MEMORANDUM

May 9, 2014

TO: MEMBERS, PORT COMMISSION
Hon. Leslie Katz, President
Hon. Willie Adams, Vice President
Hon. Kimberly Brandon
Hon. Mel Murphy
Hon. Doreen Woo Ho

FROM: Monique Moyer
Executive Director

SUBJECT: Request approval of the Second Amendment to Exclusive Negotiation Agreement with Orton Development, Inc., a California corporation, to extend the term of the ENA until December 31, 2014, in connection with the rehabilitation and redevelopment of the six 20th Street Historic Buildings (located on or near 20th and Illinois Streets at Pier 70). (Resolution No. 14-32)

Request Adoption of California Environmental Quality Act Findings and a Mitigation Monitoring and Reporting Program and Approval of the (1) Lease Disposition and Development Agreement, and (2) Lease No. L-15814 for a term of 66 years, both with Orton Development, Inc. or its affiliate, Historic Pier 70, LLC, a California limited liability company, and (3) Schematic Drawings, all in connection with the lease, rehabilitation and redevelopment of the six 20th Street Historic Buildings (located on or near 20th and Illinois Streets at Pier 70). (Resolution No. 14-33)

DIRECTOR'S RECOMMENDATION: Approve the Attached Resolutions

EXECUTIVE SUMMARY

This Memorandum covers the above items, which will be presented together at the May 13, 2014 Port Commission hearing. The Port Commission is requested to **(1)** adopt findings under the California Environmental Quality Act (“**CEQA**”) and to adopt the Mitigation Monitoring and Reporting Program, and **(2)** approve Lease Disposition and

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Development Agreement, Lease No. 15814, other transaction documents contemplated in such agreements (collectively, "**Transaction Documents**"), and the Schematic Drawings in connection with the lease of the six 20th Street Historic Buildings and the historic rehabilitation and redevelopment of same ("**Project**") by Orton Development, Inc. or its affiliate, Historic Pier 70, LLC, a California limited liability company ("**Developer**").

An Informational Presentation on the proposed project was provided during the Port Commission's last meeting on April 22, 2014 and accompanied by a Memorandum dated April 19, 2014. <u>Material updates to the April 19, 2014 Memorandum are presented herein as underlined text</u>.

The Project will return these cherished historic buildings to vibrancy. On October 9, 2012, the Port Commission endorsed the Term Sheet establishing the conceptual agreement between the parties of the terms of a transaction to realize the Project[1]. Subsequently on December 4, 2012, the Board of Supervisors also endorsed the term sheet and conceptual Project plans.

The Project includes an aggregate of approximately 267,000 square feet spread throughout 6 existing buildings. The Project will add up to approximately 70,000 square feet of new space, primarily in the build out of new mezzanines. Once rehabilitated, these historic office and industrial buildings will be used for a range of businesses including light industrial, technology, life science, office, artisan/artist studios and showrooms, and restaurant uses. The Project will also create an indoor lobby/atrium in Building 113, and an outdoor plaza/venue, both of which would be made accessible to the public.

The Project's many public benefits include the re-use of the Site to support rehabilitation of Pier 70's unique and important historic resources. This has been a fundamental goal around which the Port has been able to build community consensus for the land use changes and development necessary to finance historic rehabilitation, public open space, infrastructure and other amenities. Developer has committed to rehabilitate the 20th Street Historic Buildings in accordance with the Secretary of the Interior's Standards for the Treatment of Historic Properties and adaptively reuse the buildings for office and light industrial uses. Additionally, Developer will provide access into and around these buildings for the public to experience the historic district.

BACKGROUND

Pier 70 History

The Pier 70 area is one of the most important intact maritime industrial complexes west of the Mississippi. It is the oldest continuously operating shipyard on the west coast. For over 150 years, some portion of the Pier 70 site has been in use for shipbuilding

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[1] Background on Term Sheet as well as the land use planning, competitive solicitation, and ENA authorization prior to the Term Sheet with Developer, as discussed in Item 9C on the October 9, 2012 agenda: http://www.sfport.com/index.aspx?page=2132

and repair, steel production, and supporting heavy industrial uses. With the arrival of the Union Iron Works ("**UIW**") in the 1880s, the site became a major national and international shipbuilding center, launching, for example, the first steel-hulled ship built on the Pacific Rim. The shipyard at Pier 70, later acquired by the Bethlehem Steel Corporation, built both merchant ships and warships, and was a major supplier for the United States Navy during the Spanish-American War and both world wars. Its development was a key step in the spread of industrialization to the Pacific Coast. Ships built at Pier 70 served the United States military from the Spanish-American War in the late-1800s through the two World Wars and into the 1970s. Previous uses include: Main Office/Administration Building, Power House, UIW Headquarters, UIW Machine Shop, foundry, new foundry and mold room, and warehouse. In the 1980s, Bethlehem Steel sold the shipyard to the Port of San Francisco for one dollar. Since 2004, the Project Site has been largely vacant with the exception of a few minor interim uses.

Pier 70 Planning

In April 2010, the Port published its Preferred Master Plan ("**Master Plan**") for the approximately 65-acre Pier 70 area after an extensive community planning and technical feasibility analysis effort. The Pier 70 Master Plan provides a vision balancing sustained ship repair, historic preservation, new waterfront parks, and new development. On May 11, 2010, the Port Commission authorized two efforts to attract development partners for Pier 70 (Resolution 10-27).[2]

As described in more detail below, Developer's Project adheres to the Master Plan vision by rehabilitating six historic structures, preserving the important industrial and maritime contributions of this site and honoring the skilled labor that helped build a city and nation. The Project will support 650 construction jobs and 400 to 600 permanent, on-site jobs while creating new public access showcasing the Port's rich maritime history in a renovated and rejuvenated industrial environment.

Historic District and Plan Implementation

The Port's effort to create a historic district at Pier 70 is in part intended to assist its development partners, including Developer, by availing access to the Federal Rehabilitation Tax Credit Program to provide an important financing tool for rehabilitation of Pier 70's historic buildings. This builds on the Port's successes in the northern waterfront with the creation of the Embarcadero Historic District and rehabilitation of a number of historic pier facilities, including the Ferry Building, Pier 1, Piers 1½, 3 & 5 and the Exploratorium at Pier 15. The Union Iron Works Historic District (which includes all of the Project Site) has been officially listed in the National Register of Historic Places in April of this year.

Developer Solicitation Process

In this context, on October 4, 2011, the Port issued a RFP for the 20th Street Historic Buildings to ten pre-selected parties. Four parties responded to the RFP as presented to the Port Commission on January 20, 2012[3]. On February 28, 2012, the Port

2 Item 10B on this agenda: http://www.sfport.com/index.aspx?page=1412
3 Item 9B on this agenda: http://www.sfport.com/index.aspx?page=1983

Commission awarded the opportunity to Developer [4] and directed staff to negotiate an Exclusive Negotiating Agreement ("**ENA**") for the Project. On April 24, 2012, the Port Commission approved the ENA terms[5].

These buildings are in poor condition at the present with two red-tagged and none currently leased. Given the conditions of these buildings the RFP did not set a minimum rent or any other minimum financial requirements. In fact, it acknowledged the urgency and import of saving these buildings and that public funding sources could be required for this effort.

On July 10, 2012, Developer presented its project concept to the Port Commission[6] and received supportive feedback on its approach to this site. The uses proposed – light industrial, education, recreation, office, and commercial – are, with the addition of potential education and recreation components, the same as the proposal that the Port Commission considered when selecting Developer.

PROJECT DESCRIPTION

The purpose of this Project is to rehabilitate the 20th street Historic Buildings, identified as the Historic Core in Exhibit A attached to this Memorandum (the "**Project Site**") and make them once again a vibrant, integral part of the surrounding community. Developer will return the buildings to profitable use while maintaining their historic fabric. The proposed work includes repair and maintenance, seismic and structural upgrades, security measures to combat an atmosphere of neglect and criminal opportunity, and abatement of hazardous environmental conditions.

The Project Site is located along northern and southern portions of 20th Street between Illinois Street in San Francisco's Central Waterfront. The Project Site spans several parcels and currently contains eight buildings and four small associated structures. These twelve buildings on the Project Site range in size from approximately 535 square feet to 93,330 sq. ft.

The previous uses, current uses and occupancy of the 6 buildings included in the Project vary. The current uses and building sizes include the following, but generally include approximately 267,000 gross square feet (GSF) of vacant PDR space.

Table 1 - North of 20th Street

Location	Year Built	Existing Use	Existing Sq. Ft.	Proposed Use	Proposed Sq. Ft.
Building 101- Bethlehem Steel Office Building	1917	Vacant– formerly office use and one	475 (residential) and 56,925 (office) =	New residential unit New office	58,300 sq. ft. total

4 Item 10 C on this agenda: http://www.sfport.com/index.aspx?page=2003
5 Item 9B on this agenda: http://www.sfport.com/index.aspx?page=2063
6 Item 9B on this agenda: http://www.sfport.com/index.aspx?page=2088

		residential unit	57,400 sq. ft. total	use	
Building 102 – Power House	1912	PDR[1]	11,265 sq. ft.	New restaurant or New other commercial	16,405 sq. ft.
Building 104 – UIW Headquarters	1896	Vacant– formerly PDR use	43,000 sq. ft.	New medical and office	44,590 sq. ft.
TOTAL			111,665 sq. ft.		119,295 sq. ft.

South of 20th Street

Location	Year Built	Existing Use	Existing Sq. Ft.	Proposed Use	Proposed Sq. Ft.
Building 14	1941	Storage – formerly warehouse	16,315 sq. ft.	PDR/"New American Workplace"[2]	22,780 sq. ft.
Building 113/114- Union Iron Works Machine Shop	1885/ 1886	Vacant, formerly PDR use	93,300 sq. ft.	PDR/"New American Workplace"	126,580 sq. ft.
Building 115/116	1916/ 1917	Storage – formerly warehouse	37,550 sq. ft.	PDR/"New American Workplace"	48,815 sq. ft.
Plaza	N/A	Courtyard	45,000 sq. ft.	Publically accessible open space, loading	45,000 sq. ft.
TOTAL			192,165 sq. ft.		243,175 sq. ft.

