

MEMORANDUM

September 20, 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: Request (1) Approval of Phase 1 Budget and other key implementing actions including the Affordable Housing Subsidy Plan and increases to the Community Facilities Special Tax Rates for the Mission Rock Project at Seawall Lot 337, bounded by China Basin Channel, Third Street, Mission Rock Street and San Francisco Bay; (2) adoption of the Mission Rock Parks Plan as required in the Development Agreement. (Resolution No. 19-39)

Request resolution of support for the formation of a nonprofit, "Mission Rock Utilities" entity to operate a District Energy System and Non-Potable Water Plant providing recycled water and thermal energy to Mission Rock residents and commercial tenants. (Resolution No. 19-40)

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolutions

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 9, 2019 Port Commission informational hearing. This memorandum provides detailed analysis of the

proposed Phase Budget and Parks Plan, which were also summarized and presented as part of the September 10, 2019 Port Commission informational hearing.

Based upon Port staff and consultant team's analysis, Port staff recommend that the Port Commission adopt the following resolutions:

- **Resolution approving the Phase 1 Budget, directing staff to pursue implementing actions, and approving the Mission Rock Parks Plan.**

The Phase 1 Budget is \$145,427,289. Pursuant to the Mission Rock Development and Disposition Agreement (adopted by Port Commission Resolution No. 18-03), the Developer must achieve approval of each phase budget by the Port Commission prior to making expenditures on Project hard costs (in addition, Developer must secure a variety of regulatory approvals and permits). In order to implement the Phase 1 budget, the resolution directs Port staff to: (1) pursue formation of a Community Facilities District as described in **Table 5**; (2) increase the Mission Rock Jobs Housing Equivalency Fee imposed on non-residential uses to support development of affordable housing at the Project as described in **Exhibit 4**; (3) execute the Affordable Housing Subsidy Plan which provides for the fee revenue transfer described in (2); and allow \$1.7 million in entitlement costs to be deferred for reimbursement until a later phase with no additional accrual of return.

In addition to the Phase 1 Budget, the resolution also approves the Mission Rock Parks Plan. The sitewide Parks Plan sets forth the goals and objectives for the 8 acres of parks and open space at Mission Rock, provides an estimated level of required staffing and maintenance, operations, and programming budget, describes public and private programming and events that may occur onsite, and describes a preferred management approach whereby the Port would seek to enter into a concessions, management, and operations contract with a management entity to execute the vision of the Parks Plan. Any such contract will be the subject of future Port Commission action.

- **Resolution of support for the formation of a nonprofit entity, "Mission Rock Utilities", 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.**

Mission Rock's unique site characteristics offer an opportunity for the neighborhood to pursue district wide, centralized energy and recycled water solutions. After consulting with SFPUC staff, the attached resolution supports the formation of a nonprofit to operate these systems which will be executed through a partnership between the Developer (then, ultimately the Mission Rock Master Association) and a District-scale utility provider. The operator achieving nonprofit status will benefit the Mission Rock project by bringing lower-cost financing to support construction of the two systems, which will allow lower utility rates and lower building operating costs.

On October 5, 2017 By Motion No. 20018, the Planning Commission certified the completion of the Mission Rock Project Final EIR in compliance with requirements of the California Environmental Quality Act (“CEQA”). In connection with project approvals, the Port Commission and the Board of Supervisors each adopted CEQA findings for the Project and approved required mitigation measures and a Mitigation Monitoring and Reporting Program by Port Resolution No. 18-03 (January 30, 2018) and Board Resolution No. 33-18 (March 6, 2018), respectively. The Phase 1 submittal is consistent with the project analyzed in the Final EIR, and the approval of this Phase 1 submittal requires no additional review under CEQA.

This memorandum also provides information on the structure of a proposed Operation, Management, and Concession Agreement (the “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 pursue final negotiations based on Port Commission direction and to return to a subsequent Port Commission meeting with a request for action on a proposed Operation, Management, and Concession Agreement, currently planned for late this fall.

Refinements Since Informational Item

This report includes all the information presented in the staff report for the September 10, 2019 Port Commission informational hearing on the Mission Rock Phase 1 Budget Submittal, Parks Plan, and Parks and Public Space Operation, Management, and Concession Agreement. Additional information and refinements to the Phase 1 informational item are shown in underline.

