

File No. 100432

Committee Item No. 6

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Land Use and Economic Development Date May 10, 2010

Board of Supervisors Meeting Date _____

Cmte Board

- Motion
- Resolution
- Ordinance
- Legislative Digest
- Budget Analyst Report
- Legislative Analyst Report
- Youth Commission Report
- Introduction Form (for hearings)
- Department/Agency Cover Letter and/or Report
- MOU
- Grant Information Form
- Grant Budget
- Subcontract Budget
- Contract/Agreement
- Form 126 – Ethics Commission
- Award Letter
- Application
- Public Correspondence

OTHER

(Use back side if additional space is needed)

- Update to Development Plan & Term Sheet (exhibits not included in packet)
- * Economic & Workforce Development Summary (see Item 5: File 100428)
- _____
- _____
- _____

Completed by: Alisa Somera Date May 7, 2010

Completed by: _____ Date _____

* The asterisked item represents a document not included under this item, but is a part of the file. The document can be found under the separate noted item and in the file.

1 [Endorsement of Update to Development Plan and Term Sheet for the Redevelopment of
2 Treasure Island]

3 **Resolution endorsing the Update to Development Plan and Term Sheet for the**
4 **Redevelopment of Former Naval Station Treasure Island with Treasure Island**
5 **Community Development, LLC.**

6
7 WHEREAS, Former Naval Station Treasure Island is a military base located on
8 Treasure Island and Yerba Buena Island (together, the "Base" or the "Property"), which is
9 currently owned by the United States of America (the "Navy"); and,

10 WHEREAS, Treasure Island was selected for closure and disposition by the Base
11 Realignment and Closure Commission in 1993, acting under Public Law 101-510, and its
12 subsequent amendments; and,

13 WHEREAS, In 1994, a Citizen's Reuse Committee ("CRC"), representing a broad
14 spectrum of community interests, was formed to: (i) review reuse planning efforts regarding
15 the Base by the San Francisco Planning Department and the San Francisco Redevelopment
16 Agency; and (ii) make recommendations to the City's Planning Commission and Board of
17 Supervisors; and,

18 WHEREAS, In July 1996, after an extensive community planning effort, a draft reuse
19 plan for the Base (the "Reuse Plan") was unanimously endorsed by the Mayor, the Board of
20 Supervisors, the Planning Commission and the CRC; and,

21 WHEREAS, One of the key recommendations of the reuse planning process was the
22 creation of a special, single-purpose authority to oversee the redevelopment of the Base, and
23 thus, under the Treasure Island Conversion Act of 1997 (the "Act"), the California Legislature
24 (i) designated the Treasure Island Development Authority (the "Authority") as a
25 redevelopment agency under California redevelopment law with authority over the Base, and

1 (ii) with respect to those portions of the Base which are subject to the public trust for
2 commerce, navigation and fisheries (the "Tidelands Trust"), vested in the Authority the
3 authority to administer the Tidelands Trust as to such property; and,

4 WHEREAS, Another key recommendation from the reuse planning process was that,
5 because the redevelopment of the Base will require extensive coordination and large
6 investments for new infrastructure and to address extraordinary transportation access and
7 seismic constraints, the Authority should pursue the redevelopment effort through a
8 public/private partnership with a "Primary Developer" of the Base; and,

9 WHEREAS, On June 14, 2000, the Authority Board of Directors authorized issuance of
10 a Request for Qualifications for a Primary Developer of the Base and on April 10, 2002, after
11 an extensive public process that included numerous meetings with the Authority Board,
12 members of the Treasure Island/Yerba Buena Island Citizens Advisory Board ("TI CAB"), and
13 comments provided by organizations, individuals and government agencies, the Authority
14 authorized staff to issue a focused Request for Proposals ("RFP") to Treasure Island
15 Community Development, LLC ("TICD"); and,

16 WHEREAS, On March 20, 2003, the Authority Board made a determination that TICD's
17 proposal met the criteria set forth in the RFP, and authorized the Authority's Executive
18 Director to enter into exclusive negotiations with TICD regarding the redevelopment of the
19 Base in a manner consistent with TICD's proposal, the Staff Summary, the Reuse Plan, and
20 the joint Environmental Impact Statement/Environmental Impact Report; and,

21 WHEREAS, On April 9, 2003, the Authority Board authorized the Executive Director to
22 execute an Exclusive Negotiating Agreement (as amended from time to time, the "ENA") with
23 TICD that sets forth the terms and conditions related to the preparation and approval of
24 transaction documents for the redevelopment of the Base, including but not limited to, the
25 subject of the negotiations, the term of the exclusive negotiation period and options to extend

1 the term, the allocation and responsibilities related to transaction costs associated with the
2 negotiations, the obligations of TICD and the Authority during the negotiation period, the
3 financial guarantee required to cover TICD's obligations under the ENA, and a schedule of
4 performance for completion of the transaction documents; and,

5 WHEREAS, As identified in the ENA's Schedule of Performance, in order to address
6 key development issues central to the financial and regulatory structure of the development
7 planning, certain issues were prioritized for further analysis before the term sheet negotiations
8 were concluded, including completion of additional studies regarding alternative locations for a
9 ferry terminal, which was performed by TICD, the feasibility of on-site waste water treatment,
10 which was performed by TICD, and a peer review of TICD's geotechnical assumptions, which
11 was conducted the Authority; and,

12 WHEREAS, The Authority and TICD worked collaboratively with staff of the State
13 Lands Commission to prepare Senate Bill 1873, sponsored by Senator Burton and authorizing
14 a Tidelands Trust Exchange on Treasure and Yerba Buena Islands (the "Treasure Island
15 Public Trust Exchange Act"), which was approved by the State legislature and signed by the
16 Governor on September 15, 2004; and,

17 WHEREAS, Staff and TICD presented Land Use, Open Space, Housing, Infrastructure,
18 Community Facilities, Transportation, Fiscal Impacts, Financing, Phasing and Sustainability
19 elements of the term sheet to the TICAB and its subcommittees, the Authority Board and
20 other public venues, and the Land Use Plan and the Transportation Plan to the Board of
21 Supervisors Land Use and Economic Development Committee, totaling over 150 public
22 meetings; and,

23 WHEREAS, Through the planning process, Authority staff and TICD worked
24 extensively and in good faith with key stakeholders and partners such as the Treasure Island
25 Homeless Development Initiative ("TIHDI"), the Sierra Club, the Treasure Island Wetlands

1 Project, Arc Ecology, the Bay Area Water Emergency Transit Authority ("WETA"), San
2 Francisco Planning and Urban Research, San Francisco Little League, Treasure Island
3 Sailing Center, a spectrum of City and County departments and agencies including the San
4 Francisco Public Utilities Commission ("SFPUC"), Planning Department, Department of Public
5 Works ("DPW"), Fire Department ("SFFD") and Municipal Transportation Agency ("MTA"), and
6 California State Lands Commission staff, among others; and,

7 WHEREAS, In 2006, the Authority presented to the TICAB, the Authority Board and the
8 Board of Supervisors the Development Plan and Term Sheet for the Redevelopment of Naval
9 Station Treasure Island (the "Development Plan"), which included an unprecedented level of
10 public benefits for Treasure Island, the City and County of San Francisco and the region
11 including, among other things, up to 1,800 affordable housing units including 435 units for the
12 nationally-recognized TIHDI program, the creation of approximately 300 acres of parks, open
13 space and recreational amenities, a commitment to high levels of sustainable development
14 practices, including green building standards, an innovative transportation program, storm
15 water treatment wetlands and solar energy generation, and economic development benefits
16 such as the creation of thousands of permanent and construction jobs and expansion of the
17 TIHDI job broker program and targeting of jobs to homeless, economically disadvantaged and
18 San Francisco residents; and,

19 WHEREAS, The Development Plan was structured such that the project delivers all of
20 these enormous public benefits without any new contribution from or recourse to the City's
21 General Fund; and

