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Findings of Fiscal Responsibility and Feasibility
Piers 30-32 and Seawall Lot 330 Development Project

Prepared for:
The City and County of San Francisco

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I. EXECUTIVE SUMMARY

This report has been prepared pursuant to the requirements of Chapter 29 of the City of San Francisco's Administrative Code, which requires the Board of Supervisors to approve the fiscal feasibility of certain development projects before the project can be submitted to the City's Planning Department for environmental review. Under the provisions of Section 29.2 there are five criteria on which to evaluate a project's fiscal feasibility: 1) Direct and indirect financial benefits of the project to the City, including to the extent applicable cost savings or new revenues, including tax revenues generated by the proposed project; 2) The cost of construction; 3) Available funding for the project; 4) The long-term operating and maintenance cost of the project; and 5) Debt load to be carried by the City department or agency.

The subject project is the Piers 30-32 and SWL 330 Project ("Project") to be undertaken by Strada-TCC Partners, LLC (the "Developer"). At completion, the Project will include approximately 710 units[1] of housing, of which 25% will be affordable, an aquatic center including a swimming pool, a retail market hall, approximately 430,000 square feet of office space, a reconstructed pier, and seismic and sea level rise resilience improvements to the seawall and pier infrastructure.

The Port and the Developer have been negotiating business terms that will be used to prepare transaction documents for the lease of the properties to the Developer and the development of the proposed Project. This analysis reflects the draft terms as contained in the January 17, 2024 Draft Term Sheet, which is provided as Appendix A. While some of the terms may change before the transaction agreements are executed, it is believed the preliminary projections and terms are refined sufficiently for purposes of this analysis to assist the Board of Supervisors in its determination of fiscal feasibility.

A. Financial Benefits

1. Fiscal Benefits to the City of San Francisco

The Project is anticipated to generate significant annual revenue to the City of San Francisco. On-going revenues to the City directly generated by the Project include new gross receipts taxes, property taxes in-lieu of motor vehicle license fees, transfer taxes, sales taxes, property/possessory interest taxes, and utility user taxes. It is estimated that on-going revenues to all City funds will average $9.9 million per year. Of this total, $7.1 million will accrue to the City's General Fund, while $2.8 million will accrue to other City Funds. Upon buildout, the Project will generate approximately $4.62 million of annual General Fund service costs. Net of

[1] Project unit counts and non-residential square footages referenced in this report reflect the program modeled in the Developer's October 2023 financial proforma and are consistent with the program quantities referenced in the Draft Term Sheet but may differ slightly due to rounding factors.

service costs, the completed Project is anticipated to annually generate, on average, $2.48 million of net new General Fund revenue.

The Project will annually generate an additional $8.3 million of possessory interest (property tax) revenues to the City. In accordance with the Draft Term Sheet, the City will dedicate these revenues to funding a portion of horizontal infrastructure costs through the Port's Infrastructure Financing District (IFD).

The construction of the Project will also generate one-time revenues to the City of San Francisco. Sales and use tax revenues from the purchase of construction materials are estimated to total $8.4 million, with $6.0 million accruing to the General Fund and $2.4 million accruing to Baseline transfer funds. Additionally, the Project will generate a total of $70.1 million of development impact fee revenues, which are restricted funds and will be used to mitigate the Project's impacts.

2. *Financial Benefits to the Port*

A primary financial benefit to the Port is securing a developer to rebuild the pier and strengthen the seawall to protect against sea level rise, which is estimated to cost $462 million, excluding financing costs and the cost of vertical improvements.

The Port will receive ground lease revenue from the Project. Annual base rent on SWL 330 and Piers 30-32 will be $600,000 and $900,0000, respectively (with escalations). During construction, the annual rent will be reduced to $150,000 for SWL 330 and $200,000 for Piers 30-32. Lease payments over the 66-year ground lease term for the pier property and the 75-yeare term for the SWL property are anticipated to total $265 million in nominal dollars, or $71 million in uninflated dollars.

