MEMORANDUM

March 19, 2021

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

FROM: Elaine Forbes
Executive Director

SUBJECT: Request approval of a Resolution recommending that the Board of Supervisors approve the Mission Rock Community Facilities District financing, including the issuance of bonds in an aggregate principal amount not to exceed $68,000,000 ("Bonds"), and the execution and delivery of financing documents, including the: 1) form of Bond Purchase Agreement, 2) form of First Supplement to Fiscal Agent Agreement, 3) form of Continuing Disclosure Certificate, 4) form of Preliminary Official Statement, and authorizing and directing the Executive Director to cause the package to be submitted to the Board of Supervisors and to work with the Director of the Office of Public Finance to finalize and cause the distribution of the Preliminary Official Statement and the issuance of the Bonds

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution No. 21-11

EXECUTIVE SUMMARY

After more than a decade of planning, the Mission Rock Project at Seawall Lot 337 has broken ground on horizontal infrastructure construction and vertical development. The Port's partner for the development of the Project is Seawall Lot 337 Associates, LLC ("Developer"), an affiliate of the San Francisco Giants and Tishman Speyer.
The City will issue bonds using tax increment financing and special taxes to finance horizontal infrastructure at the Project. On October 27, 2020, the Port Commission approved a resolution recommending the issuance of Development Special Tax Bonds.

THIS PRINT COVERS CALENDAR ITEM NO. 11A

The Board of Supervisors then authorized the issuance of up to $43,300,000 of Development Special Tax Bonds in December 2020.

The City's Office of Public Finance (OPF) and the City's Underwriter, Stifel, Nicolaus & Company, Incorporated ("Stifel") are finalizing a negotiated sale of the previously authorized Development Special Tax Bonds and expect to close on the sale and deliver funds in April 2021. The not to exceed par amount of $43,300,000 that was approved by the Board of Supervisors for the first round of Development Special Tax Bonds reflects a 3-to-1 value-to-lien ratio, based on an appraised value of the taxable leasehold interests in the Mission Rock community facilities district ("Mission Rock CFD" or "CFD") of $130,000,000 as of an October 28, 2020 valuation date.

In the months since the Port Commission and the Board of Supervisors approved the initial Development Special Tax Bonds, the Developer and its vertical developer affiliates have undertaken substantial horizontal and vertical improvements in the Project area and paid substantial development impact fees. These improvements and the payment of these impact fees have greatly increased the value of the leasehold interest in the Mission Rock CFD. The latest draft appraisal of the CFD estimates that the market value of the taxable leasehold interests in the Mission Rock CFD as of February 1, 2021 is $334,040,000. Because the Project's bond amounts are limited primarily by the value of the taxable leasehold interest in the CFD and the 3-to-1 value-to lien requirement, the Port and City see an opportunity to enhance the Project's economics by quickly issuing a second round of Development Special Tax Bonds supported by the increased leasehold value.

This memorandum updates the March 5, 2021 informational memorandum; changes are indicated by <u>underline</u>. <u>Port staff request Port Commission approval of the attached resolution</u> which recommends an additional bond issuance to the Board of Supervisors in an amount not to exceed $68,000,000. If the initial series of Development Special Tax Bonds is issued in the principal amount of $43,300,000 and the second (proposed) series of Bonds is issued in the principal amount of $68,000,000, the total outstanding principal amount of Development Special Tax Bonds will be $111,300,000, which would comply with the 3-to-1 value-to-lien requirement based on the $334,040,000 appraised value.

STRATEGIC PLAN

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

The item specifically supports the Port's Strategic Plan strategies of Productivity, and Stability:

• #6 Productivity. Redevelopment of a surface parking lot into the Mission Rock neighborhood supports the goal of enhancing the economic vitality of the Port. The Port aims to work with City Controller's Office and Board of Supervisors to establish public financing bonds to fund infrastructure development

• #7 Stability. Establishment of IFD and CFD financing districts are projected to have capacity to fund a variety of Port capital projects.

