MEMORANDUM

November 8, 2012

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

FROM: Monique Moyer
      Executive Director

SUBJECT: Informational Presentation on the Fiscal Feasibility Analysis of Pier 70 20th Street Historic Buildings Term Sheet with Orton Development Inc. (“ODI”)

DIRECTOR’S RECOMMENDATION: Informational Presentation

On October 9, 2012, the Port Commission endorsed a term sheet for the lease and rehabilitation of the 20th Street Historic Buildings at Pier 701. The next step in review of this project is requesting that the Board of Supervisors also endorse the Term Sheet and authorize environmental review of the project by finding that the project is fiscally feasible as required under Administrative Code Chapter 29.

Fiscal feasibility review is an assessment of the public tax revenues generated and public capital funds to be invested for a proposed project. It provides policymakers the opportunity to assess if the benefits of a major project2 warrant the public investment in it prior to the City expending the resources needed to undertake environmental review. This analysis focused on the General Fund impacts of the project. Analysis supporting the rent structure included in the Term Sheet was provided to the Port Commission to support its October 9, 2012 action.

PROJECT SUMMARY

The purpose of this project is to rehabilitate the 20th Street Historic Buildings and make them once again a vibrant, integral part of the surrounding community. ODI will return the buildings to profitable use while maintaining their historic fabric.

1The Staff Report supporting that action is available at: http://www.sfport.com/index.aspx?page=2132
The RFP, ODI’s proposal, and background information is available on the Port’s website at: http://www.sfport.com/index.aspx?page=1559
2Projects greater than $25 million with over $1 million of public monies.
Proposed uses by building are as follows:

- Building 101 and 104, as former Bethlehem Steel and Union Ironworks office buildings will return to office use.
- The former Bethlehem steel cafeteria (in Building 101) will remain food production, while the former powerhouse (Building 102) will become a restaurant.
- The Union Ironworks Machine shop (Building 113) and surrounding warehouses (Buildings 114/115/116 and Building 14) will return to industrial and educational use as food, technology and arts production centers with ancillary office and retail.
- A limited number of caretaker residential units may be included in the project.

These buildings are in need of substantial investment. Two are unreinforced masonry buildings. All need full system replacements to provide new electrical, fire safety, phone, data, water, sewer and gas utilities and renovation to address current code requirements for structural stability, exiting, accessibility, and life safety. New roofs are required in most cases as well as remediation of asbestos, lead paint and other hazardous building conditions. The Port's 10 year Capital Plan estimates that returning these buildings to their current use would cost $109 million. Transferring this obligation to ODI and bringing these buildings back to productive use are the primary public benefits of this project.

**FISCAL ANALYSIS**

Attached is a fiscal feasibility analysis prepared by Keyser Marston Associates, Inc. on the ODI project. This project will create space for businesses and those businesses and their estimated 500 workers will pay taxes to the City estimated at $920,000 a year when fully occupied. Summarized as:

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Revenues (exc. property taxes)</td>
<td>$440,000</td>
</tr>
<tr>
<td>Other City Funds</td>
<td>$140,000</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>$340,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$920,000</strong></td>
</tr>
</tbody>
</table>

The Port anticipates in the future requesting Board of Supervisors approval of a Port infrastructure financing district to reinvest some or all of new property tax revenues generated at Pier 70 to meet Pier 70 infrastructure and park requirements. The public investment in the project is limited to $1.5 million from previously budgeted Port capital funds. The project is structured to have ODI assume all operating and maintenance costs of the buildings.

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3 These include specific programs for children, library, open space, transportation and public safety needs.
The Term Sheet provides for a participation rent structure with a guaranteed minimum rent starting in 20 years. Although the Port anticipates rent earlier than 20 years, to be conservative, the fiscal feasibility analysis did not address the Port rent for this property. As presented to the Port Commission on October 9, 2012, the primary economic benefit to the Port is removing from the Port’s capital backlog these buildings which currently represent $109 million of the Port’s unfunded capital needs. Preliminary projections suggest Port participation rent could begin in 2021 and the Term Sheet guarantees rent to the Port no later than 2033. Finally, this project preserves some of San Francisco’s most important and vulnerable historic resources and it can be a catalyst for the revitalization of Pier 70 as a whole.

**NEXT STEPS**

If the Board of Supervisors endorses the Term Sheet and finds that the project is fiscally feasible and that it is prudent to commence environmental review as required under Administrative Code Chapter 29, Port staff will move forward with project review and negotiation of transaction documents for the project. Throughout this process, there will be numerous opportunities for public comment and review of the proposed project.

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Through: Jonathan Stern, Assistant Deputy Director
Waterfront Development

For: Byron Rhett, Deputy Director
Planning and Development

Exhibits
A. Pier 70 Area Map
B. Keyser Marston Analysis