File No. 210386 **Committee Item No.** 7
Board Item No. 12

COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget & Finance Committee **Date** May 5, 2021

Board of Supervisors Meeting **Date** May 11, 2021

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Completed by: Linda Wong **Date** April 27, 2021
Completed by: Linda Wong **Date** May 7, 2021

[Pledge Agreement Related Documents - CCSF Infrastructure Financing District No. 2 (Port of San Francisco) Sub-Project Areas I-1 through I-13 - Special Tax Bonds - CCSF Special Tax District No. 2020-1 (Mission Rock Facilities and Services)]

Resolution approving certain documents and actions related to a Pledge Agreement by City and County of San Francisco (CCSF) Infrastructure Financing District No. 2 (Port of San Francisco) and special tax bonds for City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services); and determining other matters in connection therewith, as defined herein.

WHEREAS, California Statutes of 1968, Chapter 1333 (“Burton Act”) and San Francisco Charter, Section 4.114 and Appendix B, beginning at Section B3.581, empower the City and County of San Francisco (“City”), acting through the San Francisco Port Commission (“Port” or “Port Commission”), with the power and duty to use, conduct, operate, maintain, manage, regulate, and control the lands within Port jurisdiction; and

WHEREAS, Seawall Lot 337 Associates, LLC, a Delaware limited liability company (“Master Developer”) and the City, acting by and through the Port, are parties to a Disposition and Development Agreement (as amended from time to time, “DDA”), including a Financing Plan (as amended from time to time, “Financing Plan”), that governs the disposition and development of certain parcels in the jurisdiction of the Port, including Seawall Lot 337, 3.53 acres located at Terry A. Francois Boulevard from Third Street to Mission Rock Street, China Basin Park and ½ acre to the east of Terry A. Francois Boulevard between Pier 48 and Pier 50 (“Project Site”), and also provides for development of Pier 48, which DDA was approved by the Board of Supervisors of the City (“Board of Supervisors” or “Board”) by Resolution No. 42-

18, adopted on February 13, 2018, signed by the Mayor on February 23, 2018, and a copy of which is in Board File No. 180092 ("Mission Rock Project Resolution"); and

WHEREAS, The Port collaborated with the State Lands Commission and the Legislature to amend the Burton Act to lift or suspend certain statutory trust use restrictions that impeded the Port's ability to realize the development potential of Port lands; and under Senate Bill 815 (Stats. 2007, ch. 660, as amended by Stats. 2016, ch. 529) ("SB 815"), the Port is authorized to lease certain seawall lots south of Market Street, including the Project Site, for nontrust purposes, providing revenues for rehabilitation of historic wharves and piers and other trust uses; SB 815 allows long-term nontrust uses that are otherwise not permissible under the Burton Act as a primary mechanism to generate Port revenues for trust purposes, including the construction of infrastructure needed for development; and

WHEREAS, On November 3, 2015, San Francisco voters approved the Mission Rock Affordable Housing, Parks, Jobs and Historic Preservation Initiative ("Proposition D"), which authorized increased height limits on the Project Site, subject to environmental review, and established a City policy to encourage development of the Project Site; Proposition D specifically provides that it is intended to encourage and implement the lease and development of the Project Site as described in SB 815 to support the purposes of the Burton Act, especially the preservation of historic piers and historic structures and construction of waterfront plazas and open space; and

WHEREAS, The proposed development of the Project Site, which is commonly referred to as the Mission Rock project ("Project"), will be a new mixed-use neighborhood that is proposed to include a mix of commercial/office, retail, parking, and market rate and affordable residential uses and approximately eight acres of new and expanded parks and shoreline access; and

WHEREAS, Under the DDA, (i) the Master Developer is responsible for master development of the Project Site, including construction of public infrastructure, (ii) the Port and Master Developer will enter into a master lease for all of the Project Site, (iii) the Port will convey development parcels to vertical developers and those parcels will be released from the master lease, and (iv) the Port may enter into a separate lease with the Master Developer (or an affiliate of Master Developer) for development of Pier 48; and

WHEREAS, The City anticipates that, in addition to the infrastructure and private development described above, future improvements will be necessary to ensure that the shoreline, public facilities, and public access improvements will be protected should sea level rise in the vicinity of the Project Site, and the Board of Supervisors desires to provide a mechanism to pay for the costs of such improvements; and

WHEREAS, At its hearing on October 5, 2017, and prior to recommending proposed Planning Code amendments for approval, by Motion No. M-20017, the Planning Commission certified a Final Environmental Impact Report ("FEIR") for the Project pursuant to the California Environmental Quality Act ("CEQA") (California Public Resources Code, Section 21000 et seq.), the CEQA Guidelines (14 Cal. Code Reg., Section 15000 et seq.), and Administrative Code, Chapter 31; a copy of said Motion is on file with the Clerk of the Board in File No. 171117, and is incorporated herein by reference; and

WHEREAS, In recommending proposed Planning Code amendments for approval by the Board at its hearing on October 5, 2017, by Motion No. M-20018, the Planning Commission also adopted findings under CEQA, including a statement of overriding consideration, and a Mitigation Monitoring and Reporting Program ("MMRP"), and copies of said Motion and MMRP are on file with the Clerk of the Board in File No. 171117, and are incorporated herein by reference; and

WHEREAS, Under Chapter 43, Article X of the San Francisco Administrative Code (as it may be amended from time to time, "Code"), which Code incorporates by reference the

Mello-Roos Community Facilities Act of 1982, as amended ("Mello-Roos Act"), the Board is authorized to establish a special tax district and to act as the legislative body for a special tax district; and

WHEREAS, The Board has conducted proceedings under and pursuant to the Code to form "City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services)" ("Special Tax District"), to authorize the levy of special taxes upon the land within the Special Tax District and to authorize the issuance of bonds and other debt (as defined in the Mello-Roos Act) secured by said special taxes for the purpose of financing certain improvements ("Authorized Facilities") and incidental expenses ("incidental expenses"), all as described in those proceedings; and

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

WHEREAS, Section 43.10.15.2 of the Code authorizes the City, on behalf of the Special Tax District, to enter into an agreement with any third party that pledges to the Special Tax District funds that will be used to pay for facilities or services that the Special Tax District is authorized to finance or to pay debt service on bonds or debt issued by or for the Special Tax District; and

WHEREAS, Under California Government Code, Sections 53395 et seq. ("IFD Law"), the Board of Supervisors is authorized to establish an infrastructure financing district and to act as the legislative body for such an infrastructure financing district; more specifically, the

Board of Supervisors is authorized to establish "waterfront districts" under IFD Law Section 53395.8, including one or more waterfront districts; and

WHEREAS, By Ordinance No. 27-16, which the Board of Supervisors adopted on March 1, 2016, and which was signed by Mayor Edwin Lee on March 11, 2016 ("Ordinance Establishing IFD"), the Board of Supervisors, among other things, declared "City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)" ("IFD") to be fully formed and established, approved an infrastructure financing plan for the IFD ("IFD Infrastructure Financing Plan"), and designated initial proposed project areas within the IFD; and

WHEREAS, In accordance with the DDA, by Ordinance No. 34-18, which the Board of Supervisors adopted on February 27, 2018, and which was signed by the Mayor on March 6, 2018 ("Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13"), the Board of Supervisors, among other things, declared the following project area ("Project Area I") and sub-project areas (collectively, "Sub-Project Areas") within the Project Site to be fully formed and established and approved Appendix I to the IFD Infrastructure Financing Plan: (i) "Project Area I (Mission Rock)," (ii) "Sub-Project Area I-1 (Mission Rock)," (iii) "Sub-Project Area I-2 (Mission Rock)," (iv) "Sub-Project Area I-3 (Mission Rock)," (v) "Sub-Project Area I-4 (Mission Rock)," (vi) "Sub-Project Area I-5 (Mission Rock)," (vii) "Sub-Project Area I-6 (Mission Rock)," (viii) "Sub-Project Area I-7 (Mission Rock)," (ix) "Sub-Project Area I-8 (Mission Rock)," (x) "Sub-Project Area I-9 (Mission Rock)," (xi) "Sub-Project Area I-10 (Mission Rock)," (xii) "Sub-Project Area I-11 (Mission Rock)," (xiii) "Sub-Project Area I-12 (Mission Rock)," and (xiv) "Sub-Project Area I-13 (Mission Rock)"; and

WHEREAS, Under Section 53395.2 of the IFD Law, the IFD is authorized to pledge revenues available from the Sub-Project Areas and allocated to it pursuant to Article 3 of the IFD Law (commencing with Section 53396) to pay the principal of, and interest on, bonds issued pursuant to the Mello-Roos Act, the proceeds of which have been or will be used entirely for allowable purposes of the IFD; and

WHEREAS, By Resolution No. 37-18, which the Board of Supervisors adopted on February 13, 2018, and which was signed by Mayor Mark Farrell on February 23, 2018 ("Original Pledge Agreement Resolution"), the Board of Supervisors, acting as the legislative body of the IFD, authorized execution of one or more pledge agreements by the IFD that provides, among other things, for the pledge of tax increment revenues allocated to the IFD with respect to all or any of the Sub-Project Areas ("Tax Increment"), as applicable, to bonds issued for a special tax district that is formed by the Board of Supervisors to finance all or any of the facilities that can be financed by the IFD with Tax Increment; and

WHEREAS, A default judgment was entered on October 17, 2019, by the Superior Court of the County of San Francisco in a judicial validation action related to, among other things, the IFD, the Sub-Project Areas and such pledge agreements (Case No. CGC-18-565561) ("Validation Judgment"); and