22 WHEREAS, On October 24, 2006, the TICAB voted 16-1 to endorse the Development
23 Plan; on October 30, 2006, the Authority Board voted 6-0 to adopt Resolution No. 06-59-10/30
24 endorsing the Development Plan; and on December 12, 2006, the Board of Supervisors voted
25

1 10-1 to adopt Resolution No. 699-06 endorsing the Development Plan, subject to the terms
2 and conditions of Resolution No. 699-06; and,

3 WHEREAS, Section I.B of the Development Plan identifies the following as the six
4 most significant challenges of the proposed redevelopment of the Property: (i) the
5 geotechnical and seismic conditions on Treasure Island, (ii) the application of the Tidelands
6 Trust to Treasure Island, (iii) issues of access and transportation, (iv) environmental
7 remediation, (v) terms of the Navy conveyance, and (vi) the economic feasibility of providing
8 the level of infrastructure and public benefits necessary to achieve the project guidelines and
9 goals; and,

10 WHEREAS, The Development Plan also specifically acknowledged the need to update
11 the terms to reflect materially changed conditions, including the ultimate economic terms of
12 the deal with the Navy to transfer the Property and any significant economic changes, which
13 the real estate market has experienced over the past two to three years; and,

14 WHEREAS, Since the endorsement of the Development Plan, the Authority and TICD
15 have made considerable progress in addressing many of these challenges through the public
16 process that has guided the planning for the Project and which to date has included more than
17 200 public meetings; and,

18 WHEREAS, The planning progress includes work with the MTA, WETA, DPW,
19 Planning Department, San Francisco Bicycle Coalition and others on the street network,
20 transit hub and ferry terminal; advancement of the strategies to mitigate geotechnical
21 conditions and develop an adaptive management strategy for potential sea level rise in
22 collaboration with the Bay Conservation and Development Commission; extensive block by
23 block analysis of the land plan and development program, from which was developed a Draft
24 Design for Development document that has been presented to the TICAB, the Authority
25 Board, the Board of Supervisors and the Planning Commission; and significant advancement

1 of the infrastructure and utilities plans with the SFPUC, DPW and Fire Department, among
2 others; and,

3 WHEREAS, On October 13, 2007, the Governor approved SB 815 (Migden) and on
4 October 11, 2009, the Governor approved SB 833 (Leno), both of which amended the
5 Treasure Island Public Trust Exchange Act to be consistent with the proposed redevelopment
6 program for the Property; and,

7 WHEREAS, On January 26, 2008, a Notice of Preparation of an Environmental Impact
8 Report and Notice of Public Scoping Meetings was published and in response to public
9 comments, the Authority and TICD determined it was appropriate to analyze a larger project
10 alternative in the Environmental Impact Report for the proposed project described in the
11 Development Plan (the "Project"); and,

12 WHEREAS, On September 26, 2008, the Governor approved AB 981 (Leno), which
13 authorized (i) the creation of the Treasure Island Transportation Management Agency, (ii)
14 implementation of a congestion management pricing program as part of the redevelopment of
15 the Property and (iii) collection and distribution of parking, transit pass and congestion
16 management pricing revenues as part of an overall transit demand management program for
17 the proposed redevelopment of the Property; and,

18 WHEREAS, The proposed Project was awarded the 2008 California Governor's
19 Environmental and Economic Leadership Award for Sustainable Communities and the 2009
20 American Institute of Architects Honor Award for Urban Design; and,

21 WHEREAS, In May 2009, the Clinton Climate Initiative and the United States Green
22 Building Council chose the proposed Project as one of sixteen (16) founding projects to
23 partner with via its Climate Positive Development Program; and,

24 WHEREAS, In December 2009, the Authority and the Navy negotiated the basic
25 financial terms for the conveyance of the Property to the Authority; and,

1 WHEREAS, On February 9, 2010, the SFPUC approved, and on February 10, 2010,
2 the Authority Board approved, an Exclusive Negotiating Agreement that describes the terms
3 and conditions upon which the SFPUC and the Authority will enter into negotiations for (i) the
4 transfer to SFPUC of approximately four (4) to six (6) acres of land in a mutually acceptable
5 location on Treasure Island for infrastructure improvements consistent with the environmental
6 stewardship objectives of the SFPUC and the proposed Project, (ii) the financing,
7 construction, ownership and operation of a new wastewater treatment plant and recycled
8 water plant, and (iii) other ancillary utility related matters; and,

9 WHEREAS, The Authority has undertaken an extensive public process to prepare the
10 plans for the redevelopment of Treasure Island which to date has included more than 220
11 meetings before the Authority Board, TICAB, the Board of Supervisors, the Planning
12 Commission, public workshops and in other public forums; and,

13 WHEREAS, The project plans have received overwhelming public support and have
14 been directly responsive to public input on the Project; and,

15 WHEREAS, The Authority and TICD have prepared an Update to Development Plan
16 and Term Sheet (the "Development Plan Update"), a copy of which is on file with the Clerk of
17 the Board of Supervisors in File No. 100432 , which is hereby declared to be a part of this
18 resolution as if set forth fully herein, that (i) describes certain key terms of the Development
19 Plan that the Authority and TICD desire to update to reflect current conditions and (ii)
20 addresses, among other things, responses to the challenges identified in Section I.B of the
21 Development Plan; and,

22 WHEREAS, The parties are proposing solutions that (i) provide the City and the
23 Authority with an extensive public benefits package that achieves the public policy objectives
24 of the proposed Project, (ii) preserves the vision of the proposed Project that has received
25

1 overwhelming public support and national and international recognition, and (iii) incorporates
2 current conditions into an economically implementable project; and,

3 WHEREAS, The Development Plan Update was presented to the TICAB at duly
4 noticed public meetings on March 16, 2010 and April 6, 2010, and on April 6, 2010, the TICAB
5 voted 15 to 0, with 2 abstentions, to endorse the Development Plan Update; and,

6 WHEREAS, The Development Plan Update was presented to the Authority Board at
7 duly noticed public meetings on March 14, 2010 and April 7, 2010, and on April 7, 2010, the
8 Authority Board voted 7 to 0 to endorse the Development Plan Update; and,

9 WHEREAS, The Development Plan, as updated by the Development Plan Update, is
10 not a binding agreement that commits the Authority or the City to proceed with the approval or
11 implementation of the Project, but it outlines the terms on which the Authority, the City, and
12 TICD will negotiate in good faith to reach agreement on the final Disposition and Development
13 Agreement and other transaction documents; and,

14 WHEREAS, The Project, as ultimately proposed by the Authority, the City and TICD,
15 will be subject to a process of thorough public review and input and all necessary and
16 appropriate approvals; that process must include environmental review under the California
17 Environmental Quality Act ("CEQA") and, if applicable, the National Environmental Policy Act
18 ("NEPA"), before the Authority or the City may consider approving the Project; and the Project
19 will require discretionary approvals by a number of government bodies after public hearings
20 and environmental review, including by the Authority Board and the City's Board of
21 Supervisors; and,

22 WHEREAS, Nothing in this resolution commits, or shall be deemed to commit, the
23 Authority, the City, or any other public agency to approve or implement any project, and they
24 may not do so, until environmental review of the project as required under CEQA and, if
25 applicable, NEPA, has been completed; accordingly, the references to "the Project" (or the

1 like) in this resolution mean a proposed project subject to future environmental review and
2 consideration by the Authority, the City, and other public agencies; further, the Authority, the
3 City, and any other public agency with jurisdiction over any part of the Project each shall have
4 the absolute discretion before approving the Project to: (i) make such modifications to the
5 Project as may be necessary to mitigate significant environmental impacts; (ii) select other
6 feasible alternatives to avoid or substantially reduce significant environmental impacts; (iii)
7 require the implementation of specific measures to mitigate any specific impacts of the
8 Project; (iv) balance the benefits of the Project against any significant environmental impacts
9 before taking final action if such significant impacts cannot otherwise be avoided; or (v)
10 determine whether or not to proceed with the Project; now, therefore, be it

11 RESOLVED, That the Board of Supervisors hereby endorses the Development Plan
12 Update and urges City and Authority staff, including the Planning Department and the Office
13 of Economic and Workforce Development, to continue environmental review and planning for
14 the Project and the negotiation of the TICD DDA and other transaction documents consistent
15 with the Development Plan and Development Plan Update; and, be it

16 FURTHER RESOLVED, That any and all actions taken by City staff and Authority staff
17 consistent with the intent of this resolution are hereby ratified and approved.

