MEMORANDUM

October 3, 2013

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

FROM: Monique Moyer
      Executive Director

SUBJECT: Informational Presentation on the Orton Development, Inc. proposed project for the lease and rehabilitation of the 20th Street Historic Buildings on or near 20th and Illinois Streets at Pier 70

DIRECTOR’S RECOMMENDATION: Informational Only – No Action Required

EXECUTIVE SUMMARY

This memorandum describes the status of the proposed development agreement with Orton Development Inc. (“ODI”) to lease, rehabilitate and operate six historic buildings (the “Project”) included in the Pier 70 Master Plan area and shown as the Historic Core on Exhibit A. On October 9, 2012, the Port Commission endorsed the Term Sheet establishing the conceptual agreement by the parties of the terms of a transaction to realize the Project. Subsequently on December 4, 2012, the Board of Supervisors also endorsed the term sheet and conceptual project plans. Since then ODI and Port staff have been working to realize the project approved in concept.

The Project includes 267,000 square feet of existing buildings. The proposed project would add up to approximately 70,000 square feet of new space, primarily in mezzanines. Once rehabilitated, these historic office and industrial buildings would be used for a range of businesses, including light industrial, technology, life science, office, artisan/artist studios and showrooms, and restaurant uses.

THIS PRINT COVERS CALENDAR ITEM NO. 9A

1 Background on Term Sheet as well as the land use planning, competitive solicitation, and ENA authorization prior to the Term Sheet with ODI, as discussed in Item 9C on the October 9, 2012 agenda: http://www.sfport.com/index.aspx?page=2132
The proposed project would also create an indoor lobby/atrium in Building 113, and an outdoor courtyard/venue, both of which would be made accessible to the public.

Today’s presentation will brief the Port Commission and seek input on the following project aspects.
- Schematic designs and program for the project
- Updated project costs and funding sources
- Local contracting and hiring commitments
- Community outreach underway

Project approval is scheduled for early 2014 after completion of all needed reviews.

**PROJECT DESCRIPTION/SCHEMATIC DESIGNS**

ODI’s due-diligence and market testing have refined the Project but it remains conceptually the same as the project approved by the Port Commission and the Board of Supervisors in late 2012. Exhibit B is the narrative project description informing the CEQA analysis currently underway.

The Project consists of a collection of six major buildings, improvements to street networks surrounding the buildings and an exterior courtyard. The Project will save the buildings of the Pier 70 Historic Core and integrate the site into the local neighborhood. 20th Street will be designed to accommodate safe pedestrian thoroughfare with links to Crane Cove Park. Both the atrium lobby of Building 113 and exterior courtyard will host frequent activities and events open to the public. Buildings will generally return to the modern equivalent of their historic uses; former office buildings will return to office use with the technological capabilities required for modern businesses, while historic industrial buildings will return to light industrial use with accessory office and retail uses. All work will be consistent with the Secretary of the Interior’s Standards for the Treatment of Historic Properties (“Secretary Standards”).

Table 1 summarizes the Project by use and Table 2 provides a description of the planned rehabilitation of each structure. At the October 8, 2013 Port Commission meeting, the ODI team will present the current design concepts for the project.