WHEREAS, Pursuant to Resolution No. 565-20, which was approved by the Board of Supervisors on December 8, 2020 and signed by the Mayor on December 18, 2020 ("First Supplemental Resolution of Issuance"), the Board of Supervisors previously authorized the issuance of special tax bonds on behalf of the Special Tax District denominated City and County of San Francisco Community Facilities District No. 2020-1 (Mission Rock Facilities and Services) Development Special Tax Bonds, Series 2021A ("2021A Bonds") pursuant to a Fiscal Agent Agreement ("Master Fiscal Agent Agreement"), by and between the City and Zions Bancorporation, National Association, as fiscal agent ("Fiscal Agent"); and

WHEREAS, Pursuant to Resolution No. 569-20, which was approved by the Board of Supervisors on December 8, 2020 and signed by the Mayor on December 18, 2020 ("First Supplemental Pledge Agreement Resolution") the Board of Supervisors, acting as the legislative body of the IFD, authorized the execution and delivery of a Pledge Agreement, by and among the City, for and on behalf of the Special Tax District, the IFD and the Fiscal Agent, and such Pledge Agreement is expected to be executed and delivered upon the issuance of the 2021A Bonds; and

WHEREAS, The Board of Supervisors is concurrently considering a resolution supplementing the Original Special Tax Bond Resolution to provide for the issuance of one or more additional series of special tax bonds (the "2021B Bonds"), which will be payable from Revenues (as defined in the Master Fiscal Agent Agreement) on a parity basis with the 2021A Bonds, to finance a portion of the Facilities and related costs and expenses; and

WHEREAS, The Revenues include (a) revenue from the Development Special Tax levied under the Rate and Method, and not from other special taxes that may be levied under the Rate and Method and (b) certain payments made by the IFD under the Pledge Agreement; and

WHEREAS, On March 23, 2021, Port staff provided an update to the Port Commission on the Project and plan of finance, including the proposed issuance of the 2021B Bonds, and by Resolution No. 21-11, the Port Commission recommended that the Board of Supervisors, as the legislative body of the IFD, approve certain documents and actions related to the 2021B Bonds; and

WHEREAS, A copy of Port Commission Resolution No. 21-11 is in Board File No. 210386, and is incorporated in this resolution by reference; and

WHEREAS, In the Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13, the Board of Supervisors appointed the Port Commission to act as the agent of the IFD with respect to Project Area I and the Sub-Project Areas (which is referred to as the IFD Agent in the DDA), which under the DDA includes the authority to determine in collaboration with the Office of Public Finance whether and in what amounts the IFD will issue or incur indebtedness for the purposes specified in Appendix I to the Infrastructure Financing Plan and enter into agreements related to such indebtedness; and

WHEREAS, In its capacity as legislative body of the IFD, the Board of Supervisors now wishes to approve certain documents and actions in connection with the issuance of the 2021B Bonds; and

WHEREAS, All conditions, things and acts required to exist, to have happened and to have been performed precedent to the execution and delivery of such documents and the taking of such actions as contemplated by this Resolution and the documents referred to herein exist, have happened and have been performed in due time, form and manner as required by applicable law, including the IFD Law; now, therefore, be it

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

FURTHER RESOLVED, That all actions heretofore taken by the officers and agents of the City (including, but not limited to the IFD Agent in accordance with the DDA and the Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13) with respect to the establishment of the IFD, Project Area I and the Sub-Project Areas, the approval of the IFD Infrastructure Financing Plan and Appendix I, and the execution and delivery of the Pledge Agreement are hereby approved, confirmed and ratified, and the appropriate officers of the City (including, but not limited to the IFD Agent in accordance with the DDA and the Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13) are hereby authorized and directed to do any and all things and take any and all actions and execute any and all certificates, agreements and other documents on behalf of the IFD, which they, or any of them, may deem necessary or advisable in connection with the 2021B Bonds in accordance with this Resolution, including but not limited to any actions required in connection with issuance of ratings or obtaining a municipal bond insurance policy with respect to the 2021B Bonds, and any certificate, agreement, and other document described in the documents herein approved; all actions to be taken by the officers and agents of the City may be taken by such officer or agent or any designee, with the same force and effect as if taken by the officer or agent; and, be it

FURTHER RESOLVED, That this Resolution shall take effect from and after its adoption and approval.

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney

By: /s/
MARK D. BLAKE
Deputy City Attorney

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Items 6 and 7 **Files 21-0385 & 21-0386**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

- File 21-0385: is a resolution that would authorize the Port to issue Development Special Tax Bonds in an amount not to exceed $64.9 million and approve related documents.
- File 21-0386: is a resolution that would approve certain documents and actions related to a Pledge Agreement for the proposed bonds, allowing for incremental property revenue generated within the Mission Rock Project Area to be used in combination with Mission Rock Special Tax revenues to pay for bond debt service.

Key Points

- Phase 1 of the Mission Rock Development Project includes housing, office space, retail, creation of China Basin Park, and horizontal infrastructure, such as streets and utilities. The development agreement between the Port and Seawall Lot 337 Associate, LLC requires the developer to build horizontal infrastructure and the Port to reimburse those costs.
- The Board of Supervisors previously approved Project Area I (Mission Rock) within the Port's Infrastructure Financing District, which allowed for incremental property taxes generated within that area to be used for infrastructure costs. In addition, the Board has approved the Mission Rock Special Tax District and levy of special taxes within that area.
- In December 2020, the Board of Supervisors authorized the issuance of the first series of Development Special Tax Bonds in an amount not to exceed $43.3 million. The principal amount of the first bond issuance was based on the appraised value of the taxable property, as the principal par amount of the bonds may not exceed one-third of the appraised value of the property per City policy. However, the appraised value of the property has increased significantly since October 2020, and the proposed second bond issuance of up to $64.9 million is consistent with the increased appraisal.
- The proposed bonds would be repaid by a combination of special taxes and tax increment revenue. Ground lease tenants will receive a credit on their special taxes based on the prior year's tax increment revenue.

Fiscal Impact

- The proposed bonds are expected to generate $64.8 million in bond proceeds, have a thirty-year term, and true interest cost of 4.00 percent. Total debt service is expected to be $119.4 million or approximately $3,980,000, on average, per year.
- Based on information provided by the Port, the proposed Special Tax Bonds are in compliance with the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

Section 53395.8(c)(3) of the California Government Code designates the Board of Supervisors as the legislative body for the Port Infrastructure Financing District.

Section 43.10.9 of the Administrative Code incorporates the 1982 Mello-Roos Community Facilities Act, which designates the Board of Supervisors the legislative body for Community Facilities Districts within San Francisco.

BACKGROUND

Mission Rock Development Project

The Mission Rock development project area comprises two pieces of Port property, Seawall Lot 337 and Pier 48. In February 2018, the Board of Supervisors approved a Disposition and Development Agreement (DDA) between the Port and Seawall Lot 337 Associates, LLC, a joint venture consisting of the San Francisco Giants and Tishman Speyer (File 18-0092). The DDA requires the developer to build horizontal and vertical improvements within the Mission Rock Project Area and the Port to reimburse the developer for certain infrastructure costs. Phase 1 will include 537 housing units, 550,000 square feet of office space, 65,000 of ground floor retail, China Basin Park, a 5.5 acre public park, and related infrastructure and is expected to be complete in 2022. The area was previously a parking lot.

Financing Plan

To finance Phase 1 horizontal infrastructure costs, the Port intends to use tax-increment financing and special taxes, as detailed below. Horizontal infrastructure includes entitlements, demolition, raising the site to protect against sea level rise, hazardous soil removal, wet and dry utilities, earthwork and retaining walls, roadways and street utilities, as well as public open space.

Infrastructure Financing District

The Board of Supervisors formed the Port Infrastructure Financing District 2 (Port IFD) in March 2016 (File 13-0264). The Port IFD includes eight project areas which are eligible to receive property tax increment revenues, each of which is subject to Board of Supervisors' approval. In February 2018, the Board of Supervisors established Project Area I (Mission Rock) and Sub-Project Areas I-1 though I-13 within the Port's Infrastructure Financing District 2 (File 17-1314), approved the Infrastructure Financing Plan for that Project Area (File 17-1314), and approved the issuance of up to $1.378 billion tax increment bonds to finance construction of infrastructure within each Project Sub-Area (File 17-1315).

Special Tax District

The 1982 Mello-Roos Community Facilities Act allows for the formation of special tax districts to fund public infrastructure improvements. In April 2020, the Board of Supervisors approved a resolution forming Special Tax District No. 2020-1 (Mission Rock Facilities and Services) (File 20-0120) and in May 2020, the Board approved special taxes to be levied in that special tax district to fund infrastructure improvements (File 20-0125) and the sale and issuance of up to $3.7 billion in special tax bonds for infrastructure improvements (File 20-0124).

Entitlement and Phase 1 Horizontal Infrastructure

Table 1 below shows the estimated sources of funds that will be used to fund construction of horizontal infrastructure within Phase 1 of the Mission Rock Development Project. Sources include prepayments on ground leases, special taxes, and incremental property tax revenue.

Table 1: Mission Rock Phase 1 Horizontal Infrastructure ($millions)

Sources	Entitlement	Phase I Infrastructure	Total
Ground Lease Pre-payments	$42.2	$0	$42.2
Special Tax Bonds - Unimproved Land	4.0	31.2	35.2
Special Tax Bonds - Completed Buildings	0	140.8	140.8
Tax Increment (IFD)	0	47.2	47.2
Total Sources	**$46.2**	**$219.3**	**$265.4**
Uses			
Horizontal Infrastructure Costs	$29.3	$145.4	$174.8
Developer Return *	16.9	73.8	90.7
Total Uses	**$46.2**	**$219.3**	**$265.5**

Source: Port

Note: Differences due to rounding

* The Development and Disposition Agreement provided for the developer to fund horizontal infrastructure with developer equity, subject to a return of the higher of (1) 18 percent per year[1], or (2) 1.5 times peak equity. The developer contributed $29.3 million in equity for entitlement costs, for which equity contribution and the return on equity is funded through the prepayment of project ground leases. The Phase 1 budget assumes a developer equity contribution of $145.4 million with an 18 percent annual return totaling $73.8 million. According to the financial pro forma prepared by Tishman Speyer for the Port, the estimated return to the developer of $73.8 million is based on repayment of the developer's equity contribution over time.

