maintenance.

6. Port's internal policy restrictions on further issuances

The Bond Indenture which governs the issuance of Port revenue bonds, requires that the projected annual Net Revenue calculated for each year of the five year period following new revenue bond issuance divided by the projected annual debt service, including the estimated debt service for the new revenue bond issue be lower than 1.30 to 1 (debt service coverage).

In addition to the above, pursuant to the Port's Debt Policy, long term debt such as Port revenue bonds cannot be used to fund operating costs. The Port debt policy stipulated that Port debt can only be used to:

a) Finance capital improvement projects including the construction, major repair or enhancement of Port facilities;

b) Finance the acquisition of capital assets;

c) Finance the purchase of capital equipment;

d) Finance the other large and extraordinary costs as determined by the Port commission; or

e) Refinance previously issued Port debt.

Finally, the issuance of additional revenue bonds would be restricted by the need to meet the following debt affordability targets and policy limits set forth in the Port's debt policy.[2]

f) The Port will maintain a debt coverage ratio of 1.15 to 1, taking into account all of its outstanding debt. (Port management guidelines for this debt coverage ratio is 2.00 to 1).

g) The Port will maintain an unappropriated operative reserve of 15% of its annual operating expenditure budget.

h) So long as conditions (f) and (g) are met, the Port will seek to minimize the level of debt outstanding consistent with the most recently updated 10 year capital plan.

[2] The estimated debt service on the new issuance must be taken into account when determining compliance with (f) and (g).

Port's recent history of Revenue Bond issuances

Debt Issue	Original Amount	Year Issued	Unencumbered Balance-3/31/16	FY 2016/17 Debt Service	FY 2017/18 Debt Service
2010 Revenue Bonds, Series A&B	$36,650,000	2010	$463,205	$2,845,988	$2,842,430
2014 Revenue Bonds, Series A&B	$22,675,000	2014	$2,432,976	$1,330,326	$1,326,241

The purpose of each debt issue follows:

2010 Revenue Bonds

As outlined in the Official Statement (OS) issued by the Port for the sale of the 2010 Revenue Bonds, the purpose of the bonds were to provide funds for the following projects; (i) the construction of the James R. Herman Cruise Terminal at Pier 27, (ii) improvements to the Pier 94 backlands, (iii) improvements to Pier 33, (iv) repairs to the Pier 50 substructure & roadway providing access to the facility, (v) replacement of the roof at Pier 23, (vi) repairs to Pier 35, and (vii) public access and other improvements to either Pier 19 or Pier 23. The Port Commission is permitted to substitute other projects for some of all of these projects. As a result of changing priorities, using this authority, the Port substituted the following two projects for the Pier 19 or 23 Improvement and 94 Backlands projects that it has initially expected to complete; (viii) repairs to Piers 30/32, and (ix) structural and roof repairs to Piers 29½-31.

2014 Revenue Bonds

As outlined in the OS issued by the Port for the sale of the 2014 Revenue Bonds, the purpose of the bonds were to provide funds for the following projects; (i) the construction of the James R. Herman cruise terminal at Pier 27, (ii) structural and roof repairs to Piers 29½-31, (iii) various capital improvements in order to upgrade and re-lease currently vacant facilities and/or historic window rehabilitation and/or other capital improvements.

III. CERTIFICATES OF PARTICIPATION

A Certificate of Participation (COP) is a financial instrument, a form of financing, used by municipal or government entities that entitles the holder to receive a pro rata share in a specific pledged revenue stream, usually in the form of lease payments by the issuer. These payments are typically subject to annual appropriation and are passed through the lessor to the certificate holders. The lessor typically assigns the lease and the payments to a trustee, which then distributes the payments to the certificate holders.

1. COPs are generally used by the City for major building projects

In accordance with the City's debt policy, COPs are used for the acquisition or improvement of existing facilities and/or the construction of new facilities that result in immediate or future savings in payments currently made or to be made by the City's General Fund. For example, COPs may be used to provide funds to execute a lease purchase option for a facility whereby future savings accrue to the General Fund during the period for which the COPs and the lease would be outstanding. The City's debt policy further states that, "it is the policy of the City to identify specific revenue sources with the General Fund (e.g. transit occupancy taxes, tobacco settlement receipts, etc.) as internal repayment sources for COPs, and to ensure that prudent repayment schedules are placed on the General Fund."