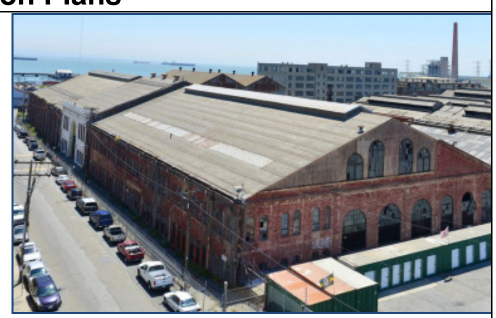
Notes:

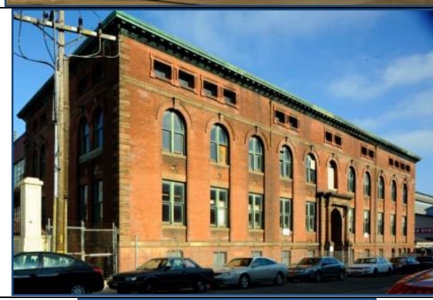
1. PDR (**Production, Distribution and Repair):** Refers to a very wide variety of activities which have traditionally occurred in industrially zoned areas.
2. PDR/"New American Workplace": Expands on PDR to include additional industrial uses such as food, technology, life science, biotech, education and arts production centers, similar to the high quality "maker" type businesses currently existing in the adjacent Dogpatch neighborhood, with ancillary office, showroom, and retail. Such flexible hybrid-use space consolidates all business activities (design, prototyping, manufacturing, wholesaling, office, and sales/retail) under one roof.

In general, the proposed Project will rehabilitate the 20th Street Historic Buildings to satisfy seismic, structural, and code requirements, implement security measures to combat an atmosphere of neglect and criminal opportunity, and abate hazardous environmental conditions. The Project will meet the Secretary of the Interior Standards for Treatment of Historic Buildings (the "**Secretary's Standards**") and other codes, and all other applicable requirements. The proposed Project could add up to approximately 70,000 GSF of new space, primarily in interior mezzanines for a total of 318,780 GSF onsite.

Once rehabilitated, these historic office and industrial buildings will be subleased to a range of businesses, including light industrial, technology, life science, office, artisan/ artist studios and showrooms, and restaurant uses (see table 2 below). Developer has aggressively marketed the Project to a diverse group of prospective tenants. In addition, Developer has had continued discussions with manufacturers including members of SF Made, with a goal of incorporating variously sized, local manufacturing uses on portions of the site.

The proposed Project will also create an indoor lobby/atrium in Building 113, and an outdoor plaza/venue ("**Plaza**"), both of which will be made accessible to the public. The Plaza will be a multi-use space available for public plaza uses, loading, tenant yard uses (including loading docks, cooling towers and other outdoor equipment) and special events. Finally, the proposed Project will demolish approximately 1,500 GSF of existing structures, including two small structures known as Buildings 23 and 24 appended to the eastern side of Building 113.

Table 2 – Building Rehabilitation Plans	
Building 113/114 The Union Iron Works Machine Shop consists of two masonry buildings built from 1885-1888, later joined by a concrete connecter in 1914. The brick sections of Building 113 will be split into two wings and be used as light industrial/flex space with ancillary office, showroom, and retail uses, while the historic foundry (Building 114) will remain a separate space for light manufacturing with ancillary office and retail. The center connector building will become a publically accessible lobby and walkway to an exterior Plaza.	
Buildings 115/116 The Union Iron Works Foundry & Warehouse was constructed in 1916/1917 and comprises a three-bay reinforced concrete structure. The spaces will return to industrial use as light manufacturing with ancillary retail and office.	

Building 101 Building 101, the 61,311 square foot former Bethlehem Steel Office building, will return to office use on the top four floors. The historic commissary on the park level floor is expected to return to industrial food production use or ancillary office uses.	
Building 102 Building 102, the 11,266 square foot former Compressor House, currently houses BAE Ship Repair's electrical distribution. The Port has the responsibility to remove the electrical facilities, following that Developer will redevelop the building as a restaurant.	
Building 104 The 45,237 square foot former Union Ironworks office building was built in 1896 and will return to single tenant office or medical office use.	
Building 14 Building 14 is a 16,315 square foot double-gable metal warehouse constructed in 1944. The space will return to industrial use as a warehouse with ancillary office space.	

CEQA

California Environmental Quality Act ("**CEQA**") Guidelines Section 15183 provides an exemption from environmental review for projects that are consistent with the development density established by existing zoning, community plan or general plan policies for which an environmental impact report ("**EIR**") was certified, except as might be necessary to examine whether there are project-specific effects which are peculiar to the proposed project or its site. Section 15183 specifies that examination of such a project's environmental effects shall be limited to those effects that: a) are peculiar to the project or parcel on which the project would be located; b) were not analyzed as significant effects in a prior EIR on the zoning action, general plan or community plan with which the project is consistent; c) are potentially significant off-site and cumulative impacts which were not discussed in the underlying EIR; or d) are previously identified in the EIR, but which are determined to have a more severe adverse impact than that discussed in the underlying EIR. Section 15183(c) specifies that if an impact is not peculiar to the parcel or to the proposed project, then an EIR need not be prepared for the project solely on the basis of that impact.

The proposed Project is within the Eastern Neighborhoods Community Plan Area, for which the San Francisco Planning Commission certified the *Eastern Neighborhoods*

Rezoning and Area Plans Final EIR ("**EN FEIR**") (Planning Department Case No. 2004.0160E and State Clearinghouse No. 2005032048). Thus, the Planning Department reviewed the proposed Project to determine if a community plan exemption under CEQA Guidelines Section 15183 would be appropriate and determined that the EN FEIR incorporated and adequately addressed all potential impacts of the proposed Project. The Planning Department determined that the proposed Project would not have any additional or significant adverse effects that were not examined in the EN FEIR, nor has any new or additional information come to light that will alter the conclusions of the EN FEIR. Thus, the proposed Project will not have any new effects on the environment that were not previously identified, nor will any environmental impacts be substantially greater than described in the EN FEIR. No mitigation measures previously found infeasible have been determined to be feasible, nor have any new mitigation measures or alternatives been identified but rejected by Developer. Therefore the Project is exempt from further environmental review under CEQA.

Thus, the San Francisco Planning Department prepared a Community Plan Exemption ("**CPE**") for the proposed Project, which was approved on May 7, 2014. A copy of the approved CPE is on file with the Port Commission Secretary and is also available online at http://sfmea.sfplanning.org/2013.1168E_CPE.pdf. All applicable mitigation measures from the EN FEIR have been incorporated into the proposed Project or will be required as conditions of approval through the Port Commission's adoption of the Mitigation Monitoring and Reporting Program ("**MMRP**") attached as part of Exhibit B.

MITIGATION MONITORING AND REPORTING PROGRAM (MMRP)

The CPE identifies certain mitigation measures identified in the FEIR to avoid potential significant negative effects. The Port will be responsible for implementing and in certain instances monitoring the following measures which are fully described in the MMRP attached as Exhibit B to this Memorandum:

- Traffic Signal Installation
- Interior Noise Levels
- Siting of Noise-Generating Uses
- Hazardous Building Materials
- Develop Additional Pedestrian and Roadway Treatments
- Designate Safe, Accessible, and Convenient Bicycle Parking
- Designate Loading Dock Manager
- Require Traffic Controllers/Flaggers for Larger Deliveries
- Limit Peak Hour Truck Movements
- Develop Construction Management Plan
- Adopt Transportation Management Plan

PUBLIC TRUST ANALYSIS

In 2011, California's Legislature passed Assembly Bill 418, introduced by Assembly member Tom Ammiano and signed into law by Governor Brown. This bill authorized several changes at Pier 70 including allowing non-trust uses of historic buildings if necessary to finance rehabilitation of the buildings consistent with the Secretary Standards. This authorization was subject to findings from the State Lands Commission ("**State Lands**") Executive Officer that the reuse and rehabilitation included ample public access to these buildings and a finding that rehabilitation of the building is not economically feasible solely based on trust uses.

All the historic buildings related to the Project are used for Port storage needs or are currently vacant, shuttered and not suitable for occupancy in their current state. Some of the historic buildings are in such disrepair that immediate seismic and structural reinforcement are needed. The Port sought a third party analysis regarding the feasibility of reuse based solely on trust uses. This analysis found that a reuse program reliant upon trust uses is not economically viable. These historic buildings are not built for nor are conducive to current maritime or public trust uses. Almost all maritime industrial uses in San Francisco Bay require close access to the waterfront (such as a berthing facility to load/unload materials/ equipment). There is limited demand for maritime tenants and those tenants have limited needs for these industrial shed/warehouse facilities due to condition and location. Historic buildings at Pier 70, particularly the Union Ironworks buildings, are much larger than will be needed by most maritime tenants.

Port staff has sought feedback regarding the proposed public access from State Lands staff. Based on their initial review of the Access Map, State Lands staff is comfortable with the level of public access allowing the public to experience the interior and exterior of the historic Buildings on 20th Street in conjunction with the Plaza including public access connecting Louisiana Street to the Plaza. State Lands staff supports this public access plan with requirements to:

- Include interpretive signage that help educate the public about the historic buildings and their contribution to the maritime history of Pier 70
- Include signage that alerts the public to the interior public access
- Expand the interior public access space, if feasible
- Additional lobbies built in the office buildings (Buildings 101 and 104), if any, should include glass walls or large windows to help expand access to views of the interior of the historic structures, based on tenanting and feasibility

<u>Based on third party analysis and feedback from State Lands staff, rehabilitation of the buildings consistent with the Secretary Standards is not feasible with only public trust uses. Additionally, State Lands staff has noted that the Project includes ample public access to these buildings.</u>

SUMMARY OF FINANCIAL/BUSINESS TERMS

The financial terms of Transaction Documents obligates Developer to rehabilitate and operate the Project buildings, including securing needed investment, in exchange for a 66-year lease and a $1.5 million capital contribution from the Port. Up to an additional $250,000 may be contributed from a State grant secured by the Port. Revenues from the Project will first fund operating costs, then debt service and, until Developer's equity is recovered, Developer will receive a 14% return (on a simple interest basis) on its investment. Developer and the Port will share equally in net cash flow on a 50/50 basis after Developer's equity and return and Port's $1.5 million and return are repaid. Regardless of the schedule of Developer equity repayment, an annual minimum rent of $240,000 will commence no later than 20 years after commencement of the Lease. This structure achieves the Port's long-envisioned goal of rehabilitating these buildings as soon as possible and provision of new workplaces for up to 600 jobs.