Since the informational item Port staff have presented information about the Phase 1 Budget, Parks Plan, and Operation, Management, and Concession Agreement at the September 2018 meetings of CWAG and NEWAG. Staff will present both items at the September 25th SWAC meeting.

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, clearing the way for Tentative Map approval via a Public Works Director’s Order.

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

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.

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.

Port staff reviewed the Phase Submittal in conjunction with staff from City Planning San Francisco Metropolitan Transportation Agency (SFMTA), and Mayor's Office of Housing and Community Development (MOHCD). City Planning and SFMTA provided requests for clarifications to improve the Phase Submittal. Pursuant to MOHCD's status as Port's advisor relative to the Housing Plan attached to the DDA, MOHCD reviewed the proposed

inclusionary housing program in detail (see **Exhibit 7** which includes a housing data table). Port staff, in consultation with MOHCD, found that the provision of below market rate units for Phase 1 meets the requirements of the Mission Rock Housing Plan.

Phase 1 includes the following estimated program elements²:

- 560 apartment units
 - 202 of which are below market rate units
- 550,000 gross square feet office
- 65,000 gross square feet of retail
- 5.5 acres of parks and open space
- District energy system located in Parcel A which will serve all of Mission Rock
- District scale Non-Potable Water Plant located in Parcel B which will serve all of Mission Rock's recycled water needs

Key public benefits including affordable housing, parks and open space, sustainability strategy goals, and workforce and local hire meet or exceed those required in the DDA and the Development Agreement.

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

Figure 1. Original and Proposed Phase 1



² Note these program elements are estimated based on preliminary building designs and infrastructure layout. Actual buildings and the exact size of parks and open space will vary as construction documents are finalized through the permit review process.

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*	<u>16.9</u>	<u>73.8</u>	<u>90.7</u>
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	-	<u>47.2</u>	<u>47.2</u>
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 and Construction Timeline

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			

The Phase 1 horizontal construction schedule is estimated to take 24 months, beginning from construction commencement. The outside date for completion of construction is 5

years. Developer must seek Port Commission approval to extend the construction schedule beyond 5 years.³

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.⁴
- **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

³ Unless the Developer can demonstrate an "excusable delay" – such as litigation – has caused a schedule delay.

⁴ If the Phase 1 budget is approved by the Port Commission, the Developer can enter a Guaranteed Maximum Price (GMP) contract with the company.

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.

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)⁵ 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

⁵ 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.

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.

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 near 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)⁶	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**.

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.

⁶ Note this Fee is significantly higher than the Jobs Housing Linkage Fee in San Francisco. The Phase 1 budget Port Commission approvals contemplated in this memorandum 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,⁷ 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.

⁷ 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 (see Exhibits 8 and 9 for memoranda).
- (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 which is 5 years after construction commencement,
- (ii) obligate the Port to submit a Fiscal Year budget consistent with the Phase Budget,
- (iii) authorize the Chief Harbor Engineer (CHE) and the Director of Public Works to issue relevant construction permits,
- (iv) establish the upper limit of Developer spending that is eligible for reimbursement at the 18 percent developer return rate for Phase 1 equal to \$145,427,289, and
- (v) add a condition that all four Phase 1 parcels must be conveyed to a vertical developer before the Port will be authorized to issue a notice to proceed to Developer to begin horizontal construction.

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 and the Development Agreement requires that the Port set minimum fees per parcel which must be paid, regardless of the number of actual square feet that are ultimately developed on the parcel.

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 minimum fees which must be paid by Parcel B and Parcel G developers. This fee level was the assumed fee level 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 a subsidy to BMR units within the proposed range.

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.

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

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 and a District scale Non-Potable Water Plant 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.⁸

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 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. Attached as part of this memorandum is a resolution of support for nonprofit formation for Port Commission consideration.

⁸ 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.

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* (see **Exhibit 5**) 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. This memorandum describes and seeks approval of the Mission Rock Parks Plan. Port staff anticipate presenting a Parks Operation, Management, and Concession Agreement for consideration in a subsequent Port Commission meeting.