First Issuance of Development Special Tax Bonds

In December 2020, the Board of Supervisors approved: (1) a resolution (File 20-1292) authorizing the Port to issue Development Special Tax Bonds in an amount not to exceed $43.3 million and approve related documents; and (2) a resolution (File 20-1302) approving the revised Pledge Agreement for the bonds, allowing for incremental property revenue generated within the Mission Rock Project Area to be used in combination with Mission Rock Special Tax revenues to pay for bond debt service. According to the Port, the City's Office of Public Finance and the City's Underwriter were finalizing a negotiated sale of the previously approved bonds as of April 2021 and expected to close on the sale of funds in May 2021.

[1] The original term sheet between the Port and the developer provided for a 20 percent return on equity, which was reduced to 18 percent in the final DDA approved by the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

File 21-0385: The proposed resolution would supplement Resolution 196-20 and authorize the Port to issue Development Special Tax Bonds in an amount not to exceed $64.9 million, approve the related documents: Official Statement, a First Supplement to Fiscal Agent Agreement, Bond Purchase Agreement, and Continuing Disclosure Certificate, and authorize the Mayor, the Controller, and the Director of the Office of Public Finance, and other City officers to modify and execute those contracts. The proposed resolution would authorize a negotiated sale for the proposed bonds.

File 21-0385 would also find that the proposed bonds and related appraisal are consistent with Board of Supervisors Resolution 414-13, which approved the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts (File 13-0971).

File 21-0386: The proposed resolution would approve certain documents and actions related to a Pledge Agreement for the Port IFD and the proposed bonds, including approval of the financing plan and authorization of appropriate officers of the City to execute any and all certificates, agreements, and other documents and take any other actions necessary on behalf of the Port IFD in connection with the proposed bonds.

Updated Appraisal of the Mission Rock Special Tax Area

The principal amount of the first bond issuance was based on the appraised value of the taxable property. As discussed below, the principal par amount of the Development Special Tax Bonds may not exceed one-third of the appraised value of the taxable property under the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts. As of October 28, 2020 the appraised value of the leasehold interests within the Mission Rock Special Tax Area was $130 million. Based on this appraisal and a three-to-one value to lien ratio, the Board of Supervisors approved the first bond issuance of $43.3 million in December 2020. However, the appraised value of the property has increased significantly since October 2020, and the proposed resolution (File 21-0385) would approve a second bond issuance of up to $64.9 million consistent with the increased appraisal.

As of February 1, 2021, the appraised value of the leasehold interests within the Mission Rock Special Tax Area is $324,890,000, which is nearly 2.5 times the October 28, 2020 appraised value of $130,000,000. According to the Port, the developer and its affiliates have undertaken substantial horizontal and vertical improvements in the project area and have paid substantial development impact fees, resulting in the increase in the appraised value. Because of the significant increase in the appraised value, the Port retained independent third party review appraiser to evaluate and ultimately sign off on the value conclusion.

Pledge Agreement

Under the previously approved Pledge Agreement, property tax increment generated within the Mission Rock Project Area may be used in combination with Mission Rock Special Tax revenues to pay for bond debt service. Under the DDA's Financing Plan, although the proposed bonds will be secured by the Mission Rock Development Special Tax revenue, ground lease tenants will receive a credit on their Development Special Taxes based on the prior year's tax increment revenue. According to the Port, this reduction in taxes enhances the value of the land, which is owned by the Port, and ground lease proceeds. As shown above in Table 1, ground lease proceeds were used to finance a portion of the horizontal infrastructure entitlement costs.

First Supplement to Fiscal Agent Agreement

The Fiscal Agreement documents the bond attributes for the first series of bonds, including the maturity and interest rate, the use of Mission Rock Development Special Taxes and Mission Rock tax increments to repay the proposed bonds, and allowable uses of bond proceeds and reserves. The First Supplement to Fiscal Agent Agreement will document the bond attributes for the proposed second series of bonds. The Fiscal Agreement is between the City and Zions Bancorporation, National Association, the fiscal agent responsible for holding and disbursing bond proceeds consistent with the Fiscal Agreement and Pledge Agreement. According to the Port, Zions Bancorporation, National Association was selected through a competitive process undertaken by the Port's municipal advisor, PFM.

Bond Purchase Agreement

The Port intends to issue the proposed bonds as a negotiated, rather than a competitive sale. According to the Port, this is necessary because the Mission Rock Project Area is still in the early stages of development and bonds would likely not be rated as investment grade and therefore the best price for the bonds will be achieved through a negotiated sale.

The Bond Purchase Agreement is between the City and Stifel, Nicolaus & Company, Incorporated, the underwriter for the proposed bonds. According to the Port, Stifel, Nicolaus & Company, Incorporated was selected as the underwriter through a competitive solicitation from the Office of Public Finance's pool of qualified underwriters.

Official Statement & Continuing Disclosure Statement

The Preliminary Official Statement describes the legal structure of the bonds as well as sources of revenue and major risks related to repayment for the benefit of prospective investors. The final Official Statement includes the same information as the Preliminary Official Statement as well as the results of the pricing of the Bonds for the benefit of prospective purchasers of the Bonds.

The proposed resolution allows the Port and the Office of Public Finance to issue an annual Continuing Disclosure Statement, which provides financial information relevant for existing and prospective bond investors.

FISCAL IMPACT

Table 2 below shows the sources and uses of the proposed bonds. The Port intends to issue up to $64.9 million of Development Special Tax Bonds net of a premium of -$70,986, which is subject to market conditions at the time of sale.

Table 2: Bond Sources and Uses

Sources	Amount
Par Amount	$64,900,000
Premium	(70,986)
Total Sources	**$64,829,014**
Uses	
Delivery Expenses & Reserves	
Debt Service Reserve	$5,005,949
Cost of Issuance	826,000
Underwriter's Discount	649,000
Subtotal, Delivery Expenses & Reserves	$6,480,949
Improvement Fund	$58,348,065
Total Uses	**$64,829,014**

Source: Port

The proposed resolution in File 21-0385 limits underwriter's discount to 1.5 percent of the bonds' par value. Based on the values in Table 2 above, the estimated underwriter's discount is one percent of the bonds' par value. The debt service reserve amount is based on 125 percent of the average annual debt service and will depend on market conditions at the time of sale. Costs of issuance include legal and consultant fees.

Debt Service

The proposed bonds will have a thirty-year term and true interest cost of 4.00 percent. Total debt service is expected to be $119.4 million or approximately $3,980,000, on average, per year. Under the revised Pledge Agreement, the bonds would be repaid with Development Special Tax revenue collected within the Mission Rock Special Tax District, though, as noted above, incremental property tax revenues captured by the Infrastructure Financing District may also be used to pay for proposed debt service under the Pledge Agreement. The Port expects the bonds will be issued by September 2021.

Compliance with City Special Tax Bond Policy

Under Section 4 of the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts, the appraised value of the taxable property within the Special Tax District must be at least three times the value of the par value of the proposed bonds. Under Section 6 of those same policies, the special tax formulas for CFDs shall provide for minimum special tax levels that satisfy the following payment obligations of a CFD: (i) 110 percent of gross debt service for all CFD bonded indebtedness; (ii) all administrative expenses of the City related to the CFD, and (iii) amounts equal to the differences between expected earnings on any escrow fund and the interest payments due on Bonds to the CFD.

The appraised value as of February 1, 2021 of the leasehold interests within the Mission Rock Special Tax Area is $324,890,000, which permits up to $108,296,000 in total bond proceeds using a three-to-one value to lien ratio. The first issuance of $43.3 million together with the proposed second issuance of up to $64.9 million in Bonds would result in $108.2 million in total issuance, which is within the permitted amount based on the appraised value. According to the Port, the maximum taxing capacity of the Mission Rock Special Tax for FY 2020-21 is $14.0 million, which is 203 percent greater than the expected annual debt service of $6,880,000, including annual debt service for the first ($2,900,000) and proposed second issuance ($3,980,000).[2] Based on information provided by the Port, the proposed Special Tax Bonds are in compliance with the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts.

Impact on Phase 1 Budget

The proposed bonds, which are anticipated to have an interest rate of 4.0 percent, would repay developer equity earning the higher of an 18 percent return or 1.5 times peak equity for the phase. According to the Port, replacing higher-interest developer equity with low-interest public financing, preserves the Port's land value in later phases of the project. The Phase 1 budget assumes a Developer equity contribution of $145.4 million, which will accrue the 18 percent return. Increasing the amount of bond proceeds will allow the City to repay the Developer's equity contribution more quickly and replace the 18 percent per year debt with lower interest, bond debt service.

However, reductions in financing costs are off-set by costly project delays, including a nine-month delay in obtaining the key horizontal permit (the Street Improvement Permit) and a 12-month delay in the first bond issuance (compared to the anticipated date in the Project's Model of Record). According to the Port, the project team and Developer are focused on scope and cost management and will provide the Port Commission with a more complete update on project finances by Fall of 2021.

RECOMMENDATION

Approve the proposed resolutions.

[2] Although the maximum taxing capacity was $14.0 million in FY 2020-21, only the special tax revenues needed for estimated interest payments on the 2021A Bonds ($1.84 million) were levied.