2. Port – Challenges of Using COP Financing

The Port is able to utilize COP financing, however the financing instrument has been used infrequently due to the availability of other forms of financing that the Port can utilize. For example, Port revenue bonds provide the broadest security pledge to bond holders and are therefore ordinarily the cheapest form of long term borrowing. As an exception, in 2013 the City issued COPs on behalf of the Port, leveraging a stronger credit rating to lower the overall cost of borrowing.

COP financing is subject to a number of challenges, including appropriation risk—the risk that the Board of Supervisors will fail to appropriate the annual payment. COP financing is further complicated by the fact that most of the Port's property is "public trust lands" and "subject to the State Land Commission which has jurisdiction and oversight responsibilities as to the Port's obligation under the Burton Act to promote the use and development of the Port for public trust purposes of maritime-related fisheries, commerce, navigation and recreation and open space."

To mitigate these risks, investors are typically given security interest a piece of real property of the issuing entity as security for the debt. Also, investors in COP financing typically: (i) require a higher interest rate as compared to debt with a more broader general security pledge; and (ii) limit the property they will take as security to those assets that they view as 'essential' to the issuer.

For example, in 2013 the City issued $37.7 million in COPs on behalf of the Port for various Port capital projects including the construction of the James R. Herman Cruise terminal at Pier 27. The Port provided a mortgage on Cruise Terminal building to the lessor as security for the financing. Due in large part to the public trust, the lessor is precluded from foreclosing on the property in the event that the Port and the City fails to make the required lease payments.

IV. INFRASTRUCTURE FINANCING DISTRICTS

Infrastructure Financing Districts (IFDs) function in a manner similar to redevelopment, by allowing local jurisdictions to i) establish a geographical district within which, ii) all growth in property and possessory interest tax above an established base year (typically referred to as "tax increment"), iii) can be pledged to service debt on bonds issued to fund capital improvements of communitywide significance.

1. Distribution of proceeds

Property taxes are apportioned to the City's General Fund, the Educational Revenue Augmentation Fund (ERAF), and other taxing entities. Under current State IFD law applicable to the Port (and subject to specific limitations), the Port may use certain tax increment that would otherwise be allocated to the City's General Fund and ERAF. Among other things, requirements and limitations pertain to specific project areas and the proportionality of redirected ERAF share to the General Fund portion of the tax increment that is redirected to the Port IFD.

For example, for every $1.00 in Property Taxes, $0.6459 is allocated to the City's General Fund, $0.2533 is allocated to ERAF, and $0.10 is allocated to other taxing entities (SFUSD, Community College District, BART, and Bay Area Air Quality Management District). In the maximum case, approximately $0.90 could be redirected to the Port IFD.

2. Legal constraints for use of IFD proceeds

California Government Code Section 53395.3 delineates the permitted uses for the proceeds of a general (non-Port) IFD, to include "public capital facilities of communitywide significance" contemplated by existing IFD legislation. The definition of such public facilities includes parks, other open space, and street improvements. In addition, Section 53395.8 authorizes the establishment of an IFD by the city for the Port Area (Port IFD) to finance additional improvement projects along the San Francisco waterfront, such as structural repairs and improvements to piers, seawalls, and wharves as well as historic rehabilitation of and seismic and life-safety improvements to existing buildings.

Port's legal framework for establishing IFD's California Government Code Section 53395 et seq. is the IFD law that has been in place since 1990. The California Legislature adopted legislation to enable San Francisco to utilize IFD for the benefit of the Port Area (more specifically, "applies only to the City and County of San Francisco and to any waterfront district.")

State enabling legislation

SB 1085 in 2005 (Senator Carole Migden) – Permits the Board of Supervisors to form Infrastructure Financing Districts (IFD) on Port property that allow the capture of growth in property (or possessory interest) tax increment to fund public improvements along the waterfront.

AB 1199 in 2010 (Assembly member Tom Ammiano) – Permits the Port to establish Pier 70 project area IFDs that may issue debt repayable with both the local share (General Fund) of possessory interest tax and the state's share (ERAF) of possessory interest tax.