**UPDATE TO DEVELOPMENT PLAN AND TERM SHEET
FOR THE REDEVELOPMENT OF NAVAL STATION TREASURE ISLAND**

THIS UPDATE TO DEVELOPMENT PLAN AND TERM SHEET FOR THE REDEVELOPMENT OF NAVAL STATION TREASURE ISLAND ("Development Plan Update") dated as of _____, 2010, is between the TREASURE ISLAND DEVELOPMENT AUTHORITY, a public body, corporate and politic of the State of California (the "Authority"), and TREASURE ISLAND COMMUNITY DEVELOPMENT, LLC, a California limited liability company ("TICD").

RECITALS

A. The United States of America, acting by and through the Department of the Navy (the "Navy"), owns in fee that certain real property known as the former Naval Station Treasure Island ("NSTI"), located in the City and County of San Francisco ("City"), and consisting of large portions of the following two islands connected by a causeway: (1) an approximately 367 acre portion of Treasure Island, level filled land, and (2) an approximately 94 acre portion of Yerba Buena Island, a natural rock outcropping, steeply sloped and highly vegetated, with elevations rising to over 300 feet above the water. NSTI also includes approximately 317 acres of unfilled tidal and submerged lands lying adjacent to Treasure Island in San Francisco Bay and approximately 224 acres of unfilled tidal and submerged lands lying adjacent to Yerba Buena Island in San Francisco Bay.

B. The land within NSTI that is the subject of this Development Plan Update is shown on the attached Exhibit A (the "Property"). The Property *excludes* the portions of NSTI that are occupied and owned by the United States Department of Labor Jobs Corps, the United States Coast Guard and the Federal Highway Administration (collectively, the "Excluded Properties"). The Excluded Properties are also shown on Exhibit A, attached hereto.

C. In 1993, Congress and the President selected NSTI for closure and disposition by the Base Realignment and Closure Commission acting under Public Law 101-510 and its subsequent amendments. The Department of Defense subsequently designated the City and, later, the Authority as the Local Reuse Authority ("LRA") responsible for the conversion of NSTI under the federal disposition process.

D. In 1994, a Citizen's Reuse Committee ("CRC"), representing a broad spectrum of community interests, was formed to (1) review reuse planning efforts regarding the Property by the San Francisco Planning Department and the San Francisco Redevelopment Agency, and (2) make recommendations to the City's Planning Commission and Board of Supervisors concerning its future use.

E. In July 1996, after an extensive community planning effort, the City's Mayor, Board of Supervisors, Planning Commission and the CRC unanimously endorsed the Draft Reuse Plan (the "Reuse Plan") for NSTI. Since endorsement of the Reuse Plan, the Authority has undertaken an extensive public process to further refine the land use plan for the Property.

F. In 1996, the City concluded discussions with the Treasure Island Homeless Development Initiative ("TIHDI"), a collaboration of 20 agencies that was formed in 1994 to develop the homeless component of the Reuse Plan, regarding a binding agreement (the "TIHDI Agreement") that would, among other things, (1) give TIHDI certain rights to participate in economic development opportunities at the Property, (2) facilitate implementation of a permanent employment program related to activities occurring at the Property, (3) give TIHDI certain rights to both temporary and permanent housing in support of TIHDI's programs, and (4) provide TIHDI with certain financial support.

G. In 1997, NSTI closed and the Authority was created to serve as a single entity responsible for the redevelopment of the Property. Under the Treasure Island Conversion Act of 1997, which amended Section 33492.5 of the California Health and Safety Code and added Section 2.1 to Chapter 1333 of the Statutes of 1968 (the "Act"), the California Legislature (1) designated the Authority as a redevelopment agency under the California Redevelopment Law with authority over the Property, and (2) with respect to those portions of the Property that are subject to the public trust for commerce, navigation and fisheries (the "Tidelands Trust" or "Trust"), vested the authority to administer the Tidelands Trust as to such property in the Authority in accordance with the terms of the Act.

H. The Board of Supervisors approved the designation of the Authority as a redevelopment agency with powers over the Property under the Act in Resolution No. 43-98, dated February 6, 1998. Under the Act and the Authority's Articles of Incorporation and Bylaws, the Authority, acting by and through its Board of Directors (the "Authority Board"), has the power, subject to applicable laws, to sell, lease, exchange, transfer, convey or otherwise grant interests in or rights to use or occupy all or any portion of the Property.

I. On June 19, 2000, the Authority submitted an application (the "Application") to the Navy seeking an Economic Development Conveyance of the Property pursuant to Section 2905(b)(4) of the Defense Base Closure and Realignment Act of 1990, 10 U.S.C. Section 2687, as amended, and related implementing regulations of the Department of Defense (32 CFR Part 175). The Application was amended and restated in its entirety pursuant to the Amended and Restated Economic Development Conveyance Application for Naval Station Treasure Island dated July 23, 2007 (the "Amended and Restated EDC Application"). The Authority has been seeking to finalize a conveyance agreement for the Property with the Navy in furtherance of the Amended and Restated EDC Application, subject to completion of necessary environmental review under the California Environmental Quality Act ("CEQA") and the National Environmental Policy Act ("NEPA"). Upon execution of a conveyance agreement, the Navy will transfer the Property to the Authority, as the designated LRA.

J. After the issuance of a Request for Qualifications in 2000 and a Request for Proposals in 2001, and an extensive evaluation process that involved numerous presentations to the Treasure Island/Yerba Buena Island Citizens Advisory Board ("TICAB"), the Authority Board and other public forums, the Authority Board selected TICD as the proposed master developer of the Property.

K. On or about June 1, 2003, the Authority and TICD entered into an Exclusive Negotiating Agreement, which was amended and restated in its entirety pursuant to the Amended

and Restated Exclusive Negotiating Agreement dated as of September 14, 2005, and further amended pursuant to the Amendment to Schedule of Performance Set Forth in the Amended and Restated Exclusive Negotiating Agreement dated as of July 1, 2006, the Second Amendment to Amended and Restated Exclusive Negotiating Agreement dated as of March 12, 2008, and the Third Amendment to Amended and Restated Exclusive Negotiating Agreement dated as of February 10, 2010 (collectively, the "ENA"). The ENA sets forth the terms and conditions under which the Authority and TICD are willing to negotiate (1) a disposition and development agreement ("DDA") and related conveyance agreements governing the redevelopment of the Property, (2) one or more 66-year ground leases (collectively, the "Lease") for certain portions of the Property that will remain subject to the Tidelands Trust, and (3) other necessary transaction documents for the conveyance, management and redevelopment of the Property (the other documents, the Lease and the DDA are collectively referred to as the "Transaction Documents"), subject to completion of necessary environmental review under CEQA and, if applicable, NEPA.

L. In 2006, a Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (the "Development Plan") was presented to the TICAB, the Authority Board and the Board of Supervisors for endorsement. The proposed project described in the Development Plan had previously been presented and reviewed in approximately 150 public meetings before the Authority Board, the TICAB, the Board of Supervisors, the Planning Commission, and in other public forums. The Development Plan summarizes the key policy goals, basic development guidelines, financial framework and other key terms and conditions that will form the basis for the negotiation and completion of the final Transaction Documents, subject to completion of necessary environmental review under CEQA and, if applicable, NEPA.

