MEMORANDUM

September 18, 2020

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Informational presentation on a Mission Rock Community Facilities District financing, including the bond documents and Preliminary Official Statement, to partially fund Phase I horizontal improvements at Seawall Lot 337.

DIRECTOR'S RECOMMENDATION: Information Only – No Action Required

EXECUTIVE SUMMARY

The Mission Rock Project at Seawall Lot 337 and Pier 48 is a mixed-use development project that will create up to 1,200 units of housing, 1.4 million square feet of new office space, and a new waterfront park across from Oracle Park. After more than a decade of planning, the project is preparing to break ground on horizontal infrastructure construction and vertical development in the coming months. To fund the horizontal infrastructure improvements, the Port, City, and Developer will issue bonds using tax districts around the project. In 2018, the City formed Infrastructure Financing District No. 2 (Port of San Francisco) Project Area I at Seawall Lot ("SWL") 337, and in 2020, the City formed Special Tax District No. 2020-1 (Mission Rock Facilities and Services), a Community Facilities District. The proposed financing will utilize both sources, with the Community Facilities District acting as the security for the bond and the short-term source of debt service payments while the Infrastructure Financing District provides long-term sources.

THIS PRINT COVERS CALENDAR ITEM NO. 8A

STRATEGIC PLAN

This item and the Mission Rock Project as a whole support the efforts of the Port's Strategic Plan to enhance and balance the Port's maritime and economic purpose, rich history, and changing relationship with the City so the waterfront continues to be a treasured destination.

PROJECT BACKGROUND

On January 30, 2018, the Port Commission approved a mixed-use development project known as Mission Rock at Seawall Lot 337 and Pier 48 ("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 Disposition and Development Agreement ("DDA") and related agreements between the Port and the Developer govern the Project's development.

The entitled Mission Rock project anticipates up to 1,200 units of new rental housing including 40 percent affordable units, 1.4 million square feet of new commercial and office space, rehabilitation of historic Pier 48, space for small-scale manufacturing, retail and neighborhood services, waterfront parks, and public infrastructure. The Mission Rock mixed-use project is located at SWL 337 and Pier 48 bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay.

The Project, 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.

LOCAL BUSINESS ENTERPRISE STATUS

The Mission Rock project was one of the City's first development projects to commit to a Local Business Enterprise ("LBE") participation goal. To date the project has achieved an overall 18.55% LBE participation, exceeding its 10% pre-construction goal, and is closing in on the 20% LBE participation goal during Construction. It is estimated that Pre-construction work constitutes approximately 5-10% of overall total project costs and the project team is optimistic about continuing to increase LBE participation during the remaining construction phase procurement, the majority of which is projected to be completed through the end of the year.

Working collaboratively with general contractors, RDJ Enterprises, Monica Wilson, Port staff, and the San Francisco Contract Monitoring Division, the project team recently implemented additional barrier mitigation strategies to help identify and assist local and historically underrepresented businesses become more competitive during the bid and awarding process. As a result of these efforts during the second quarter of 2020, $3.10 million (11.90%) was awarded to women-owned small businesses based in San Francisco and $1.53 million (5.87%) was awarded to minority-owned small businesses based in San Francisco. In total, $4.92 million (18.92%) of contract dollars were awarded to LBE businesses in the second quarter of 2020.

Several LBEs joined the Mission Rock project for the first time in the second quarter of 2020 including Marinship, Transamerica Survey, and Bertco. Additionally, Y-CAT Construction, HVYW8 Inc., and Giron Construction have received increased scopes on existing contract work during this period. These results are an early indication that current strategies are having positive impacts.

FINANCING BACKGROUND

On September 20, 2019, the Port Commission approved the Phase 1 Budget of the Project, which outlined the expected costs and revenue sources for the phase improvements. The Phase 1 budget included:

- **Project Costs.** Projected hard costs, soft costs, and return on Developer equity for the Phase 1 Horizontal Infrastructure improvements.
- **Projected Revenues.** Sources include:
    - The four Phase 1 prepaid leases
    - Public financing sources including Community Facilities District (CFD) bond proceeds, CFD pay-as-you-go ("pay-go") taxes (those not dedicated to bond debt service), and Infrastructure Financing District (IFD) pay-go taxes

Table 1 below summarizes the Phase 1 budget sources and uses.

*Table 1. Phase 1 Overview of Sources and Uses ($ 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 are rounded and thus may not appear to sum precisely.

The Board passed an ordinance establishing Project Area I (Mission Rock) of Infrastructure Financing District No. 2 (Port of San Francisco) (the "IFD") on February 27, 2018, which the Mayor signed on March 6, 2018.