A more comprehensive list of recent legislative activities, including other State legislation affecting the Port Area or Port projects can be found in the Port's Ten-Year Capital Plan FY 2015 – 2024 Update, beginning on page 26:

http://sfport.com/sites/default/files/FileCenter/Documents/7887-CAP%20PLAn%20Item%208B%20Attachment%2010YRCP%20final%20copy.pdf

San Francisco Board of Supervisors IFD formation legislation

Resolution 110-12 – File No.120128: Resolution of Intention to Establish an Infrastructure Financing District for the City and County of San Francisco (Infrastructure Financing District No. 2, the "District") for multiple sites on Port property.

Resolution 227-12 – File No120278: Amending Resolution of Intention to Form Waterfront Infrastructure Financing District (File No. 120128)

Resolution 123-13 – File No.130264: Resolution adopting Guidelines for the Establishment and Use of an Infrastructure Financing District with Project Areas on Land Under the Jurisdiction of the San Francisco Port Commission (Port IFD Guidelines).

Resolution 421-15 – File No. 151006: Resolution further amending Resolutions of Intention to establish Infrastructure 4 Financing District No. 2 (Resolution Nos. 110-12 and 227-12) for the City and County of 5 San Francisco at the Port of San Francisco

Resolution 416-15 – File No. 151007: Resolution of Intention to Issue Bonds in an amount not to exceed $25,100,000 for City 4 and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)

3. Process of using IFD funds

City staff will develop an Infrastructure Finance Plan ("IFP") that describes the sources and uses of funding for the project area. Review and approval of each IFP includes:

1. The Port, in consultation with other City agencies including but not limited to the Department of Public Works and the San Francisco Public Utilities Commission, will review and comment on horizontal infrastructure proposals from each project developer and obtain third-party cost estimates for such horizontal infrastructure;

2. Companion transaction documents will include mechanisms to ensure a fair price for subject infrastructure work and to protect the City from cost overruns, such as bidding requirements or guaranteed maximum price contracts; and

3. Each IFP appendix will be subject to review by and a recommendation from the Capital Planning Committee to the Board of Supervisors prior to its vote on whether to adopt the IFP appendix.

The strategic criteria of each IFP project area include:

- Use IFDs where other Port moneys are insufficient. Waterfront districts should be used to construct public facilities when the Port does not otherwise have sufficient funds to finance the improvements.

- Use IFDs strategically to leverage non-City resources. Waterfront districts should be used as a tool to leverage additional regional, state and federal funds. For example, IFDs may prove instrumental in securing matching federal or state dollars for transportation projects.

- Continue the "best-practices" citizen participation procedures used to help City agencies prioritize implementation of public facilities funded by a waterfront district. This could be achieved through regular and special presentations to the Port's advisory groups and engaging regularly with other local municipal citizens advisory committees and stakeholder groups.

- The Port, the Mayor's Office of Public Policy and Finance and the Controller will periodically conduct a nexus study, at five year intervals. The nexus analysis will examine whether the cost of City services exceeds or is less than the total City general taxes and other revenues the City collects from Port property. The Mayor, the Board of Supervisors and the Port Commission may adjust the funding from the Port's Harbor Fund to pay for these services in the Port's annual budget.

4. Port's experience with IFD's: Past and planned projects

IFDs are a new financing vehicle for the Port. However, an Infrastructure Financing Plan (IFP) was recently approved by the Board of Supervisors for the Pier 70 - Historic Core Project. With the IFP in place, the Port will prepare to establish Mello-Roos Community Facility Districts (CFDs) and IFDs to support infrastructure as well as ongoing maintenance costs. The Port is preparing to establish IFPs for the Pier 70, Forest City Waterfront Development Project and the SWL 337, Mission Rock Development Project.

V. MELLO-ROOS

In 1978 Californians enacted Proposition 13, which limited the ability of local public agencies to increase property taxes based on a property's assessed value. In 1982, the Mello-Roos Community Facilities Act of 1982 (Government Code §53311-53368.3) was created to provide an alternate method of financing improvements and services.

The Act allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (a "CFD") which allows for financing of public improvements and services. The services and improvements that Mello-Roos CFDs can finance include streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities. By law, the CFD is also entitled to recover expenses needed to form the CFD and administer the annual special taxes and bonded debt.