M. On October 24, 2006, the TICAB voted 16-0-1 to endorse the Development Plan. On October 30, 2006, the Authority Board voted 6-0 to adopt Resolution No. 06-59-10/30 endorsing the Development Plan. On December 12, 2006, the Board of Supervisors voted 10-1 to adopt Resolution No. 699-06 endorsing the draft Development Plan, subject to the terms and conditions of Resolution No. 699-06. All initially capitalized terms in this Development Plan Update that are not defined herein will have the meanings given to them in the Development Plan.

N. Section I.B of the Development Plan identifies the following as the six most significant challenges of the proposed redevelopment of the Property: (i) the geotechnical and seismic conditions on Treasure Island, (ii) the application of the Tidelands Trust to Treasure Island, (iii) issues of access and transportation, (iv) environmental remediation, (v) terms of the Navy conveyance, and (vi) the economic feasibility of providing the level of infrastructure and public benefits necessary to achieve the Project guidelines and goals. The Development Plan also specifically acknowledged the need to update the terms to reflect materially changed conditions, including significant economic changes as the real estate market has experienced over the past two to three years. Since the endorsement of the Development Plan, the Authority and TICD have made considerable progress in addressing many of these challenges.

O. On October 13, 2007, the Governor approved SB 815 (Migden) and on October 11, 2009, the Governor approved SB 833 (Leno). SB 815 and SB 833 both amended the Treasure Island Public Trust Exchange Act, which is the State legislation authorizing an exchange of Tidelands Trust properties between Treasure Island and Yerba Buena Island, to be

consistent with the proposed redevelopment program for the Property. As a result, the proposed areas to be freed from the Tidelands Trust are shown on the Updated Exhibit C, attached hereto.

P. On January 26, 2008, a Notice of Preparation of an Environmental Impact Report and Notice of Public Scoping Meetings ("NOP") was published. In response to public comments, the Authority and TICD determined it was appropriate to analyze a larger project alternative in the Environmental Impact Report for the proposed project described in the Development Plan as updated by the Development Plan Update (the "Project").

Q. On September 26, 2008, the Governor approved AB 981 (Leno), which authorized (i) the creation of the Treasure Island Transportation Management Agency, (ii) implementation of a congestion management pricing program as part of the redevelopment of the Property and (iii) collection and distribution of parking, transit pass and congestion management pricing revenues as part of an overall transit demand management program for the proposed redevelopment of the Property.

R. The proposed Project was awarded the 2008 California Governor's Environmental and Economic Leadership Award for Sustainable Communities and the 2009 American Institute of Architects Honor Award for Urban Design.

S. In May 2009, the Clinton Climate Initiative and the United States Green Building Council chose the proposed Project as one of sixteen (16) founding projects of the Clinton Climate Initiative's Climate Positive Development Program.

T. In December 2009, the Authority and the Navy negotiated the basic financial terms for the conveyance of the Property to the Authority as described in Section I.A below.

U. On February 9, 2010, the San Francisco Public Utilities Commission ("SFPUC") approved, and on February 10, 2010, the Authority Board approved, an Exclusive Negotiating Agreement (the "SFPUC ENA") that describes the terms and conditions upon which the SFPUC and the Authority will enter into negotiations for (i) the transfer to SFPUC of approximately four (4) to six (6) acres of land in a mutually acceptable location on Treasure Island for infrastructure improvements consistent with the environmental stewardship objectives of the SFPUC and the proposed Project, (ii) the financing, construction, ownership and operation of a new wastewater treatment plant and recycled water plant, and (iii) other ancillary utility-related matters.

V. This Development Plan Update describes certain key terms of the Development Plan that the Authority and TICD desire to update to reflect current conditions and which address, among other things, responses to the challenges identified in Section I.B of the Development Plan. The parties are proposing solutions that (i) provide the City and the Authority with an extensive public benefits package that achieves the public policy objectives of the proposed Project, (ii) preserves the vision of the proposed Project, and (iii) incorporates current conditions into an economically implementable project.

I. FINANCIAL CONSIDERATION PAYABLE TO THE NAVY

The Development Plan is updated to reflect the basic financial terms of the proposed agreement between the Authority and the Navy for the Economic Development Conveyance of the Property, as described below.

A. Financial Terms. In December 2009, the Authority and the Navy negotiated the basic financial terms for the Economic Development Conveyance of the Property. The proposed consideration payable to the Navy for the Property consists of a fixed initial consideration and additional consideration in the form of back-end profit participation as follows, subject to negotiation and execution of an Economic Development Conveyance Memorandum of Agreement ("EDC MOA") between the Authority and the Navy after the completion of necessary environmental review under CEQA and NEPA:

1. Initial Consideration: The Navy would receive "Initial Consideration" of \$55 million, payable over ten (10) years, with interest at the rate equal to the interest rate payable on 10 year Treasury Notes in effect as of the month that the EDC MOA is executed plus 150 basis points, which interest rate will be locked in for the duration of the EDC MOA.

2. Additional Consideration. The Navy would receive "Additional Consideration" equal to (i) 100% of the Net Project Revenues in an amount not to exceed \$50 million after TICD has achieved an 18% unlevered internal rate of return, plus (ii) 35% of the Net Project Revenues after TICD has achieved a 22.5% unlevered internal rate of return. The calculation and payment of the Additional Consideration is more particularly described in Section V.C.2 below.

3. Payment of Initial Consideration and Additional Consideration. The Transaction Documents will require that (i) TICD make the payments of Initial Consideration and Additional Consideration on behalf of the Authority, and (ii) such payments will be included as a Project Expense as defined in Section V.B.1 below.

II. LAND USE

Section II of the Development Plan, Land Use, remains unchanged except for the changes in the Illustrative Conceptual Land Use Plan described in this Section. References in the Development Plan to the size of the land use components (e.g. number of units and square footage of commercial space) are superseded by this Development Plan Update to the extent inconsistent.

A. Illustrative Conceptual Land Use Plan. Subsequent to the endorsement of the Development Plan in 2006, the Authority and TICD analyzed the land use plan and infrastructure requirements for the proposed Project to a greater level of detail and on a block-by-block basis. Attached hereto as Updated Exhibit B is an Updated Illustrative Conceptual Land Use Plan (the "Updated Land Use Plan"). The main components of the Updated Land Use Plan remain unchanged. These uses include residential, open space and recreation, and commercial, retail, hotels/timeshares and restaurants, but also include community, cultural, education and arts. The size of some of the components has changed in the Updated Land Use Plan, based on certain technical analysis, design and engineering studies that were conducted to test a range of

development intensities that support the proposed Project's vision and objectives. The following is the proposed development program under the Updated Land Use Plan:

- Up to approximately 8,000 residential units, including approximately 7,700 to 7,850 units on Treasure Island and approximately 150 to 300 units on Yerba Buena Island;
- Up to approximately 140,000 sq. ft. of new commercial and retail space;
- Up to approximately 100,000 sq. ft. of new office space;
- Adaptive reuse of Buildings 1, 2, and 3 with up to 311,000 sq. ft. of commercial/flex space (the adaptive reuse includes approximately 67,000 square feet of additional retail, which, when combined with the 140,000 square feet of new retail yields a total of 207,000 square feet of retail proposed for the Project);
- Rehabilitation and reuse of the historic buildings on Yerba Buena Island;
- Up to approximately 500 hotel rooms;
- New and/or upgraded public facilities, including a joint police/fire station, a school, and other community facilities;
- New and/or upgraded public utilities, including water distribution system, wastewater collection and treatment, recycled water system, and stormwater collection and treatment;
- Stabilization of Treasure Island and the causeway connecting it to Yerba Buena Island for geotechnical purposes, and addition of fill to raise the surface elevation in developed areas on Treasure Island to address flood protection and potential sea level rise;
- Approximately 300 acres of parks and public open space, including cultural uses such as a museum;
- New and/or upgraded streets and public ways;
- Bicycle, transit, and pedestrian facilities; and
- An Intermodal ferry quay/bus transit center.

