

**CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

October 17, 2017


TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: October 19, 2017 Rescheduled Budget and Finance Committee Meeting

TABLE OF CONTENTS

Item	File	Page
11	17-0986	Disposition and Development Agreement – FC Pier 70, LLC – Pier 70 Project..... 1

<p>Item 11 Files 17-0986</p>	<p>Departments Port</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would (1) approve a Development and Disposition Agreement (DDA) between the Port and FC Pier 70, LLC (FC) for development of the Pier 70 Waterfront Site; (2) adopt findings under the California Environmental Quality Act (CEQA) and the Mitigation Monitoring and Reporting Program (MMRP); (3) adopt findings of consistency with the General Plan and the eight priority polices of Planning Code Section 101.1(b); and (4) adopt public trust consistency findings. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The Waterfront Site Project is 28 acres within the 69-acre proposed Pier 70 Special Use District. The Project is a mixed use residential commercial project, consisting of office space, retail and restaurant space, art and community space, market rate condominiums and rental units, and affordable housing. The DDA’s Affordable Housing Plan requires at least 30 percent of residential development to be below market rate. • In addition to the 28-acre Waterfront Site on Pier 70, two adjacent sites – Parcel K and the Hoedown Yard, located at 20th Street and Illinois Street – are being rezoned to the Pier 70 Special Use District. • Under the proposed DDA, FC is responsible to obtain project entitlements, and construct horizontal infrastructure and other public facilities over three phases, funded by project-generated revenues. Private developers will construct commercial and residential buildings (vertical development). FC has the option to enter into ground leases and vertical DDAs with the Port for construction of commercial and residential buildings. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Estimated costs to construct public infrastructure and facilities over the term of the project are \$672.3 million (in 2017 dollars). These costs are for project entitlements, and construction of horizontal infrastructure (such as streets, sewers, and water lines), arts and community space, affordable housing, other Pier 70 and seawall improvements and shoreline protection, and transportation projects. This does not include future costs for potential projects, such as the second phase of Crane Cove Park improvements, shipyard improvements, or additional rehabilitation of historic buildings. • Estimated project-generated funding sources of \$672.3 million (in 2017 dollars) include proceeds from land sales and prepaid ground leases; tax increment and bonds generated by Port Infrastructure Financing District (IFD) subproject areas and an Infrastructure and Revitalization Financing District; special taxes levied on Community Facilities District (CFD) and Development Impact Fees. 	

Fiscal Impact (continued)

- Estimated project-generated revenues to develop affordable housing are \$99,178,147, or \$303,297 per unit for 327 affordable housing units. Based on an estimated cost of \$577,105 to construct an affordable housing unit (not including land costs), an additional \$273,808 in funding per affordable housing unit will be needed, or \$89,535,372 for 327 affordable housing units. Additional funding sources consist of both City gap funding and non-City sources, including state and federal tax credits allocated to low income housing, other state grants and loans, affordable housing developer equity, and other sources.

Policy Consideration

- The proposed DDA between FC and the Port provides a complex financing scheme to develop public projects. Funding for public projects comes from project-generated revenues. The developer, FC, invested \$33.4 million in its own equity between 2011 and 2017 for entitlement costs, and will invest additional equity for horizontal infrastructure development subject to reimbursement from project-generated revenues. FC receives a return on its equity investment, which continues to accrue on the unreimbursed balance. Delays in project-generated revenues, such as delays in establishing CFDs and assessing special taxes, will delay reimbursements to FC, increase the return on investment for outstanding equity, and potentially reduce funding for other uses.
- Special tax revenues from CFDs and property tax increment from the IFD and IRFD could be less than estimated if the number of condominium units or the square footage for leased and commercial units is less than estimated. Also, IFD and IRFD bonds are a new debt instrument, and whether investors will be interested in purchasing these bonds is not known.

Recommendations

- Amend the proposed resolution to request the Port Executive Director to report to the Board of Supervisors annually in May of each year on the status of the project and project financing.
- Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any agreement entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

BACKGROUND

Pier 70 is an approximately 69-acre site on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois, and 22nd Streets. In 2014, Pier 70 was listed as the Union Iron Works Historic District on the National Register of Historic Places. Pier 70 includes the Ship Repair Facility¹, the Historic Core², Crane Cove Park³, Irish Hill⁴, and the Waterfront Site for mixed use development.

The Port selected Forest City Development California, Inc. (Forest City) in 2011 to develop the 28-acre Waterfront Site within Pier 70, and entered into an Exclusive Negotiating Agreement for the development. The development consists of commercial and office; production, distribution and repair; retail, and arts⁵; and residential uses. In 2013, the Board of Supervisors found the proposed development of the Waterfront Site by Forest City to be fiscally feasible and endorsed the proposed terms of the development (File 13-0495).

Development of the Waterfront Site and two adjacent parcels – the Port's Parcel K at Illinois & 20th Street, and PG&E-owned Hoedown Yard at Illinois & 22nd Street – will be subject to limitations imposed by legislation pending before the Board of Supervisors: (1) the Pier 70 Special Use District; (2) the Pier 70 Trust Exchange; and (3) the Pier 70 Development Agreement between Forest City and the City, acting through the Planning Department.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would (1) approve a Development and Disposition Agreement (DDA) between the Port and FC Pier 70, LLC (FC)⁶, for development of the Pier 70 Waterfront Site; (2) adopt findings under the California Environmental Quality Act (CEQA) and the Mitigation

¹ The Port issued a Request for Proposals in July 2017 to select a new operator for the ship repair facility.