A Mello-Roos District is a geographic area where a special property tax on real estate (a parcel tax), in addition to the regular property tax subject to Proposition 13, is imposed on taxable real property within a Community Facilities District (CFD). These districts seek public financing through the sale of bonds for the purpose of financing public improvements and some public services. Eligible public services may include streets, water, sewage and drainage, electricity, infrastructure, schools, parks and police protection to newly developing areas. The tax paid is used to make the payments of principal and interest on the bonds.

Current law (California Proposition 218) constitutionally requires two-thirds (2/3) voter approval within the Community Facilities District (CFD) to pass a Mello-Roos tax. In instances where the number of registered voters within a CFD is very small, the required election is held as a property owner election. Sometimes a real estate developer is the only "voter" in such property owner elections that approve a Mello-Roos tax.

1. Issuance of Mello-Roos Bonds to take out IFD debt

A CFD is created to finance public improvements and services when no other source of money is available. CFDs are normally formed in undeveloped areas and are used to build roads and install water and sewer systems so that new homes or commercial space can be built. CFDs are also used in older areas to finance new schools or other additions to the community.

The Financing Plans for certain future large development projects in the entitlement process are still being prepared and the development teams continue to evaluate financing alternatives. Due to the significant need for new public infrastructure, it is anticipated that CFD debt will be utilized early in the project life.

State law authorizes the establishment of the Port IFD to finance certain additional waterfront improvement projects, which include the removal of bay fill, storm water management facilities, shoreline restoration, maritime facility improvements, historic rehabilitation, and other improvement projects not included in non-Port IFDs. It is anticipated that both CFD and IFD financing will be required to implement the contemplated development projects. Among complex financing scenarios, there is the possibility of using later CFD taxes to reimburse the IFD for qualifying improvements it financed or "advanced" to the development project – and thereby making the IFD proceeds available to finance additional authorized waterfront improvements.

2. Port use of CFDs

The Port has not yet used CFDs, but is considering their use for development projects as a means to establish early cash flow that will then be replaced by IFDs, including the Pier 70-Forest City and SWL 337-Mission Rock Development. The Port will consider CFDs for other development projects as applicable.

VI. DEVELOPER FUNDED PUBLIC INFRASTRUCTURE

1. Process of developer financed/constructed infrastructure on public land

Port staff evaluates facility infrastructure needs. If the Port does not have the capital available to complete improvements, then the department releases competitive Requests for Proposals (RFP) to establish Public Private Partnerships (P3s) that will bring in developer equity to complete work. Generally the Port releases RFPs through a competitive process to identify the best developer proposals.

Use of rent credits, rent abatements

Rent credits may be used to reimburse developers for extraordinary costs, such as seismic and substructure repairs, for which there are no other funding sources available. The Port may also consider the use of its own capital funding and/or issuance of debt to support P3 infrastructure improvements. IFDs and CFDs are a fairly recent addition to the Port's arsenal of alternative funding sources.

The extent of the use of rent credits is negotiated through the development agreement process. First, enter into an Exclusive Negotiating Agreement (ENA) that must be approved by the Port Commission. Next, the Port Commission and Board of Supervisors must approve the 1) Term Sheet, 2) Lease Development and Disposition Agreement (LDDA) and 3) Lease Agreement related to the project. Rent credits may be part of the overall financing strategy.

VII. REFERENCE MATERIAL[3]

General

California Debt Issuance Primer Handbook (2006), California Debt and Investment Advisory Commission
http://www.treasurer.ca.gov/cdiac/debtpubs/primer.pdf

California Debt Issuance Primer (2006), California Debt and Investment Advisory Commission
http://www.treasurer.ca.gov/cdiac/debtpubs/primer.pdf

Mello-Roos

An Introduction to California Mello-Roos Community Facilities Districts (2006), Orrick, Herrington & Sutcliffe, LLP
https://www.orrick.com/Events-and-Publications/Documents/1180.pdf

Debt Policies

City and County of San Francisco (2013), Office of Public Finance, Controller

http://sfcontroller.org/sites/default/files/FileCenter/Documents/385-CCSF%20Debt%20Policy.Jun-2013.pdf

Port of San Francisco

http://sfport.com/sites/default/files/FileCenter/Documents/8250-Port%20Debt%20Policy-approved%207-14-09.pdf

[3] Note the publication date of each reference item. Legislative and/or other changes may impact may impact full relevance to current and specific situations. For example, CDIAC materials published in 2006 were updated as of December 31, 2005.