PROJECT BACKGROUND

On January 30, 2018, the Port Commission approved a mixed-use development project known as Mission Rock at Seawall Lot 337 and Pier 48 ("Project"). Subsequently, on February 13, 2018, the San Francisco Board of Supervisors approved the Project and on August 15, 2018 the Port and Seawall Lot 337 Associates signed all Project-related documents.

The Port's partner for development of the Project is Seawall Lot 337 Associates, LLC ("Developer"), an affiliate of the San Francisco Giants and Tishman Speyer. The Disposition and Development Agreement ("DDA") and related agreements between the Port and the Developer govern the Project's development.

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

The Project broke ground in December 2020. and the Developer and its vertical developer affiliates are currently constructing horizontal infrastructure and two vertical parcels. This achievement is the result of 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; formation of an infrastructure financing district and community facilities district; and successful collaborations with regulators and partner agencies related to topics like workforce development, affordable housing, transportation, public access, and park development.

LOCAL BUSINESS ENTERPRISE STATUS

The Mission Rock project was one of the City's first development projects to commit to a Local Business Enterprise ("LBE") participation goal. Current local business enterprise commitments and awards total ~19% and are closing in on the 20% overall LBE participation goal during construction.

Working collaboratively with general contractors, RDJ Enterprises, Monica Wilson, Port staff, and the San Francisco Contract Monitoring Division, the project team recently implemented additional barrier mitigation strategies to help identify and assist local and historically underrepresented businesses become more competitive during the bid and awarding process. The recent report included $1.9 million (2.95%) awarded to women-owned small businesses based in San Francisco and $5.8 million (8.95%) was awarded to minority-owned small businesses based in San Francisco. In total, $7.7 million (11.90%) of contract dollars were awarded to LBE businesses. Most recently, however, an additional $6.9 million has been committed to Local Business Enterprises and eleven new LBEs have joined the project including Ground Control, Inc., Hoseley Corporation, M Hernandez Construction Inc., Marina Securities, and Anco Iron & Construction which is working on LGBTQ+ certification.

FINANCING BACKGROUND

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

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

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

*Table 1. Phase 1 Overview of Sources and Uses ($ millions)**

Description	Entitlement	Phase 1	Total Phase
Total Horizontal Costs	29.3	145.4	174.8
Developer Return*	16.9	73.8	90.7
Total Phase 1 Uses	**46.2**	**219.3**	**265.5**
Net Development Rights Payments	42.2	-	42.2
CFD Bonds - Unimproved Land	4.0	31.2	35.2
CFD Bonds - Completed Buildings	-	140.8	140.8
CFD Excess Pay Go Increment	-	47.2	47.2
Total Phase 1 Project Sources	**46.2**	**219.3**	**265.5**

*Numbers are rounded and thus may not appear to sum precisely.

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

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

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

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

On October 27, 2020, the Port Commission approved a resolution recommending that the Board of Supervisors approve the first Mission Rock CFD financing, including the issuance of bonds in an aggregate principal amount not to exceed $50,100,000. On December 8, 2020, the Board of Supervisors approved a resolution authorizing (i) the City to issue Development Special Tax Bonds in an amount not to exceed $43,300,000, (ii) the execution and delivery of related financing documents, and (iii) a Pledge Agreement to specify repayment of the authorized bonds. Note that the Board of Supervisors' not-to-exceed bond amount was less than the Port Commission's not-to-exceed bond amount because the CFD land appraiser updated its appraisal between the October and December 2020 hearings and reduced the appraised value, because of COVID related market changes between the April 2020 date of value and the October 2020 date of value.