² The Historic Core of the Union Iron Works Historic District consists of the Bethlehem Steel Main Office Building and Powerhouse, the Union Iron Works Administration building, and the Union Iron Works Machine Shop and Foundry. The Board of Supervisors approved a 66 year lease with Orton Development, Inc., in 2014 to rehabilitate the five buildings. Rehabilitation of these historic buildings (except for the Powerhouse) is anticipated to be completed and the buildings ready for occupancy between fall 2017 and late 2018.

³ Crane Cove Park is a 9-acre waterfront park; construction of phase 1 of the park, which is partially funded by 2008 Clean and Safe Neighborhood General Obligation Bonds, is expected to be completed in March 2018.

⁴ Irish Hill Park is a 1.5 acre site adjacent to Illinois Street planned for open space. Irish Hill is a contributing resource to the Historic District.

⁵ PDR, retail, and arts include a combination of small scale local production, arts and cultural uses, small business incubator uses, and other publicly-accessible uses to be located primarily in the existing historic structures.

⁶ FC Pier 70, LLC was formed by Forest City in 2014.

Monitoring and Reporting Program (MMRP) and imposes the MMRP requirements as a condition to approve this action; (3) adopt findings of consistency with the General Plan and the eight priority polices of Planning Code Section 101.1(b); and (4) adopt public trust consistency findings.

The proposed resolution authorizes the Port Executive Director to execute the master lease between FC and the Port, and the ground leases and vertical DDAs with vertical developers without further Board of Supervisors approval if these leases and agreements conform to the subject DDA between FC and the Port. The proposed resolution also authorizes the Port Executive Director to enter into amendments to the DDA between FC and the Port without further Board of Supervisors approval if the amendments do not materially decrease the benefits or increase the obligations to the Port.

The proposed DDA between the Port and FC is for approximately 25 years, during which FC will plan, design, entitle, and construct street, utility, site grading, and other infrastructure improvements to the Waterfront Site. The proposed DDA sets the terms of the Waterfront Site Project, including project scope and financing.

Project Description

The Waterfront Site project is 28 acres within the Union Iron Works Historic District, bounded by Michigan Street on the west, the Bay on the east, 20th Street on the north, and 22nd Street and the former Potrero Power Plant on the south, as shown in Exhibit 1 below.

Exhibit 1: Proposed Waterfront Site Project



PIER 70 SUD
 LAND USE PLAN
 SITELAB urbanstudio 08/30/2017

Proposition F

San Francisco voters approved Proposition F in November 2014 – the Union Iron Works Historic District Housing, Waterfront Parks, Jobs, and Preservation Initiative – which allowed for an increase in height limits on the Waterfront Site to up to 90 feet subject to environmental review and established City policy to encourage development with the following features:

- 1,000 to 2,000 new residential units, most of which would be rental units, and 30 percent would be below market rate and affordable to middle- and low-income households;
- Restoration and re-use of historic structures;
- Space for arts and cultural activities, nonprofits, small-scale manufacturing, retail, and neighborhood services;
- Preservation of the artist community presently located in the Noonan Building;
- Between 1 million and 2 million gross square feet (gsf) of new commercial and office space;
- Parking and transportation improvements; and
- Creation of new jobs.

Residential Development

The Waterfront Site development provides flexibility between development of commercial and residential uses on some of the parcels within the Site. The number of residential units on the Waterfront Site ranges from 1,100 to 2,150, depending on whether the development maximizes commercial or residential development on these parcels.

The DDA's Affordable Housing Plan requires at least 30 percent of residential development to be below market rate.

- Market rate rental properties must include 20 percent of the rental units as on-site below market rate units.
- Market rate condominium properties must pay affordable housing fees to be deposited into the City's Affordable Housing Trust Fund and used to construct affordable housing.
- Two Waterfront Site parcels and Parcel K South will be designated for affordable housing development. According to the DDA, at least 327 affordable housing units will be built on these three parcels.

Re-use of Historic Structures

The proposed DDA provides for FC to rehabilitate Building 12, which is a complex formerly used to make ship hull plates and is now leased by Forest City for community events, and Building 21, the Risdon Building. FC may elect to rehabilitate Historic Building 2, a six-story concrete warehouse constructed during World War II, as an option, which is discussed further below.

Art, Cultural, Nonprofit and Small-scale Manufacturing, Retail, and Neighborhood services

Parcel E4 (located between 21st Street and 22nd Street, and Maryland Street and the Bay, as noted in Exhibit 1 above) is set aside for retail, restaurant, arts/light-industrial, and public uses. Under the proposed DDA, FC is responsible for development of the Arts Building on Parcel E4. In addition, under the proposed DDA, FC is responsible for a minimum of 50,000 gross floor feet of space restricted to Production, Distribution, and Repair (PDR) uses.