The Port is eligible to receive two forms of "participation" payments that are contingent upon the performance of the Project. The first component of potential participation payments to the Port is 20% of net sales or refinance proceeds after the Project generates a return on equity in excess of 18% from the first sale or refinancing resulting in the repayment of project equity. The Project is not anticipated to achieve the 18% threshold and is therefore not expected to generate any revenue to the Port from this component. The second component of participation rent is 1.5% of net refinance/net resale proceeds that are generated from refinancings/sales that follow the initial sale/refinance. It is estimated that these participation payments will approximate $127.5 million in inflated dollars and $28.8 million in uninflated dollars prior to the termination of the ground leases.

Upon the expiration of the ground leases, the land and ownership of all Project improvements will revert to the Port.

3. Economic and Indirect Financial Benefits to the City

It is estimated that the Project's businesses will create approximately 1,860 permanent jobs and over $203 million of annual wage earnings. The construction of the Project will generate approximately 4,100 job years of construction jobs, and over $335 million of construction wages. In addition to the direct employment, wages, and tax revenues to be generated by the Project, the new businesses and the employees will support other businesses in San Francisco. Including indirect and induced impacts, the Project's operations are estimated to support the creation of over 2,600 new jobs in San Francisco and over $267 million of new wage earnings.

B. Cost of Construction and Development

The Project's development costs are anticipated to exceed $1.65 billion[2], comprised of $1.12 billion of improvements on Piers 30-32 and $0.53 billion of improvements on SWL 330. The costs are detailed in Section IV of this report.

C. Available Funding for the Project

Identified funding sources for the Project currently total $1.53 billion. The Project's $1.18 billion vertical improvement and entitlement costs will be funded by a combination of private debt and equity. The $462 million pier infrastructure and seawall improvements will be funded primarily by equity and Community Facility District (CFD)[3] revenues to be generated by a special tax to be levied on the Project's buildings. It is estimated that the Project will require an additional $125 million to fully fund the horizontal infrastructure and resilience needs at Piers 30-32. Potential sources of gap funding include the following:

- Additional private investment supported by improved market conditions
- Federal and/or State funds for resilience, waterfront infrastructure, or affordable housing
- Reductions or adjustments to the amount of local development impact fees to be paid by the Project
- Waiving or adjusting the City Transfer Tax
- Dedication of other local tax revenues to be generated by the Project
- Coastal Conservancy Grant Funding

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[2] The development budget excludes the cost of developing the stand-alone affordable housing development with 94 units. While the Developer will be providing the development site, a non-profit developer partner will develop the affordable project. Affordable housing linkage fees and in-lieu fees to be generated by the Project will be allocated to the stand-alone affordable project to off-set a portion of the project's development costs.

[3] While CFD bonds will be issued to raise construction funds, it is anticipated that debt service on CFD bonds will be fully funded by a portion of the Project's possessory interest/property tax payments, which will be allocated to an Infrastructure Financing District (IFD) and used to leverage bond financing.

While the Developer and Port staff have not identified the exact mix of funds to close the $125 million infrastructure feasibility gap at this time, the team believes that it will be able to secure these funds by the time the Piers 30-32 side of the Project is ready to commence construction. Per the Project's anticipated financing plan, the portion of the Project to be built on SWL 330 will be fully funded by private debt and equity, will not require any public investment, and will be able to proceed independently from the improvements to Piers 30-32.

D. Long-Term Project Operating and Maintenance Costs

Per the provisions of the Term Sheet, neither the City nor the Port will bear any operating or maintenance costs associated with the Project.

E. Debt Load to be Carried by the City or the Port

The Project will not require the Port or the City to incur any debt. It is contemplated, however, that the City will form a CFD and an IFD to provide funding for the Project's infrastructure improvement. Neither CFD or IFD debt is secured by the City of San Francisco.

II. INTRODUCTION

This Report has been prepared pursuant to the requirements of Chapter 29 of the City's Administrative Code, which requires the Board of Supervisors to approve the fiscal feasibility of certain development projects before the project can be submitted to the City's Planning Department for environmental review. A project is subject to this requirement if: 1) the project is subject to environmental review under the California Environmental Quality Act (CEQA); and b) total project costs are estimated to exceed $25,000,000; and c) construction costs are estimated to exceed $1,000,000. Under the provisions of Section 29.2 there are five criteria to evaluate the project's fiscal feasibility, as follows:

1) Direct and indirect financial benefits of the project to the City, including to the extent applicable cost savings or new revenues, including tax revenues generated by the proposed project;
2) The cost of construction;
3) Available funding for the project;
4) The long-term operating and maintenance cost of the project; and
5) Debt load to be carried by the City department or agency.