CFD SPECIAL TAX BONDS

Bond Sizing for the First Bond

Two factors limit the amount of CFD special tax bonds sold: 1) the ongoing tax revenue capacity; and 2) an appraisal of the value of the leasehold interests within the CFD. Ongoing tax capacity must be 110 percent of the debt service requirement on any CFD special tax bonds. For example, if the annual debt service payments are $1.0 million, the annual CFD special tax revenue must be at least $1.1 million. For the first bond sale at Mission Rock, the Development Special Tax capacity on the first four parcels will far exceed the coverage required for the initial Bonds, with a not-to-exceed amount of $43,300,000. The expected taxes total $14M per year while the debt service to support the initial $43.3M bond is $1.8M for the first year. Therefore, the key constraint leading to the $43,300,000 size of the first issuance was the appraised value of the leasehold interests within the CFD.

Because the City will foreclose on the taxable leasehold interests in the Mission Rock CFD if lessees are delinquent in the payment of the Development Special Tax, the value of the leasehold interests – determined by an appraisal – is an important credit consideration for purchasers of the Bonds. Under the City's *Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts*, the City must sell the Bonds to achieve at least a 3-to-1 value-to-lien ratio based on 1) the appraised value or the assessed value of the leasehold interests in the taxable parcels in the Mission Rock CFD and 2) special tax and assessment debt encumbering such leasehold interests (including the Bonds). This policy means that the value of the leasehold interests in the Mission Rock CFD must be three times the outstanding amount of the Bonds and any other special tax and assessment debt.

Integra Realty Resources, Inc. ("Appraiser") prepared an Appraisal Report dated November 9, 2020, with a valuation date of October 28, 2020, estimating the market value of the leasehold interests within the Mission Rock CFD to be $130,000,000. This appraised value led to the not to exceed par amount of $43,300,000 for the first issuance of Bonds, based on a 3-to-1 value-to-lien ratio.

Since that date, the Developer has spent significant funds on both horizontal and vertical improvements in the Mission Rock CFD and paid substantial development impact fees. The Appraiser prepared an Updated Appraisal Report, dated March10, 2021 estimating the revised market value of the taxable leasehold interests in the CFD to be $334,040,000 as of February 1, 2021.

Using a 3-to-1 value to lien ratio on the latest appraised value yields roughly $111,300,000 in bond proceeds, which would allow the Bonds to be issued in the principal amount of $68,000,000 in addition to the first issuance's not to exceed amount of $43,300,000.

These updated valuations therefore enable a second issuance of Mission Rock Special Tax bonds. <u>Based on the current projected valuation, staff recommend the Port Commission approve</u> a resolution supporting the approval of a second sale of Special Tax Bonds in a par amount not to exceed $68,000,000. The final amount will depend on final valuation of the CFD appraisal, additional CFD special tax revenue information, market conditions, marketability of bonds, risks associated with the size of a non-rated bond issuance for an early stage development, and ongoing investments at the site <u>and will be finalized closer to sale and prior to Board of Supervisors authorization.</u>

<u>Table 2 below summarizes the estimated sources and uses for the Bonds, based on current market conditions and the current appraised value.</u>

Table 2. Estimated Sources and Uses of the Special Tax Bonds, Series B 2021

Sources	**Amount**
Bond Proceeds	
Par Amount	$ 68,000,000.00
Premium	$ 3,137,328.45
Total Sources	**$ 71,137,328.45**

Uses	**Amount**
Improvement Fund	$ 64,444,451.57
Debt Service Reserve Fund	$ 5,217,876.88
Delivery Date Expenses:	
Cost of Issuance	$795,000.00
Underwriter's Discount	$680,000.00
Total Uses	**$ 71,137,328.45**

Source: PFM

Municipal Market Context

Current municipal market rates are at very low levels. The current expectation with the economic recovery trajectory is that interest rates may rise. If rates increase by 100 basis points above current levels, the amount of proceeds available to the project drops by $7.7 million from $64.4 million to $56.7 million. Even with a 100 basis point increase in rates, the borrowing rate would still be very low at 4.7% versus the 18% return that would accrue if bonds are not issued.