Noonan Building

The Noonan Building on Pier 70 was built in 1941 and is currently used by the Noonan Building Artists for art, design, and other craft work. The proposed DDA provides for FC to provide replacement space for to the Noonan Building Artists. Replacement space may be made available in the Arts Building to be constructed on Parcel E4, or elsewhere on the Waterfront Site. Replacement space is required to be at permanently subsidized rents.

Transportation Program

The Pier 70 Mixed-Use District Project Environmental Impact Report (EIR) requires the implementation of a Transportation Demand Management (TDM) Plan, which is attached to the proposed DDA and is to be implemented by the Pier 70 Transportation Management Agency (TMA). The Transportation Program detailed in the TDM Plan begins when the Port or the City's Department of Building Inspection issues a temporary certificate of occupancy for the first building to be completed at the Waterfront Site.

In addition, vertical developers (as described below) will pay a transportation impact fee to the San Francisco Municipal Transportation Agency to pay for transportation improvements.

Office Development

New office development at Pier 70 will count against the City's annual limit on new office space as provided in the City's Planning Code. The DDA provides a process in which FC's timeframe for developing new office space is balanced against other large office developments in the City.

Preservation of Jobs

The DDA's Workforce Development Plan sets the employment and contracting requirements for construction and operation of the Waterfront Site project. Among other provisions, Forest City and the vertical developers will make contributions to City job training programs CityBuild and TechSF, and will be required to include First Source Hiring and, if applicable, TechSF hiring requirements in all leases and subleases.

The Workforce Development Plan also specifies that the City's prevailing wage requirements, a 30 percent local hiring requirement, as well as a 17 percent LBE utilization goal apply to Waterfront Site projects.

Other Project Sites

In addition to the 28-acre Waterfront Site on Pier 70, two adjacent sites – Parcel K and the Hoedown Yard, located at 20th Street and Illinois Street – are being rezoned to the Pier 70 Special Use District.

Parcel K, which is owned by the Port of San Francisco, is divided into two sections:

- (1) Parcel K North is designated for market rate housing. Legislation to approve the sale by the Port to a private developer is pending before the Board of Supervisors (File 17-0893).
- (2) Parcel K South is designated for affordable housing.

The Hoedown Yard is owned by PG&E. The Board of Supervisors approved an option agreement between the City and PG&E in 2014 (File 14-0750) in which the City could exercise the option for approximately \$8,283,726, or sell the option through a competitive sale to a third party. The sale of the Hoedown Yard option to a third party is subject to future Board of Supervisors approval.

Project Approach

The Waterfront Site Project consists of (1) horizontal development, such as streets and utilities, and (2) vertical development, including office and residential buildings. Horizontal and vertical development is divided into three phases. FC is the master developer for the Waterfront Site Project, and is responsible for ensuring the horizontal development is coordinated with vertical development.

FC is obligated to complete construction of the horizontal improvements for all phases of the project. FC may transfer its development rights and obligations to another developer meeting net worth and experience requirements in Phase 1, subject to Port approval in its sole discretion, and in Phase 2 and subsequent phases, subject to Port approval in its reasonable discretion. Exhibit 2 below shows the phases of the Waterfront Site development.

Exhibit 2: Map of Waterfront Site Development Phases



PIER 70 SUD
 PHASING PLAN
 SITELAB urban studio 08/30/2017

Master Lease, Vertical DDAs, and Ground Leases

Forest City and the Port will initially enter into a master lease for most of the Waterfront Site parcels, with the exception of the Noonan Building, Building 21⁷, the Affordable Self Storage lease area and the site of ongoing remediation by PG&E in part of the Affordable Self-Storage lease area along the southern edge of the project site.⁸ When each of these leases terminates, the areas will then be added to the Master Lease premises.

Under the proposed DDA, FC is obligated to construct the horizontal improvements, detailed in the Infrastructure Plan (discussed below) during the first phase of the Waterfront Site Project. FC, through its vertical developer affiliates, has the option to enter into Vertical DDAs for certain development parcels (option parcels) except for parcels designated for affordable

⁷ The development plan for the Waterfront Site calls for the relocation of the historic Building 21 to another location on the Waterfront Site.

⁸ The lease between the Port and Affordable Self-Storage terminates in 2019, and allows prior to that for a 180-day notice to terminate. According to Brad Benson of the Port, the Port is negotiating an earlier termination of this lease to accommodate remediation efforts in this area.

housing, parking, the Arts Building, Historic Building 12 and 21, Parcel K North, or the Hoedown Yard.

As the Port conveys Waterfront Site parcels to FC or third party developers to construct residential, office and other buildings (vertical developers), these parcels are released from the master lease between FC and the Port. The Port will enter into a Vertical DDA with each vertical developer to set the terms of vertical development and horizontal (or infrastructure) development adjacent to or serving their parcel. After an option period, the Vertical DDAs will result in either (1) a 99 year Parcel Lease (ground lease) between the Port and a vertical developer, or (2) for condominium parcels, a sale by quitclaim, subject to certain covenants.