The Port Commission endorsed the Term Sheet with Developer in October 2012. A summary of key financial terms that remain primarily unchanged include:

- Developer will rehabilitate the buildings to meet the Secretary's Standards. Given the age and dilapidation of the structures, this involves extensive repair and replacement of building systems, structural upgrades, and life safety improvements. Developer is also providing public access in the Plaza and atrium of Building 113.
- The Port will redeploy the $1.5 million of capital funding budgeted in FY2011/12 for interim shoring of the Union Ironworks Machine Shop (Building 113) as a contribution to the full seismic retrofit for this structure. (A grant secured in 2013 increases the Port's contribution to $1.75 million.)
- Developer will invest up to $14 million of equity in the Project and secure Project debt and historic tax credit investors for the remaining funds.
- Net revenue from the Project after debt service will
    - first pay Developer a 14% return (on a simple interest basis)
    - then repay Developer's equity
    - then repay Port's equity and associated return
    - and finally be split equally with the Port ("**Participation Rent**").
- Port will participate in equal participation through equal sharing of any refinancing proceeds and in 10% participation in the net proceeds from a sale or assignment of the Lease.
- Port will receive anticipated annual minimum rent in Year 20 of $240,000, even if Developer has not yet recovered its equity investment.
- Parking for the Project will be provided as part of an area parking strategy on sites to be determined and the Port, not Developer, will receive parking income from off-premises parking.
- The Port is responsible for the costs of relocating the electrical systems now in Building 102 that serve the shipyard. Such costs are estimated at between $3 and $5 million depending on the relocation site and other engineering variables.

In the 18 months since endorsement of the Term sheet, staff and Developer have continued to negotiate transaction terms. A summary of financial terms that reflect new concepts developed or fill in areas unaddressed by the Term Sheet include:

- In February 2013, the ENA was amended to defer payment of Port's transaction costs in excess of $80,000 until Project revenues can support repayment on par with payments to Developer, which obligations are further refined in the Lease. Deferring Developer's reimbursement obligation reduces the Project front-end costs and lowers the required equity investment that would accrue at a 14% return.

- As a protection from unknown Project elements that could not have been discovered through reasonable due diligence, provisions have been included to remove buildings from the Project and/or defer the minimum rent if unforeseen conditions are discovered. Unforeseen conditions must meet a threshold of $1 million.
- Port is responsible for upgrades of adjacent streets and sidewalks ("**Public Realm**") to accommodate the Project. Port will use infrastructure financing district funds, if available, to fund this Public Realm work. Developer can undertake Port Public Realm construction efforts, as a mutual option, and be repaid first from a credit against deferred transaction costs and second over time from the Port's Participation Rent.
- Additional costs for tenant build-outs over and above "cold shell" will be funded: 1) through a side agreement between Developer and subtenant (thus reducing the sublease rent), or 2) amortized over the sublease term at Developer's cost of funds.
- <u>After repayment of Developer Equity, the Port will receive repayment of its $1.5 million contribution over 10 years in equal installments that includes a return on Port's capital equivalent to the Port revenue bond interest rate as of May 2014 (not to exceed 7%). Developer has the right to pre-pay outstanding Port Equity and return. Minimum rent will be delayed if Port Equity is outstanding.</u>
- If the Port Participation Rent exceeds the amounts forecast in the Port approved proforma and attached to the Lease, Developer receives an incentive payment of <u>20%</u> of the excess above these projections. This bonus only applies after Developer's equity is repaid and is only in effect after a <u>2 year construction period for 20 years of the Lease</u>.

PROJECTED SOURCES AND USE OF FUNDS

Based on further investigation and engineering analysis, Developer has refined the Project cost estimates and anticipates total Project cost of $74 million (an increase from the prior $58 million estimate). Hard construction costs have increased due to three factors:

1) addition of $1.8 M of costs for the Plaza and site work,
2) additional building repair complexity after further due diligence and analysis, and
3) rising construction costs in the market.

Even with the increased costs, Developer anticipates that the combination of strong revenues and pre-leasing of a significant portion of the Project will allow them to secure favorable debt terms, allowing the Project to remain feasible despite the higher costs.

Table 3 below shows the sources and uses of funds for the Developer Project. Notable additions consist of (i) participation in the City's Seismic Safety Loan Program, discussed below as a source, and (ii) the greater Port contribution of $1.75 million, reflecting State grant proceeds of $250,000. At this time, Developer is arranging its bank and other financing so the table combines debt and equity until debt terms are refined.

Table 3 - Sources and Uses

Sources	$ Millions
Port Capital Funds+$250,000 grant	1.75
Seismic Safety Loan	20.2
Historic Tax Credit Equity	14.9
Private Debt & Equity	37.8
Total Sources	$74.65
Uses	
Hard Costs	
Building 101	10.3
Building 102	2.5
Building 104	7.7
Building 113	20.0
Building 114	4.2
Building 115	2.4
Building 116	4.7
Building 14	2.3
Site/Plaza	1.9
Total Hard Costs	56.0
Soft Costs	11.5
Financing Costs	6.2
Deferred Port Transaction Costs	0.8
Total Uses	$74.5

Notes:
Source Developer cost estimate and pro-forma. Values continually being refined.
Port funds include a State Grant of $250,000
Construction costs do not include tenant specific improvements.

Seismic Safety Loan Program

In recognition of the economic benefits of lower cost financing, Developer is applying for a loan from the City's Unreinforced Masonry Building (URM) Seismic Safety Loan Program (SSLP), which is administered through the Mayor's Office of Housing and

Community Development ("**MOHCD**").

The interest rate on the Seismic Loan, currently assumed at 7.5% for pro forma purposes, is much lower than the 14% return on Developer equity specified in the Term Sheet. The Seismic Loan proceeds will be used to fund the majority of the seismic upgrade costs for Buildings 113/114 and 104, the former Union Ironworks Machine Shop and office building respectively. Those costs are currently estimated at $26 million.

The SSLP was established through a 1992 voter approved general obligation ("**G.O.**") bond measure to provide loans to private owners of unreinforced masonry buildings. To provide funds for borrowers, the City issues G.O. bonds. The loan is to be used for seismic strengthening costs plus a 25% allowance for disabled access/life safety improvements. Eligible soft costs include legal, title/escrow, permit fees, architecture/engineering, and environmental site investigations. Seismic Loans for non-residential buildings, including these Pier 70 buildings, fall under the program's Market Rate Loan program. The following are some of the key criteria for Market Rate Loan underwriting:

Table 4. Seismic Loan Market Rate Term Summary	
Loan Term	20 years fully amortizing
Interest Rate	City's cost of funds + 1%
Loan to Value	90% to 95% LTV
Debt Service Coverage Ratio	1.05x to 1.10x

Developer is requesting authorization for a total Seismic Loan up to approximately $26 million which is the maximum based on eligible development costs. However, Developer's pro forma currently assumes a Seismic Loan amount of approximately $20 million based on the loan to value and debt service coverage requirements of the program.

The Seismic Loan committee typically provides a conditional loan commitment subject to the borrower satisfying key Project milestones such as submitting the final appraisal, securing building permits for the construction work, having firm commitments from all sources of Project financing and obtaining signed leases from major building tenants. Final approval of the loan and the actual amount of the loan will therefore be determined subsequent to the loan committee's initial, conditional approval at such time as Developer has satisfied the loan conditions and construction is ready to begin. This is expected to occur in August 2014. Specifically, the Project still has several key milestones to achieve before the Project is ready to begin construction:

- An appraisal that supports the underwriting criteria specified for Seismic Loans;
- Financing commitments equal to or exceeding the total development cost of the Project;

- The construction loan and Seismic Loan have closed or will close simultaneously with close of escrow and delivery of the Lease;
- All required insurance is in place;
- Building permits are ready to be issued;
- A performance bond or completion guaranty is in place;
- A guaranteed maximum price construction contract is in place for the proposed rehabilitation of the Project;
- A minimum level of preleasing of the buildings has been secured.

The current estimated interest rate is 7.5% assuming a taxable G.O. bond issue at 6.5%. The use of this loan will result in payments to the City greater than the costs to re-pay the bonds, avoiding any impact on the General Fund. The loan will be secured by Developer's leasehold interest with the Port, but subordinate to any senior lender. The Seismic Loan will provide a critical portion of the Project's total funding requirement since this loan can provide construction financing for the seismic components, replacing costly developer equity.

Before MOHCD can enter into a loan agreement with Developer, and in advance of the City selling new G.O. bonds, the following actions will need to occur:

1) Seismic Loan committee review and consideration of the loan application to determine the application meets statutory underwriting requirements
2) Capital Planning Committee approval of the bond issuance
3) CEQA clearance of the Project
4) Port Commission and Board of Supervisors review and approval of the Lease
5) Board of Supervisors review and approval of the use of the SSLP and the required bond indebtedness
6) Developer meets all development agreement requirements and loan committee conditions, and enters into the Lease

INFRASTRUCTURE FINANCING DISTRICT

State law authorizes the establishment of a Port Infrastructure Financing District (IFD) to finance public improvement projects along the San Francisco waterfront. The Port IFD may finance the same types of improvement projects that are financed by non-Port IFDs (open space, parks, and street improvements), as well as projects specific to the Port, including removal of bay fill, storm water management facilities, shoreline restoration, and maritime facility improvements. Increased property tax revenues resulting from certain Port development projects (tax increment) may be redirected from the General Fund to the Port IFD in order to finance public improvements, subject to Board of Supervisors approval. In 2013, the Board of Supervisors approved a resolution of intention (1) to establish the Port IFD consisting of eight project areas; and (2) directing the Port Executive Director to prepare a financing plan, subject to Board of Supervisors' approval.