Table 3. Scenario Estimate: Impact of 100 basis point Increase

	Current Rates	**Current Rates + 100 bps**	**Difference**
Project Proceeds	$64.4 million	$56.7 million	$ (7.7 million)
Estimated Borrowing Rate	3.8%	4.7%	0.9%

CFD Bonds, backed by CFD Taxes and Tax Increment

The proposed Bonds will be secured by a pledge of the Development Special Tax levied on taxable property in the Mission Rock CFD in accordance with Ordinance 79-20 and the Rate and Method of Apportionment of Special Taxes for the Mission Rock CFD ("RMA") adopted at formation.

As with the first authorized financing, the proposed second Mission Rock financing will utilize both CFD and IFD sources. The proposed Bonds will be secured by a pledge of Development Special Taxes, but not any of the other three CFD taxes. The CFD structure allows tax increment generated in the IFD to "offset" the CFD Development

Special Taxes. The offset increases the value of the Port's land by reducing the long-term tax burden on the site. Under this offset structure, tax increment from one year acts as a credit for the next year's CFD Development Special Tax obligation. Tax increment is expected to be available to offset the CFD Development Special Taxes once the developed property is assessed.

The City began levying Mission Rock CFD special taxes on the Undeveloped Property within the Mission Rock CFD in Fiscal Year (FY) 2020-21. Additionally, the Port executed Vertical Parcel Leases for Parcel G on June 25, 2020 and Parcels A, B, and F on October 6, 2020. The execution of these Parcel Leases initiated a 24-month or longer countdown for the levying of the Mission Rock CFD special tax on Developed Property, as the levy on Developed Property begins in the Fiscal Year after the 24-month anniversary of Parcel Lease execution. Thus, the Mission Rock CFD special tax levy on Developed Property for Parcel G will begin in FY 2022-23 and for Parcels A, B and F in FY 2023-24. Prior to then, the Development Special Tax will be levied on the undeveloped property based upon each parcel's expected square footage and use, in accordance with the RMA approved by the Board, to provide revenues to fund any debt service obligations. The IFD Project Area I tax increment offset mechanism will begin when the Assessor finalizes the assessment of each parcel, which is not anticipated to occur until after the Mission Rock CFD Development Special Tax levy on Developed Properties begins.

The proposed Bonds will be sold without a rating ("Non-Rated"). The real estate development is in relatively early stages and likely would not receive an investment grade rating. Non-Rated special tax bonds have unique credit considerations and risk factors for investors, which will be discussed in the risk factors sections of Official Statement for the Bonds. The Bonds are limited obligations of the City, secured by and payable solely from a pledge of the Development Special Taxes levied in the Mission Rock CFD and tax increment generated in IFD Project Area I.

The General Fund of the City and the Port Harbor Fund are not liable for the payment of principle or interest on the Bonds, and the credit of the City, the credit of the Port, and the General Fund of the City are not pledged to the payment of the Bonds. Other than the Special Taxes and the IFD tax increment, the City is not obligated to levy any taxes for repayment of the Bonds.

BENEFITS TO PORT AND PROJECT

CFD Bonds, anticipated to be priced with interest rates between 3.25 and 4.0 percent, will repay developer equity earning the higher of an 18 percent return or 1.5 times peak equity for the phase. The Port determined that the 18 percent return was a market-based rate of return. This replacement of higher-interest developer equity with low-interest public financing is the key financial structure of the deal which preserves Port's land value in later phases.

An additional $68,000,000 in special tax bond proceeds would have significant benefits to the project's economics.

The developer contributed $29.3 million in equity for entitlement costs, which, combined with the return on equity, led to an entitlement sum developer balance of $46,429,304. This was largely offset by the development rights proceeds from the four phase 1 parcels, which totaled $43,000,000, leaving a new Developer balance of $3,429,304 (this Entitlement amount no longer accrues additional return). In addition to the entitlement sum, the Phase 1 budget assumes a Developer equity contribution of $145,400,000, which will accrue the 18 percent return. Increasing the amount of early special tax bond proceeds allows the City to more quickly repay the Developer's equity contribution and replace the 18 percent per year debt with lower interest, bond debt service.