Infrastructure Plan

An Interagency Cooperation Agreement, defining the obligations of various City agencies to the Waterfront Site Project, is pending before the Board of Supervisors (File 17-0988). The Interagency Cooperation Agreement describes how the City agencies will coordinate their review and approvals in relation to the Pier 70 Infrastructure Plan, which details the infrastructure (horizontal improvements) requirements of the 28-acre Waterfront Site as well as adjacent sites.

The Pier 70 Infrastructure Plan requires Forest City to design and construct certain infrastructure improvements within the plan area through the City's Subdivision Code. Forest City's obligation to design and construct horizontal improvements is limited to the 28-acre Waterfront Site and the portions of 20th Street, 21st Street, and 22nd Street. Vertical developers of Parcel K North and the Hoedown Yard will develop adjacent infrastructure, including the new Michigan Street, the 20th & Illinois Street Plaza and Irish Hill Park.

Horizontal improvements to be constructed by Forest City include: demolition and abatement of existing and unusable structures, demolition of substandard utility infrastructure, grading of site to address sea level rise, improvements to address seismic stability, new street and transportation systems, low pressure water system, non-potable water system, sewer and storm water infrastructures, and Auxiliary Water Supply System (AWSS) infrastructure.

In addition, Forest City will construct associated offsite improvements to serve infrastructure at the Waterfront Site, including: AWSS improvements, sewer pump station and sewer main work, and traffic signals.

Project Approvals

The following legislation related to the Waterfront Site Project requires Board of Supervisors approval:

Exhibit 3: Pending Legislation to Approve Actions Related to the Waterfront Site Project

File Number	Action
File No. 170930	General Plan Consistency Findings and General Plan Amendment
File No. 170864	Planning Code and Zoning Map Amendments
File No. 170863	Development Agreement
	Disposition and Development Agreement
	<ul style="list-style-type: none"> • Financing Plan • Form of Vertical DDA and Parcel Lease • Form of Master Lease • Phasing Plan • Schedule of Performance • Infrastructure Plan • Affordable Housing Plan • Workforce Development Plan • Transportation Program (including TDM Plan) • Arts Program • Map of Potential Childcare Locations
File No. 170986 (Subject of this report)	
File No. 170983	Port Public Offering of Parcel K North Ordinance
File No. 170987	Pier 70 Trust Exchange Agreement Resolution
File No. 170988	MOU re Interagency Cooperation Resolution
Not Introduced	MOU re Tax Allocation Resolution
	Sub-Project Area G-2 of Infrastructure Financing District No. 2 (28-Acre Site and Parcel K North)
File No. 170879	Resolution of Intention - Establish Sub-Project Areas G-2, G-3, and G-4
File No. 170878	Resolution of Intention - Issue Bonds for Sub-Project Areas G-2, G-3, and G-4
Not Introduced	Hearing to Consider Legislation to Establish Sub-Project Areas G 2, G-3, and G-4
Not Introduced	Ordinance Establishing Sub-Project Areas G-2, G-3, and G-4
Not Introduced	Resolution Authorizing Issuance of Bonds for Sub-Project Areas G-2, G-3, and G-4
	Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard)
File No. 170880	Resolution of Intention -Establish IRFD
File No. 170882	Resolution of Intention -Issue Bonds for IRFD
File No. 170881	Resolution Authorizing Preparation of Infrastructure Financing Plan
Not Introduced	Hearing to Consider Legislation to Establish IRFD
Not Introduced	Resolution Approving IRFD as a Taxing Entity
Not Introduced	Resolution Proposing IRFD and Adopting IFP
Not Introduced	Resolution Calling for a Special Election
Not Introduced	Resolution Declaring Results of Special Election
Not Introduced	Ordinance Establishing IRFD and Adopting IFP
Not Introduced	Resolution Authorizing Issuance of Bonds

Planning Approval

The Planning Commission at its August 24, 2017 meeting took the following actions regarding the Waterfront Site Project (a) certified the Final Environmental Impact Report, (b) adopted CEQA findings and the MMRP, (c) recommended approval of Planning Code text amendments

and amendments to the Zoning Maps to establish the Pier 70 Special Use District; (d) recommended approval of the Development Agreement; and (e) approved the Design for Development.

Project Overview

This report focuses on sources and uses of project funds to implement the Waterfront Site Project. In addition to major funding sources discussed below, the DDA Financing Plan provides for (a) special taxes levied on certain parcels to fund project and shoreline reserves, (b) special taxes on certain parcels to augment funding for the Arts Building and community space, and (c) community facilities district assessments for ongoing maintenance and services. Longer-term financial benefits to the Port include (a) participation in project revenues once project costs have been funded (55 percent to Port and 45 percent to FC), and (b) receipt of proceeds from the sale or lease of Parcel C1A for office use or market rate condominiums.

According to the September 22, 2017 staff report to the Port Commission, the ground leases for Waterfront Site parcels will provide for the Port to receive (a) 1.5 percent of net proceeds from the refinancing of ground leases and associated improvements; (b) 1.5 percent transfer fee payment for all transfers of fee parcels (including residential condominiums) after three years; (c) 1.5 percent of modified gross revenues on all buildings beginning in year 30; and (d) 2.5 percent of modified gross revenues on all buildings beginning in year 60.