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 Wharf
- Channel Street and Channel Lane
- 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
TOTAL		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, so long as capital repair reserves are sufficiently funded, 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 and Parks Plan 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.

- **Park design review.** China Basin Park open house to review park design on October 1 from 6 to 8 p.m. at Oracle Park; schematic design review by Port's Design Advisory Committee in November; and Port Commission consideration of approval of park design in December.
- **Parks and open space operation, management, and concession agreement approval.** Port staff will present request for agreement approvals to the Port Commission later in 2019.
- **CFD Formation.** Port Staff anticipate bringing the Resolution of Intention and then the Resolution of Formation for the Mission Rock CFD to the Board of Supervisors later in 2019 and in early 2020.

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EXHIBITS

1. DDA Excerpts
2. Port Revenue Projection
3. Illustrative Phase 1 Housing Rental Rates Mix
4. Mission Rock Jobs Housing Equivalency Fee
5. Parks Plan
6. Affordable Housing Subsidy Plan
7. Phase Submittal Summary
8. Economic Consultant Phase 1 Budget Technical Memorandum
9. Cost Estimator Technical Memorandum
10. San Francisco Public Utilities Commission Letter of Support for the Formation of a Nonprofit District Utilities Management Entity

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO**

RESOLUTION NO. 19-39

WHEREAS, Beginning in 2006, the Port initiated an intensive planning process that has culminated in a project that will restore and redevelop an approximate 28-acre site located along the Central Waterfront comprised of (1) Seawall Lot 337, bounded by Third Street on the west, Parcel P20 and Mission Rock Street on the south, Pier 48 to the east, and China Basin Park on the north; (2) Pier 48; (3) China Basin Park; (4) the marginal wharf between Pier 48 and Pier 50; and (5) Parcel P20 (collectively, the “Site”); and

WHEREAS, From 2007 to 2010, the Port conducted a community process that evaluated the unique conditions and opportunities at the Site and built a public consensus for its future within the policies established for the South Beach/China Basin Waterfront in the Port’s Waterfront Land Use Plan; and

WHEREAS, In May 2010, by Resolution No. 10-32, the Port Commission awarded to Seawall Lot 337 Associates, LLC, a Delaware limited liability company (“Developer”), through a competitive process, the opportunity to negotiate exclusively for the mixed-use development of Seawall Lot 337 and Pier 48, and the Port Commission later added China Basin Park, the marginal wharf between Pier 48 and Pier 50, and Parcel P20 to the development opportunity (collectively, the “Project”); and

WHEREAS, Developer is a limited liability company, which is wholly owned by TSCE 2007 Mission Rock, L.L.C. and Giants Development Services, LLC, the former is an affiliate of Tishman Speyer Properties, L.P., and the latter is an affiliate of San Francisco Baseball Associates, LLC, the Major League Baseball franchise holder of the San Francisco Giants; and

WHEREAS, In March 2013, by Resolution No. 13-10, the Port Commission endorsed a term sheet for the Project (the “Term Sheet”); and

WHEREAS, In May 2013, by Resolution No. 142-13, the Board of Supervisors found the Project fiscally feasible under Administrative Code - Chapter 29 and endorsed the Term Sheet for the Project now known as “Mission Rock”; and

WHEREAS, In January 2018, by Resolution No. 18-03, the Port Commission approved the terms of a Disposition and Development Agreement between the Port and the Developer (the “DDA”), and related transaction documents that are incorporated into the DDA, and provide an overall road map for development of the Project, including: a Financing Plan; an Infrastructure Plan; a Housing Plan; a Transportation Plan; a Transportation Demand Management Plan; a Workforce Development Plan; an LBE Utilization

Program; Mitigation Monitoring and Reporting Program and forms for an interim Master Lease, a Vertical Disposition and Development Agreement, and a Parcel Lease; and