The Port intends to submit the IFD proposal for the proposed development of the 20th Street Historic Buildings to the Board of Supervisors for approval concurrent with the

LDDA and Lease in the coming months. To that end, Port staff, assisted by a team of consultants led by Keyser Marston Associates ("**KMA**"), is currently preparing an infrastructure financing plan (IFP), which will be the foundation of an IFD to be formed pursuant to State and local IFD legislation to fund a portion of public infrastructure improvements supporting the rehabilitation of the historic buildings at Pier 70 related to this lease. The IFP is expected to fund the following improvements with a combined estimated cost of approximately $5 million:

- Upgrade traffic signal at 20th and Illinois Street
- Temporary pedestrian access along Georgia, Michigan and Louisiana Streets
- Repair of sidewalk along 20th and Illinois Streets
- Street lighting and ADA access ramps on each of the streets above
- Shoring and repair of Building 105 (to allow safe access to 20th Street south sidewalk to Louisiana Street)
- Replacement of the electrical equipment serving the BAE shipyard (currently in Building 102).

The Project is expected to generate an estimated $450,000 annually in property taxes. Many of the improvements listed above need to be in place when the Project opens and before significant tax increment is generated. The Port and Developer may have to advance funds for these improvements and be repaid from IFD funds generated after the Project is opened.

TRANSACTION DOCUMENTS

Developer Entity Signing the Documents

The ENA contemplates that Developer may assign its rights under the ENA to an affiliate owned or controlled by Orton Development, Inc. or J.R. Orton, III. J.R. Orton, III is the President of Orton Development, Inc. Such assignment can take place without the Port's prior consent. Accordingly, the Transaction Documents may be entered into between Port and an affiliate of Orton. Orton is proposing that Historic Pier 70, LLC, an entity that is or will be newly formed by Orton, be the signatory to the Transaction Documents. Port staff will confirm prior to entering into any of the Transaction Documents with an entity other than Developer, that such entity is a Developer affiliate.

Legal Effect of the Documents

The Lease Disposition and Development Agreement will be signed by the Port following its approval by the Port Commission and following approval of the form of Lease No. 15814 ("**Lease**") by the Port Commission and Board of Supervisors. The LDDA will go into effect immediately upon execution by the Port and Developer, but the Lease will not go into effect until certain conditions are met. Once these conditions have been satisfied, the Lease will be executed and delivered to both parties through an escrow. Some of the conditions are discussed below.

The Lease will become effective immediately upon delivery to Developer and expire 66 years after the commencement date. The LDDA will expire upon completion of construction and recording of a Certificate of Completion. Until the recording of the Certificate of Completion, both the Lease and the Development Agreement will be in effect.

Lease Disposition and Development Agreement ("LDDA")

The purpose of the LDDA is to set forth the requirements for the rehabilitation and re-development of the Site, and the conditions for delivery of the Lease to the Developer. The Port will deliver the Lease to Developer if the conditions are satisfied. The LDDA provides Developer with the certainty it needs to invest further in the design, construction documents and approval process for the Project and to finalize the Project financing. The LDDA protects the Port because the Port is not obligated to deliver the Lease unless and until the conditions in the LDDA are satisfied or waived by Port. After Developer completes construction of the improvements described in the Scope of Development, the Port will issue a Certificate of Completion, which upon recordation will terminate the LDDA. Port Commission approval of the LDDA is required because it concerns a major development on Port property and sets forth requirements for delivering the Lease.

Development of the Site

Under the LDDA, Developer will have the following obligations for development of the Site:

1. Accept the Site in its "as is" condition, perform due diligence investigations, , comply with laws and regulations and obtain all regulatory approvals necessary to undertake the planned development;
2. Construct the improvements in conformance with the Scope of Development and Schematic Drawings and within the timeframes set forth in the Schedule of Performance. These documents will be attached as Exhibits to the LDDA. The improvements must comply with the Secretary's Standards;
3. Secure a Letter of Intent from a major bank for $35- $40 million construction finance loan secured by a personal guaranty from J.R. Orton, III, an individual, also known as Eddie Orton, the President of Orton Development, Inc., and subject to ongoing liquidity requirements of J.R. Orton, III;
4. Comply with the Mitigation Monitoring and Reporting Program;
5. Carry insurance and indemnify the Port;
6. Reimburse the Port for costs of staff time and legal fees incurred during the term of the LDDA and any outstanding costs incurred during the term of the ENA;
7. Furnish Port with "Record Documents" documenting all improvements after completion of the improvements;
8. If the LDDA terminates prior to close of escrow (for any reason other than a title defect, casualty or a termination caused by a Port event of default), Developer will be required to pay a termination fee of $200,000 to the Port;

.

Conditions to Close of Escrow

The following conditions, among others, must be satisfied in order for escrow to close, at which time the Lease and Site will be delivered to Developer:

1. The Port Commission shall have approved the Transaction Documents, and the

Board of Supervisors shall have approved the Lease;

2. The Port shall have approved the development budget and evidence of adequate financing for the Project, including evidence of Developer's ability to meet debt service obligation(s) and evidence of a commitment letter from a lender, if applicable. The Port also must have approved Developer's statement of sources and uses of funds, which must be sufficient to demonstrate that Developer has or will have funds equal to or exceeding the total development cost of the improvements and that such funds have been spent for uses described in the development budget or are committed and available for that purpose;
3. The Port shall have approved Developer's guaranteed maximum price contract for construction of the improvements;
4. The Port shall have approved the Schematic Drawings, materials and color samples and Final Construction Documents and is ready to issue a building permit;
5. Developer shall have submitted evidence satisfactory to Port that the improvements are consistent with the Secretary's Standards;
6. Developer shall have obtained all regulatory approvals required to commence construction of the improvements. <u>These approvals include a letter of determination from the Executive Officer of the State Lands Commission ("**State Lands**") that the restoration and preservation of any of the historic buildings within the Project where non-Public Trust uses are contemplated cannot be feasibly financed with available Public Trust uses, and that the non-Public Trust uses or Lease are part of an overall program that furthers Public Trust purposes</u>.-
7. Developer shall have deposited exaction fees that are required to be paid prior to close of escrow; and
8. J.R. Orton, III shall have provided a personal guaranty to the Port guaranteeing the completion of core and shell improvements for each of the buildings within the leased premises.

<u>**Phasing**</u>
<u>In lieu of Port leasing to Developer the entire historic core at close of escrow, Developer will initially lease buildings 113, 114, 115, and 116 (the "**Initial Site**"). The LDDA contemplates that the Initial Site will be expanded to include the other buildings within the historic core (each an "**Expansion Site**") within three years following Lease execution, with construction to follow soon thereafter. Developer may, however, remove one of the Expansion Sites if there is an unforeseen condition that would increase the cost by $1 million or more to develop that specific Expansion Site.</u>

Key Exhibits to the LDDA
<u>The following exhibits to the LDDA highlight key enforceable instruments that delineate Developer's obligations to Port.</u>

<u>Scope of Development</u>
The Scope of Development sets forth the improvements that are to be constructed on the Site by Developer.

Schedule of Performance
The Schedule of Performance sets forth the deadlines by which the parties are required to submit or approve documents prior to close of escrow and deadlines by which the parties are required to act during the construction phase of the Project. All deadlines are subject to force majeure.

Schematic Drawings
Schematic Drawings, consisting of site plans and elevations, will be attached to the LDDA. The full set of Schematic Drawings is on file with the Port Commission Secretary.

Development Budget
The Development Budget for the Project, showing a total development cost of $75 million.

Lease ("Lease")
The Lease between the Port and Developer will be delivered through an escrow when the conditions of the LDDA are satisfied. Port Commission approval of the Lease is required because it concerns a major development on Port property and has a term of 66 years. Developer will be referred to in this section as "Tenant."

The following business terms have been negotiated between Port Staff and Tenant:

Term
66 years.

Commencement Date
The Lease commences when the Project closes escrow.

Termination Date
66 years from the Commencement Date.

Premises
Initial Site: Buildings 113, 114, 115 and 116 and the adjacent Plaza.

Expansion Site: As provided in the LDDA, the Premises may be expanded from time to time to include additional land and buildings within the historic core

The "Premises" means collectively the Initial Site and any Expansion Sites that are added to the Premises in accordance with the LDDA.

Uses

Tenant will use the Premises for the following uses and for no other use without the prior written approval of Port, not to be unreasonably withheld, which Permitted Uses may include:

Building 101: general office use, cafeteria, showroom, PDR, arts and arts production, research, development, design, restaurant, or industrial kitchen, and residential use of an existing penthouse residential unit located on the top floor, and related ancillary uses only.

Building 104: general office or medical office use showroom, PDR, arts and arts production, research, development, design, and related ancillary uses.

Building 102: restaurant or commercial uses, food production, industrial kitchen use, showroom and related ancillary uses.

Buildings 113, 114, 115, 116 and 14: Design, production (which may include any non-office uses that integrate multimedia, information technology, or software development functions;), light manufacturing, research, recreation, education, life science, warehousing, manufacturing, industrial kitchen and food production, and arts-related activities and related ancillary uses, including ancillary office, showroom, and retail.

Atriums and Plazas: Public and private events, food service, loading, and retail. Retail and other ancillary uses would be allowed in ancillary structures or shipping containers subject to review of the Port staff. The Lease rules and guidelines would allow up to 100 major event days annually with up to 25 event days with complete closure of the Plaza and 15 events days resulting in complete closure of the Atrium. The Port would need to review and consent to any additional events proposed by the Tenant. A portion of the building edge of the Plaza (one third of the frontage) would be allowed for use by subtenant yard activities subject to Port review and the provisions of the Lease.

A Project office for Tenant's use may be located within any one of the on the Premises.

Subleasing

Tenant will not Sublease any portion of the Premises without the prior written consent of Port, which consent will not be unreasonably withheld. However in the Lease the Port pre-approves a broad range of subleases so long as they are arm's length transactions and structured at market rental rate and comply with the provisions of the Lease. In addition to pre-approved subleases, Port retains sublease approval rights for subleases of greater than 100,000 square feet in the aggregate to a single user or Subtenant and its affiliates. The Port also retains sublease approval rights of initial Subleases to be executed for all or substantially all of the east and west wings of Building 113.

Signs

Tenant does not have the right to place, construct or maintain any Sign on the exterior of any Buildings within the Premises without Port's prior written consent.