FISCAL IMPACT

The Waterfront Site Project consists of public and private development costs. Public development costs consist of horizontal infrastructure (utilities, streets, site grading, other), art and historic buildings, parks and open space, transportation, and affordable housing.

Sources of funds to pay for public infrastructure and facility costs include sale and lease of public land, assessment of affordable housing and transportation fees on private development, incremental property tax revenues generated by new development and proceeds from tax increment bonds in the proposed Port Infrastructure Financing District (IFD) subproject and Hoedown Yard Infrastructure and Revitalization Financing District (IRFD), and special property assessments through the formation of three proposed community facilities districts (CFD).

Estimated sources and uses of public funds for horizontal development and other Waterfront Site projects are shown in Exhibit 4 below.

Exhibit 4: Estimated Sources and Uses of Funds (2017 Dollars)

	Land Proceeds	IFD Property Tax Increment and Bonds	CFD Special Taxes and Bonds	IRFD Property Tax Increment and Bonds	Development Impact Fees	TOTAL
Sources	\$48,779,906	\$355,122,717	\$124,490,998	\$15,682,353	\$128,219,146	\$672,295,120
Uses						
Entitlements		\$33,440,730				\$33,440,730
Horizontal Infrastructure	4,400,000	248,542,621				252,942,621
Developer Return on Investment	44,379,906		28,572,526			72,952,432
Affordable Housing				15,682,353	83,495,794	99,178,147
Arts Building			20,000,000			20,000,000
Historic Buildings		9,479,914				9,479,914
Other Pier 70 Improvements		23,900,000	10,000,000			33,900,000
Hunters Point Power Plan Shoreline Property Purchase			5,896,899			5,896,899
Seawall and Shoreline Protection		39,759,452	60,021,573			99,781,025
Transportation Projects					44,723,352	44,723,352
Total Uses	\$48,779,906	\$355,122,717	\$124,490,998	\$15,682,353	\$128,219,146	\$672,295,120

Source: Budget and Legislative Analyst's estimates based on information provided by the Port

Horizontal Infrastructure (Phase 1 Timeframe: 2018 to 2021)

Under the proposed DDA, FC is obligated to obtain entitlements and complete construction of horizontal infrastructure development. Between 2011 and 2017, FC has incurred costs of \$33,440,730 for entitlements. Estimated horizontal infrastructure costs are \$252,942,621, as shown in Exhibit 5 below.

Exhibit 5: Estimated Horizontal Infrastructure Costs (2017 Dollars)

Cost Category	Amount
Demolition and Abatement	\$9,376,239
Auxiliary Water Supply System	3,584,914
Low Pressure Water	5,354,594
Reclaimed Water	3,434,478
Combined Sanitary Sewer	19,299,758
Joint Trench	6,137,741
Earthwork, Soil Disposal, and Retaining Walls	16,312,684
Roadways	13,255,612
Streetscape	7,225,630
Parks & Open Space	49,260,755
City Infrastructure Review/Acceptance Costs	11,210,000
Testing, Inspection and Site Offices	3,209,873
Subtotal Construction	\$147,662,277
Construction Contingency (15% of Construction Costs)	\$21,889,829
Design Contingency (5% of Construction Costs)	7,296,610
Subtotal Construction and Contingencies	\$176,848,715
Architecture and Engineering	\$15,699,455
Insurance	2,295,788
Bonding Costs	3,434,256
Legal	2,097,775
Financing (not reimbursed by CFD/IFD)	1,100,000
Construction Management Fee	13,700,948
Soft Cost Contingency	4,748,227
Subtotal Soft Costs (24.4% of Construction Costs)	\$43,076,449
Miscellaneous (appraisals, etc.)	\$7,245,000
Community Outreach/Marketing	4,400,000
Development Management Fee	11,417,457
Noonan Relocation	1,000,000
Contributions to SFMTA Buses or AWSS	7,845,000
Workforce	1,110,000
Total Project	\$252,942,621

Source: Port

A third party review of the \$252,942,621 budget by Parsons-Lotus Water Joint Venture Partnership (Parsons) found the construction costs, soft costs and contingencies to be reasonable. The review did not assess the costs for community outreach and marketing, development management fee, relocation of Noonan tenants, contributions to SFMTA for buses and to the auxiliary water supply system, or workforce development.

The Parsons report recommended capping the combined construction management fee and development management fee at 15 percent of hard costs. Under the proposed budget in Exhibit 5 above, combined construction management fees and development management fees

are \$25,118,405, equal to 14 percent of construction costs of \$176,848,715. Under the DDA, development management costs and construction management costs will be charged as actual costs, not to exceed 15 percent of hard costs, except that FC will have right to submit for reimbursement of actual costs in excess of this threshold and Port will provide reimbursement subject to the Port's confirmation of the charges as commercially reasonable.

Sources of Funds for Horizontal Infrastructure

FC financed the costs of entitlements of \$33,440,730 between 2011 and 2017, and will finance the costs of horizontal infrastructure. The DDA's Financing Plan provides for property tax increment and bond proceeds from the Port IFD subproject areas to reimburse the costs of horizontal infrastructure but these funds are not available until development on the parcels within the Port IFD subproject areas is complete and assessed for tax purposes.