III. INFRASTRUCTURE/OPEN SPACE/TRANSPORTATION

Section II.A.2, Section IV, Section V and Section X.C.2 of the Development Plan are revised and supplemented as described in this Section III to reflect updated information regarding (i) geotechnical reinforcement and approach to sea level rise, (ii) construction, funding and remediation obligations for the parks and open spaces, (iii) design and funding obligations

for ferry transit and Muni operations, and (iv) obligations for the financing, construction, operation and maintenance of the new wastewater and recycled water facilities for the Islands.

A. Geotechnical Reinforcement and Approach to Sea Level Rise. Working with a panel of geotechnical experts, SFPUC, DPW, the Bay Conservation and Development Commission and others, the Authority and TICD are proposing an improved approach to geotechnical stabilization that simultaneously geotechnically reinforces the Property and proactively addresses potential sea level rise.

The updated approach consists of three parts: (i) throughout the development area, the lands will be densified and the underlying bay mud surcharged to minimize liquefaction and earthquake-induced and long-term settlements, creating a long-term stable platform for development; (ii) additional fill will be added to compensate for the loss of elevation caused by densification and to raise the site grades in developed areas above the expected flood level, taking into account an allowance for long-term sea level rise; and, (iii) the perimeter will be similarly densified as necessary to be seismically stable and to provide protection against wave overtopping under extreme combinations of tide and storm activity. The perimeter improvements constructed as part of the proposed Project will not act as a levee or seawall, as the development parcel elevations will be a minimum of 36" above the base flood elevation. The perimeter improvements will be completed in phases consistent with the construction of adjacent buildings, infrastructure and open space.

An adaptive management approach to geotechnical issues and planning for sea level rise on Treasure Island will be implemented, and will include three separate components: (i) designing the development areas to be high enough to accommodate 36" of sea level rise without relying on the perimeter berm; (ii) designing the perimeter to be flexible such that crest elevations could be increased to prevent wave overtopping and to accommodate greater sea level rise; and (iii) designing the storm drainage system to be flexible so that higher water levels would not result in overland flooding.

Consequent to this new approach, appropriate building types are proposed to have a basement level containing parking to compensate for added building weight on the bay mud in order to mitigate differential settlement and provide lateral seismic resistance. Excavated materials also reduce the amount of import dirt requirements. The parking ratio for residential uses will remain at 1:1 and will remain economically unbundled.

B. Parks and Open Space Program. The Updated Land Use Plan maintains the designation of approximately 300 acres of public access, parks, open space and shoreline improvements. The DDA will ensure that TICD has the obligation to construct and improve the following areas of open space: (i) portions of the YBI open space improvements and trails; (ii) YBI Hilltop Park; (iii) Clipper Cove Beach Park; (iv) Waterfront Plaza; (v) Building 1 Plaza; (vi) Marina Plaza; (vii) Clipper Cove Promenade; (viii) Cityside Waterfront Park; (ix) Cultural Park; (x) Cityside Neighborhood Parks; (xi) School Open Space; (xii) Eastern Shoreline Park and Pier 1 Area; (xiii) Eastside Commons; (xiv) Stormwater Wetlands; (xv) Urban Agricultural Park; and (xvi) Perimeter Trail.

It is the intention of the Authority and TICD to partner with third-party entities to fund and deliver the Northern Wilds and the Regional Sports Park components of the open space system (as identified on new Exhibit X attached to this Development Plan Update). TICD will continue to have the obligation to demolish existing structures, conduct environmental remediation to the extent required for the parks and open space uses identified in the Updated Land Use Plan and not completed by the Navy as part of its environmental clean-up obligations, and deliver appropriately remediated land for these parks and open space components.

Recognizing the importance of well-maintained open space to the overall success of the Project as both a new neighborhood and a regional destination, and the Authority's role as trustee of Tidelands Trust properties, the final DDA will identify sufficient and reliable on-going funding for open space operations and maintenance, and the sources of such funding.

C. Transportation Infrastructure. The proposed transportation program relies on the use of alternative transit modes (buses and ferries) for off-Island trips and shuttle, pedestrian and bike facilities for on-Island travel. The DDA will continue to ensure that TICD has the obligation to construct the infrastructure to support a Transit Hub in the Island Center. The Transit Hub would have a new ferry quay, a ferry terminal, bicycle parking, and shelters for bus and shuttle transfers.

1. Ferry Vessels and Subsidy. Working with the Water Emergency Transportation Authority, the Authority and TICD have refined the design and engineering approach to the ferry terminal construction to be more efficient and flexible to meet ridership demand as the Project evolves over time. The project budget reflects an adjustment to the transportation capital costs to reflect the potential to lease rather than purchase vessels. The DDA will require TICD to fund a transportation operating subsidy in accordance with a schedule of fixed payments described in the Transaction Documents to support the initial operation of the ferry system, including any costs of leasing vessels, the East Bay bus service, on-island shuttle service, bicycle and TDM programs.

2. MUNI Buses. Working with the San Francisco Municipal Transportation Authority ("SFMTA"), the Authority and TICD have developed a service plan that would provide the necessary level of service to support the ridership demand of the proposed Project to San Francisco. TICD will provide the 20% local match portion of the capital costs for nine (9) SFMTA buses, providing the local portion necessary for the SFMTA to access matching federal funds for the remaining 80%.

D. Wastewater and Recycled Water Facilities. The SFPUC and the Authority have entered into the SFPUC ENA for the purposes of negotiating an agreement regarding the financing, construction, operations and maintenance of the new wastewater and recycled water facilities for the Islands, in exchange for the transfer of four (4) to six (6) acres of land on Treasure Island from the Authority to the SFPUC for infrastructure purposes that would benefit the proposed Project and meet the sustainability objectives of the parties. The SFPUC ENA anticipates that the SFPUC would be responsible for the financing and construction of both the wastewater treatment facility and the recycled water facility. No final agreement as to the matters set forth in the SFPUC ENA will be approved before completion of environmental analysis required under CEQA.

E. Fire Station. The project will provide a Developable Pad and funding for the construction of a new fire and police “superstation” on Treasure Island that would provide fire service to both Treasure and Yerba Buena Islands. The plans for Yerba Buena Island contain limited development on existing pads, include a habitat management plan to minimize vegetation fires and, therefore, do not merit a second station. At the request of the Fire Department, in the event that subsequent changes to the project approvals were to result in actual new development (not including reuse of existing structures) on Yerba Buena Island exceeding both 500 homes and 150 hotel rooms, the Authority and TICD will designate a Developable Pad on Yerba Buena Island and would ensure that project generated funding would be available for an additional station.

IV. HOUSING PLAN

The Development Plan is revised by Section IV.A of this Development Plan Update to reflect the increase in residential units described in Section II and includes an Updated Exhibit R, Financing Plan and Transaction Structure. Section VII.B of the Development Plan is superseded in its entirety by Section IV.B of this Development Plan Update.

A. Overall Housing Program. The Updated Financing Plan attached hereto as Updated Exhibit R is based on a total residential program of 7,540 residential units, although up to 8,000 units may be permitted. These homes will consist of a range of unit types and sizes, will provide a range of affordability levels and will be located in a variety of building structure types. The total number of housing units continues to include 30% affordable units at a spectrum of income levels and 70% market rate units.

B. Affordable Housing Program. The redevelopment of the Property will provide a Project contribution (consisting of private funding and project-generated public financing including tax increment financing and housing impact fees) of approximately \$292 million for the vertical construction of 2,260 new affordable housing units on the Property for the benefit of San Francisco, which is an increase of 460 affordable housing units and \$44 million from the program described in the endorsed Development Plan.

1. Percentage of Affordable Housing. Upon the completion of residential development on the Property, approximately 2,260 units, or 30% of all housing units, will be affordable to very-low, low- and moderate-income residents and at least 6% (included in the 30%) will be affordable to very-low income residents. The current price levels of affordable units based on Area Median Income (“AMI”) levels for San Francisco County (as published by the California Department of Housing and Community Development in accordance with Health and Safety Code Section 50093) and household size for rental and for-sale units are shown on Updated Exhibit L.1, attached hereto.