Required Public Access Areas

Tenant must maintain throughout the Term, dedicated public access areas within the Premises, including areas within the Buildings where non-Public Trust uses are contemplated in compliance with the California State Lands Commission's Executive Officer's determination related to the Project, to permit the public to view the interior and exterior historic architectural amenities, the Historic Fabric, and other amenities to educate the public about such Historic Building and its contribution to maritime history.

Minimum Rent
An annual minimum rent of $240,000 will commence no later than 20 years after commencement of the Lease.

Adjustments to Minimum Rent:

5-Year Adjustment to Minimum Rent: On each Adjustment Date, the Minimum Rent payable under this Lease will be adjusted to equal the greater of (i) the Minimum Rent in effect immediately prior to such Adjustment Date, or (ii) one hundred percent (100%) of the amount determined by multiplying the Minimum Rent in effect immediately prior to such Adjustment Date by a fraction, the numerator of which is the Current Index and the denominator of which is the Prior Index.

Periodic 10-Year Adjustment to Minimum Rent:

On each Periodic 10-Year Adjustment Date, the Minimum Rent payable under this Lease will be adjusted to equal the higher of (i) the Minimum Rent then in effect, or (ii) the amount obtained by adding all of the Participation Rent due for the five (5) year period immediately prior to the applicable Periodic 10-Year Adjustment Date as further described in the Lease.

Application of Net Revenues Until Repayment in Full of Developer Equity and Return & Port Capital Contribution and Return.
One hundred percent (100%) of net revenues will be applied to pay off outstanding Developer Equity and return, any deferred Port transaction costs, and outstanding Port equity and return, until fully paid,

Participation Rent
From and after the Developer Equity Repayment Date and repayment in full of Port Capital Contribution and Port Capital Return and throughout the Term thereafter, subject to a cash flow bonus, Tenant will pay to Port participation rent on a monthly basis equal to (i) fifty percent (50%) of Net Revenues (ii) less the Minimum Rent due and payable for the applicable calendar quarter ("**Participation Rent**").

Cash Flow Bonus
If Tenant meets all of the following conditions, Tenant will be entitled to a Cash Flow Bonus from the Net Revenues generated from the Premises equivalent to 20% of the excess above pro forma projections until the calendar year that includes the 22nd Anniversary Date (the "**Potential Bonus Period**") subject to the following conditions:

(i) Tenant has complied with its agreement with the Contract Monitoring Division and CityBuild regarding the hiring of LBEs and local residents in connection with the development of the Project.

(ii) All outstanding Developer Equity and return has been fully repaid;

(iii) All outstanding Deferred Port Transaction Costs and any Transaction Costs due and payable to Port under the LDDA have been fully repaid;

(iv) All outstanding Port Capital and return has been fully repaid;

(v) Net Revenues exceed the Cash Flow Bonus Threshold; and

(vi) There is no uncured or outstanding Tenant Event of Default.

During the Potential Bonus Period, Tenant will include (i) in each Monthly Net Revenues Statement, Tenant's estimate of the amount of Cash Flow Bonus it will be entitled to at the end of the applicable calendar year, and (ii) in each Annual Net Revenues Statement, the actual amount of Cash Flow Bonus Tenant is entitled to for the applicable calendar year, accompanied by documentation to support its position. Subject to Port receiving the Annual Net Revenue Statement in accordance and in compliance with the Lease, Tenant will be entitled to a Cash Flow Bonus set forth in such Annual Net Revenue Statement. The Cash Flow Bonus will be deducted from Net Revenues immediately prior to calculating the Participation Rent due to Port at the end of each calendar year. In no event will the amount of Net Revenues or the Cash Flow Bonus Threshold used to calculate Cash Flow Bonus include any Transfer Proceeds.

<u>Port's Participation in Transfer Proceeds</u>
Tenant and all subsequent assignees will pay to Port ten percent (10%) of the Net Transfer Proceeds, if any, from a Transfer of the Lease that occurs during the Term.

<u>Port Participation in Refinancing Proceeds</u>

Tenant and all subsequent assignees will pay to Port fifty percent (50%) of the Net Refinancing Proceeds, if any, from close of escrow for each Refinancing that occurs during the Term.

<u>Improvements & Subsequent Construction</u>
Tenant is obligated to construct the improvements set forth in the Scope of Development and has the right to construct additional improvements throughout the term of the Lease. All improvements must comply with the Secretary's Standards.

<u>Repairs and Maintenance</u>
Throughout the Term, Tenant will maintain and repair the Premises and all Improvements thereon in substantially the condition the Improvements were completed pursuant to the terms and conditions of the LDDA, less reasonable wear and tear,

<u>Management and Operating Covenants</u>
Tenant is required to: (i) manage and operate the Premises at no cost to Port and to maintain the Premises consistent with a first-class light industrial/restaurant project located in San Francisco; (ii) keep the atrium open to the public during business hours; (iii) install and fly a Port flag on the all roofs; (iv) obtain Port's consent for exterior improvements; (v) obtain Port's consent for outdoor exhibits unless certain criteria defined in the Lease are met, in which case prior Port consent is not required; (vi) remove graffiti promptly from the Premises; (vii) abide by the Mitigation Monitoring and Reporting Program attached to the Lease; and (viii) comply with the Pier 70 Risk Management Plan attached to the Lease.

<u>Subleasing of Premises and Reporting of Leasing Activity</u>
Tenant will engage one or more leasing agents for the subleasing of the Premises in accordance with the Lease. Tenant will provide Port with monthly leasing activity reports at the Site.

Utilities
Tenant is responsible for providing all utilities to the Premises, including installation and connection, and for separating utilities from adjacent properties.

Insurance
Tenant will be required to carry a complete package of insurance on the Premises, which has been approved by the City's Risk Manager.

Damage or Destruction
In the event of a casualty, Tenant may not terminate the Lease or stop paying rent, and must restore the Premises, except in the following circumstances: if there is a "major casualty" (meaning the cost of damage exceeds 60% of the cost to replace) occurring in the last ten years of the term, or if there is an "uninsured casualty" (as defined in the Lease) occurring anytime during the term, then Tenant may elect either to restore the Premises or terminate the Lease.

Security Deposit
Tenant shall pay to Port a security deposit for the Premises in an amount equal to $40,000 equivalent to the 2 months of the projected $240,000 annual minimum rent at year 20 of the Lease.

Environmental Financial Performance Deposit
Tenant will deliver to Port an environmental financial performance deposit in an amount to be determined by Port as adequate for protecting the Port from the increased potential environmental liability arising out of Tenant's activities.

Environmental Oversight Deposit
Tenant will deliver to Port an environmental oversight deposit in cash, in an amount equaling Ten Thousand Dollars ($10,000), as security for Port's recovery of costs of inspection, monitoring, enforcement, and administration of Tenant's performance of its obligations relating to hazardous materials.

Assignment
Tenant may not assign the Lease without the prior written consent of the Port (which consent may be withheld in Port's sole discretion prior to issuance of the Certificate of Completion and in Port's reasonable discretion after issuance of the Certificate of Completion) except to a permitted mortgagee, to an entity for the purpose of taking advantage of historic preservation tax credits or tax-exempt bonds, or to an entity affiliated with Tenant.

Indemnification and Waiver:
The Lease contains standard general indemnification and hazardous materials indemnification provisions.

Defaults and Remedies
If Tenant defaults under the Lease, Port has all rights available at law or in equity, including the right to keep the Lease in effect and collect rent and the right to terminate

the Lease. If the Port defaults under the Lease above, Tenant has the exclusive right to offset or deduct only from the Rent becoming due hereunder, the amount of all actual damages incurred by Tenant as a direct result of the Port Event of Default, but only after obtaining a final, unappealable judgment in a court of competent jurisdiction for such damages in accordance with applicable Law and the provisions of this Lease, or equitable relief.

Leasehold Mortgages

Tenant will be permitted to mortgage its leasehold interest (but not the fee) in the Premises, with Port's prior consent. A mortgage may be given only to an institutional lender or a lender approved by Port in its sole discretion.

City Requirements

Tenant is required to comply with all City policies and ordinances now in effect.

Other Transaction Documents

Port and Developer anticipate executing other documents including licenses for Port property adjacent to the Project, such documents being necessary to provide Developer with means of ingress and egress to the Project and for other purposes required by the Project.

Second Amendment to Exclusive Negotiation Agreement ("Amended ENA")

Port and Developer previously entered into an Exclusive Negotiation Agreement ("**ENA**") dated as of May 16, 2012 setting forth the terms and conditions under which Port and Developer would negotiate a Term Sheet, a LDDA, a Lease and other Transaction Documents required to implement the Project. The Port and Developer amended the ENA by the First Amendment dated as of March 20, 2013. The ENA term currently expires on June 20, 2014.

Port and Developer now seek a Second Amendment to extend the term of the ENA to provide adequate time to secure all required project approvals necessary to execute the LDDA. The term of the Amended ENA will be extended and shall expire upon the earlier of December 31, 2014, or the effectiveness of the LDDA, as further described in the ENA on file with the Port Commission Secretary.

LOCAL CONTRACTING AND HIRING COMMITMENTS

Developer is working with the City's CityBuild program and the Contract Monitoring Division to ensure that local disadvantaged businesses ("**LBE**") and local residents participate in this Project.

The Seismic Safety Loan Program requires 25% of total worker hours be completed by economically disadvantaged workers earning 50% or less of the local median income; this requirement will apply for the estimated $20 million of Project costs funded through the loan. Developer has agreed to use local workers for 25% of total worker hours and a LBE participation goal of 17%.

The SSLP requires the Developer to seek at least one bid for the structural work from a Local Business Enterprise (LBE), certified as such by the Contract Monitoring Division.

However, while the loan program does not require a specific target for LBE participation in the Project, the Contract Management Division reviewed the types of construction work needed for this specialized Project and after review by CMD and Developer, the Developer has agreed to the aforementioned 17% goal for all Project work to be performed by LBEs.

The Lease will require Developer and its subtenants to participate in the City's First Source Hiring Program (San Francisco Administrative Code Sections 83.1 et seq.) which establishes specific requirements, procedures and monitoring for first source hiring of qualified economically disadvantaged individuals for entry-level positions.