Developer Equity and Return on Investment

FC is eligible to receive an 18 percent return on investment, compounded quarterly on the balance of equity invested by FC. To date, FC has accrued \$18,574,258 in return on investment. The Port estimates that FC's return on investment will be nearly \$73,000,000 over the life of the project.

In order to limit costs to the project for the developer's return on investment, the Port plans to advance proceeds from land sales to the horizontal infrastructure to pay down FC's equity and return on investment. Port IFD subproject area property tax increment and bond proceeds, when available, will be used to reimburse the advance land sale proceeds.

State law limits the use IFD property tax increment to pay the developer's return on investment. Therefore, the Port plans to use land sale proceeds and CFD special tax proceeds, when available, to pay FC's return on investment.

Affordable Housing (Timeframe: 2020 to 2030)

The Affordable Housing Plan provides for 30 percent of housing developed on the Waterfront Site to be affordable. Three parcels on the Waterfront Site will be designated for 100 percent affordable housing, financed by developer impact fees, property tax increment generated by development within the Hoedown Yard IRFD, and other City sources. According to the DDA, 327 units of affordable housing will be built on these three parcels. Based on the August 31, 2017 Berkson Associates report to the Port Commission, the Waterfront Site will generate \$83,495,794 in revenues allocated to affordable housing (2017 dollars), resulting in an estimated available construction funds of \$303,297 per affordable housing unit, as shown in Exhibit 6 below.

Exhibit 6: Estimated Funds Available for Affordable Housing Construction (2017 Dollars)

Source of Funds	Amount
Affordable Housing Fees	\$48,065,654
Jobs Housing Linkage Fees	<u>35,430,140</u>
Subtotal Development Impact Fees	83,495,794
IRFD Property Tax Increment	<u>15,682,353</u>
Total	\$99,178,147
Number of Housing Units	327
Estimated Available Construction Funds per Unit	\$303,297

Source: August 31, 2017 Berkson Associates report, September 22, 2017 Port staff report, Port information to Budget and Legislative Analyst's Office on October 11, 2017

Based on an estimated cost of \$577,105 to construct an affordable housing unit (not including land costs)⁹, an additional \$273,808 in funding per affordable housing unit will be needed, or \$89,535,372 for 327 affordable housing units. Additional funding sources consist of both City gap funding¹⁰ and non-City sources, including state and federal tax credits allocated to low income housing, other state grants and loans, affordable housing developer equity, and other sources.

Arts Building and Historic Buildings (Timeframe: 2020 to 2026)

Parcel E4 on the Waterfront Site has been designated for arts, community and public space, and some retail and restaurant uses. The DDA allows FC to develop Parcel E4 in (a) two separate phases, with one building to relocate the Noonan tenants and the second building serve as the Arts Building, or (b) a single Arts Building to house both the Noonan tenants and other programs. Either FC, through an affiliate vertical developer, or an arts master tenant will enter into a vertical DDA and a ground lease with the Port for up to 66 years at \$1 per year. The vertical developer or arts master tenant must obtain a minimum of \$17,500,000 in cash and pledges to develop the Arts Building. The Port's share of funding is \$20,000,000, for which CFD special taxes and bonds will be the source of funds.

The Waterfront Site Project consists of three historic buildings: 2, 12, and 21. Under the proposed DDA, FC has the option to develop Historic Building 2. If FC exercises the option, the DDA requires the developer to submit an application to the National Park Service to seek Historic Tax Credits.

The proposed DDA requires FC to rehabilitate Historic Buildings 12 and 21 through an affiliate vertical developer. The affiliate vertical developer will enter into a vertical DDA with the Port and a ground lease for 66 years at \$1 per year, plus participation rent. The DDA assumes "feasibility gap" between the developer's costs to rehabilitate Historic Buildings 12 and 21, and

⁹ The estimated construction cost per affordable housing unit is based on 20 affordable housing developments in San Francisco between approximately 2015 and 2017.

¹⁰ According to the projections developed by Berkson Associated, development on Parcel K North and the Hoedown Yard could generate an additional \$25,000,000 in development impact fees. These development impact fees will be allocated to the Mayor's Office of Housing and Community Development and deposited into the Affordable Housing Trust Fund.

the developer's revenues generated by the rehabilitated historic buildings; and sets out a formula to calculate the feasibility gap. Public funding to close the feasibility gap, as estimated by the Port, is approximately \$9,479,914, which would be funded by special taxes generated by the buildings and Port IFD subproject area property tax increment and bond proceeds.

Other Pier 70 and Seawall/ Sea Level Rise Projects (Timeframe: 2025 to 2050)

Other projects included in the Waterfront Site Project include improvements to Irish Hill Park and Crane Cove Park, shipyard improvements, and Pier 70 interpretation and public realm improvements. The Port's current financing plan class for allocation of up to \$10,000,000 in CFD special taxes and bond proceeds from the Hoedown Yard, as shown in Exhibit 4 above, and if needed Port IFD subproject area property tax increment, to build Irish Hill Park.