Jones Hall draft 4-9-21

PLEDGE AGREEMENT

by and among

CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO)

and

CITY AND COUNTY OF SAN FRANCISCO, for and on behalf of City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services)

and

ZIONS BANCORPORATION, NATIONAL ASSOCIATION,
as Fiscal Agent

Dated as of April 1, 2021

Relating to

City and County of San Francisco
Special Tax District No. 2020-1 (Mission Rock Facilities and Services)
Development Special Tax Bonds

PLEDGE AGREEMENT

This PLEDGE AGREEMENT, dated as of April 1, 2021 (this "Pledge Agreement"), by and among the CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO), an infrastructure financing district and a legally constituted governmental entity established pursuant to the laws of the State of California (the "IFD"), the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation and chartered city organized and existing under the Constitution and the laws of the State of California (the "City"), for and on behalf of City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) (the "Special Tax District"), and ZIONS BANCORPORATION, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States, as fiscal agent (the "Fiscal Agent") under the Fiscal Agent Agreement (hereinafter defined);

W I T N E S S E T H:

WHEREAS, Seawall Lot 337 Associates, LLC, a Delaware limited liability company ("Master Developer") and the City, acting by and through the San Francisco Port Commission ("Port" or "Port Commission"), are parties to a Disposition and Development Agreement (as amended from time to time, "DDA"), including a Financing Plan (as amended from time to time, "Financing Plan"), that governs the disposition and development of certain parcels in the jurisdiction of the Port, including Seawall Lot 337, 3.53 acres located at Terry A. Francois Boulevard from Third Street to Mission Rock Street, China Basin Park and ½ acre to the east of Terry A. Francois Boulevard between Pier 48 and Pier 50 ("Mission Rock Site");

WHEREAS, the IFD is an infrastructure financing district and a legally constituted governmental entity established pursuant to the laws of the State of California, with the legal authority to exercise powers under and pursuant to the provisions of Chapter 2.8 of Division 2 of Part 1 of Title 5 of the California Government Code (the "IFD Law"), including the power to issue bonds;

WHEREAS, an Infrastructure Financing Plan (as defined herein) for the IFD, including Appendix I with respect to the following sub-project areas (each, a "Sub-Project Area"; collectively, the "Sub-Project Areas"), has been adopted in compliance with all requirements of the IFD Law:

(i) "Sub-Project Area I-1 (Mission Rock),"
(ii) "Sub-Project Area I-2 (Mission Rock),"
(iii) "Sub-Project Area I-3 (Mission Rock),"
(iv) "Sub-Project Area I-4 (Mission Rock),"
(v) "Sub-Project Area I-5 (Mission Rock),"
(vi) "Sub-Project Area I-6 (Mission Rock),"

(vii) "Sub-Project Area I-7 (Mission Rock),"
(viii) "Sub-Project Area I-8 (Mission Rock),"
(ix) "Sub-Project Area I-9 (Mission Rock),"
(x) "Sub-Project Area I-10 (Mission Rock),"
(xi) "Sub-Project Area I-11 (Mission Rock),"
(xii) "Sub-Project Area I-12 (Mission Rock)," and
(xiii) "Sub-Project Area I-13 (Mission Rock)";

WHEREAS, a default judgment was entered on October 17, 2019, by the Superior Court of the County of San Francisco in a judicial validation action related to the IFD, the Sub-Project Areas and this Pledge Agreement (Case No. CGC-18-565561) (the "Validation Judgment");

WHEREAS, pursuant to Section 53395.2 of the IFD Law, the IFD is authorized to pledge revenues available from the Sub-Project Areas and allocated to it pursuant to Article 3 of the IFD Law (commencing with Section 53396) to pay the principal of, and interest on, bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Chapter 2.5 of Division 2 of Part 1 of Title 5 of the California Government Code, as amended (commencing with Section 53311)) (the "Mello-Roos Act"), the proceeds of which have been or will be used entirely for allowable purposes of the IFD;

WHEREAS, the San Francisco Special Tax Financing Law (Admin. Code ch. 43, art. X) (the "Special Tax Financing Law") incorporates the Mello-Roos Act by reference in full;

WHEREAS, pursuant to the Special Tax Financing Law, the City and County of San Francisco (the "City") formed the Special Tax District to finance certain improvements (the "Facilities") described in Resolution 160-20, adopted by the Board of Supervisors of the City on April 14, 2020 (the "Resolution of Formation"), and some or all of those Facilities are facilities that may be financed by the IFD;

WHEREAS, the Sub-Project Areas consist of certain parcels in the Mission Rock Site, and the Special Tax District includes certain parcels in the Sub-Project Areas; and

WHEREAS, concurrently herewith, the City is issuing for and on behalf of the Special Tax District its City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) Development Special Tax Bonds, Series 2021A (the "2021A Special Tax District Bonds") to finance acquisition and construction of the Facilities;

WHEREAS, the IFD and the Special Tax District wish to enter into this Pledge Agreement to memorialize a pledge by the IFD of Pledged Tax Increment (as defined herein) as security for and a source of payment of the IFD Payment Amount (as defined herein); and

WHEREAS, the IFD and the City also wish to provide for Subordinate Debt in the circumstances described in this Pledge Agreement;

NOW, THEREFORE, in consideration of the mutual covenants herein contained it is agreed by and between the parties hereto, as follows:

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section 1 shall, for all purposes of this Pledge Agreement and of any amendment hereto, and of any certificate, opinion, estimate or other document herein mentioned, have the meanings herein specified. Any capitalized term not defined in this Section 1 shall have the meaning given to such term in the recitals of this Pledge Agreement, the Fiscal Agent Agreement, the Rate and Method or the Financing Plan (including the Appendix to Transaction Documents for the Mission Rock Project referenced therein), as applicable. In the event that more than one of the sources listed in the previous sentence define the same term differently, the source specifically identified in this Pledge Agreement shall govern the meaning of the term.

"Administrative Expenses" means costs directly related to the administration of the IFD consisting of: the actual costs of collecting the Allocated Tax Increment (whether by the City or otherwise); the actual costs of remitting the Allocated Tax Increment to the Special Fund Trustee or the Fiscal Agent; actual costs of the Fiscal Agent (including its legal counsel) in the discharge of its duties under this Pledge Agreement and the Special Tax District Bonds; the actual costs of the IFD, the City or its designee of complying with the disclosure provisions of the IFD Law and this Pledge Agreement, including those related to public inquiries regarding the Allocated Tax Increment and disclosures to Owners of the Special Tax District Bonds and the Original Purchaser; costs of the dissemination agent, whether for the City or another party that has undertaken to provide continuing disclosure; any amounts required to be rebated to the federal government related to the Special Tax District Bonds; an allocable share of the salaries of the City staff directly related to the foregoing and a proportionate amount of City general administrative overhead related thereto.

“Allocated Tax Increment” means the portion of Gross Tax Increment from Project Area I that the City has agreed to allocate to the IFD for use in Project Area I by approving Appendix I.

“Assessed Parcel” has the meaning given that term in the Rate and Method.

“Base Year” for the Sub-Project Areas is defined in Appendix I of the Infrastructure Financing Plan as Fiscal Year 2017-18.

"Bond Year" means the one-year period beginning on September 2 in each year and ending on September 1 in the following year, except that the first Bond Year shall begin on the closing date of the 2021A Special Tax District Bonds and shall end on September 1, 2021.

"Bond Plan Limit" means the limitation on the principal amount of bonds issued by the IFDs with respect to the Sub-Project Areas set forth in resolution No. 37-18 adopted by the Board of Supervisors on February 13, 2018 and signed by the Mayor on February 23, 2018.

City" means the City and County of San Francisco, a chartered city and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Special Tax District Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Special Tax District Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Development Special Tax” has the meaning given that term in the Rate and Method.

"Fiscal Agent" means Zions Bancorporation, National Association, or any successor as fiscal agent under the Fiscal Agent Agreement.

"Fiscal Agent Agreement" means the Fiscal Agent Agreement dated as of April 1, 2021, between the City and the Fiscal Agent, pursuant to which the Special Tax District Bonds are issued.

"Fiscal Year" means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

Gross Tax Increment" is, for each of the Sub-Project Areas, 100% of the revenue produced by the application of the 1% ad valorem tax rate to the Incremental Assessed Property Value of property within each Sub-Project Area.

"IFD" means the City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco), an infrastructure financing district and a legally constituted governmental entity established pursuant to the laws of the State of California.

"IFD Law" means Chapter 2.8 of Division 2 of Part 1 of Title 5 of the California Government Code and the acts amendatory thereof and in supplement thereto. Whenever reference is made in this Pledge Agreement to the IFD Law, reference is made to the IFD Law as in force on the date of the execution of this Pledge Agreement, unless the context otherwise requires.

“IFD Payment Amount” means, as of the IFD Payment Date, an amount equal to the lesser of (A) the Potential Development Special Tax Levy on all Current Parcels for the current Fiscal Year and (B) the amount of Pledged Tax Increment available to pay the IFD Payment Amount pursuant to Section 4.

"IFD Payment Date" means July 1.

"Incremental Assessed Property Value" is, in any year, for each Sub-Project Area, the difference between the assessed value of the property within such Sub-Project Area for that fiscal year and the assessed value of the property within such Sub-Project Area in the Base Year, to the extent that the difference is a positive number.

"Infrastructure Financing Plan" means the Infrastructure Financing Plan for the IFD, adopted and approved by the Board of Supervisors of the City and County of San Francisco by Ordinance No. 27-16, passed on March 1, 2016 and the Mayor approved on March 11, 2016, as amended with respect to the Sub-Project Areas by Ordinance No. 34-18, passed on February 27, 2018 and the signed by the Mayor on March 6, 2018, as heretofore amended and as may hereafter be amended in accordance with the law.

"Mello-Roos Bonds Account (Tax Increment)" means the account of that name established and maintained by the IFD pursuant to this Pledge Agreement.

"Parity Bonds" has the meaning given that term in the Fiscal Agent Agreement.

"Pledged Tax Increment" means, for each IFD Payment Date, the Allocated Tax Increment received by the IFD as of such date that is attributable to the levy of the 1% ad valorem tax rate during the preceding Fiscal Year, but excluding the Waterfront Set-Aside except to the extent that the Waterfront Set-Aside may be used by the IFD under the IFD Law for its payment obligations hereunder based on the use of proceeds of the Special Tax District Bonds.