On April 14, 2020, the Board of Supervisors passed a resolution approving the formation of the Mission Rock Special Tax District on No. 2020-1 (Mission Rock Facilities and Services) (the "CFD"). The Mayor signed this resolution on April 24, 2020. On May 5, 2020, after a public hearing and landowner vote, the Board approved a resolution determining a not to exceed bond indebtedness limit of $3,700,000,000 for the CFD, which the Mayor signed on May 15, 2020. Finally, the Board of Supervisors passed an ordinance levying special taxes within the CFD on May 12, 2020, which was signed by the Mayor on May 22, 2020.

Combined, these two tax districts will provide the revenues for the bonds discussed within this report. The IFD generates revenues by capturing tax increment, the increase in ad valorem (property) taxes within the district after the base year of 2017-2018. The CFD includes four separate special taxes:

1. **Development Special Tax** – funds horizontal infrastructure on the site; expected 45-year life
2. **Office Special Tax** – funds horizontal infrastructure on the site; 120-year life
3. **Shoreline Special Tax** – a source for ongoing shoreline protection studies and facilities; Shoreline Taxes from Phase I can also fund horizontal infrastructure on the site; 120-year life
4. **Contingent Services Special Tax** – funds ongoing maintenance and services of the area if the HOA does not provide these services

FINANCING OVERVIEW

The proposed Mission Rock financing will utilize both the CFD and IFD sources. In the near-term, only the CFD Development Special Taxes will be pledge to debt service on the CFD bonds. This bond issuance will not pledge any of the other three CFD taxes. The CFD structure allows tax increment generated in the IFD to "offset" the CFD Development Special Taxes. The offset increases the value of the Port's land by reducing the long-term tax burden on the site. Under this offset structure, tax increment from one year acts as a credit for the next year's CFD Development Special Tax obligation once the developed property is assessed. Table 2 below illustrates a simplified example the relationship between CFD Development Special Taxes and tax increment for the Project.

For example, in Year 1, the property lessee owes CFD Special Taxes and property taxes. However, the IFD tax increment generated in early years will not act as a credit until the property meets certain milestones, which are assumed to occur in Year 2. In Year 2, the lessee owes both CFD Special Taxes and property taxes. The IFD tax increment generated in Year 2 now serves as a credit for CFD Development Special Taxes in Year 3. In Year 3, the lessee owes all IFD taxes but receives a credit of their CFD Development Special Taxes from the prior year's IFD taxes (they can only receive a credit up to the maximum CFD special tax). In Year 4, the lessee owes IFD taxes but again receives the prior year's IFD as a full credit offset for CFD Development Special Taxes. This pattern will continue for the life of the CFD Development Special Tax and IFD, assuming no changes to the property.

Table 2. Mission Rock CFD Offset Structure

	Year 1	Year 2	Year 3	Year 4
CFD Development Special Tax	1,000,000	1,000,000	1,000,000	1,000,000
IFD Tax Increment	400,000	1,100,000	1,100,000	1,100,000
Offset to CFD Special Tax	0	0	(1,000,000)	(1,000,000)
Total Taxes	**1,400,000**	**2,100,000**	**1,100,000**	**1,100,000**

*Arrows show the Tax Increment from the previous year acting as a credit to the CFD Tax.

To ensure tax increment from the IFD will fund debt service on the CFD special tax bonds, the proposed legislation will include a form of Pledge Agreement, pursuant to which the IFD pledges to provide tax increment to the CFD for the purpose of debt service. Therefore, once the Mission Rock properties are assessed, the ongoing tax increment from the IFD will fund debt service payments on the CFD special tax bonds. Table 2 shows this debt service payment structure in Years 3 and 4, which is anticipated to continue for the life of the bonds.

Two factors will limit the amount of CFD special tax bonds sold: 1) the ongoing tax revenue capacity; and 2) an appraisal of the value of the CFD. Ongoing tax capacity must be 110 percent of the debt service requirement on any CFD special tax bonds. For example, if the annual debt service payments are $1.0 million, the annual CFD special tax revenue must be at least $1.1 million.

The value of the CFD – determined by an appraisal – acts as the security for the bonds. If at any time the CFD were to default on its debt service obligation, the City covenants to foreclose on parcels with delinquent special taxes and use the proceeds of any sale to repay delinquent special taxes and thus pay bondholders outstanding debt payments. As a policy, the City has a 3:1 value-to-lien ratio, meaning the value of the underlying CFD must be three times the value of bonds sold. For example, the Phase 1 budget projected an appraised CFD value of $120 million (value), which would allow for a $40 million bond (lien).