While the ability to increase the early bond issuance sizing is a positive development, it is counteracted by costly delays the Project has faced including: (1) achievement of the key horizontal permit (the Street Improvement Permit) in October 2020, nearly a year after Phase 1 budget approval rather than the anticipated 3 months after phase budget approval and (2) anticipated sale of the first CFD bond issuance in April 2021, which will occur 12 months later than anticipated in the Project's Model of Record. While the project team is gratified that this project is moving along quickly in the midst of this pandemic, including the construction of the first residential building with over 100 affordable units, the team continues to monitor expenditures, public financing, and construction timing. Phase 1 horizontal is about 25 percent complete. The project team and Developer are focused on cost and scope management and key construction milestones, and the team expects to provide the Port Commission with a more complete financial update by Fall of 2021.

The CFD bond proceeds from this proposed second issuance will finance or reimburse 1) horizontal improvements for the Project, 2) debt service reserve fund, 3) capitalized interest on the CFD bonds, if any, 4) administrative expenses, and 5) costs of issuance. Proceeds of the initial issuance of CFD bonds will reimburse the Developer for outstanding costs related to the initial stages of Phase I horizontal improvements (e.g. utilities, streets, sidewalks, parks, etc.).

Method of Sale and Bond Purchase Agreement

Given that the proposed Bonds will be unrated, and the underlying project is a new real estate development project, the City's independent municipal advisor recommend a negotiated sale for this transaction. The Bonds will be secured as to repayment from Development Special Taxes from specific leasehold interests within the CFD and are outside of the City's customary credit profile. Prior to formation, the Port selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve as the Underwriter. Stifel is in the City's Underwriter Pool, which was established via a competitive process, and was selected for this transaction through a competitive RFP. The original underwriter selection included an LBE co-manager; however, the selected co-manager subsequently shed its municipal securities business. A Board Resolution will approve the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to Stifel.

ADDITIONAL INFORMATION

The proposed Bond financing requires that the Board of Supervisors, as legislative body of the CFD, adopt a resolution approving the issuance of the Bonds and related documents and actions.

The authorizing resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, April 6, 2021. The forms of the financing documents related to the Special Tax Bonds—including the Bond Purchase Agreement, First Supplement to Fiscal Agent Agreement, , Preliminary Official Statement, the Continuing Disclosure Certificate — will also be submitted.

Bond Purchase Agreement: The City intends to pursue a negotiated sale of the Bonds with a sale of the Bonds to the Underwriter. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the Bonds to the Underwriter as well as agreements regarding expenses, closing and disclosure documents.

First Supplement to Fiscal Agent Agreement: The City will execute a Fiscal Agent Agreement in connection with the initial series of Development Special Tax Bonds. The Fiscal Agent Agreement governs the use of Development Special Taxes and tax increment from IFD Project Area I to pay debt service on the Development Special Tax Bonds. The Fiscal Agent Agreement will detail the terms of the initial series of Development Special Tax Bonds, and the First Supplement to Fiscal Agent Agreement will establish the terms of the Bonds, including principal amount, interest rate, redemption, and the conditions for issuance of additional parity bonds. The Fiscal Agent holds Bond proceeds and will disburse them as directed by authorized City representatives.

Preliminary Official Statement (“POS”): The POS is distributed to investors prior to the sale of the Bonds and provides information for investors in connection with the public offering by the City of the Bonds. The POS describes the Bonds, the Project, including sources and uses of funds; security for the Bonds (including information about the Mission Rock CFD and IFD Project Area I); risk factors; and other legal matters, among other information. The Appraisal Report will be attached as an appendix to the Official Statement.