"Potential Development Special Tax Levy" has the meaning given that term in the Financing Plan.

"Project Account" means the Project Account established in the Tax Increment Fund.

"Rate and Method" means the Rate and Method of Apportionment of Special Tax for the Special Tax District, as it may be amended from time to time.

"Special Fund Administration Agreement" means that certain Special Fund Administration Agreement by and among the Port, as agent of the IFD and CFD and in its proprietary capacity, and the Special Fund Trustee.

"Special Fund Trustee" means Zions Bancorporation, National Association, in its capacity under the Special Fund Administration Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place pursuant to the Special Fund Administration Agreement.

"Special Tax District Bonds" means the City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) Development Special Tax Bonds", issued and outstanding under the Fiscal Agent Agreement, including the 2021A Special Tax District Bonds and any Parity Bonds.

"Special Tax Financing Law" means the San Francisco Special Tax Financing Law (Admin. Code ch. 43, art. X), as amended from time to time.

"Subordinate Debt" has the meaning given that term in Section 6 of this Pledge Agreement.

"Subordinate Debt Instrument" means any instrument providing for the issuance or incurrence of Subordinate Debt.

"Sub-Project Area I-1" means Sub-Project Area I-1 (Mission Rock Site).

"Sub-Project Area I-2" means Sub-Project Area I-2 (Mission Rock Site).

"Sub-Project Area I-3" means Sub-Project Area I-3 (Mission Rock Site).

"Sub-Project Area I-4" means Sub-Project Area I-4 (Mission Rock Site).

"Sub-Project Area I-5" means Sub-Project Area I-5 (Mission Rock Site).

"Sub-Project Area I-6" means Sub-Project Area I-6 (Mission Rock Site).

"Sub-Project Area I-7" means Sub-Project Area I-7 (Mission Rock Site).

"Sub-Project Area I-8" means Sub-Project Area I-8 (Mission Rock Site).

"Sub-Project Area I-9" means Sub-Project Area I-9 (Mission Rock Site).

"Sub-Project Area I-10" means Sub-Project Area I-10 (Mission Rock Site).

"Sub-Project Area I-11" means Sub-Project Area I-11 (Mission Rock Site).

"Sub-Project Area I-12" means Sub-Project Area I-12 (Mission Rock Site).

"Sub-Project Area I-13" means Sub-Project Area I-13 (Mission Rock Site).

"Sub-Project Areas" has the meaning given that term in the recitals of this Pledge Agreement.

"Tax Increment Fund" means the "Tax Increment Fund" established and maintained by the IFD pursuant to this Pledge Agreement.

"Tax Increment Plan Limit" means the limitation, if any, contained in the Infrastructure Financing Plan on the number of dollars of taxes which may be divided and allocated to the IFD with respect to the Sub-Project Areas pursuant to the Infrastructure Financing Plan and the IFD Law.

"Waterfront Set-Aside" means a minimum of 20% of Allocated Tax Increment from Project Area I, which under IFD Law must be spent for shoreline restoration, removal of bay fill, and creation of waterfront public access to or environmental remediation of the San Francisco waterfront.

"Waterfront Set-Aside Account" means the Waterfront Set-Aside Account established in the Tax Increment Fund.

"2021A Special Tax District Bonds" means the City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) Development Special Tax Bonds, Series 2021A, issued and outstanding under the Fiscal Agent Agreement.

Section 2. Pledge of Pledged Tax Increment. The IFD hereby pledges and creates a lien on the Pledged Tax Increment, including such Pledged Tax Increment on deposit in the Project Account, the Waterfront Set-Aside Account and the Mello-Roos Bonds Account (Tax Increment), for the benefit of the Fiscal Agent as security for the IFD's payment obligations hereunder (which pledge and lien shall attach and be binding and effective without the need for any physical delivery, recordation, filing, or further act). Such pledge shall be a first and exclusive pledge of the Pledged Tax Increment, subject to other permitted uses set forth in this Pledge Agreement. The pledge of Pledged Tax Increment hereunder shall be senior to any other pledge of Allocated Tax Increment.

The IFD and the City agree that the Pledged Tax Increment paid to the Fiscal Agent under this Pledge Agreement shall be used to pay debt service on the Special Tax District Bonds, replenish any debt service reserve fund for the Special Tax District Bonds and pay Horizontal Development Costs that are eligible to be paid with Pledged Tax Increment pursuant to the IFD Law, the Infrastructure Financing Plan and the Financing Plan.

Section 3. Collection of Allocated Tax Increment; Tax Increment Fund.

(a) The IFD shall establish a fund to be held by or on behalf of the IFD under the Special Fund Administration Agreement as a separate restricted account, to be known as the "Tax Increment Fund." The IFD shall establish the following accounts (among others) within the Tax Increment Fund to be held by or on behalf of the IFD under the Special Fund Administration Agreement as separate restricted accounts: the "Waterfront Set-Aside Account" and the "Project Account."

Promptly upon receipt thereof, the IFD shall deposit 80% of the Allocated Tax Increment received in any Bond Year in the Project Account (or such greater or lesser amount permitted to be deposited therein pursuant to an opinion of nationally-recognized bond counsel) and 20% of such Allocated Tax Increment in the Waterfront Set-Aside Account (or such greater or lesser amount permitted to be deposited therein pursuant to an opinion of nationally-recognized bond counsel). The IFD may establish separate accounts within the Tax Increment Fund, and separate sub-accounts within the Project Account and the Waterfront Set-Aside Account in its discretion.

Amounts deposited to and held by the IFD in the Tax Increment Fund and the accounts therein shall be at all times separately accounted for by the IFD from all other funds or accounts, and the Allocated Tax Increment shall be used and applied solely as set forth in this Pledge Agreement.

(b) The IFD shall establish a fund to be held by or on behalf of the IFD under the Special Fund Administration Agreement as a separate restricted account, to be known as the "Bonds Fund." The IFD shall establish the following account (among others) within the Bond Fund as a separate restricted account: the "Mello-Roos Bonds Account (Tax Increment)."

During each Fiscal Year, the IFD may transfer funds from the Project Account or the Waterfront Set-Aside Account to the Mello-Roos Bonds Account (Tax Increment) in an amount equal to the IFD Payment Amount due on the following IFD Payment Date.

(c) The obligations of the IFD with respect to Allocated Tax Increment set forth in this Pledge Agreement shall not apply to any Allocated Tax Increment applied by the Treasurer-Tax Collector to pay its costs of collecting the Allocated Tax Increment.

Section 4. Payment of Allocated Tax Increment. On each IFD Payment Date (or such earlier date determined by the IFD), the IFD shall transfer (or cause to be transferred) Pledged Tax Increment from the accounts in the Tax Increment Fund and the Mello-Roos Bonds Account (Tax Increment) to the Fiscal Agent for deposit into the IFD Payment Amount Fund established and held by the Fiscal Agent under the Fiscal Agent Agreement, in an amount equal to the IFD Payment Amount. Allocated Tax Increment that is not Pledged Tax Increment cannot be used to pay the IFD Payment Amount because of the limitations on the authorized uses of Waterfront Set-Aside.

On the Business Day following each IFD Payment Date, the remaining Pledged Tax Increment shall be released from the pledge and lien created by this Pledge Agreement and shall be used by the IFD for authorized purposes under the Infrastructure Financing Plan.

In addition, if at any time during any Fiscal Year the IFD has set aside Pledged Tax Increment in the Mello-Roos Bonds Account (Tax Increment) that is attributable to the levy of the 1% ad valorem tax rate during such Fiscal Year in an amount sufficient to satisfy the

IFD Payment Amount on the immediately succeeding IFD Payment Date, then any remaining Allocated Tax Increment shall be released from the pledge and lien created by this Pledge Agreement and shall be used by the IFD for authorized purposes under the Infrastructure Financing Plan.

Section 5. Coverage Covenant; Plan Limit.

(a) The IFD shall manage its fiscal affairs in a manner which ensures that it will have sufficient Allocated Tax Increment available under the Tax Increment Plan Limit in the amounts and at the times required to enable the IFD to meet its payment obligations under this Pledge Agreement and the Financing Plan.

(b) The IFD shall not issue any bonds or take any action that would cause it to exceed the Bond Plan Limit. Board of Supervisors Resolution No. 37-18 provides that the Bond Plan Limit does not apply to the Special Tax District Bonds or any "debt" as defined in the IFD Law other than bonds, including this Pledge Agreement.

Section 6. Issuance of Subordinate Debt. Subject to any limitations set forth in the Financing Plan, the IFD may issue additional bonds or incur other loans, advances or indebtedness payable from Allocated Tax Increment on a subordinate basis to its obligations under this Pledge Agreement ("Subordinate Debt") in such principal amount as shall be determined by the IFD. The IFD may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

(a) Unless otherwise agreed by the City and the Developer, the conditions for the issuance of Subordinate Debt set forth in the Financing Plan have been satisfied.

(b) If, and to the extent, such Subordinate Debt is payable from Allocated Tax Increment within the Tax Increment Plan Limit, then the aggregate amount of the IFD Payment Amount and the principal of and interest to accrue on Subordinate Debt coming due and payable following the issuance of such Subordinate Debt shall not exceed the maximum amount of Allocated Tax Increment permitted under the Tax Increment Plan Limit to be allocated and paid to the IFD following the issuance of such Subordinate Debt.

(c) The IFD shall deliver to the Trustee a Written Certificate of the IFD certifying that the conditions precedent to the issuance of such Subordinate Debt set forth in paragraphs (a) and (b) above have been satisfied.

Section 7. Tax Covenants. The following covenants shall apply to any Special Tax District Bonds to the extent the City and the IFD intended for the interest on such Special Tax District Bonds to be excluded from the gross income of the Owners of such Special Tax District Bonds for federal income tax purposes.