COMMUNITY OUTREACH

Since being selected as the Port's development partner for the Project, Developer has met on numerous occasions with neighbors and stakeholders. Comments and observations generated through these outreach efforts have shaped and informed the Project plans.

On March 19, 2014, Developer provided a Project update to the Central Waterfront Advisory Group ("**CWAG**"). On April 16, 2014 Developer presented CWAG further details on prospective tenanting plans and parameters for the publically-accessible portions of the Project – the Plaza and atrium. The membership is very interested in the Project and on April 22, 2014, the CWAG submitted an email to the Port Commission supporting the Project, copy of which is attached as Exhibit C to this Memorandum.

On March 18, 2014, Developer met with San Francisco Architectural Heritage ("**Heritage**") to present the Project's approach to preserving the historic fabric of the site. On April 21, 2014, Heritage staff submitted a letter to the Port Commission offering its support for the Project, a copy of which is attached as Exhibit D to this Memorandum.

Developer has also met with the Dogpatch Neighborhood Association, the Potrero Boosters and the Heritage Preservation Commission. These groups and numerous individual members of the neighborhood have expressed enthusiastic and wide-spread support for the Project.

FISCAL ANALYSIS

Development Economics

Since being selected as the successful respondent to the RFP in 2012, Developer has been performing predevelopment due diligence with regard to the development economics of the Project. These activities have included: (1) working with their design and engineering team to develop an approach to the rehabilitation of the buildings, (2) working with Developer's general contractor, Nibbi Brothers, to refine the construction cost estimate, (3) estimating market rental rates and operating expenses, and (4) assembling the necessary financing. Developer has made significant progress in understanding the Project's economics and has prepared a development pro forma that contains their best estimates of Project economics as they stand today. The pro forma is designed to err on the conservative side; going forward Developer will continue to refine the cost and revenue projections based on further due diligence. Therefore, the final development economics of the Project will likely deviate somewhat from those summarized in this Memorandum.

Development Costs

The Project's development costs can be broken down into the following main categories: (1) direct costs of construction, (2) indirect or soft costs, and (3) financing costs. In total, the Project is estimated to cost approximately $74 million (as shown on Table 3 above) to complete or $279 per square foot of gross building area.

The direct construction cost estimate is based on estimates from Developer's general contractor, Nibbi Brothers, ("**Nibbi**") and includes standard general contractor costs such as general conditions, contractor insurance, and contractor overhead/profit.

The rehabilitation of the Project buildings is required to be consistent with the Secretary of the Interior's standards for historic buildings. The construction costs are based on build out of the space to a cold shell condition (i.e. individual tenants will have to install additional improvements to suit their needs). Subsequent lease negotiations with individual tenants will ultimately determine what level of tenant improvements will be made. Developer has included in their pro forma a tenant allowance of roughly $5 per square foot to be provided to tenants for specialized build-out of their space.

In the subsequent months leading up to the targeted summer construction start, the Project will go out to bid, after which there will be a guaranteed maximum price (GMP) construction contract. In addition, the LDDA will require that the Project have a performance and payment bond from Nibbi and a completion guaranty furnished by J.R. Orton, III in order to protect against the Project not being completed.

Operating Income

Operating income from the Project will be derived from leasing of the buildings to light industrial, office, retail and restaurant tenants. Based on their discussions with prospective tenants and on current market conditions for similar space, Developer is projecting total gross rental income from the Project at approximately $5.97 million per year. This equates to almost $25 per square foot of net leaseable area on average. Higher rents are projected for the office and restaurant space and lower rents to the light industrial space.

Sources of Funds

The following is a brief summary of the various sources of funds in the financing plan (in no particular order):

- *Port Contribution*. The Port is committing a $1.5 million capital contribution for the Project and an additional $250,000 in grant funds from the California Cultural Equity Endowment. In addition, the Port is deferring most of its transaction-related costs until they can be repaid from Project cash flow.

- *Developer Equity*. Developer is committing up to $14 million in equity. However, it is advantageous for the financing plan to utilize lower cost financing when available. The current financing plan includes approximately $6 million in Developer equity during construction, which is repaid out of a combination of operating cash flow and permanent (take-out) financing.

- *Historic Tax Credits & Bridge Loan*. Because the buildings are listed on the National Historic Register, the Project can qualify for historic tax credits to fund a portion of the rehabilitation costs. Developer estimates that approximately $13 million in historic tax credit equity can be raised. A bank bridge loan might be used as temporary construction financing until the tax credit equity is in place.

- *Bank Construction Loan*. A $35 million bank construction loan will fund nearly half of the Project's costs. The bank will require a personal guaranty from J.R. Orton, III and certain pre-leasing requirements prior to funding of the loan.

- *Seismic Safety Loan Program (Seismic Loan)*. This City sponsored financing source is described in detail in the following section of this report. Currently MOHCD's loan committee is underwriting a $20 million loan. Developer may utilize this loan as construction financing (taking draws based on ongoing construction expenditures) but the pro forma presumes that the loan will remain in place for a total of eight years after which it will be repaid with permanent take-out financing.

- *Permanent Take-Out Financing.* Once the Project is complete and the operating income stabilized, Developer will take out the bank construction loan with permanent financing. Developer is proposing to utilize industrial revenue bonds for permanent take-out financing, which generally offers more favorable terms for long-term debt. As currently projected, there will be two tranches of permanent financing. The first tranche is estimated to be available immediately following construction completion (estimated in 2017) and will be used to repay the bank construction loan. The second tranche will be used to repay the Seismic Loan in 2021(approximately eight years into the 20-year Seismic Loan term, in order to conform to the City's requirement that eight years pass before bond-backed debt is repaid). If the Seismic Loan is not prepaid prior to the 20-year term, the second tranche of permanent financing would not be required.

<u>Projected Port Rent</u>

Base Rent

The Lease requires minimum base rent of $240,000 per year no later than 20 years after Lease execution (projected to be in 2034).

Participation Rent

The Port will also receive Participation Rent based on net Project income after Developer has been repaid its equity and has received a 14% simple return on its equity investment. Based on current projections, the Participation Rent will begin as early as 2022 and will far exceed the amount of the Base Rent. Based on the "base case" pro forma projection, Developer will provide an upfront approximate $6 million equity investment into the Project which will be repaid by 2022 from net debt Project cash flow

and residual permanent financing proceeds. Once Developer's equity and return have been paid, and Port's Capital and return have been paid, the Project's net income is split 50/50 with the Port.
Based on the base case pro forma, Port Equity repayment and Participation Rent will commence in 2022. Port Equity and Return will amount to $298,000 annually for ten years and Port's Participation Rent is estimated at $115,000 in 2022, rising to $930,000 in 2034. The net present value discounted at 6% of all Port revenue including Port Equity and Returns, and Base and Participation Rent is estimated at $18.6 million for the 66 year term of the Lease.

Risk Analysis
A development project of the complexity of the Project has many challenges that could affect the financial outcomes to the Port. In recognition of the fact that the Project's ultimate development economics can vary from the pro forma, Developer has run sensitivity analyses to test the economic impacts of changes to certain pro forma assumptions. The three risk factors tested were: (A) delayed construction of Buildings 101, 102, and 104, (B) 15% higher rehabilitation costs, and (C) 15% lower rents. These sensitivity analyses are based on the March 2014 pro forma analysis and were reviewed by KMA.

- *Sensitivity A: Delayed Phasing*. As mentioned, the first phase of the Project must include Buildings 113, 114, 115, and 116 (the industrial buildings on the south side of 20th Street) but not buildings 101, 102, and 104 on the north side of 20th. Since the base case pro forma and underwriting is based on the whole Project being built in one phase, this scenario results in a delay in Project revenues. The results of this sensitivity are that the Port's rent would be delayed by eight years (to 2030) and total rent would be about 10% less than currently projected.

- *Sensitivity B: 15% Higher Cost*. This sensitivity tests the impacts of a 15% increase in capital costs, or a roughly $10.8 million increase. Barring other sources of funds that might be identified, this change would require Developer to contribute about $8.4 million more equity to complete the Project (the difference is made up mostly from higher tax credits, which are tied directly to costs). Since the Port's Participation Rent is calculated after Developer has achieved its equity return, in this scenario the Port's rent would be delayed by 12 years (2034) and total rent would be about 40% less than currently projected. Per the Term Sheet, the Port's Base Rent would begin no later than Year 20 of the Lease regardless of whether Developer has received its equity return.

- *Sensitivity C: 15% Lower Rents*. In this scenario gross rental income is assumed to be 15% lower than projected. The results of this scenario would be that the Port's rent would be delayed by 12 years (2034) and total rent would be about 60% less than currently projected.

DEVELOPER FINANCIAL CAPACITY

The Developer has secured a Letter of Intent from a major bank for $35- $40 million construction finance loan secured by a personal guaranty from J.R. Orton, III and subject to ongoing liquidity requirements of J.R. Orton, III. As described above, MOHCD's loan committee is currently underwriting a $20 million seismic safety loan. Between these capital sources, the Port's commitment of up to $1.75 million and the Developer's commitment of up to $14 million, the Developer has secured ample financing for the Project as summarized below:

Port Capital Funds+$250,000 grant	$1.75
Seismic Safety Loan	20.2
Historic Tax Credit Equity	14.9
Private Debt & Equity	37.8

KMA has undertaken a review of the latest annual financial statements provided for J.R. Orton, III and Orton Development, Inc. As of December 31, 2013, J.R. Orton, III had cash or cash equivalent assets sufficient to: (1) fund the $14 million maximum equity contribution for the 20th Street Historic Buildings, and (2) satisfy the liquidity requirements of the proposed bank construction loan. Port staff conducted additional due diligence to assess the financial wherewithal of J.R. Orton, III and it has concluded the KMA analysis remains relevant to date.