The Port proposes to allocate \$60,021,573 in CFD special taxes and bonds to seawall repairs and projects to address sea level rise projects. IFD property tax increment and bonds may be used for seawall repairs and improvement and projects to address sea level rise. The Port proposes to allocate \$39,759,452 in IFD property tax increment and bonds to seawall repairs and projects to address sea level rise, once all Pier 70 projects have been fully funded. Total allocation in CFD and IFD funds is \$99,781,026, as shown in Exhibit 4 above.

The Port has negotiated to utilize a portion of the Port IFD subproject area property tax increment and bond proceeds, estimated at \$23,900,000 to fund other Pier 70 projects outside of the Waterfront Site, including Irish Hill Park, as shown in Exhibit 4 above. Port staff has developed a list of other potential projects to be funded through Port IFD subproject area property tax increment and bond proceeds; these projects include Crane Cove Park Phase 2, shipyard improvements and other historic building rehabilitation projects. These projects are not included in the sources and uses of funds shown in Exhibit 4 above. According to Mr. Brad Benson of the Port, funding approval of these projects will be subject to future Board of Supervisors approval.

Transportation Improvements (Timeframe: 2019 to 2026)

The transportation plan for the Waterfront Site includes a shuttle service that would connect the site to regional transit hubs like the Transbay Terminal and the 16th Street/Mission Street BART station. The shuttle service would be funded by fees collected from tenants.

The proposed DDA provides for a transit development impact fee to be assessed on Waterfront Site projects, other than affordable housing and historic building projects. Estimated fees revenues are \$44,723,352. San Francisco Municipal Transportation Agency (SFMTA) projects that may be funded include a 16th Street ferry landing, T-Third metro enhancements, and improvements to existing bus lines. The SFMTA is also planning for bicycle and pedestrian improvements.

POLICY CONSIDERATION

Project Risks to the City

The proposed DDA between FC and the Port provides a complex financing scheme to develop public projects. Revenues generated by the Waterfront Site Project are intended to cover most

public project costs. FC invested its own equity for entitlements and will invest its own equity for horizontal infrastructure development, which will be reimbursed from available project-generated taxes. The DDA states that FC cannot compel the City to use General Fund or Harbor Fund monies to reimburse FC for its costs to develop the horizontal infrastructure or other FC obligations under the DDA.

Changes to the project's financing assumptions, especially in Phase I, could delay completion of the project and potentially reduce the amount of public funding for the horizontal infrastructure and future projects.

For example, the DDA Financing Plan includes a Proforma, which contains key revenue and expenditure assumptions for the Waterfront Site Project. According to the Financing Plan, the Proforma incorporates certain assumptions that informed the drafting of the Financing Plan, including that FC's entitlement costs would be reimbursed by CFD special tax revenues and an advance of proceeds from the sale of Parcel K North. The Proforma projects CFD revenues beginning in 2018 to repay FC's entitlement costs. According to the Port, the only way to issue debt based on CFD revenues this early in the Project will be to form the CFDs in 2018 and seek Board of Supervisors authorization to sell a CFD bond repaid by a special tax levy on undeveloped property in the Waterfront Site. The Budget and Legislative Analyst considers it unlikely that the CFDs will be formed and that debt can be issued in 2018.

Also, FC has the option to enter into ground leases for the parcels slated for vertical development; according to the proposed DDA, FC must close escrow on the ground lease for the first parcel to be optioned in Phase I and Phase II within two years of the beginning of horizontal infrastructure construction. FC must close escrow on the other ground leases within two years of completion of horizontal infrastructure construction for each development phase. If FC does not exercise the option within that timeframe, the Port may offer the parcels through a public offering. Rent on all ground leases is prepaid until the project achieves certain financial milestones; this prepaid rent is a source of project funds. The Financing Plan, based on the Proforma, assumes that FC will exercise its option for all development parcels included in Phase I in 2019 and 2020, thus generating prepaid rent within the first three years of the project. However, if FC does not exercise its option for these parcels, offering the parcels through a public offering extends the time in which prepaid rent will be received from other vertical developers by up to six months.

Because FC's return on investment continues to accrue, delays in funding to reimburse FC for its equity investment and return on investment will increase the developer return on project costs, potentially reducing funding for other uses.

Risks of Insufficient CFD, IFD, and IFRD Revenues

The Port estimated that the Condominium CFD special tax rates would equal approximately \$6,000 per unit per year, which according to estimates is the maximum rate to avoid discounting the purchase price. If fewer condominium units are developed than are assumed,

then the Condominium CFD would generate less revenue than projected¹¹. Likewise, the Leased Property and the Hoedown Yard CFD special tax rates are tied to square footage, so if less development occurs than anticipated, revenues would fall short.

IFD and IRFD tax increment will depend on the assessed value of properties on the tax roll, which could be lower than projected if (1) fewer units than assumed are developed, and/or (2) property values are lower than assumed due to market conditions when certificates of occupancy are issued.

Potential Lack of Financial Investors for IFD and IRFD Bonds

IFD and IRFD bonds are a new debt instrument. Whether investors will be interested in purchasing these bonds is not known, especially if the credit markets are tight at the time that the City is ready to issue the bonds. The Infrastructure Financing Plan assumes that IFD and IRFD bonds will have a 30-year term at an interest rate of 7 percent, with a debt service coverage ratio of 130 percent of annual debt service, and issuance costs/reserves equal to 13 percent of the bond proceeds. IFD and IRFD bond sales will occur when developed properties are added to the tax roll, which could take until 2027 or 2028. Market conditions that far in the future are uncertain, and investors may not be willing to purchase the bonds or only willing to purchase the bonds at high interest rates, thus reducing bond proceeds to be used for projects.