This report evaluates the anticipated performance of the proposed Pier 30-32 and SWL 330 Project to be undertaken by Strada-TCC Partners, LLC (the "Developer") relative to these five criteria.

The Port and the Developer are currently in the process of negotiating the business terms of agreements that will govern the conveyance of the properties to the Developer and the development of the Project. This analysis reflects the preliminary terms as contained in the January 17, 2024 Draft Term Sheet, which is provided as Appendix A. While some of the terms may change before the transaction agreements are executed, it is believed the preliminary projections and terms are refined sufficiently for purposes of this analysis to assist the Board of Supervisor's in its determination of fiscal feasibility.

A. Project Description

The Project[4] is comprised of two components: 1) Redevelopment of Piers 30-32 with a mixed-use concept including 430,000 square feet of office space, an aquatic center, and a retail

[4] Project unit counts and non-residential square footages referenced in this report reflect the program modeled in the Developer's October 2023 financial proforma and are consistent with the program quantities referenced in the Draft Term Sheet but may differ slightly due to rounding factors.

market hall; and 2) development of SWL 330 with approximately 710 residential units, of which 25 percent will be affordable.

The first two phases of the project will focus on the development of SWL 330 with two residential buildings, containing approximately 616 rental apartments, with 90 units restricted to households earning no more than 80 percent of the Area Median income. The residential units will include studios, one bedroom and two-bedroom units, with an average unit size of 710 square feet. The ground floor of the buildings will include community and retail space. A portion of the SWL 330 site will be set-aside for the development of a 94-unit affordable apartment building, with rental rates affordable to households earning 55 percent of the Area Median Income. The construction of the affordable building is contingent upon obtaining the necessary funding sources including impact fees from the Project and outside sources, such as Low-Income Housing Tax Credits (LIHTC). The Project will also include 175 parking spaces for residents. The first two phases of the project are anticipated to start construction in July 2027 with completion by December 2029.

Phase 3 of the Project includes strengthening the seawall along the Project site, constructing seismically strengthened and sea-level rise resilient infrastructure, and reconstructing the piers. Project components include an aquatic center with a floating swimming pool and access points for personal watercraft, 430,000 square feet of office space and 70,000 square feet of retail space, located primarily in a market hall and space for Red's Java House. Additionally, the Project will include a deep-water berth both for excursions and for Navy and MARD and other vessels to respond to an emergency or natural disaster. Demolition is slated to start in July 2030 and vertical improvements are anticipated to be complete by May 2034.

Table 1. Summary of Proposed Development Program, Piers 30-32 and SWL 330

SWL 330	
Approx. Market rate residential units	526
Inclusionary Affordable Units (80% of AMI)	90
Affordable Units (55% of AMI)	94
Approx. Total Residential Units	710
Retail space	8,000 square feet
Piers 30-32	
Approx. Office Space	430,000 square feet
Retail Market Hall	70,000 square feet

The Project will provide a range of public benefits including publicly accessible waterfront space, maritime uses, revenue generation, and significant resilience and infrastructure improvements. Through the Project, the Port will redevelop existing surface parking lots into major mixed-use buildings with seismically strengthened infrastructure built to protect against sea level rise. Additionally, the Project will activate the South Beach waterfront area through on-site retail space and aquatic activities. Subject to all necessary approvals and completion, the Project will achieve seven of the Port's Strategic Plan objectives: 1) economic recovery; 2) resilience; 3) evolution; 4) engagement; 5) equity; 6) sustainability; and 7) productivity.

B. Financial Terms of the Lease and Lease Disposition and Development Agreement ("LDDA")

The Port and Developer are currently negotiating the terms of a Lease and Lease Disposition and Development Agreement ("LDDA"), which will identify each party's rights and responsibilities relative to the development of the Project. Port staff and the Developer have negotiated a Draft Term Sheet that presents a conceptual agreement by the parties and is provided as Appendix A.