<table>
<thead>
<tr>
<th>Buildings</th>
<th>Existing</th>
<th>New</th>
<th>Removed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office 101, 104</td>
<td>107,070</td>
<td>900</td>
<td>(522)</td>
<td>107,448</td>
</tr>
<tr>
<td>Industrial 113/114 115/116, 14</td>
<td>139,889</td>
<td>65,585</td>
<td>(4,548)</td>
<td>200,926</td>
</tr>
<tr>
<td>Commercial 102</td>
<td>11,266</td>
<td></td>
<td></td>
<td>11,266</td>
</tr>
<tr>
<td>Atrium 113</td>
<td>11,593</td>
<td></td>
<td></td>
<td>11,593</td>
</tr>
<tr>
<td>Total</td>
<td>269,818</td>
<td>66,485</td>
<td>(5,070)</td>
<td>331,233</td>
</tr>
<tr>
<td>Building 113/114</td>
<td>The Union Iron Works Machine Shop consists of two masonry buildings built from 1885-1888, later joined by a concrete connector in 1914. The brick sections of Building 113 will be split into two wings and be used as light industrial/flex space with ancillary office, showroom, and retail uses, while the historic foundry (Building 114) will remain a separate space for light manufacturing with ancillary office and retail. The center connector building will become a publicly accessible lobby and walkway to an exterior courtyard.</td>
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<tr>
<td>Buildings 115/116</td>
<td>The Union Iron Works Foundry &amp; Warehouse was constructed in 1916/1917 and comprises a three-bay reinforced concrete structure. The spaces will return to industrial use as light manufacturing with ancillary retail and office.</td>
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<tr>
<td>Building 101</td>
<td>Building 101, the 61,311 square foot former Bethlehem Steel Office building, will return to office use on the top four floors. The historic commissary on the park level floor is expected to return to industrial food production use or ancillary office uses.</td>
<td></td>
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<tr>
<td>Building 102</td>
<td>Building 102, the 11,266 square foot former Compressor House, currently houses BAE Ship Repair’s electrical distribution. The Port has the responsibility to remove the electrical facilities, following that ODI will redevelop the building as a restaurant.</td>
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<tr>
<td>Building 104</td>
<td>The 45,237 square foot former Union Ironworks office building was built in 1896 and will return to single tenant office or medical office use.</td>
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<tr>
<td>Building 14</td>
<td>Building 14 is a 16,315 square foot double-gable metal warehouse constructed in 1944. The space will return to industrial use as a warehouse with ancillary office space.</td>
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</table>
**PROJECT STATUS**

Since the Port Commission and Board of Supervisors endorsed the Term Sheet with ODI in late 2012, the following actions have occurred:

- Significant investigations of the buildings to refine costs and development program including developing schematic designs for all the buildings
- Marketing to tenants (ODI has received strong interest, but cannot disclose its subtenants until it is further in its approval process with the Port and the City for ODI's lease.)
- Infrastructure assessments to confirm the buildings can be served from the existing system
- Identification of the City’s Seismic Safety Loan Program as a capital source (discussed later)
- ODI working to secure lenders and tax credit investors and refining their development pro-forma
- Refining of the site plans including adjustments needed to the street network
- Submitting a project description to the Planning Department to secure the California Environmental Quality Act (CEQA) review required. CEQA analysis is underway.
- Development of the schematic designs and use program presented in this report.

The next steps include:

- Seeking policymaker and community input on the design as refined.
- Negotiating the lease and development agreement and bringing to the Port Commission and Board of Supervisors for approval.
- Reviews by the State Office of Historic Preservation and State Lands Commission to assure the project meets their requirements.
- Completing CEQA analysis prior to the Port Commission approval of the lease (targeted for early 2014)
- Board of Supervisors approval of the transaction and any related actions, following the Port Commission approvals

ODI has commenced working with the Port’s engineering division and hopes to advance the building permit review in parallel with the other reviews underway. This can allow construction to begin quickly after the approvals of the transaction by the Port Commission and Board of Supervisors.

**PROJECTED SOURCES AND USE OF FUNDS**

Based on further investigation and engineering analysis, ODI has refined the Project cost estimates since those used to underwrite the Term Sheet and anticipates total project cost of $74 million (an increase from the prior $58 million estimate). Hard construction costs have increased due to three factors:

1) addition of $1.8 M of costs for the plaza and sitework,
2) additional building repair complexity after further due diligence and analysis, and
3) rising construction costs in the market.
Even with the increased costs, ODI anticipates that the combination of strong revenues and pre-leasing a significant portion of the Project will allow them to secure favorable debt terms, allowing the Project to remain feasible with the higher costs.

Table 3 below shows the sources and uses of funds for the ODI project. Notable is the addition the City’s Seismic Safety Loan Program, discussed below as a source, and that, as the Port has received a State grant for this project, the Port contribution is now $1.75 million. At this time, ODI is arranging its bank and other financing so the table combines debt and equity until debt terms are refined.