Summary

The Waterfront Site Project is a complex project, subject to financing risks, as noted above, and other development risks. The Project plan under the proposed DDA generally conforms to the 2013 Term Sheet endorsed by the Board of Supervisors and the conditions set by Proposition F. For the Waterfront Site Project to be implemented, the Board of Supervisors needs to authorize pending legislation, outlined in Exhibit 3 above, as well as future legislation for the exercise by the City of the option to purchase the Hoedown Yard. Because this legislation has not yet been considered by the Board of Supervisors, approval of the proposed resolution is a policy matter for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the proposed resolution to request the Port Executive Director to report to the Board of Supervisors annually in May of each year on the status of the project and project financing.
2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

¹¹ According to the Port, the reduction in the number of condominiums may be offset by an increase in rental units, thus increasing the CFD special tax revenues from CFDs on leased property.

Implementation of Board of Supervisors Recommended Changes to 2013 Term Sheet

When the Board of Supervisors endorsed the Waterfront Site Project Term Sheet in 2013, the Board of Supervisors made the following recommendations. Below is a summary of how these recommendations have been incorporated into the proposed DDA.

Recommendation 1: Other than the 28-Acre Site, only the Port-owned 20th/Illinois Parcel and the Hoedown Yard will be eligible for inclusion in an expanded 28-Acre Site.

- The Pier 70 Special Use District incorporates the 28-acre Waterfront Site, the 20th and Illinois Street site (Parcel K) and the Hoedown Yard.

Recommendation 2: Transfer fees will be payable to the Port from the proceeds of the second and each subsequent transfer of condominium parcels in the amount of 1.5 percent of the gross sales price, net of costs of sale only.

- Section 7.9 (b) (3) of the proposed DDA requires a restrictive covenant to be placed on market rate condominium units developed on Parcel K North, requiring that each condominium owner will pay a transfer fee to the Port equal to 1.5 percent of the net purchase price.
- While the City has an option to purchase the Hoedown Yard, the site is not owned by the City. According to the proposed DDA, if the Hoedown Yard option is offered through a public offering for development of market rate condominiums, then Section 7.9(b) (3) will apply to the Hoedown Yard, but transfer fee proceeds will accrue to the Mayor's Office of Housing and Community Development to fund affordable housing, in perpetuity.
- According to the September 22, 2017 staff report to the Port Commission, the ground leases for the development parcels provide for the Port to participate in 1.5 percent of net sale proceeds for sales, recapitalization and refinancing of leases.

Recommendation 3: Developer Return will be calculated only on outstanding Developer Capital.

- Section 2.3(a) (iii) of the Financing Plan states that Developer Return will accrue on the unpaid balance of the entitlement cost, and Section 8.5 of the Financing Plan states that Developer Return will accrue on any unpaid balance (of horizontal development costs) until the Developer Balance is satisfied by all available Project Payment Sources.

Recommendation 4: Project-generated Public Financing Sources will be the sole source of public funds to reimburse Developer's historic rehabilitation costs of Building 12 and Building 21, and only to extent necessary for Developer to achieve a 10% profit.

- The Financing Plan and Appendix (containing definitions) expand on the Term Sheet provision related to public subsidies for Historic Buildings 12 and 21.
- "Historic Building Costs" means, calculated separately for Historic Building 12 and Historic Building 21, (i) all reasonable and customary costs of rehabilitation (which, for Building 12 shall include build-out to a warm shell for Floors 1 and 3 and build-out to a turnkey condition for Floor 2), and (ii) 10% developer profit on rehabilitation costs.
- Section 7.14 of the proposed DDA requires the developer to rehabilitate Historic Buildings 12 and 21. Section 12 of the Financing Plan provides a formula to calculate the

“feasibility gap” between the developer’s costs to rehabilitate Historic Buildings 12 and 21, based on the developer’s actual costs, contributions to the costs from Historic Tax Credit investors, net operating income (based on a 7% capitalization rate), and participation rent to the Port.

Recommendation 5: Project-generated Public Financing Sources will be the sole source of public funds to reimburse the costs to construct a new building on Parcel E4, contingent on the building containing retail, restaurant, and arts/light-industrial or public uses.

- The proposed DDA requires the vertical developer or master arts tenant to contribute \$17,500,000 to the Arts Building on Parcel E4. Public financing sources include special taxes levied on certain parcels to augment funding for the Arts Building and community space and Port IFD subproject area property tax increment and bond proceeds.

Recommendation 6: If the Board of Supervisors approves a Pier 70 financing plan to provide General Fund financing based on projected revenues from payroll (business) and hotel taxes to the Port under Charter section B7.310, authorized uses of the General Fund financing will be limited to improvements to Pier 70 areas outside of the 28-Acre Site except to the extent authorized by the approved plan.

- The Financing Plan does not provide for General Fund financing based on hotel or business taxes.