In summary, the Port's responsibilities consist of: 1) executing up to four separate ground leases (one lease for the Piers 30-32 site, up to two for the SWL sites to be built with mixed-income residential buildings, and one for the SWL affordable site); 2) leasing the Piers 30-32 site for a term of 66 years; and 3) leasing the SWL sites for a term of 75 years; and 4) collaborating with the Developer to explore additional funding sources to fill the $125 million pier infrastructure feasibility gap.

The Developer's responsibilities consist of: 1) leasing the properties from the Port; 2) reconstructing the existing piers with one single pier, and developing the Project consistent with the approved concept; 3) securing funding for all Project development costs; 4) securing a development partner to develop the 94-unit affordable apartment project; 5) meeting the performance schedule identified in the term sheet; 6) implementing the Community Benefits programs identified in the Term Sheet; and 7) maintaining all of the Project's improvements and facilities.

Annual base rent on SWL 330 and Piers 30-32 will be $600,000 and $900,0000, respectively (with escalations). Base rent will increase based on the CPI growth with a floor of 2% per year and a cap of 6% per year from LDDA execution to Ground Lease execution. The Base rent will increase every 5 years after execution based on CPI growth with a floor of 2% per year and a cap of 6% per year. The base rent for Piers 30-32 will increase to $1.8 million per year if a site permit for the piers 30-32 site has not been approved 24 months after completion of Phase 1.

During construction, the annual rent will be reduced to $150,000 for SWL 330 and $200,000 for Piers 30-32. Construction rent on the SWL lease(s) is owed from the execution of the ground lease until the issuance of a certificate of occupancy, with a maximum of 36 months for the SWL leases and 60 months for the Pier lease. Construction rent will increase based on CPI growth with a floor of 2% per year and a cap of 6% per year from LDDA execution to Ground Lease execution.

Lease payments over the 66-year ground lease term for the pier property and the 75-yeare term for the SWL property are anticipated to total $265 million in nominal dollars, or $71 million in uninflated dollars.

Table 2. Anticipated Base Ground Lease Revenues to the Port

	Nominal Dollars	***Uninflated Dollars***
Piers 30-32 Ground Lease	$129,474,000	$37,053,000
SWL 330 Leases	$135,425,000	$34,018,000
Total	$264,899,000	$71,071,000

In addition to base lease revenues, the Port will receive participation payments equal to 20% of net sales or refinance proceeds after the Project generates a return on equity in excess of 18% from the first sale or refinancing resulting in the repayment of project equity. The Project is not anticipated to achieve the 18% threshold and is therefore not expected to generate any participation revenue to the Port from the Developer. The Port will also participate in net revenues from subsequent sales/refinances of the vertical improvements equal to 1.5% of net proceeds (gross proceeds less outstanding debt, equity and transaction costs). Given that the timing of future resales/refinances is unknown, this analysis has conservatively modeled a scenario in which the pier improvements will sell in year 2065, which is 30 years after the Developer's estimate of the initial sale and that the SWL improvements will sell in year 2062 and again in year 2092, which reflect 30-year hold periods until the SWL ground lease expires in 2100. Under this scenario, it is estimated that participation payments to the Port from resales will approximate $127.5 million if inflated dollars, or $28.8 million in uninflated dollars.

Table 3. Anticipated Participation Payments to the Port from Resales/Refinancings

	Nominal Dollars	***Uninflated Dollars***
Piers 30-32 (one resale until ground lease expires in 2091)	$42,700,000	$12,700,000
SWL 330 (two resales until ground lease expires in 2100)	$84,800,000	$16,100,000
Total	$127,500,000	$28,800,000

Upon the expiration of the SWL leases in 75 years and the Pier 30-32 lease in 66 years, the ownership of all vertical and horizontal improvements will revert to the Port of San Francisco.