Official Statement. The final Official Statement contains the same information as the POS but includes the results of the pricing of the Bonds (i.e., sale results including principal amounts, offering prices, interest rates, underwriters’ compensation). The Official Statement is distributed to prospective purchasers of the Bonds.

Under the anti-fraud provisions of the federal securities laws, the City is required to ensure that the POS and the Official Statement are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. Much of the information in the Official Statement was provided by the Developer, and the Developer will certify in writing that the information provided by the Developer is accurate and complete in all material respects. “Material” in this context means that there is a substantial likelihood that the information would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Bonds. The draft Preliminary Official Statement has been submitted for the Port Commission’s review prior to its publication.

The Board of Supervisors and the Mayor, in adopting and approving the Bond Resolution, approve and authorize the use and distribution of the Preliminary and Final Official Statements by the Underwriter and financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are “deemed final” as of their respective dates.

NEXT STEPS

If the Port Commission approves this item, staff will work with the OPF to seek Board approval of the Bonds and related documents. With this approval, OPF will lead the distribution of the POS and sale of the Bonds. Table 3 below shows an estimated timeline of key financing items.

Table 3. Mission Rock CFD Financing Schedule

Item	Date
Port Commission Approval of Resolution	March 23, 2020
Capital Planning Committee Presentation	April 2021
Introduction of Legislation to Board of Supervisors	April 2021
Budget & Finance Committee Hearing	May 2021
Board Approval of Legislation	May 2021
Sale and Closing of Bonds	Summer 2021

Prepared by: Raven Anderson
Real Estate & Development

Nate Cruz
Finance & Administration

Phil Williamson
Real Estate & Development

Prepared for: Rebecca Benassini
Real Estate & Development
Deputy Director

Katie Petrucione
Finance & Administration
Deputy Director

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 21-11

WHEREAS, The Mission Rock Project at Seawall Lot 337 and Pier 48 is a mixed-use development project that will create up to 1,200 units of housing including 40 percent affordable units, 1.4 million square feet of new office space, and a new waterfront park across from Oracle Park; and

WHEREAS, After over a decade of planning, the Mission Rock Project is preparing to break ground on horizontal infrastructure construction and vertical development in the coming months; and

WHEREAS, The Port Commission approved the Mission Rock Project on January 30, 2018, the Board of Supervisors approved the project on February 13, 2018, and on August 15, 2018, the Port and Seawall Lot 337 Associates signed all project-related documents; and

WHEREAS, The Mission Rock Project supports the Port's efforts to enhance and balance the Port's maritime and economic purpose, rich history, and changing relationship with the City so the waterfront continues to be a treasured destination; and

WHEREAS, Under Chapter 43, Article X of the San Francisco Administrative Code (as it may be amended from time to time, "Code"), which incorporates by reference the Mello-Roos Community Facilities Act of 1982, as amended ("Mello-Roos Act"), the Board of Supervisors previously conducted proceedings to form "City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services)" ("CFD"), to authorize the levy of special taxes upon the land within the CFD, which consists of the property comprising the Mission Rock Project, and to authorize the issuance of bonds and other debt secured by said special taxes for the purpose of financing certain improvements ("Authorized Facilities") and incidental expenses; and

WHEREAS, Pursuant to Resolution No. 196-20, which was adopted on May 5, 2020 and signed by the Mayor on May 15, 2020, the Board of Supervisors authorized the issuance of up to $3,700,000,000 of bonded indebtedness and other debt on behalf of the CFD, and directed staff to prepare documentation for such bonded indebtedness and other debt and return to the Board of Supervisors for approval of such documentation; and

WHEREAS, Under California Government Code Sections 53395 et seq. ("IFD Law"), the Board of Supervisors previously conducted proceedings to form "City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)" ("IFD") and, within the IFD, Project Area I (including 13 sub-project areas) ("Project Area I"); Project Area I consists of the property comprising the Mission Rock Project; and