The financial statements list liabilities representing a small percentage of total listed assets. Additionally there are some contingent liabilities in the form of J.R. Orton, III personal guarantees for several property loans in his property portfolio. These personal guarantees represent of small portion of the overall asset base analyzed. As discussed above, prior to the Close of Escrow, Developer will:

1. Have Port approve the development budget and confirm evidence of adequate financing for the Project, including evidence of Developer's ability to meet debt service obligation(s) and evidence of a commitment letter from a lender, if applicable;
2. Have Port approve its statement of sources and uses of funds, which must be sufficient to demonstrate that it has or will have funds equal to or exceeding the total development cost of the improvements and that such funds have been spent for uses described in the development budget or are committed and available for that purpose;
3. Have Port approve its guaranteed maximum price contract for construction of the improvements;
4. Have Port approve the Schematic Drawings, materials and color samples and Final Construction Documents and confirm Port is ready to issue a building permit;
5. Have deposited exaction fees that are required to be paid prior to close of escrow; and
6. J.R. Orton, III shall have provided a personal guaranty to the Port guaranteeing the completion of core and shell improvements for each of the buildings within the leased premises.

In summary, the Developer has demonstrated adequate capital sources for the Project and the financial capacity to deliver its commitments under the LDDA and Lease.

NEXT STEPS

If the Port Commission confirms the CEQA findings and approves the Transaction Documents, the following additional steps need to happen for final approval of the Project, including the Seismic Loan and IFD:

1) May 2014: Seismic Loan committee review and consideration of the loan application to determine the application meets statutory underwriting requirements;
2) May or June 2014: Capital Planning Committee approval of the IFD, Seismic Loan, and bond issuance;
3) June or July 2014: The Board's Budget and Finance Committee consideration of the Project including review of the Lease, IFD, Seismic Loan and the required bond indebtedness by the Budget Analyst;
4) July 2014 Board of Supervisors review and approval of the Lease, IFD, Seismic Loan and the required bond indebtedness; and
5) August 2014 If Developer meets all LDDA requirements and loan committee conditions, then Port and Developer enter into the Lease.

PROJECT BENEFITS

Rehabilitation of these historic structures and enabling of their reuse and public enjoyment is both the primary outcome of the project and the primary community benefit. The challenging nature of the Pier 70 project as a whole, with a particular focus on the historic resources, was well understood by the public and policymakers in November 2008 when 68 percent of voters supported Proposition D amending San Francisco's Charter to facilitate the Pier 70 project. As discussed above, Developer's project will include a public plaza and spaces to foster the community's enjoyment of Pier 70's heritage.

These buildings will provide 400-500 jobs when the project is complete and leased. Construction of the project, over a two year period, will employ an estimated 250 workers (full time equivalents). In both the construction of the project and in its long-run operation, Developer is committed to working closely with the City to employ San Franciscans and use local businesses to accomplish the following important goals:

1. Saving an extraordinary collection of historic buildings from potential collapse. The Port's Capital plan has approximately $110 million of unfunded costs for these structures. Transferring responsibility for these buildings to Developer will reduce the Port's unfunded capital requirements and positively affect the Port's credit outlook.
2. Adding to the value of Port Property. This effort will create about $50 - $60 million of new assessed value that would provide up to $40 million of future

tax increment that can be reinvested in Pier 70 through the infrastructure financing district.

3. Improving the Port's operating cash flow.
4. Reducing the Port's security costs and repair costs due to vandalism of these buildings.
5. Providing Port revenue, in the longer-term.

CONCLUSION:
Today's hearing and Port Commission's action is a major step forward in the process of returning the Pier 70 historic core to use as a vibrant part of the waterfront. The benefits of enlivening these buildings with active, new uses will be enjoyed for many generations by workers, residents and visitors alike. The Port's dilapidated facilities will be rehabilitated and add vitality to the neighborhood. Approval today will allow the Project approvals to proceed to the Board of Supervisors for review and approval and to move forward to obtain other required approvals.

Thanks are due to the Port Commission and to many members of Port Staff who assisted on this Project.

RECOMMENDATION:
As more fully described above, Port staff respectfully request:
1) Approval of the Second Amendment to ENA;
2) Adoption of the environmental findings under CEQA and the Mitigation Monitoring and Reporting Program; and
3) Approval of the Transaction Documents, in conformance with the terms described above; and
4) Approval of the Schematic Drawings; and

Prepared by:	Phil Williamson, Project Manager James Hurley, Feasibility Analyst
Through:	Jonathan Stern, Assistant Deputy Director Waterfront Development
For:	Byron Rhett, Deputy Director Planning & Development

Exhibits
A. Location Map and Premises
B. Mitigation Measures and Mitigation Monitoring and Reporting Program
C. Email of Support from Central Waterfront Advisory Group, April 22, 2014
D. Letter of Support from SF Heritage, April 21, 2014

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 14-32

WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the Port area of the City and County of San Francisco; and

WHEREAS, By Resolution No. 10-27, the Port Commission authorized Port staff to issue a Request for Proposals (the "**RFP**") to solicit proposals from qualified parties to rehabilitate the Pier 70 historic core, consisting of six historic buildings on 20th Street within the "Historic Core" of Pier 70, as further described on Exhibit A attached to the Memorandum for Agenda Item 12A for the Port Commission meeting on May 13, 2014 (the "**Project Site**"); and

WHEREAS, The RFP was issued on October 4, 2011, and two respondents submitted timely proposals, including Orton Development, Inc, ("**Orton**"); and

WHEREAS, The two submitted proposals were reviewed and analyzed by Port staff, an independent real estate economics consultant, and an evaluation review panel with experience in real estate economics, land use planning and architecture/urban design; and

WHEREAS, The Port Commission (i) reviewed and evaluated the summary and analyses of each of the two proposals prepared by Port staff, its independent real estate economics consultant, and the evaluation panel, (ii) reviewed the Port staff recommendations set forth in the Memorandum accompanying Resolution 12-18, (iii) considered the public testimony on Orton's proposal given to the Port Commission, and (iv) awarded to Orton an exclusive right to negotiate with the Port to develop the Project Site; and

WHEREAS, On April 24, 2012, by Resolution 12-36, the Port Commission authorized the Executive Director to enter into an Exclusive Negotiating Agreement (as may be amended from time to time, "**ENA**") with Orton. Port and Orton entered into the ENA dated in May of 2012. The ENA sets forth the process, terms and conditions upon which the Port and Orton agree to negotiate certain transaction documents for the development of the Project Site and requires the Port and Orton to negotiate a Term Sheet to describe the basic elements of the proposed project, site plan, use program, economic parameters, and other fundamental terms that serves as the basis for negotiating the transaction documents; and

WHEREAS, By Resolution 13-11, the Port Commission approved a First Amendment to the Exclusive Negotiating Agreement for the purposes of extending the ENA term and deferring payment of Port's transaction costs incurred during the ENA term; and

WHEREAS, The term of the ENA expires on June 20, 2014, and Orton has requested an extension of the ENA term in order to give the parties sufficient time to obtain all required Project approvals necessary to execute a lease disposition and development agreement; and

WHEREAS, The parties have negotiated a Second Amendment to the ENA ("**Second Amendment**"), a copy of which is on file with the Commission Secretary, extending the ENA term to the earlier of December 31, 2014 or the effectiveness of the LDDA, unless in each case, such dates are extended or terminated in accordance with the Second Amendment; and

WHEREAS, Port staff recommends that the Port Commission approve the Second Amendment, which amendment is outlined in the in the Memorandum for Agenda Item 12A for the Port Commission meeting of May 13, 2014; now, therefore be it

RESOLVED, That the Port Commission hereby approves the terms of the Second Amendment and authorizes and directs the Executive Director of the Port, or her designee, to execute the Second Amendment, with the understanding that the final terms and conditions of any lease disposition and development agreement, lease or related documents negotiated between the Port and Orton during the exclusive negotiation period will be subject to the approval of the Port Commission and as required, the Board of Supervisors; and be it further

RESOLVED, That approval of the Second Amendment does not commit the Port Commission to approval of the transaction documents and that the Port Commission shall not take any discretionary actions committing it to the Project until the Port Commission has reviewed and considered environmental documentation prepared in compliance with the California Environmental Quality Act (CEQA); and be it further

RESOLVED, That the Port Commission hereby extends the Exclusive Negotiation Period to the earlier of December 31, 2014 or the effectiveness of the lease disposition and development agreement, unless in each case, such dates are extended or terminated in accordance with the Second Amendment.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of May 13, 2014.

____
Secretary

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 14-33

WHEREAS, Charter Section B3.581 empowers the Port Commission with the power and duty to use, conduct, operate, maintain, manage, regulate and control the Port area of the City and County of San Francisco; and

WHEREAS, By Resolution No. 10-27, the Port Commission authorized Port staff to issue a Request for Proposals (the "**RFP**") to solicit proposals from qualified parties to rehabilitate the Pier 70 historic core, consisting of six historic buildings on 20th Street (the "**Project Site**"); and

WHEREAS, The RFP was issued on October 4, 2011, and two respondents submitted timely proposals, including Orton Development, Inc, ("**Orton**"); and

WHEREAS, The submitted proposals were reviewed and analyzed by Port staff, an independent real estate economics consultant, and an evaluation review panel with experience in real estate economics, land use planning and architecture/urban design; and

WHEREAS, The Port Commission (i) reviewed and evaluated the summary and analyses of the two proposals prepared by Port staff, its independent real estate economics consultant, and the evaluation panel, (ii) reviewed the Port staff recommendations set forth in the Staff Report accompanying Resolution 12-18, (iii) considered the public testimony on Orton's proposal given to the Port Commission, and (iv) awarded to Orton an exclusive right to negotiate with the Port to develop the Project Site (the "**Project**"); and

WHEREAS, On April 24, 2012, by Resolution 12-36, the Port Commission authorized the Executive Director to enter into an Exclusive Negotiating Agreement, (as may be amended from time to time, "**ENA**") with Orton. Port and Orton entered into the ENA in May of 2012. The ENA sets forth the process, terms and conditions upon which the Port and Orton agreed to negotiate certain transaction documents for the development of the Project Site and requires the Port and Orton to negotiate a Term Sheet to describe the basic elements of the proposed project, site plan, use program, economic parameters, and other fundamental terms that serves as the basis for negotiating the transaction documents; and

WHEREAS, On October 9, 2012, by Resolution No. 12-78, the Port Commission approved the Term Sheet containing the business terms for the proposed Project; and