WHEREAS, Concurrently with Resolution No. 18-03, the Port Commission authorized a number of other actions in furtherance of the Project, including: (1) consenting to amendments to the Planning Code that create the Mission Rock Special Use District (“Mission Rock SUD”) over the Site and related amendments to the zoning maps, as set forth in Resolution No. 18-04; (2) consenting to the Development Agreement between the City and County of San Francisco and Seawall Lot 337 Associates (the “DA”) as it relates to matters under Port jurisdiction, as set forth in Resolution No. 18-06; (3) approving the Design Controls, which provide more detailed land use controls for the Mission Rock SUD and conforming amendments to the Waterfront Land Use Plan, as set forth in Resolution No. 18.05; (4) approving and recommending that the Board of Supervisors approve a Memorandum of Understanding for Interagency Cooperation among the Port, and other City agencies with respect to approvals related to the subdivision of the Site and construction of infrastructure and other public facilities, Resolution No. 18-07; (5) recommending that the Board of Supervisors approve formation proceedings for sub-project areas to Project Area I of City and County of San Francisco Infrastructure Financing District No. 2, as set forth in Resolution No. 18-08; and (6) entering into a Memorandum of Understanding between the Port and the Treasurer-Tax Collector and the Controller regarding the collection and allocation of ad valorem and special taxes to the financing districts, as set forth in Resolution No. 18-09; and

WHEREAS, In February 2018, the Board of Supervisors approved the DDA by Resolution No. 42-18, and approved the DA by Resolution No. 33-18; and

WHEREAS, Under the DDA and related transaction documents, at full build-out, the Project will include: (1) 1.1 million to 1.6 million gross square feet (“gsf”) of new residential uses (an estimated 1,000 to 1,950 new residential units), at least 40% of which will be on-site affordable housing as described in the Housing Plan attached to the DDA; (2) 972,000 to 1.4 million gsf of new commercial and office space; (3) 241,000 to 244,800 gsf of active retail and production uses on 11 proposed development blocks on Seawall Lot 337 in buildings that would range in height from 90 to 240 feet; (4) the rehabilitation and reuse of Pier 48, a significant contributing resource to the Port of San Francisco Embarcadero Historic District; (5) up to approximately 1.1 million gsf of above- and below-grade parking in one or two garages; (6) transportation demand management on-site and payment of impact fees that the Municipal Transportation Agency will use to improve transportation service in the area; (7) approximately 5.4 acres of net new open space for a total of approximately 8 acres of new and expanded open space, including an expansion of China Basin Park, a new central Mission

Rock Square, and waterfront access along the shoreline; (8) public access areas, assembly areas, and an internal grid of public streets, shared streets, and utilities infrastructure; and (9) on-site strategies to protect against sea level rise; and

WHEREAS, The DDA governs: (1) Developer's obligations to complete horizontal development of the Project, including entitlements, site preparation, subdivision and construction work related to streets and sidewalks, public realm amenities (e.g., parks and open space), public utilities and shoreline area improvements (together, "Horizontal Development"), all to create development parcels and support and protect buildings; and (2) Developer's option to ground lease developable lots in the Site for vertical development, all in accordance with all of the governing land use and entitlement documents, including the Development Agreement, Mission Rock SUD, and Design Controls; and

WHEREAS, The DDA also governs Developer's obligations to deliver various public benefits, at full buildout, including: (1) providing 40 percent of all on-site residential units for households earning 45 to 150 percent of Area Median Income or less as further described in the Housing Plan; (2) approximately 5.4 acres of net new open space for a total of approximately 8 acres of new and expanded public open space maintained by special taxes paid by owners of the onsite vertical developments; (3) elevation of the Site and shoreline protection special taxes to protect against sea level rise, storm surges and periodic flooding along the Port's Bay waterfront; (4) robust local hiring, Local Business Enterprise commitments and good faith efforts as further described in the Workforce Development Plan and the LBE Utilization Program; (5) commitments to renewable energy, vehicular trip reduction, water recycling and waste diversion as further described in the Sustainability Strategy; (6) commitment to in-lieu transportation fees and fair share contributions to City transit projects serving the Site and its surroundings; and (7) a City option for up to 15,000 square feet of on-site community facility space; and

WHEREAS, The DDA allows the Port Commission to set the minimum Mission Rock Jobs Housing Equivalency Fees ("JHEF") and the DA requires that the Port set minimum JHEF per parcel; and

