

MEMORANDUM

December 9, 2015

TO: MEMBERS, Capital Planning Committee

FROM: Elaine Forbes, Deputy Director of Finance and Administration
Brad Benson, Director of Special Projects

SUBJECT: Request approval of an Infrastructure Financing Plan for the Pier 70 Historic Core (Subarea G-1) and approval to issues bonds in an amount not to exceed \$25.1 million

Executive Summary

On October 19, 2015, Port staff provided the Capital Planning Committee with an information presentation on a proposed Infrastructure Financing District (IFD) at Pier 70 that would include six historic buildings along 20th Street leased to Historic Pier 70, LLC (an affiliate of Orton Development, Inc.) If approved, the IFD would receive property taxes for 45 years to finance public infrastructure and public realm improvements necessary for reuse of the historic buildings and activation of the area.

Port staff requests review and approval of the Infrastructure Financing Plan (IFP) for the Pier 70 Historic Core IFD. The IFP describes the financing framework and limitations, gives a projection of tax revenue the IFD will receive, and describes the public infrastructure and public realm improvements the IFD will support. Appendix G-1 (see Attachment 3) provides more detailed projections and project descriptions. Port staff also requests approval to issue bonds in an amount not to exceed \$25.1 million. While bonds will not be issued until FY 2021-2022, bond counsel recommends approval now for the validation process. The bond sale will be subject to future approvals.

This IFP adheres to the *Guidelines for the Establishment and Use of an Infrastructure Financing District with Project Areas on Land Under the Jurisdiction of the San Francisco Port Commission* which the Board of Supervisors adopted on April 23, 2013, following Capital Planning Committee recommendation in November of 2012. Threshold Criteria 5 states “the Port must demonstrate the net fiscal impact of the proposed project area on the City’s General Fund and show that the project area will result in a net economic benefit to the City, including the Port.” Attachment 4 is a fiscal and economic impact analysis which Keyser Marston Associates prepared. This analysis evaluates the anticipated performance of the Orton Development to derive the fiscal benefit to the General Fund in a lower and higher revenue scenario.

Port Infrastructure Financing Districts

Port IFD Law operates in much the same way as former redevelopment law: when approved by the Board of Supervisors, the Port may form an infrastructure financing district and establish a base year, after which the Port may capture growth in property or possessory interest¹ taxes (“Tax Increment”), either annually (“pay-go”) or through the issuance of bonds, to fund facilities of “communitywide significance” as part of an approved Infrastructure Financing Plan.

The Port’s 10-Year Capital Plan has included projected proceeds from a Port IFD to fund major capital improvements since 2007. Subject to Board of Supervisors approval, the proposed Pier 70 - Historic Core IFP will be the first time the Port implements the Port IFD Law and realizes funding to address Port capital needs.

Within the Port IFD, the Port establishes “project areas” encompassing each project site, but only when the Board approves the related development. Port IFD Law generally allows the capture of property or possessory interest taxes for periods of up to 45 years; establishing different project areas allows the Port to set different 45 year “clocks” for each project area, thus maximizing capture of Tax Increment.

Port IFD law allows the following uses of Tax Increment:

- Repairs and upgrades to piers, docks and wharves and the Port’s seawall
- Installation of piles, both to support piers and to support buildings where soil is subject to liquefaction
- Parks and shoreline improvements, where the Port has been unable to secure General Obligation bond funding to fund new parks
- Utility infrastructure, including utility requirements to comply with standards imposed by the Regional Water Quality Control Board and/or the Bay Area Air Quality Management District
- Streets and sidewalks
- Seismic upgrades and improvements to the City’s seawall and other measures to address sea level rise
- Environmental remediation
- Historic rehabilitation
- Improvements to Port maritime facilities

Legislative Process

On October 6, 2015, Mayor Edwin M. Lee and Supervisor Malia Cohen sponsored two proposed resolutions to initiate the process to form the Pier 70 - Historic Core IFD which are now approved. These resolutions included:

1. A resolution Further Amending Resolution of Intention to Establish Infrastructure Financing District No. 2 for the City and County of San Francisco at the Port of San Francisco (File No. 151006).

¹ Possessory interest taxes are property tax levied against leasehold interests. Port tenants are responsible for paying possessory interest taxes to the City.

2. Resolution of Intention to Issue Bonds in an Amount Not to Exceed \$25,100,000 for City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) (File No. 151007).

These resolutions provide the public with notice of the City’s intent to form a Port IFD at Pier 70 and to issue bonds repaid by Tax Increment and direct City staff to prepare the Pier 70 - Historic Core IFP, which includes a detailed expenditure plan for available Tax Increment. The Board of Supervisors unanimously approved both resolutions.