2. Types and Levels of Affordable Housing. It is an express goal to provide housing affordable to a spectrum of household incomes and household types (e.g., families, seniors, singles, formerly homeless). To fulfill this goal, there will be three principal sources of affordable housing on the Property: (i) TIHDI, (ii) private market-rate vertical developers, including TICD and its affiliates, through applicable “inclusionary housing” requirements, and (iii) the Authority, as described in this Section.

a) TIHDI Units. TIHDI, through its Member Organizations, will develop and operate, or cause to be developed and operated, approximately 435 units of supportive homeless housing (the "New TIHDI Units") (an increase from TIHDI's current occupied unit count of 250 units). As part of the horizontal development, TICD will provide Developable Pads to the Authority for all of the New TIHDI Units as contemplated in the TIHDI Agreement that will be geotechnically improved as described in Section III.A above. TICD will deliver the Developable Pads for the New TIHDI Units and the Vertical Affordable Housing Construction Subsidy described in Section IV.B.7 below for 250 of the New TIHDI Units (the "TIHDI Replacement Units") in accordance with the Schedule of Performance to be included in the Transaction Documents, which will also include a map outlining the anticipated locations of the Developable Pads for the New TIHDI Units. The Authority and TIHDI will determine in their sole and absolute discretion the location, tenure split, affordability and any other matters related to the New TIHDI Units, but in no event shall affordability levels exceed those applicable to Inclusionary Units, as set forth below, unless agreed to by the parties. It is the intent of the parties that the rights and obligations of TIHDI with respect to the development and operation of the New TIHDI Units will be memorialized in a separate agreement between TIHDI and the Authority that is consistent with the terms of the Development Plan and this Development Plan Update, and will amend and supersede the TIHDI Agreement in its entirety (the "Amended and Restated TIHDI Agreement").

b) Inclusionary Units. TICD and its affiliates and other third-party vertical developers will develop 5% of all privately-developed market-rate units as "Inclusionary Units" (estimated at approximately 275 Inclusionary Units). Rental Inclusionary Units will be priced for households earning no more than 60% of AMI annually (\$58,100 for a four-person household in 2009). For sale Inclusionary Units will be priced for households earning no more than 100% of AMI (\$96,800 for a four-person household in 2009). Updated Exhibit L.1 shows the current price levels of affordable units based on AMI levels and household size for rental and for-sale homes. The DDA will include applicable procedures for review and approval by the Authority and the Mayor's Office of Housing of the size, product type and location of Inclusionary Units in accordance with specific agreed upon standards.

c) Authority Units. The Authority will cause to be developed and operated on the Property a sufficient number of affordable units (estimated at approximately 1,550 units) such that upon completion of residential development on the Property, including the New TIHDI Units and Inclusionary Units, 30% of all housing units will be affordable (the "Authority Units"). This represents an increase of approximately 927 Authority Units from the program described in the Development Plan. As part of the horizontal development, TICD will provide Developable Pads and the Vertical Affordable Housing Construction Subsidy described in Section IV.B.7 below for all of the Authority Units in accordance with the Schedule of Performance to be included in the Transaction Documents, which will also include a map outlining the anticipated location of the Developable Pads for the Authority Units. The Developable Pads will be geotechnically improved as described in Section III.A above. The Authority will determine in its sole and absolute discretion the tenure split, affordability and any other matters related to the Authority Units. The Authority will use the Authority Units to

implement affordable housing policy goals related to tenure mix, affordability levels and household type within the context of the overall affordable housing program.

d) Maximum Feasible Affordability. A primary goal of the Housing Plan has been to provide housing units at the maximum feasible affordability level in order to serve households not otherwise served by the market rate housing units; this Updated Development Plan supports that goal.

e) Preliminary Estimates. Final numbers of affordable housing units to be constructed may change during negotiation of the Transaction Documents. The numbers presented here represent the parties' current analysis of the pro forma and transaction structure, and are subject to change. However, the Project's vision of creating 30% of the homes as affordable has not changed and continues to be a primary consideration of the Project

3. California Community Redevelopment Law Requirements. The Project will meet or exceed all of the affordable housing requirements under California Community Redevelopment Law ("CRL") and specifically will assure the following:

a) Housing Production Requirement. The Project will exceed the CRL housing production requirement that 15% of all newly constructed units be affordable to very-low, low- and moderate-income residents. Through the construction of the New TIHDI Units and the Authority Units, the Project will exceed the CRL housing production requirement that 6% of all newly constructed units will be affordable to very low-income households (generally household with incomes not exceeding 50% of AMI).

b) Deed Restrictions. The Authority will record deed restrictions on all affordable housing units requiring that these units will be affordable to designated households by income level at the affordable housing cost specified in the CRL for the longest feasible time and not less than 55 years for the rental units and 45 years for the ownership (for-sale) units. The Authority may employ a wide variety of techniques to assure long term affordability for the ownership units, including resale to qualified buyers at the same income levels, second deeds of trust, promissory notes for the difference between the fair market value and the restricted value, the Authority right of first refusal, recorded Notice of Special Restrictions, and recapture of shared appreciation in compliance with the requirement of Health and Safety Code Section 33413(c).

c) Tax Increment. As the Authority was formed for the sole purpose of assisting the redevelopment of Treasure Island and Yerba Buena Island, under the CRL, the Authority will set aside at least 20% of all tax increment generated from the Project for the sole purpose of improving, preserving and/or producing affordable housing on Treasure Island and Yerba Buena Island. This assumption is reflected in the Updated Affordable Housing Financing and Subsidy Plan attached as Updated Exhibit L.2.

4. Phasing of Affordable Housing. A schedule for the current phasing assumptions reflected in the current pro forma is attached as Updated Exhibit L.3. Upon completion of all vertical residential improvements within each Major Phase, approximately 30% (the percentage of affordable units as of July 1, 2007) of all residential units on the Island (including the existing housing units) will be affordable units. Phasing will depend on a number of factors, including the most efficient means for constructing the backbone infrastructure. A final phasing plan will be included as part of the DDA, but for now, for illustrative and pro-forma modeling purposes only, such phasing could proceed as outlined on Updated Exhibit L.3.

Updated Exhibit L.3 shows the scheduled delivery of Developable Pads by TICD to the Authority. The Amended and Restated TIHDI Agreement will (i) describe the terms upon which the Authority will make Developable Pads and the Vertical Affordable Housing Construction Subsidy available to TIHDI; (ii) establish a performance schedule for construction of the TIHDI Units, which will be consistent with the Phasing Plan for the overall Project; and (iii) provide that TIHDI will not be required to vacate the 250 units of existing housing on Treasure Island that TIHDI occupies until the TIHDI Replacement Units have been constructed. So long as TICD delivers the applicable Developable Pads and the Vertical Affordable Housing Construction Subsidy to the Authority in accordance with the DDA and is otherwise in compliance with its obligations regarding affordable housing set forth in the DDA, TICD will be allowed to proceed with further development. While the Illustrative Phasing Plan does not anticipate that this would occur, it is possible that the temporary relocation of existing units that TIHDI occupies to different existing units on Treasure Island may be necessary in order to enable development to proceed. The Amended and Restated TIHDI Agreement will address the terms under which this temporary relocation could be carried out.

5. Location, Distribution and Design of Units. Affordable units will be generally distributed throughout the various areas designated for residential use and across a variety of product types. The Inclusionary Units will intermix with the market rate units and will be indistinguishable in exterior appearance from the market rate units. The Authority will retain authority to allow flexibility in providing or not providing Inclusionary Units in certain product types and locations as a means of achieving overall financial feasibility of the Project and encouraging the earlier construction of certain product types such as high rise towers, but in no case will the number of Inclusionary Units be reduced from the requirement for 5% of all privately-constructed market rate housing units. The Inclusionary Units will be substantially similar in size, type, basic interior finishes and common area amenities as the market rate units unless otherwise agreed to by the Authority.