**Table 3**

Sources and Uses
20th Street Historic Buildings Project

<table>
<thead>
<tr>
<th>Sources</th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Capital Funds</td>
<td>1.8</td>
</tr>
<tr>
<td>Seismic Safety Loan</td>
<td>20.2</td>
</tr>
<tr>
<td>Historic Tax Credit Equity</td>
<td>14.9</td>
</tr>
<tr>
<td>Private Debt &amp; Equity</td>
<td>37.8</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$74.6</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hard Costs</strong></td>
<td></td>
</tr>
<tr>
<td>Building 101</td>
<td>10.3</td>
</tr>
<tr>
<td>Building 102</td>
<td>2.5</td>
</tr>
<tr>
<td>Building 104</td>
<td>7.7</td>
</tr>
<tr>
<td>Building 113</td>
<td>20.0</td>
</tr>
<tr>
<td>Building 114</td>
<td>4.2</td>
</tr>
<tr>
<td>Building 115</td>
<td>2.4</td>
</tr>
<tr>
<td>Building 116</td>
<td>4.7</td>
</tr>
<tr>
<td>Building 14</td>
<td>2.3</td>
</tr>
<tr>
<td>Site/Plaza</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Total Hard Costs</strong></td>
<td>56.1</td>
</tr>
<tr>
<td><strong>Soft Costs</strong></td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Financing Costs</strong></td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Deferred Port Transaction Costs</strong></td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$74.6</strong></td>
</tr>
</tbody>
</table>

**Notes:**
Source ODI August 30, 2013 cost estimate and pro-forma. Values continually being refined.
Port funds include a State Grant of $250,000
Construction costs do not include tenant specific improvements.
Prior to requesting lease approval, Staff will provide an analysis of the anticipated Port rent with the new costs and financing sources. The Term Sheet obligates ODI to rehabilitate and operate these buildings, including securing needed investment, in exchange for a 66-year lease. Revenues from the Project will first fund operating costs, then debt service and, until ODI’s equity is recovered, ODI will receive a 14% return (on a simple interest basis) on its investment. ODI and the Port will share equally in net cash flow after ODI’s equity is repaid. An annual guaranteed base rent of $200,000 (escalated to reflect inflation) is due 20 years after commencement of the lease. Although this structure does not generate significant rent to the Port, it achieves the primary project objective of rehabilitating these buildings as soon as possible and provision of new workplaces for 500 employees.

Seismic Safety Loan Program

Since the endorsement of the Term Sheet, the Port and ODI identified an additional funding source for the project, the Seismic Safety Loan Program (SSLP) administered by the Mayor’s Office of Housing (MOH). In November 1992, San Francisco voters approved a $350 million general obligation (GO) bond measure to provide loans to seismically retro-fit unreinforced masonry buildings (UMBs) and capacity remains in this program for additional loans. Buildings 104, 113, and 114 are UMBs. In July 2013, the City’s Capital Planning Committee reviewed the use of this program for the Project, and offered preliminary support to the GO Bond issuance needed to fund a $20 - $26 million loan for the Project, subject to required loan underwriting.

To meet the policy objective of addressing seismic risks, the SSLP program was designed to provide financing beyond that available from private lenders. An SSLP loan differs from traditional financing in three ways:

- It is a hybrid of a construction and permanent loan providing disbursements during the construction period and repayment over a 20 year term;
- It can be subordinated to the first mortgage;
- The SSLP underwriting criteria of 1.05 times debt coverage ratio and 90% loan to value allow a larger loan with greater leverage; and
- It imposes a number of City requirements.

ODI is anticipating net SSLP loan funds of $20 million. The current estimated interest rate is 7.5% assuming a taxable GO bond issue at 6.5%. The use of this loan will result in payments to the City greater than the costs to re-pay the bonds, avoiding any impact on the General Fund. The loan will be secured by ODI’s leasehold interest with the Port. The SSLP loan would provide a critical portion of the funding since this loan can provide

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2 Of the $350 million authorized in 1992, $150 million was set aside for buildings providing affordable housing, $60 million of which was made available as deferred, 55-year loans. The remaining $200 million is to fund the seismic retrofit of all other buildings. The loan program has been almost exclusively used for affordable housing loans funded by two bond series: a 1992 bond funding $17 million of affordable housing and a 2007 bond funding $30 million of affordable housing loans and $259,000 of market rate loans. Currently, $4.6 million remains uncommitted from the 2007 Board of Supervisors authority for bonds to support this program with a mechanism in place to allow bonds to be issued as needed to fund loan commitments.
construction financing for the seismic components, replacing costly developer equity. Prior to MOH entering into a loan agreement with ODI and the City selling new General Obligation bonds, the following actions would need to occur:

1) SSLP loan committee review and consideration of the loan application to determine the application meets statutory underwriting requirements
2) Capital Planning Committee approval of the bond issuance
3) CEQA clearance of the project
4) Port Commission and the Board of Supervisors review and approval of the lease
5) Board of Supervisors review and approval of the use of the SSLP and the required bond indebtedness
6) ODI will meet all development agreement requirements and loan committee conditions, and enter into the lease

Related Public Facilities/Infrastructure Financing District
As the Port and ODI have refined the Project and negotiated business terms, it became clear that there are related facility upgrades that need to occur but are not ODI project costs. Examples of these costs include:

- removal of the electrical equipment from Building 102,
- shoring or removal of Building 40 (adjacent to the ODI Project to the north)
- public realm upgrades to sidewalks and roadways near the Project
- relocation of the shipyard entry gate, and
- paving improvements for surface parking.

Port Staff are working to identify the range of related projects and their costs. Some of these upgrades will be required as part of the Project agreements. Others may occur with the later redevelopment of Pier 70.

Two funding sources are under discussion:

1) Including in the lease terms, provision for ODI to undertake related construction efforts outside of their premises, at the Port's option, and be repaid either by credit against deferred transaction costs or other terms to be negotiated.
2) Establishment of an infrastructure financing district (IFD) for the historic core using the authorities available to the Port. In April 2013, the Board of Supervisors adopted a policy for IFD use on Port property.

Likely both techniques will be appropriate. Since the Project is relatively small, generating an estimated $340,000 annually in property taxes, the IFD funds could be used to repay other sources of funds or for upgrades that can be deferred until after the Project is established and generating tax increment.

LOCAL CONTRACTING AND HIRING COMMITMENTS
ODI is working with the City’s CityBuild program and the Contract Management Division to include local businesses and local workers in this project. The Seismic Safety Loan Program requires 25% of total worker hours be completed by economically disadvantaged workers earning 50% or less of the local median income; this requirement will apply for the estimated $20 million of project costs funded through the
loan. ODI has agreed to use local workers for 25% of total worker hours on the project as a whole.

The SSLP requires the developer to seek at least one bid for the structural work from a Local Business Enterprise (LBE), certified as such by the Human Rights Commission. However the loan program does not require a specific target for LBE participation in the project. Contract Management Division reviewed the types of construction work needed for this specialized project to structure bid packages for LBE involvement. After that review, CMD and ODI agreed to LBEs performing 17% of the project work.

The lease will require ODI and its subtenants to participate in the City’s First Source Hiring Program (San Francisco Administrative Code Sections 83.1 et seq.) which establishes specific requirements, procedures and monitoring for first source hiring of qualified economically disadvantaged individuals for entry-level positions.

COMMUNITY OUTREACH
On September 18, 2013, ODI presented its schematic designs to the Central Waterfront Advisory Group. CWAG was supportive of the project direction and raised issues concerning how the Project will integrate with the later, larger, development project led by Forest City and how roadway networks will need to be modified for the Project. Staff explained that the Port, Forest City, and ODI are collaborating to integrate the ODI project into Forest City's “Phase 0” plans, the Ports existing tenants, and to have the ODI and Forest City projects complement each other in the future. As discussed above, this will require some near term and longer term adjustments to the public realm surrounding the ODI project. This Fall, ODI will seek input from the Dogpatch Neighborhood Association, the Potrero Boosters, and San Francisco Architectural Heritage.

NEXT STEPS
The Port and ODI are working with the City’s Planning Department to evaluate the Project and prepare the CEQA documentation needed to support Port Commission lease and development agreement approval anticipated for early in 2014. The Port Staff and consultants are preparing the financial and other analyses necessary to negotiate and obtain approval for the LDDA and Lease for the Project by the Port Commission and the Board of Supervisors. Throughout this process, there will be numerous opportunities for public comment and review of the proposed project.

Prepared by: Kathleen Diohep, Manager
Public/Private Development Projects

Through: Jonathan Stern, Assistant Deputy Director
Waterfront Development

For: Byron Rhett, Deputy Director
Planning & Development

Exhibits
A. Location Map
B. Project Description