WHEREAS, The DDA requires that, prior to Developer making any presentations to the Port Commission regarding the schematic design of public spaces, Developer will host at least one public presentation of its design and present the design to a committee of design professionals designated by the Port Director; and

WHEREAS, On April 4, 2019 Developer submitted to the Port its "Phase Submittal" for "Phase 1" that included a proposed change to the boundary of Phase 1 from the boundary depicted when the DDA was approved; this proposed

boundary change specifies that parcels A, B, G and F, China Basin Park and adjacent streets and paseos comprise Phase 1. The Phase Submittal for Phase 1 was reviewed and approved by Port staff based upon the criteria set forth in the DDA for such approvals and is fully described and depicted in the staff report attached to this resolution; and

WHEREAS, Pursuant to the DA, as part of the Phase 1 approvals the Port Commission will adopt a parks plan that includes the proposed parks management entity, an operating budget, procedures for public events, maintenance plan, funding plan, park rules and regulations, and other information related to the successful management of the parks and open space, and a programming activation plan and special events plan that encourage programmed events and activities; and

WHEREAS, The DDA includes a Schedule of Performance that provides 60 months from the Phase 1 Notice to Proceed as the outside date for the completion of construction of all public infrastructure approved for Phase 1, including streets, utilities and parks; and

WHEREAS, The phase budget component of Developer's Phase Submittal totaled \$145 Million and after review by Port staff was determined to meet the requirements for Port Commission approval in that it: (1) is consistent with the project requirements and satisfies the project's budget guidelines; (2) is based on reasonable projections; (3) provides for sources sufficient to fund Phase 1; (4) would not adversely affect project payment sources available to satisfy the project payment obligation for any later phases; (5) would not impair the Port's fiduciary obligations under applicable Port laws; and

WHEREAS, The Port and Developer agree that in order to proceed with construction of horizontal improvements for Phase 1, the four Phase 1 parcel leases for Parcels A, B, G and F, must all close in advance of the issuance of a notice to proceed; and

WHEREAS, The DDA (1) establishes processes to ensure that the Port receives fair market value for the lease of all parcels as established by appraisal or public offerings on the open market; (2) provides for on-site inclusionary affordable housing, with impact fees payable by developers of commercial parcels used to support development of the affordable housing; (3) provides for the use of nontrust revenue sources in the form of tax increment and special tax revenues to the extent necessary to ensure the Project's fiscal feasibility; and (4) provides for the Port to be repaid, with interest, from nontrust revenues for costs of constructing infrastructure and public facilities needed and desired to support development at the Site; and

WHEREAS, The Financing Plan provides that (1) Developer is responsible for funding all entitlement costs and the costs of constructing Horizontal Development to the extent other Project sources are not available, subject to

reimbursement; (2) Developer's costs will be repaid with an 18% market rate of return (along with certain minimum return metrics) from a number of potential sources, including rent credits, lease proceeds, community facilities district and infrastructure financing district proceeds, and, at the Port's discretion, Port capital; and (3) after the Project reaches a certain rent threshold, Developer will participate in annual ground rent revenues as an incentive for efficient buildout of the Site; and

WHEREAS, The Port will coordinate the implementation of the Housing Plan attached to the DDA with the Mayor's Office of Housing and Community Development ("MOHCD") to ensure that the requirements set forth in the Housing Plan, including the on-site inclusionary unit locations, construction phasing, income verifications and the marketing plan for the affordable units are met; and

WHEREAS, Port staff, in consultation with MOHCD staff, has determined that the Phase 1 housing plan meets the requirements set forth in the Affordable Housing Plan attached to the DA; and

WHEREAS, The actions contemplated in this resolution are within the scope of the project for which the Port Commission (Resolution No. 18-06) and the Board of Supervisors (Resolution No. 33-18) adopted on January 30, 2018 and March 6, 2018, respectively, affirmed the Planning Commission's certification of the Final Environmental Impact Report for the Seawall Lot 337 and Pier 48 Mixed-Use Project (Planning Commission Motion No. 20018) and made findings in accordance with the California Environmental Quality Act (California Public Resources Code section 21000 et. seq.) and Administrative Code Chapter 31, which resolutions are incorporated herein by reference; now, therefore be it