6. Other Programs. TICD will coordinate with appropriate agencies and financial institutions to provide qualified home buyers with access to down payment assistance, first-time buyer financing programs (from such entities as Fannie Mae, Federal Home Loan Bank, etc.) and homeownership counseling services as needed.

7. Subsidies and Financing. Per direction from the Authority Board and as set forth in the RFP, in order for units to be "counted" as affordable, the Project must include an overall financing/subsidy plan that demonstrates that the ultimate construction of such units is feasible. The proposed financing plan prepared jointly by the Authority, TIHDI and TICD, involves a variety of private and project-generated public funding sources to accomplish this

goal, including a substantial developer subsidy, debt supported by rents, redevelopment tax increment financing and housing set-aside financing, low income housing tax credit proceeds, and housing impact fees, as shown on Updated Exhibit L.2, attached hereto. Currently, it is estimated that the Project will provide approximately \$519 million from Project generated sources (project-generated public and private financing and housing impact fees) to construct the affordable housing units, an increase of \$113 million over the \$406 million contemplated in the endorsed Development Plan. This consists of the following elements:

a) Island-wide Infrastructure Component. As part of the Project's contribution to the affordable housing program, the Project will fund and TICD will provide infrastructure to the Developable Pads, as defined in the Development Plan, at no cost to the Authority or affordable housing developers. This contribution to affordable housing is projected to total \$227 million.

b) Subsidy for Vertical Construction of TIHDI and Authority Units. The Project will contribute approximately \$207 million in funds for the construction of vertical buildings containing New TIHDI Units and Authority Units. This contribution consists of two components: (1) approximately \$115 million in project-generated public financing and housing impact fees, and (2) approximately \$91.7 million in direct subsidy from TICD. Consistent with the timing of delivery of the Developable Pads, TICD shall pay or cause to be paid to the Authority \$51,000 for each Authority Unit and TIHDI Replacement Unit (the "Vertical Affordable Housing Construction Subsidy"), which amounts shall be subject to a cumulative subsidy cap as defined in the Transaction Documents. The Vertical Affordable Housing Construction Subsidy will be updated as part of the DDA and will be fixed according to a payment schedule to be included in the DDA.

c) Vertical Construction of Inclusionary Units. TICD and other third party market rate residential builders will construct 5% of all market rate units as affordable Inclusionary Units as described in Section IV.B.2.c. The projected contribution to affordable housing through construction of these units is approximately \$85 million.

V. FINANCING AND TRANSACTION STRUCTURE

Section XI.A through C of the Development Plan (Financing and Transaction Structure), is superseded in its entirety by this Section V of the Development Plan Update.

A. Financing Principles.

A project as large and complex as the redevelopment of Treasure and Yerba Buena Islands may require many different project-generated and supported financing sources such as private equity, traditional construction and permanent financing, and project-generated public financing such as Mello Roos Community Facilities District ("CFD") bonds, and tax increment and tax allocation bonds. The guiding financing principles are:

- Ensure that the proposed Project is economically and fiscally feasible.

- Fund the proposed Project's capital costs and on-going operation and maintenance costs relating to the redevelopment and long-term operation of the Property from revenues generated by the Project that would not exist but for the Project – including land sales, project-generated public financing revenues and tax revenues created by the Project that accrue to the City's General Fund and other accounts – in a manner that does not negatively impact the City's General Fund as measured over the life of the Redevelopment Plan.
- Ensure that the provision of the community benefits and facilities described in the Development Plan and this Development Plan Update are a priority of the Project.
- Provide a mechanism for the Authority to participate in Net Project Revenues from the development of the Project in the event TICD achieves a return in excess of agreed upon rates of return, and as consistent with the terms of the EDC MOA between the Authority and the Navy.
- Acknowledge the legal restrictions on the allowable uses of Project Revenues arising under (i) the EDC MOA requiring that as a condition to accepting an Economic Development Conveyance of the Property, the Authority must reinvest 100% of its proceeds from the sale, lease or similar use of the Property into payment of the Initial Consideration and Additional Consideration to the Navy and job generating or economic development activities related to the Property, and (ii) State law applicable to the Tidelands Trust requiring that revenues generated from the Trust lands be used only for reasonable costs that directly benefit the Trust.

B. Project Financing.

1. Financing Plan. Attached as Updated Exhibit R is the proposed Financing Plan and Transaction Structure that shows the proposed sources of funds that will be needed to redevelop and operate the Project, and the uses on which the funds will be spent. Sources of revenue continue to include, without limitation, residential pad sales, retail and hotel land sales or leases, rental income from existing residential units, commercial lease income, marketing, profit participation from vertical development, and other revenues ("Project Revenues"). Project uses likewise continue to include all reasonable and necessary direct hard and soft costs incurred in connection with the Project, including, without limitation, predevelopment costs (including predevelopment costs incurred by the Authority and reimbursed by TICD under the terms of the ENA), payments to the Navy of Initial Consideration and Additional Consideration for the transfer of the Property as described in Section I above, horizontal development costs, contributions for affordable housing, environmental remediation, payments to the Authority for administrative costs, asset management costs, marketing costs, repair and maintenance costs for existing assets, general and administrative costs, property taxes, transition housing costs, transit and other operating subsidies, and project management costs (collectively, "Project Expenses"). Project Revenues less Project Expenses is referred to in this Development Plan Update as "Net Project Revenues." Except for a reasonable limit on management/overhead fees payable to TICD, Project Expenses will not be capped, but will be subject to a "reasonableness" standard, certain approval rights by the Authority and subject to audit by the Authority. Updated

Exhibit R includes an estimate of development costs for the Project. A detailed budget, including a detailed predevelopment budget, will be attached as an exhibit to the DDA and updated at close of escrow.

2. Fiscal Analysis. A key step in formulating the financing and transaction structure for the Project was the preparation of the Fiscal Analysis, a copy of which is included in the Updated Exhibit R. The Fiscal Analysis analyzes the future fiscal costs of providing the services and benefits to the Project that are described in and associated with the Development Plan and this Development Plan Update, such as police services, fire protection services, public works, public health, 911, 311, MUNI, elections, assessor, librarian services and community facilities and services, which are above and beyond the baseline scenario of no development. The Fiscal Analysis also analyzes the future fiscal revenues that will be generated from the Project above and beyond the baseline scenario of no development, such as property tax, property tax in lieu of vehicle license fee, sales tax, motor license fee, property transfer tax, transient occupancy tax, utility tax, business license/payroll tax, franchise fees, and highway users tax. The Fiscal Analysis provides a basis for evaluating the potential level, timing and costs of General Fund services necessary to support the future neighborhood compared to future General Fund revenues and provides a basis for ensuring that the proposed Project will not have a net negative impact on the General Fund as measured over the life of the Redevelopment Plan, and to assure a stable, ongoing source of funding to sustain the quality of life on the Islands.

The Fiscal Analysis includes a cash flow that shows the overall municipal revenues and service costs associated with the proposed Project to provide a complete picture of the Project's economics. This analysis measures the net increase in revenues accruing to the City from the new development and the expenses associated with providing additional public and community services required as a result of the development. As shown in the Fiscal Analysis included in Updated Exhibit R, at build out of the Project, the net increase to the General Fund above the baseline scenario of no development, is approximately \$13,000,000 annually and over the 20-year period measured in the Fiscal Analysis the cumulative net benefit to the General Fund is approximately \$144,000,000.

In addition to estimating the future fiscal costs and revenues for the Project, the Fiscal Analysis outlines the following guiding principles upon which future iterations of the Fiscal Analysis will be based:

- Project financing will be structured to prevent a net negative impact to the General Fund as measured over the life of the Redevelopment Plan.
- The DDA will identify reliable funding sources for the Authority's administrative expenses, island community services, open space maintenance and transportation programs, potentially via partnerships with third party entities that deliver the funding, services and programs.
- The estimates of future fiscal costs and revenues in the Fiscal Analysis will be updated in the DDA.