This issuance will use the value of the entire CFD as a security but be sized for the Development Special Taxes from only the four Phase 1 parcels. The CFD appraisal is still in progress, but based on preliminary work, staff anticipate the value will be at least $120 million for the entire 11-parcel CFD (note: the CFD excludes Pier 48, which is an annexation area, and the proposed parking garage, which is not subject to the CFD tax). The Development Special Tax revenues on the first four parcels will far exceed the coverage required for the initial CFD bonds; however, staff anticipate the appraisal will limit the size of CFD bonds issued until the development is substantially built out. Table 3 below shows the expected annual Development Special Tax revenues for debt service on the Bonds.

Table 3. Mission Rock CFD Projected Development Special Tax Revenues

Planning Parcel	FY20-21 Expected Maximum	FY20-21 Actual Levy	FY21-22 Actual Levy	FY22-23 Actual Levy	FY23-24 Actual Levy
Parcel A	$1,598,937	$207,107	$246,340	$35,566	$589,116
Parcel B	$1,690,703	$218,993	$260,477	$37,607	$622,926
Parcel F	$988,931	$128,094	$152,359	$21,997	$364,364
Parcel G	$1,878,431	$243,309	$289,400	$1,954,320	$692,094
Other Parcels	$8,025,363	$1,039,507	$1,236,424	$178,510	$0
Total	**$14,182,366**	**$1,837,010**	**$2,185,000**	**$2,228,000**	**$2,268,500**

Notes: Other Parcels includes all eight parcels from Phases 2-4 except the proposed parking garage in Parcel D. Actual tax levy shows amounts for debt service on the Bonds only.

CFD SPECIAL TAX BONDS

Based on the current projection, staff anticipate bring the Port Commission a resolution supporting the approval of a sale of Special Tax Bonds in a par amount not to exceed at least $40,000,000. Depending on final valuation of the CFD appraisal, additional CFD special tax revenue information, and market conditions, these figures may change in the coming weeks.

The Port and Developer executed a parcel lease for Parcel G on June 25, 2020. Parcel lease signing triggers the levying of the Development Tax in the fiscal year after the 24-month anniversary of the execution. Thus, Parcel G will be subject to the Development Special Tax in Fiscal Year (FY) 2022-23. The Port and Developer anticipate executing Parcel Leases for Parcels B, F, and G within the next few weeks, which will make these Parcels subject to Development Special Taxes starting in FY2023-24. Prior to then, the Development Special Tax will be levied on the undeveloped property based upon each parcel’s expected square footage and use, in accordance with the Rate and Method of Apportionment approved by the Board of Supervisors, to provide revenues to fund any debt service obligations.

The CFD bond proceeds will finance or reimburse 1) entitlements and horizontal improvements for the Project, 2) a Reserve Fund, 3) capitalized interest on the CFD bonds, if any, 4) administrative expenses, and 5) costs of issuance. Proceeds of the initial issuance of CFD bonds will reimburse the Developer for outstanding Entitlement Costs and the initial stages of Phase I horizontal improvements (e.g. utilities, streets, sidewalks, parks, etc.).

*Method of Sale & Bond Purchase Agreemen*t: The City’s financial advisors and bond underwriters recommend a negotiated sale for this transaction. The CFD bonds will be secured as to repayment from special tax revenues from specific projects within the Mission Rock CFD and are outside of the City's customary credit profile. Prior to formation, the Office of Public Finance selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve as Senior Underwriter. Stifel is in the City's Underwriter Pool, which was established via a competitive process. A future Board of Supervisors Resolution will approve the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to Stifel.

NEXT STEPS

Staff will return at a future Port Commission meeting when the Preliminary Official Statement ("POS") and CFD Appraisal drafts are finalized to request adoption of a resolution supporting the Board of Supervisors' approval of the Mission Rock CFD financing, including the bond documents and POS, and authorizing and directing the Executive Director to cause the package to be submitted to the Board of Supervisors and to work with the Director of the Office of Public Finance to finalize and cause the distribution of the POS.

After Port Commission approval, staff will work with the Office of Public Finance to seek Board of Supervisors approval of the bond documents and POS. With this approval, the Office of Public Finance will lead the distribution of the POS and sale of bonds. Table 4 below shows an estimated timeline of key financing items.

Table 4. Mission Rock CFD Financing Schedule

Item	Date
Port Commission Approval of Resolution	October 2020
Capital Planning Committee Presentation	Oct/Nov 2020
Introduction of Legislation to Board of Supervisors	Oct/Nov 2020
Budget & Finance Committee Hearing	Nov/Dec 2020
Board Approval of Legislation	Nov/Dec 2020
Sale and Closing of Bonds	January 2020

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