WHEREAS, Port staff and Orton have negotiated the terms of the (1) Lease Disposition and Development Agreement ("**LDDA**"), (2) form of Lease No. L-15814, and (3) such other documents related to the Project as contemplated in the foregoing documents and (4) the Schematic Drawings (collectively, the "**Transaction Documents**"), described in the Memorandum for Agenda Item 12A for the Port Commission meeting of May 13, 2014, copies of which are on file with the Commission Secretary; and

WHEREAS, City and Port staff and consultants have conducted substantial economic analysis of the Project impacts and benefits on the Port and City; and

WHEREAS, The Project will generate additional significant public benefits for the Port and the City, including: (i) the rehabilitation and reuse of historic buildings that are currently vacant and dilapidated; (ii) the creation of new public access areas within historic buildings; (iii) the creation of significant new jobs and economic development; and (iv) both minimum rent and ongoing participation in the Project's revenue stream for the Port to help the Port continue to promote Public Trust uses and purposes; and

WHEREAS, In order to develop the proposed Project, the Executive Officer of the California State Lands Commission ("**State Lands**") must have made a determination that the restoration and preservation of any of the historic buildings within the Project where non-Public Trust uses are contemplated cannot be feasibly financed with available Public Trust uses, and that the non-Public Trust uses or lease are part of an overall program that furthers Public Trust purposes; and

WHEREAS, Based on the third party analysis and feedback from State Lands staff, the rehabilitation of the buildings within the Project Site consistent with the Secretary Standards is not feasible with only public trust uses; and

WHEREAS, Port and Orton have identified public financing mechanisms described herein, as additional funding sources for the Project including: (1) the submittal by Orton of an application to the City's Seismic Safety Loan Program ("**SSLP**") to fund the seismic work for Buildings 113/114 and 104, and (2) the adoption of an Infrastructure Financing Plan ("**IFP**") to fund public realm enhancements within the Pier 70 subarea of the Port wide Infrastructure Financing District ("**IFD**")

WHEREAS, The Project is within the Eastern Neighborhoods Community Plan Area, for which the San Francisco Planning Commission certified the *Eastern Neighborhoods Rezoning and Area Plans Final EIR* ("**EN FEIR**") (Planning Department Case No. 2004.0160E); and

WHEREAS, The Planning Department reviewed the Project and determined that a community plan exemption under CEQA Guidelines Section 15183 would be appropriate because the Project is within the scope of the EN FEIR and would not have any additional or significant adverse effects that were not examined in the EN FEIR, nor has any new or additional information come to light that will alter the conclusions of the EN FEIR and the proposed Project will not have any new effects on the environment that were not previously identified in the EN FEIR, nor will any environmental impacts be substantially greater than described in the EN FEIR and no mitigation measures previously found infeasible have been determined to be feasible, nor have any new mitigation measures or alternatives been identified but rejected by Developer; and

WHEREAS, The San Francisco Planning Department prepared a Community Plan Exemption for the proposed Project, which exemption was approved on May 7, 2014, and which this Port Commission has reviewed; and

WHEREAS, A copy of the Community Plan Exemption is on file with the Port Commission Secretary and is also available online at http://sfmea.sfplanning.org/2013.1168E_CPE.pdf; and

WHEREAS, All applicable mitigation measures from the EN FEIR have been incorporated into the proposed Project or will be required as conditions of approval through the adoption of the attached Mitigation Monitoring and Reporting Program ("**MMRP**"); and

WHEREAS, The proposed action is the Approval Action as defined by S.F. Administrative Code Chapter 31; now, therefore be it

RESOLVED, That the Port Commission adopts and incorporates by reference as though fully set forth herein the MMRP, attached as Exhibit B to the Memorandum for Agenda Item 12A for the Port Commission meeting on May 13, 2014; and be it further

RESOLVED, That the Port Commission approves the form and the substance of the Transaction Documents, including all attachments and exhibits thereto, and the transactions and other agreements which such Transaction Documents contemplate, incorporating the material business terms set forth in the Memorandum for Agenda Item 12A for the Port Commission meeting on May 13, 2014; and be it further

RESOLVED, That the Port Commission hereby approves the Schematic Drawings of the proposed Project on file with the Port Commission Secretary and the representative Schematic Drawings of the buildings within the Project Site, as shown in the attachment to the Memorandum for Agenda Item 12A for the Port Commission meeting on May 13, 2014, and authorizes the Executive Director to approve non-material changes in the Schematic Drawings; and be it further

RESOLVED, That the Port Commission authorizes and directs the Executive Director of the Port ("**Executive Director**") to forward Lease No. L-15814 to the Board of Supervisors for approval pursuant to its authority under Charter Section 9.118, and upon the effectiveness of such approval, to execute the LDDA, and subject to the terms of the LDDA, as applicable, execute the Lease in substantially the form of such agreements on file with the Port Commission Secretary, and in such final form as is approved by the Executive Director in consultation with the City Attorney; and be it further

RESOLVED, That the Port Commission hereby endorses the use of public financing mechanisms described herein, including: (1) the submittal by either Orton of an application to the City's SSLP administered by the Mayor's Office of Housing and Community Development, and (2) the adoption of an IFP to fund public realm enhancements within the Pier 70 subarea of the Port wide IFD; and authorizes and directs the Executive Director of the Port, or her designee, to present the IFP to the Board of Supervisors for their approval; and be it further

RESOLVED, That the Port Commission authorizes the Executive Director to enter into other agreements, encroachment permits, easement agreements, and other related covenants and property documents necessary to implement the transactions contemplated by the Transaction Documents, and to enter into any additions, amendments or other modifications to the Transaction Documents including preparation and attachment of, or changes to, any or all of the attachments and exhibits that the Executive Director, in consultation with the City Attorney, determines are in the best interests of the City, do not materially decrease the benefits or otherwise materially increase the obligations or liabilities of the City or Port, and are necessary or advisable to complete the transactions that the Transaction Documents contemplate and effectuate the purpose and intent of this resolution, such determination to be conclusively evidenced by the execution and delivery by the Executive Director of such other agreements, easement agreements and other related covenants and property documents, and/or additions, amendments or other modifications to the Transaction Documents; and be it further

RESOLVED, That the Port Commission authorizes the Executive Director and any other appropriate officers, agents or employees of the City to take any and all steps (including the execution and delivery of any and all certificates, agreements, notices, consents, escrow instructions, closing documents and other instruments or documents) as they or any of them deems necessary or appropriate, in consultation with the City Attorney, in order to consummate the transactions contemplated under the Transaction Documents, in accordance with this resolution, or to otherwise effectuate the purpose and intent of this resolution, such determination to be conclusively evidenced by the execution and delivery by any such person or persons of any such documents; and be it further

RESOLVED, That the Port Commission approves, confirms and ratifies all prior actions taken by the officials, employees and agents of the Port Commission or the City with respect to the Transaction Documents.

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of May 13, 2014.

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Secretary

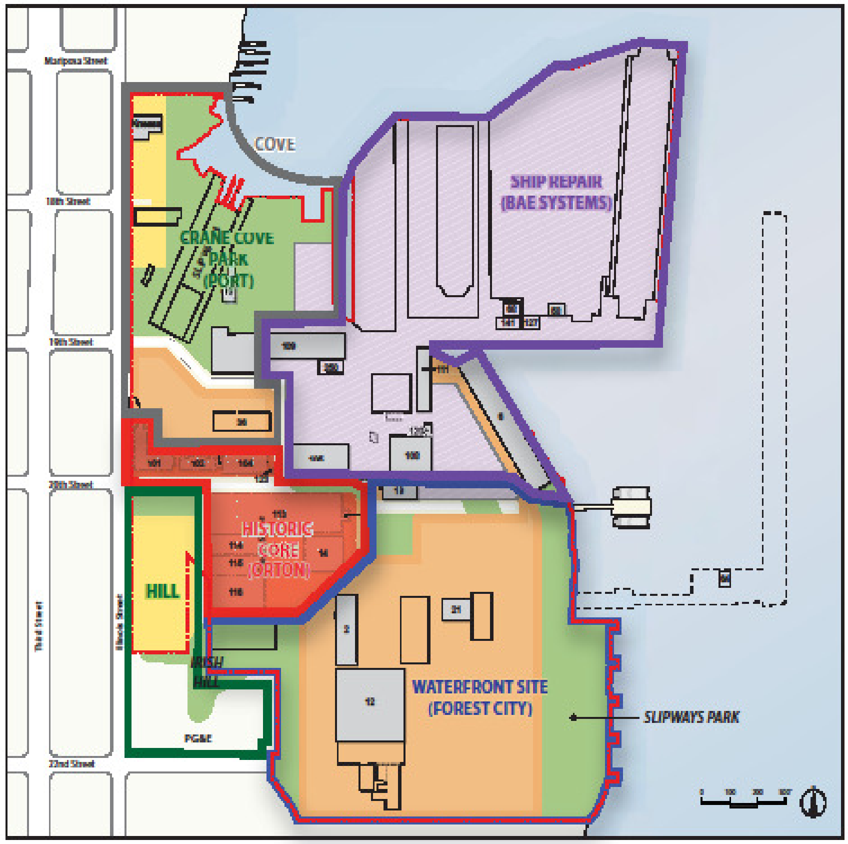
EXHIBIT A: PIER 70 PROJECTS

- HISTORIC BUILDINGS
- SHIP REPAIR (HISTORIC USE)
- OFFICE, BIOTECH, COMMERCIAL, R&D, PDR
- MIXED USE- RESIDENTAL ALLOWED
- COMMERCIAL/SPECIAL USE- HISTORIC CORE
- OPEN SPACE
- BUILDING PROPOSED FOR REMOVAL
- PIER 70 AREA BOUNDARY

PIER 70 PROJECT SUB-AREAS

- SHIP REPAIR
- FOREST CITY WATERFRONT SITE*
- ORTON - HISTORIC CORE*
- COVE
- HILL

** NOTE: BOUNDARIES BETWEEN PROJECTS ARE CONCEPTUAL. VARY SLIGHTLY FROM THE EXCLUSIVE NEGOTIATING AGREEMENT TERMS AND WILL BE REFINED AS LEASE DETAILS ARE NEGOTIATED.*



SEPTEMBER 2012

G:\05-Southern Waterfront\Pier 70\Master Plan\Graphics\April 2010 Plan Maps\PDF Maps (for print)\p70_Exhibit-A-v.1_9-20.pdf