3. Project-Generated Public Financing. It is anticipated that a significant portion of the Project Expenses, such as public improvements and community benefits, will be financed by TICD's capital contributions. In addition, certain project-generated public financing, including tax increment and CFD funds, will be allocated to offset Project Expenses to support a range of community benefits, including infrastructure, affordable housing and open space. The 20% tax increment set aside for affordable housing required under CRL will be allocated to affordable housing on the Property. The Authority may elect to redirect a portion of tax increment revenues from the improvements identified in the Financing Plan and Transaction Structure (Updated Exhibit R) in the event TICD achieves an internal rate of return in excess of 25%, as previously provided in the endorsed Development Plan. Reallocated tax increment revenues may be used for other redevelopment purposes on the Property, such as to deepen affordable housing subsidies, provide additional community facilities, improve open space or park programs, or to provide economic incentives for desired private uses as consistent with the Authority's objectives as outlined in the Redevelopment Plan. In addition, the Authority will receive tax increment revenues that are not reflected in the attached cash flow to the Financing Plan that will be available to fund programs or projects consistent with the Authority's objectives as outlined in the Redevelopment Plan.

The DDA will include specific requirements for project-generated public financing such as a minimum value to lien ratio and credit enhancements. For example, CFD bond issues will have at least a three to one ratio of the value of property in the CFD as a whole to the amount of the public lien, after calculating the value of the financed public improvements to be installed. In situations where there is less than a uniform three to one property value to public lien ratio for parcels in the CFD and in other situations described in the DDA, the Authority may require on behalf of itself and bondholders, and prior to bond sale, additional credit enhancements and other guaranties as appropriate to respond to market conditions.

4. Financing of Certain Public Facilities. It is anticipated that certain public facilities including the fire/police station and public parking garages may be financed using other public finance vehicles such as Certificates of Participation or Revenue Bonds. The debt service of any such financing would be paid by project-generated sources, which may include a combination of TICD funds, tax increment to the extent available and other sources.

C. Transaction Structure.

1. Principles. In order to create a feasible and effective financial transaction structure, the Authority and TICD first had to agree to certain basic project economics of the development program. These baseline assumptions informed the Authority and TICD as they sought to achieve the public policy objectives for the Project (as set forth in the Reuse Plan, the RFQ, the RFP, the ENA, the TIHDI Agreement, and as presented to the TICAB and at various community workshops) and TICD's requirements for a commercially reasonable economic return on its investment. As described above, negotiations with the Navy resulted in the proposed Navy consideration consisting of the Initial Consideration described in Section I above and the Additional Consideration payable from Net Project Revenues as described in Section V.C.2 below.

The Authority Board and the Board of Supervisors previously endorsed a transaction structure with TICD that is appropriate for a public/private joint venture of this nature under which the distribution of Net Project Revenues is prioritized according to customary market-based principles regarding risk, the Navy Initial and Additional Consideration payments, financing requirements and the parties' respective financial contributions to the Project. This transaction structure continues in place.

2. Distribution of Net Project Revenues. The DDA will afford the Authority participation rights in the profits from the Project to ensure that TICD does not recover windfall profits from the development of the Project. The Authority, the Navy and TICD will share in Net Project Revenues allocated in the following order of priority:

(i) First, to TICD, until TICD has achieved a cumulative 18% annual internal rate of return as calculated on TICD's quarterly unleveraged cash flow;

(ii) Second, to the Navy until the Navy receives \$50 million;

(iii) Third, to TICD, until TICD has achieved a cumulative 22.5% annual internal rate of return as calculated on TICD's quarterly unleveraged cash flow; and

(iv) Fourth, to be split 35% to the Navy, 55% to TICD and 10% to the Authority until TICD has achieved a cumulative 25% annual internal rate of return as calculated on TICD's quarterly unleveraged cash flow; and

(v) Fifth, the remainder to be split 35% to the Navy, 50% to TICD and 15% to the Authority.

Consistent with the previously endorsed Development Plan, all of the Authority's unreimbursed predevelopment costs that are reimbursable under the ENA will be treated as Project Expenses and paid to the Authority prior to the payment of any Net Project Revenues to TICD.

3. Participation in Vertical Development Profits. To the extent it is commercially reasonable to do so and consistent with market practices for each product type at the time, all sales agreements, Leases or subleases, as applicable, between a vertical developer and TICD or the Authority will require the vertical developer to pay TICD, the Navy and the Authority, as applicable, a percentage of net profits from the applicable vertical development above a mutually agreed upon Hurdle Rate. For purposes of Section V.B.1 above, "Project Revenues" will also include this percentage of net profits from the vertical development to the extent actually received by TICD.

VI. DEVELOPMENT PLAN SUBJECT TO CEQA

The first and third full paragraphs of Section XIII of the Development Plan are superseded in their entirety by the following; the second full paragraph of Section XIII remains unchanged.

The Development Plan and this Development Plan Update do not constitute approval of the proposed Project or any final agreements between the parties. The Authority's Board of Directors and the Board of Supervisors will consider final Transaction Documents for the development of the Property after completion of environmental review under CEQA. While the Development Plan and this Development Plan Update strive to summarize certain basic terms essential to those agreements, they are not intended to be, and will not become, contractually binding on the Authority or TICD, and no legal obligation will exist under the Development Plan and this Development Plan Update, unless and until the parties have negotiated, executed and delivered mutually acceptable agreements based upon information produced from the CEQA process and other public review and hearing processes and subject to all applicable governmental approvals.

Before entering into final Transaction Documents, the Authority and the City, in their independent authority, retain the absolute discretion to (a) make modifications to the proposed Project and any proposed Transaction Documents as are deemed necessary to mitigate significant environmental impacts, (b) select feasible alternatives that avoid significant adverse impacts, (c) reject the Transaction Documents as proposed if the economic and social benefits of the Transaction Documents do not outweigh otherwise unavoidable significant adverse impacts of the proposed Project, (d) approve the proposed Transaction Documents upon a finding that the economic and social benefits of the proposed Project and the Transaction Documents outweigh otherwise unavoidable adverse impacts of the proposed Project and the Transaction Documents, or (e) determine not to proceed with the proposed Project based upon the information generated by the environmental review process.

This Development Plan Update is executed as of the ___ day of _____, 2010.

TREASURE ISLAND DEVELOPMENT AUTHORITY

By: _____

Name: _____

Its: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Gavin Newsom
Mayor

TREASURE ISLAND COMMUNITY DEVELOPMENT, LLC,
a California limited liability company

By: UST Lennar HW Scala SF Joint Venture
a Delaware general partnership
its co-Managing Member

By: _____
Name: Kofi Bonner
Its: Authorized Representative

By: KSWM Treasure Island, LLC,
a California limited liability company
its co-Managing Member

By: Wilson Meany Sullivan Treasure Island, LLC,
a California limited liability company
its _____

By: _____
Name: _____
Its: _____

UPDATED EXHIBITS:

EXHIBIT A – DIAGRAM OF PROPERTY/ DIAGRAM OF EXCLUDED PROPERTIES

EXHIBIT B – ILLUSTRATIVE CONCEPTUAL LAND USE PLAN

EXHIBIT C– PROPERTY TO BE FREED FROM TIDELANDS TRUST

EXHIBIT L – AFFORDABLE HOUSING EXHIBITS

EXHIBIT R - FINANCING PLAN AND TRANSACTION STRUCTURE

NEW EXHIBIT:

EXHIBIT X – DIAGRAM OF OPEN SPACE PROGRAM

ALL EXHIBITS ARE ON FILE WITH THE SECRETARY OF THE TREASURE ISLAND DEVELOPMENT AUTHORITY AND ALSO ARE AVAILABLE FOR DOWNLOADING FROM THE AUTHORITY'S WEBSITE AT www.sfgov.org/treasureisland