WHEREAS, On September 20, 2019, the Port Commission approved Resolution 19-39, which approved the Phase 1 Budget outlining the expected costs and revenue sources for the Mission Rock Project Phase 1 improvements; and

WHEREAS, In the Phase 1 Budget for the Mission Rock Project, the financial sources projected to fund the Mission Rock Project included the four Phase 1 prepaid leases and multiple public financing sources, including CFD bond proceeds, CFD pay-as-you-go (pay-go) taxes, and pay-go tax increment from Project Area I; and

WHEREAS, A CFD bond on unimproved land was one of two early Mission Rock Project sources in the Phase 1 Budget that will limit Developer return on Mission Rock Project expenses; and

WHEREAS, On October 27, 2021, pursuant to Resolution No. 20-48, the Port Commission recommended that the Board of Supervisors, as the legislative body of the Special Tax District, (i) approve the issuance of an initial series of CFD bonds and (ii) approve related documents and actions; and

WHEREAS, Pursuant to Resolution No. 565-20, which was approved by the Board of Supervisors on December 8, 2020 and signed by the Mayor on December 18, 2020, the Board of Supervisors approved the issuance of such initial series of CFD bonds; and

WHEREAS, Port staff has been working with the Controller's Office of Public Finance, the City Attorney's Office and the CFD financing team to provide for the issuance of such initial series of CFD bonds (the "2021A Bonds"), which is currently scheduled for April 2021; and

WHEREAS, The 2021A Bonds will be secured by "Revenues," consisting of (i) revenues derived from the levy of the Development Special Tax in the CFD and (ii) payments made by the IFD from tax increment generated in Project Area I pursuant to a Pledge Agreement; and

WHEREAS, The Development Special Tax is levied on leasehold interests in the parcels in the CFD, and the Project Area I tax increment is generated by increases in the assessed value of those leasehold interests; and

WHEREAS, The primary purpose of pledging the IFD payments to the 2021A Bonds is to reduce and potentially eliminate the need to levy the Development Special Taxes in the CFD; and

WHEREAS, Port staff is proposing that the City, on behalf of the CFD, issue one or more series of special tax bonds (the “2021B Bonds”) that will be secured by Revenues on a parity basis with the 2021A Bonds; and

WHEREAS, As was the case with the 2021A Bonds, the General Fund of the City and Harbor Fund are not liable for the payment of principle or interest on the 2021B Bonds, and the credits of the City and the Port are not pledged to the payment of the 2021B Bonds; and

WHEREAS, As was the case with the 2021A Bonds, because the 2021B Bonds will be payable only from Development Special Taxes and tax increment from Project Area I, the 2021B Bonds are not subject to policy constraints of the Ten-Year Capital Plan; and

WHEREAS, Two factors limit the amount of 2021B Bonds that can be sold: (i) ongoing Development Special Tax capacity must be at least 110 percent of the debt service on the 2021A Bonds and the 20201B Bonds and (ii) the City’s *Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts* generally require the City to sell the 2021B Bonds to achieve at least a 3-to-1 value-to-lien ratio based on (A) the appraised value or the assessed value of the leasehold interests in the taxable property in the CFD and (B) the special tax and assessment debt encumbering such leasehold interests, including the 2021A Bonds and the 2021B Bonds; and

WHEREAS, Integra Realty Resources, Inc. prepared an Appraisal Report dated March 10, 2021, which estimates that the market value of the leasehold interests in 11 of the 12 blocks within the CFD was $334,040,000 as of February 1, 2021; Parcel D2 is not included in the Appraisal Report because, as a parking facility, it is not subject to Development Special Tax, and Pier 48 is not part of the CFD presently; and

WHEREAS, Staff is proposing a not to exceed principal amount of the 2021B Bonds of $68,000,000, which would achieve a value-to-lien ratio of 3-to-1 based on the appraised value as of February 1, 2021 and assuming that the initial principal amount of the 2021 Bonds is $43,300,000; and