(a) Private Activity Bond Limitation. The City and the IFD will assure that the proceeds of the Special Tax Bonds are not so used as to cause the Special Tax District Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

(b) Federal Guarantee Prohibition. The City and the IFD will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Special Tax District Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(c) Rebate Requirement. The City and the IFD will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Special Tax District Bonds.

(d) No Arbitrage. The City and the IFD will not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the Special Tax Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Special Tax District Bonds would have caused the Special Tax District Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

(e) Maintenance of Tax-Exemption. The City and the IFD will take all actions necessary to assure the exclusion of interest on the Special Tax Bonds from the gross income of the Owners of the Special Tax District Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Special Tax Bonds.

(f) Record Retention. The City and the IFD will retain their records of all accounting and monitoring that they carry out with respect to the Special Tax District Bonds for at least 3 years after the Special Tax District Bonds mature or are redeemed (whichever is earlier); however, if the Special Tax District Bonds are redeemed and refunded, the City and the IFD will retain their records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Special Tax District Bonds.

(g) Compliance with Tax Certificate. The City and the IFD will comply with the provisions of the Certificate as to Arbitrage and the Use of Proceeds Certificate with respect to the Special Tax District Bonds. The covenants of this Section will survive payment in full or defeasance of the Special Tax District Bonds.

Section 8. Special Fund Administration Agreement. The IFD shall cause the Port, in its capacity as the IFD Agent, to maintain the Special Fund Administration Agreement, comply with the terms thereof and enforce the provisions thereof.

Section 9. Compliance with IFD Law. The City shall use the proceeds of the Special Tax District Bonds so as to ensure that the IFD Payment Amount may be used under the IFD Law for the purposes set forth herein. The covenant set forth in the first sentence of this Section is of a special and unique kind and character, and there would not be an adequate remedy at law for a breach of such covenant. Therefore, the City agrees that the covenant may be enforced by an action for specific performance and such other equitable relief as is provided by the laws of the State of California. In pursuing specific performance of such covenant, the party seeking to enforce such covenant shall be entitled to petition the court for injunctive relief, including, but not limited to, an order of the court restraining any use of the proceeds of the Bonds that is inconsistent with such covenant.

Section 10. Term. The term of this Pledge Agreement shall commence on the date of issuance of the first series of the Special Tax District Bonds, and shall end on the earlier of the date no Special Tax District Bonds are outstanding or the last day on which the IFD may repay indebtedness or receive property taxes under the Infrastructure Financing Plan.

Section 11. Amendment. This Pledge Agreement may be amended only with the prior written consent of the parties thereto and if the City shall have received an opinion of nationally recognized bond counsel that such amendment does not adversely affect the tax-exempt nature of interest on the Special Tax District Bonds.

IN WITNESS HEREOF, the parties hereto have executed this Pledge Agreement as of the day and year first above written.

CITY AND COUNTY OF SAN FRANCISCO
INFRASTRUCTURE FINANCING DISTRICT
NO. 2 (PORT OF SAN FRANCISCO)

By:____________________________________
Authorized Officer

CITY AND COUNTY OF SAN FRANCISCO,
for and on behalf of City and County of
San Francisco Special Tax District No.
2020-1 (Mission Rock Facilities and
Services)

By:____________________________________
Authorized Officer

ZIONS BANCORPORATION, NATIONAL
ASSOCIATION, as Fiscal Agent

By:____________________________________
Christine Green
Trust Officer
Zions Bank Division

PORT OF SAN FRANCISCO

MEMORANDUM

March 19, 2021

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

FROM: Elaine Forbes
Executive Director

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

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

EXECUTIVE SUMMARY

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

THIS PRINT COVERS CALENDAR ITEM NO. 11A

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

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

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

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

STRATEGIC PLAN

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

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

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

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

PROJECT BACKGROUND

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

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

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

The Project broke ground in December 2020. and the Developer and its vertical developer affiliates are currently constructing horizontal infrastructure and two vertical parcels. This achievement is the result of 11 years of effort, led by the Port Commission, Port and City staff, and the Developer. These efforts include state legislation; neighborhood planning and neighborhood outreach; infrastructure planning and design; shoreline and sea level rise resiliency planning; development of a Special Use District; formation of an infrastructure financing district and community facilities district; and successful collaborations with regulators and partner agencies related to topics like workforce development, affordable housing, transportation, public access, and park development.

LOCAL BUSINESS ENTERPRISE STATUS

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

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

FINANCING BACKGROUND

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

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

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

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

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

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

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

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

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

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

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

CFD SPECIAL TAX BONDS

Bond Sizing for the First Bond

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

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

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

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

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

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

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

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

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

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

Source: PFM

Municipal Market Context

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

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

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

CFD Bonds, backed by CFD Taxes and Tax Increment

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

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

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

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

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

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

BENEFITS TO PORT AND PROJECT

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

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

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

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

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

Method of Sale and Bond Purchase Agreement

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

ADDITIONAL INFORMATION

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

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

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

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

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

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

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

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

NEXT STEPS

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

Table 3. Mission Rock CFD Financing Schedule

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

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PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 21-11

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DocuSigned by:

Carl Nicita

Secretary

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FILED
San Francisco County Superior Court
OCT 17 2019
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Attorneys for Plaintiffs
CITY AND COUNTY OF SAN FRANCISCO,
CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE
FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO)

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SAN FRANCISCO

UNLIMITED JURISDICTION

CITY AND COUNTY OF SAN FRANCISCO, CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO), Plaintiffs, vs. ALL PERSONS INTERESTED IN THE MATTER OF PROJECT AREA I (MISSION ROCK), AND SUB-PROJECT AREAS I-1 THROUGH I-13 THEREIN, OF CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO), AND APPENDIX I TO AN EXISTING INFRASTRUCTURE FINANCING PLAN AND AMENDMENTS THEREOF, RELATED TO PROJECT AREA I (MISSION ROCK), AND SUB-PROJECT	Case No. CGC-18-565561 [~~PROPOSED~~] JUDGMENT Hearing Date: Hearing Judge: Time: 9:00 AM Department: Dept. 514 Date Action Filed: April 5, 2018

AREAS I-1 THROUGH I-13 THEREIN, PURSUANT TO WHICH TAX INCREMENT WILL BE ALLOCATED TO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO) FROM SUB-PROJECT AREAS I-1 THROUGH I-13 IN PROJECT AREA I, INCLUDING THE ADOPTION OF RESOLUTIONS AND AN ORDINANCE AND THE AUTHORIZATION OF THE MATTERS THEREIN, AND ALL BONDS, DEBT, CONTRACTS AND OTHER MATTERS AND PROCEEDINGS RELATED THERETO,

Defendants.

Plaintiffs City and County of San Francisco ("City") and City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) ("IFD No. 2" and together with the City, "Plaintiffs") came properly before the Court for review and determination. The Court having reviewed the application, the supporting papers, the other papers and pleadings on file in this action, and good cause appearing, hereby ORDERS, ADJUDGES AND DECREES as follows:

1. Jurisdiction over all interested persons was obtained by:

a. publishing the summons pursuant to Code of Civil Procedure Section 861 and Government Code Section 6063 in The San Francisco Examiner;

b. within five days of the entry of the order, posting a copy of the summons in one public location in City Hall prior to completion of publication;

c. within five days of the entry of the order, mailing the Summons and the Complaint to the California Attorney General and the Treasurer; and

d. mailing copies of the summons and complaint to those persons, if any, or their attorneys of record, who, not later than ten days after publication of summons is complete, or such other time as the Court may order, have notified in writing Plaintiffs' attorneys of record of their interest in this matter or have filed a responsive pleading challenging the validity of the proceedings.

2. The notice procedures were in accordance with the Validation Statute, and the notice provided by the Plaintiffs in this action, provide due and proper notice to all persons interested in

the subject matter of this action, and pursuant to such notice, this Court has jurisdiction over all persons and the subject matter of this action.

3. On the First Cause of Action, the Court hereby determines that:

(a) This action is properly brought under Government Code Section 53511, Sections 53395.6 and 53395.7 of the IFD Law and the Validation Statute.

(b) All proceedings by and for the City and IFD No. 2 in connection with Appendix I, including without limitation the Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU, and all other matters authorized therein, were, are and will be in conformity with the applicable provisions of all laws and enactments at any time in force or controlling upon such proceedings, whether imposed by law, constitution, statute, charter or ordinance, and whether federal, state or municipal, and were, are and will be in conformity with all applicable requirements of regulatory bodies, agencies or officials having or asserting authority over said proceedings or any part thereof.

(c) The waiver by the Master Developer and each Vertical Developer, as an inducement for the issuance of bonds payable from tax increment generated in the Sub-Project Areas, of their respective rights to appeal the assessed value of any Taxable Parcel in the Project Site, as provided in the DDA, each Vertical DDA, the Pier 48 Lease or other similar agreement, will be a valid, legal and binding obligation of the Master Developer and each Vertical Developer in accordance with its terms.

(d) All conditions, things and acts required by law to exist, happen or be performed precedent to the adoption of the Resolutions, and the terms and conditions thereof, including the authorization for the execution, delivery and performance of Appendix I, the Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU, and all other matters authorized therein, including the division of taxes described in Appendix I, have existed, happened and been performed in the time, form and manner required by law.

(e) The exercise by the City of the State Legislature's Constitutional authority to apportion property tax revenue to districts, which the State Legislature delegated to the City in the SF

Port IFD Law and which the City exercised by approving Appendix I, does not violate the Constitutional Debt Limit.

(f) Upon issuance, levy, or execution and delivery thereof, as applicable, Appendix I, Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU, and all other matters authorized therein, will be and are valid, legal and binding obligations of the parties thereto in accordance with their terms.