Port staff with the City Attorney, the Controller and the Tax Collector has finalized following legislation, which will approve the formation of the Pier 70 - Historic Core IFP:

- Ordinance Forming the Infrastructure Financing District and Adopting the Infrastructure Financing Plan
- Resolution Authorizing the Issuance of Bonds
- Resolution Approving the Memorandum of Understanding between the Port, Controller and Tax Collector

The first two are before the Capital Planning Committee for review and approval. The MOU is not subject to Capital Planning Committee review because this is an agreement between the Port Commission, the Controller and the Tax Collector.

Pier 70 - Historic Core IFP

The IFP for the Pier 70 - Historic Core that describes the sources and uses of funding for the project. The funding plan for the Pier 70 - Historic Core IFP is shown in Table 1 below. The proposed IFP anticipates that Orton will initially fund public right-of-way improvements and the Port will fund replacement of electrical infrastructure (including removal of PCB transformers) in Building 102, and that Port will be, and Orton may be, repaid by the proposed Pier 70 - Historic Core IFD. The remaining Tax Increment will fund a portion of Crane Cove Park Phase 2.

| Table 1: Pier 70 - Historic Core IFP Funding Plan | | |
|--|--------------------------------|-----------------------------------|
| Anticipated Uses | Est. Cost, 2015 Dollars | Target Completion Schedule |
| Crane Cove Park - Phase 2 | \$13,899,000 | Based on funding availability |
| Bldg. 102 electrical relocation/ improvements | 3,090,000 | FY 2016/17 |
| Street, sidewalk, traffic signal improvements | <u>1,271,000</u> | FY 2016/17 – FY 2017/18 |
| Total | \$18,260,000 | |

The Pier 70 - Historic Core sub-project area will generate approximately \$720,000 annually in Tax Increment to the IFD at stabilization in FY 2019-20, which will increase overtime. The project is scheduled to be fully built-out and attain financial stabilization in 2021. At this point, the Port anticipates issuing bonds supported by the Tax Increment. Current estimates indicate the increment supports net bond proceeds of approximately \$6.6 million (in 2015 dollars).

The form of bonds issued to support the IFP will be a later decision for the Board of Supervisors, based on recommendations from the Controller’s Office of Public Finance and the Port Commission. The Port IFD Law permits issuance of IFD bonds, but these bonds have not yet been issued in the State of California. Lease No. L-15814 between the Port of San Francisco and Orton anticipates the possible use of Community Facilities District (“CFD”) bonds under the Mello-Roos Act, which may be part of a broader Pier 70 strategy.

| Table 2: Pier 70 - Historic Core IFP Sources and Uses | |
|--|---------------------|
| Sources / Uses | 2015 Dollars |
| Port, developer advance, net of bonds | \$1,762,363 |
| Bond proceeds | 6,558,879 |
| Allocated Tax Increment, portion | <u>15,090,670</u> |
| Total Sources | \$23,411,912 |
| | |
| Projects funded by debt* | \$8,321,242 |
| Projects funded by pay-go* | 9,938,434 |
| Interest expense | <u>5,152,236</u> |
| | |
| Total Uses | \$23,411,912 |

**Projects funded by debt and pay-go equal \$18.26 million consistent with Table 1*

Resolution Authorizing Issuance of Bonds

The Resolution approving the issuance of bonds would authorize bonds in an amount not to exceed \$25.1 million and approve the form of Indenture and Pledge Agreement in substantial form. The Resolution further directs the judicial validation action with respect to the IFD. While bonds will not be issued until FY 2021-22, bond counsel recommends approval of the resolution authorizing issuance of the bonds now for the validation process. The maximum principal bond amount of \$25.1 million reflects the

total bonding capacity of the IFD assuming robust growth assumptions (30% higher than the projections in the IFP), more than one bond issuance, and interest rates which are lower than current rates.

Recommendation and Next Steps

Port staff recommends approval of IFP for Pier 70 Historic Core and the Resolution authorizing the issuance of bonds in an amount not to exceed \$25.1 million. Following this approval, the Board of Supervisors will consider the following legislation:

- Ordinance Forming the Infrastructure Financing District and Adopting the Infrastructure Financing Plan
- Resolution Authorizing the Issuance of Bonds
- Resolution Approving the Memorandum of Understanding (MOU) between the Port, Controller and Tax Collector

If the Board of Supervisors approves the legislation described above, Port staff will return to the Capital Planning Committee at a later date regarding the formation of any CFD over the Pier 70 Historic Core and for any proposed issuance of bonds pursuant to the IFP.

Attachments:

Attachment 1: Ordinance establishing an Infrastructure Financing District and adopting an Infrastructure Financing Plan for Infrastructure Financing District No. 2 (Pier 70 – Historic Core)

Attachment 2: Infrastructure Financing Plan for IFD No. 2

Attachment 3: Appendix G-1 (details on the IFP for the Pier 70 – Historic Core)

Attachment 4: Fiscal and Economic Impact Analysis

Attachment 5: Resolution authorizing the issuance of bonds in an amount not to exceed \$25.1 million