RESOLVED, In accordance with the DA, the minimum Mission Rock Jobs Housing Equivalency Fee ("JHEF") for Parcel B shall be no less than \$74.9 Million and the minimum JHEF for Parcel G shall be no less than \$60.4 Million; and

RESOLVED, That the Port Commission adopts a parks plan in the form attached to the staff report and authorizes the Executive Director of the Port, or her designee, to enter into any amendments or modifications necessary or appropriate to implement the parks plan in accordance with this resolution; and be it further

RESOLVED, That the Port Commission approves the \$145 Million Phase 1 budget and finds in accordance with DDA Section 3.5(e) that it: (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; (4) would not adversely affect project payment sources available to satisfy the project payment obligation for any

later phases; (5) would not impair the Port's fiduciary obligations under applicable Port laws; and be it further

RESOLVED, To the extent that implementation of the DDA involves the execution and delivery of additional agreements, notices, consents and other instruments or documents by the Port, including, without limitation, the Master Lease and instruments leasing development parcels to vertical developers (such as the Parcel Leases and Vertical Disposition and Development Agreements) (collectively, "Subsidiary Agreements"), the Executive Director, or her designee, is authorized to execute all such Subsidiary Agreements so long as the transactions governed by such Subsidiary Agreements are contemplated in, and comply with the terms of, the DDA, and with respect to the Master Lease, Parcel Leases and Vertical Disposition and Development Agreements, are substantially in the form of the Master Lease, Parcel Lease and Vertical Disposition and Development Agreement attached as Exhibits to the DDA and do not materially increase the obligations or liabilities of the Port or the City or materially decrease the public benefits to the Port or the City, and are necessary or advisable to complete the transactions described in this DDA and to effectuate the purpose and intent of the authorizing resolutions if the Executive Director determines, after consultation with the City Attorney, that the document is necessary or proper and in the Port's and the City's best interests; and be it further

RESOLVED, That the Port Commission authorizes and urges all officers, employees, and agents of the Port and the City to take all steps that they deem necessary or appropriate, to the extent permitted by applicable law, in order to implement the DDA in accordance with this resolution.

I hereby certify that the foregoing resolution was adopted by the San Francisco Port Commission at its meeting of September 24, 2019.

Secretary

**PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION No. 19-40**

WHEREAS, The Port Commission of San Francisco is a public body that is responsible for the seven and one-half miles of San Francisco Waterfront adjacent to San Francisco Bay, which the Port develops, markets, leases, administers, manages, and maintains; and

WHEREAS, The Port Commission, in conjunction with Seawall Lot 337 Associates, LLC, a Delaware limited liability company, has undertaken development of a new mixed-use neighborhood within its jurisdiction known as the Mission Rock Project (the “Mission Rock Project” or “Project”), that will include parks and open space, market and affordable rental housing, and public waterfront access as well sea level rise resiliency and adaptation features and historic rehabilitation of Pier 48; and

WHEREAS, The City of San Francisco and the Port Commission have approved ambitious sustainability, water conservation and renewable energy goals for the Mission Rock Project; and

WHEREAS, Mission Rock Utilities, Inc.(the “Corporation”), is in the process of incorporating as a nonprofit corporation to be operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, to provide thermal energy and recycled water services to customers within the Project through the design and construction of a new district energy system and black water recycling system and for use in soliciting public and private financing of such systems; and

WHEREAS, The Corporation will only serve the Project, its buildings, owners and office and retail tenants, the residents of the market-rate and affordable housing being constructed thereon, and the public open spaces and amenities; and

WHEREAS, The purpose of the Corporation is the provision of utility services in a manner that meets the Project’s and Port Commission’s goals for environmental sustainability and cost efficiency; and

RESOLVED, The Port Commission hereby supports the formation of the Corporation as a nonprofit entity to build and operate a thermal district energy system and a black water recycling system for the Project and encourages the Corporation to work with Port staff towards the provision of thermal energy and recycled water services to the Project.

I hereby certify that the foregoing resolution was adopted by the San Francisco Port Commission at its meeting of September 24, 2019.

Secretary