(g) Because the SF Port IFD Law authorizes IFD No. 2 to issue the Project Area I Bonds and incur the Project Area I Debt, the Project Area I Bonds and the Project Area I Debt will be payable from a special fund established pursuant to the SF Port IFD Law and IFD No. 2 is not subject to the Constitutional Debt Limit, the issuance by IFD No. 2 of the Project Area I Bonds and the incurrence by IFD No. 2 of the Project Area I Debt without a two-thirds vote of the qualified electors in the City does not violate the Constitutional Debt Limit.

(h) IFD No. 2 is not required to adopt an appropriations limit under the SF Port IFD Law or Article XIIIB of the California Constitution because the allocation by the City to IFD No. 2 of tax increment revenues generated in the Sub-Project Areas is not the receipt by IFD No. 2 of proceeds of taxes levied by or on behalf of IFD No. 2 within the meaning or for the purposes of Article XIII B of the California Constitution.

(i) Appendix I complies with the "set-aside" provisions of the SF Port IFD Law with respect to property tax revenues allocated to IFD No. 2 from the Sub-Project Areas.

(j) IFD No. 2 is authorized to use property tax revenues allocated to IFD No. 2 from the Sub-Project Areas to pay the costs of administering IFD No. 2.

(k) The allocation to IFD No. 2 by the Board of Supervisors of specific percentages of incremental property tax revenues from the Sub-Project Areas as set forth in Appendix I will be and is valid, legal, binding and irrevocable from and after the effective date of the Ordinance Establishing Project Area I and the Sub-Project Areas.

(l) The Board of Supervisors has the legal authority to approve by ordinance pursuant to the procedures set forth in Appendix I certain amendments of Appendix I described in Appendix I and summarized above and any other amendments of Appendix I consistent with the SF Port

IFD Law, and Appendix I, as amended by any such amendment, is legal, valid and binding, and all actions of the City, IFD No. 2 and Port in accordance with Appendix I, as amended, shall be valid, legal and binding obligations of the City, IFD No. 2 and the Port, respectively.

(m) Under Section 53395.8(i)(7) of the SF Port IFD Law and Revenue & Taxation Code 96.1, the applicable county auditor or officer will transfer the Allocated Tax Increment generated in the Sub-Project Areas to IFD No. 2 at the same time or times as the payment of taxes into the funds of the respective taxing agencies of the county and, as a result, the City will not receive the Allocated Tax Increment for deposit into the City and County General Fund.(n) Each Sub-Project Area constitutes a "project area" for purposes of the SF Port IFD Law.

4. That the Court permanently enjoin and restrain all persons from the institution of any action or proceeding challenging, *inter alia*, the validity of Project Area I and the Sub-Project Areas, Appendix I, the Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU and any other related contracts or agreements or actions authorized by the City, the Port Commission or IFD No. 2 in connection with the financing program described in Appendix I, or any matters herein adjudicated or which at this time could have been adjudicated against the Plaintiffs and against all other persons.

5. For costs of suit incurred herein; and

6. For such other and further relief as the Court may deem just and proper.

All capitalized terms used but not defined herein have the meanings given to such terms in Plaintiff's Complaint for Validation.

Dated: Oct 17, 2019

Judge of the Superior Court
Gail Dekreon

Mission Rock Community Facilities District CFD Public Financing, Second Issuance

May 5, 2021

Items 6 and 7

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Actions for Consideration by Committee

The Port requests the Budget & Finance Committee's positive recommendation of:

Resolution Approving CFD Special Tax Bonds

Resolution Supplementing Resolution No. 196-20 authorizing the issuance and sale of one or more series of Development Special Tax Bonds for City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) in the aggregate principal amount not to exceed $64,900,000; and approving related documents, including an Official Statement, a First Supplement to Fiscal Agent Agreement, Bond Purchase Agreement, and Continuing Disclosure Certificate; and determining other matters in connection therewith, as defined herein.

Resolution approving an IFD Pledge Agreement

Resolution approving certain documents and actions related to a Pledge Agreement by City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) and special tax bonds for City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services); and determining other matters in connection therewith, as defined herein.

Overview

- Project Overview
- Financing Structure
- Proposed Bond Issuance
- Next Steps

Mission Rock Overall Summary

At full build out:

- 2.7 to 2.8M GSF total
- Approximately 1,200 housing units, 40% of which will be affordable
- 972K - 1.4M GSF office
- ~240K GSF retail/production
- ~240K GSF Pier 48

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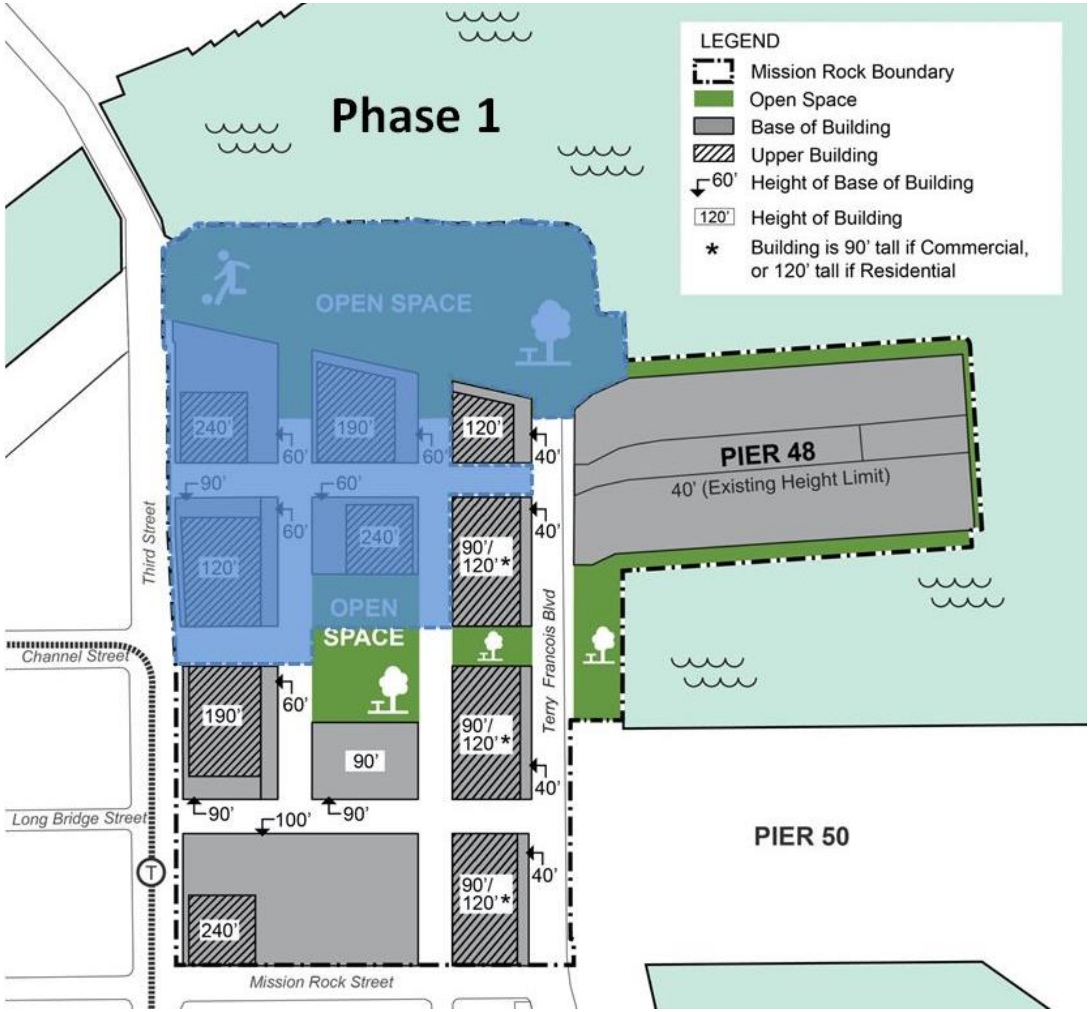
Mission Rock Phase 1

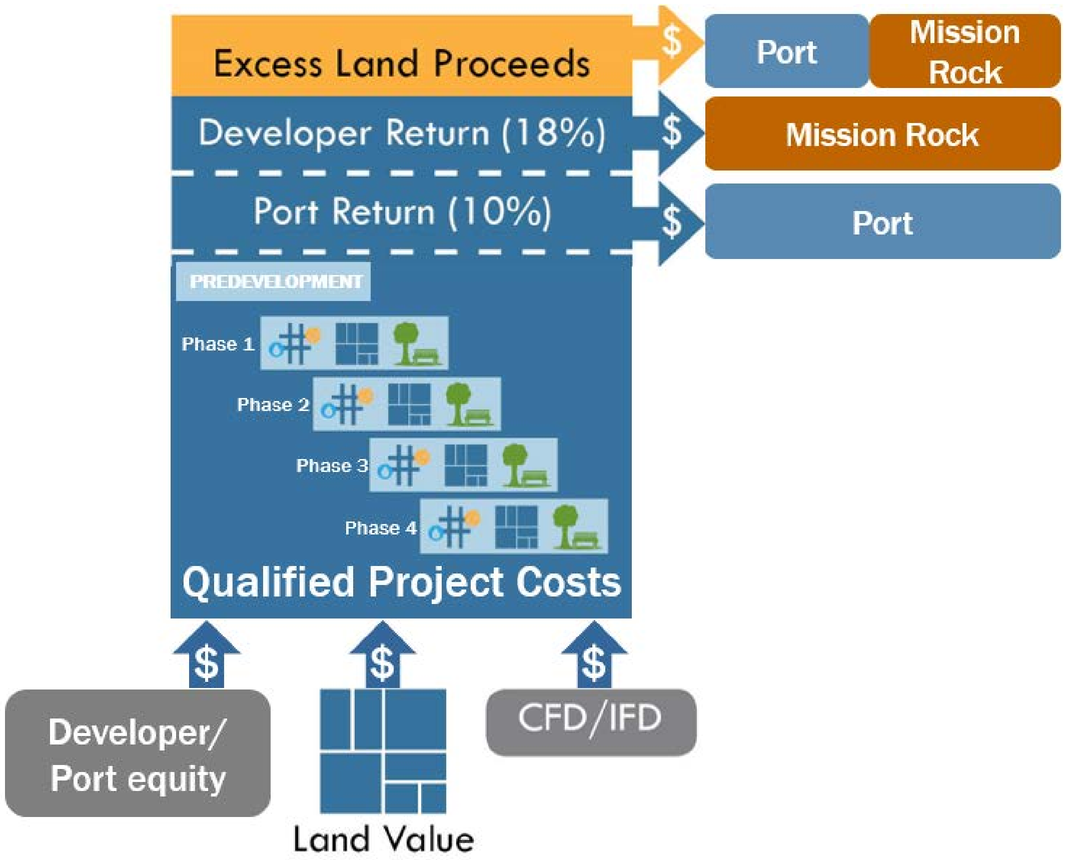
- Housing (2 buildings)
  - 537 units total, 199 affordable
- Commercial Office (2 buildings)
  - 550,000 gross square feet
- Ground Floor Retail
  - 65,000 square feet
- China Basin Park (5.5 Acres)