WHEREAS, The 2021B Bonds will be sized based on the Development Special Taxes that may be levied on the leasehold interests in the four Phase 1 parcels, and the Development Special Tax capacity of those four parcels exceeds the 110 percent coverage requirements for the 2021B Bonds if the 2021A Bonds are issued in the principal amount of $43,300,000 and the 2021B Bonds are issued in the principal amount of $68,000,000; and

WHEREAS, The 2021B Bond proceeds will 1) finance or reimburse entitlements and horizontal improvements for the Project, 2) fund a debt service reserve fund for the 2021B Bonds, 3) fund capitalized interest on the 2021B Bonds, if any, 4) fund administrative expenses, and 5) finance costs of issuance; and

WHEREAS, The City's municipal advisors recommend a negotiated sale for the 2021B Bonds; and

WHEREAS, The 2021A Bonds will be issued pursuant to a Fiscal Agent Agreement by and between the City, for and on behalf of the CFD, and Zions Bancorporation, National Association, and the 2021B Bonds will be issued pursuant to a First Supplement to Fiscal Agent Agreement; and

WHEREAS, The 2021B Bonds will be marketed to potential investors by distribution of a Preliminary Official Statement, and the 2021B Bonds will be sold to the underwriter, Stifel, Nicolaus & Company, Inc, (the "Underwriter") pursuant to a bond purchase agreement ("Bond Purchase Agreement") between the City and the Underwriter; and

WHEREAS, The Port Commission wishes to recommend that the Board of Supervisors, as legislative body of the CFD, adopt a resolution approving the issuance of the 2021B Bonds and related documents and actions; and

WHEREAS, The Port Commission further wishes to recommend that the Board of Supervisors, as legislative body of the IFD, adopt a resolution approving certain documents and actions related to the issuance of the 2021B Bonds, although no changes to or amendments of the Pledge Agreement is required in connection with the issuance of the 2021B Bonds; and

WHEREAS, The forms of the proposed Board of Supervisors resolutions, the First Supplement to Fiscal Agent Agreement, the Preliminary Official Statement, and the Bond Purchase Agreement are on file with the Secretary of the Port Commission; and

WHEREAS, The Commissioners have had the opportunity to review the information in the Preliminary Official Statement; now therefore be it

RESOLVED, That the foregoing recitals are all true and correct; and, be it

RESOLVED, That the Port Commission recommends that the Board of Supervisors, as legislative body of the CFD, adopt a resolution (i) approving the issuance of the 2021B Bonds in one or more series in the aggregate principal amount not to exceed the lesser of (A) $68,000,000 and (B) such lower amount required to achieve a 3-to-1 value-to-lien ratio if a revised Appraisal concludes that the market value of the leasehold interests in the taxable parcels in the CFD are lower than $334,040,000 and (ii) approving related documents and actions; and, be it

RESOLVED, That the Port Commission recommends that the Board of Supervisors, as legislative body of the IFD, adopt a resolution approving certain documents and actions related to the issuance of the 2021B Bonds; and, be it

RESOLVED, That all actions heretofore taken by the officers and agents of the Port with respect to the establishment of the CFD, the IFD and Project Area I, the sale and issuance of the 2021A Bonds and the 2020B Bonds, and the execution and delivery of the documents described herein are hereby approved, confirmed and ratified, and the appropriate officers of the Port are hereby authorized and directed to do any and all things and take any and all actions and execute any and all certificates, agreements, and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the 2021A Bonds and the 2021B Bonds in accordance with this resolution, provided that no such actions shall increase the risk to the City or Port or require the City or Port to spend any resources not otherwise described herein; and, be it

RESOLVED, That the Port Commission hereby authorizes the Executive Director to cause the resolutions and documents described herein to be submitted to the Board of Supervisors and to work with the Director of the Office of Public Finance to finalize and cause the distribution of the Preliminary Official Statement

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of March 23, 2021.

DocuSigned by:

Carl Nicita

Secretary

BFA59E31E3B84A8...