Latest Updates:

- Horizontal: Phase 1 ~25% complete
- Vertical: Parcels A and G under construction



Project Funding Structure



Strategies to limit Developer Capital and Return:

- Use CFD/IFD sources when possible
- Maximize public financing
- Use tax-exempt debt
- Use Port Capital

Overview of Phase 1 Sources and Uses

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

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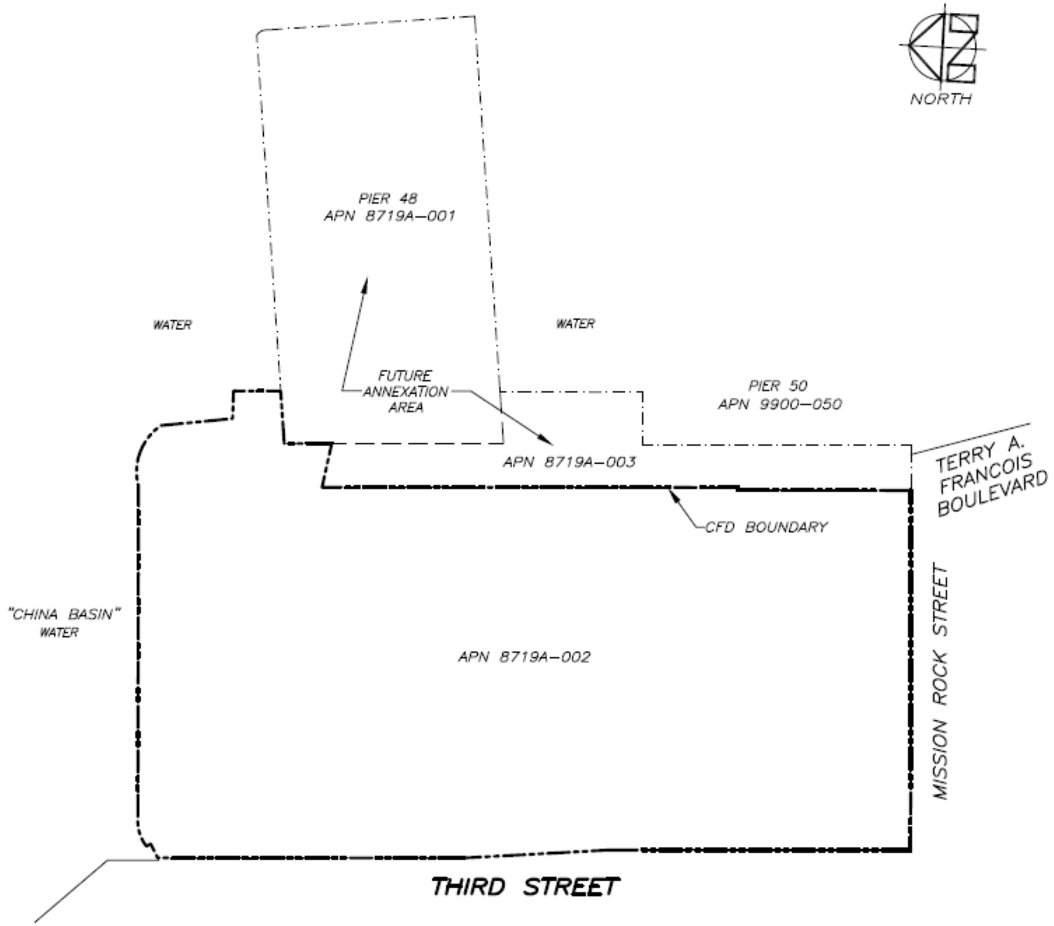
Public Financing Actions to Date

- **February 2018**: Infrastructure Financing District Project Area I
- **September 2019**: Amendments to the City's Special Tax Law to align to Pier 70 and Mission Rock projects
- **May 2020**: Formation of Community Facilities District
- **December 2020:** Approval of First CFD Bond Issuance



CFD Taxes and Uses

Development Tax
- Funds infrastructure and parks
- 40 years bonding authority

Office Tax
- Funds infrastructure and parks
- More flexible than development tax
- Exists for 120 years

Shoreline Tax
- Funds shoreline protection studies and facilities
- Exists for 120 years

Services Tax
- Funds ongoing operations and maintenance for site
- Exists in perpetuity

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Bond Issuance Parameters

- Amount of bonds sold limited by two factors:
  1. Appraised value of the CFD
     - The City has a policy of only issuing CFD debt with a 3:1 value-to-lien ratio
     - Prior appraisal valuation of $130 million, resulting in $43.3 million in bonds
  2. Ongoing Tax Revenues
     - Requires 110% debt service coverage
     - Expect far in excess of this in ongoing revenues from Phase I
     - Additional taxes will fund future bond issuances

Opportunity for a Second Issuance

- Since date of prior appraisal (October 2020) there have been significant investments in both horizontal and vertical improvements at the site, increasing the appraised value of the land securing the CFD
- Final appraisal has a valuation of $324.9 million, which results in a maximum of $108.2 million in land-based Phase 1 bonds.
  - Presents opportunity for a second issuance of up to ~$64.9 Million
- An additional $64.9 million in special tax bond proceeds would have significant benefits to the project's economics
  - Note however, that delays in permitting and first bond issuance have had significant detrimental impacts to Phase 1

Estimated Financing Terms

- Final Maturity of September 1, 2051
- Estimated True Interest Cost: 4.17%
- Estimated Bond Proceeds: $64.8M
- Estimated Cost of Issuance: $1.5M
- Average Annual Debt Service: 3.97M
- Estimated Total Debt Service: $119.42M

Source: PFM

Bond Sources and Uses

- Sale of bonds in amount of $64.9M results in potential total sources of $64.8M with premium

- Sources and uses shown in table to right; proceeds used to repay eligible Phase I Infrastructure Improvements

Sources	Amount
Bond Proceeds	
Par Amount	$ 64,900,000
Premium	$ (70,986)
Total Sources	**$ 64,829,013**

Uses	Amount
Improvement Fund	$ 58,348,064
Debt Service Reserve Fund	$ 5,005,948
Delivery Date Expenses:	
Cost of Issuance	$826,000
Underwriter's Discount	$649,000
Total Uses	**$ 64,829,013**

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Bond Overview & Risks

- The proposed Bonds will be sold without a rating ("Non-Rated"). The transaction is for new real estate development still underway and would not receive an investment grade rating.

  Non-Rated special tax bonds have unique credit considerations and risk factors for investors which are discussed in the Official Statement, including:

  - Until fully built-out, all land-secured special tax bonds bear some degree of development risk. In challenging real estate markets, projects may not reach lease-up or sales targets which could lead to inability or refusal to pay special taxes by developers when due.
  - The Bonds are secured by only 1 taxpayer and its affiliates at this time. Staff has attempted to mitigate this concentration of ownership risk by limiting sales of the Bonds to qualified institutional buyers (which are sophisticated investors who can bear the risk of loss associated with defaults on non-rated securities).

- The Bonds are limited obligations of the City, secured by and payable solely from a pledge of the special taxes levied in in the Mission Rock CFD and tax increment generated in IFD Project Area I.

- While the General Fund of the City is not liable for the payment of principal or interest on the Bonds, and the credit of the City is not pledged to the payment of the Bonds, they still carry the "City and County of San Francisco" issuer name and market recognition and thus carry reputational risk for the City.

- The City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that, under certain circumstances, the City will commence judicial foreclosure proceedings with respect to delinquent special taxes on property within the CFD and will diligently pursue such proceedings to completion.

The Preliminary Official Statement

- Board members are deemed to have a 'gatekeeping' responsibilities under federal securities laws to ensure that staff is aware of information that board members may have unique in their capacity as board members that would have a material bearing of the capacity of the CFD to repay the bonds. Board members cannot approve a POS if they are aware that it contains material misstatements or material omissions.
- In connection with the Bonds, Staff has prepared a preliminary official statement ("POS") for prospective investors. The POS describes:
    1. The terms of the Bonds
    2. Sources of repayment and the security for the Bonds (i.e., CFD special taxes; foreclosure covenant)
    3. Information about the CFD and its operations and financial ability of the CFD to make timely payments of principal of and interest on the Bonds.
    4. Risk Factors related to investment in CFD bonds
- Prior to the distribution of the POS (and final Official statement with pricing information), the POS will have been thoroughly and critically reviewed by Port and City and staff (in consultation with the City/[Port's] professional advisors, including Disclosure Counsel) to provide the most current material financial and other material information available.

QUESTIONS?