III. FINANCIAL BENEFITS

A. Ongoing Fiscal Benefits to the City of San Francisco

1. Ongoing General Fund Revenues

The Project is anticipated to generate a significant amount of annual net revenue to the General Fund of the City and County of San Francisco. As summarized below, it is estimated that upon full buildout and stabilization, the Project will generate approximately $7.1 million of annual tax/fee revenue to the General Fund, which can be used to fund the full array of General Fund services. This amount is net of $8.3 million of property tax revenues to be deposited into the IFD for the funding of infrastructure improvements and $2.8 million of annual of Aggregate Discretionary Revenues ("ADR") and mandated transfers to be dedicated for restricted uses. Annualized property tax revenues, followed by gross receipts tax revenues and property tax in-lieu of motor vehicle license fees, are expected to be the leading categories of General Fund revenue to be generated by the Project. The calculation of General Fund revenues is presented in Appendix B.

Table 4. Estimated Annual General Fund Revenue Upon Stabilization

	Amount
Property/Possessory Interest Tax	$8,332,000
Annualized Transfer Tax	$3,953,000
Gross Receipts Taxes	$3,300,000
Property Tax in-lieu of MVLF	$1,375,000
Sales Tax	$501,000
Utility User and Access Line Tax	$348,000
Business Registration and Commercial Rents	$399,000
Parking Tax	$42,000
Annual Unadjusted General Fund Revenues	*$18,250,000*
(Less) General Fund Baseline Requirements	*(2,820,000)*
(Less) Property Taxes Dedicated to IFD	*($8,332,000)*
Net General Fund Revenues	***$7,098,000***

- ***Property/Possessory Interest Tax Revenues*** – It is estimated that property/possessory interest taxes will represent the largest single source of General Fund revenue to be generated by the Project, totaling an estimated $8.33 million per year. Per the City and County of San Francisco's Controller's Office, the San Francisco General Fund receives 64.5882%[5] of the 1% property/possessory interest taxes levied on the Property. Property/possessory interest taxes are based on the incremental assessed value of development. The property's current assessed value is zero. Per the Draft Term Sheet,

[5] Comprised of 55.5882% base allocation to the General Fund and 9% allocation to the Children's Services, Library Services, and Parks funds.

100% of the property tax/possessory interest taxes will be dedicated to the IFD to fund the Project's infrastructure costs and will therefore not be available to fund ongoing General Fund service costs.

The Project's assessed value has been estimated using both a cost approach and an income approach. Under the cost approach, assessed value is conservatively based on the sum of imputed land value, hard construction costs and 50% of soft construction costs. Under this approach, the project's assessed value is estimated at $1.26 billion. Under the income approach, assessed value is based on the capitalized value of the Project's income stream. Based on the Project's projected net operating income of $67.4 million per year, its assessed value is estimated at $1.3 2 billion. The average of these two approaches is $1.29 billion, which has been assumed in this analysis. Please refer to Appendix B Table 5 for the calculation of the Project's assessed value.

- ***Annualized Transfer Taxes*** – The Developer anticipates selling the buildings on the SWL in January 2032 and the improvements on the Pier in June 2035. These sales will generate transfer tax revenues at the time of the sales. While sales and transfer taxes will occur infrequently, for purposes of this analysis, these "lumpy" revenues have been converted into an imputed average annualized revenue stream by assuming a 5% average annual turn-over rate and that all commercial real estate transactions will be over $25 million. Please refer to Appendix B Table 13 for the calculation of annualized transfer taxes.

- ***Gross Receipt Taxes*** – The third largest source of General Fund revenue to be generated by the Project will be gross receipts taxes. The City and County of San Francisco currently imposes a graduated tax on gross receipts. Gross receipts have been estimated based on employment estimates and output figures generated by the RIMS II model. Office gross receipt estimates reflect the assumption that 50% of receipts are generated by San Francsico activity and are subject to the tax. The Project's office tenants will also generate Homeless Gross Receipts taxes on annual revenues exceeding $50 million. Please refer to Appendix B Table 10 for the calculation of gross receipt and homeless gross receipt taxes.

- ***Property Tax In-Lieu of Motor Vehicle License Fees*** – The City receives an allocation of property tax revenues in lieu of motor vehicle license fee revenues from the State based on the growth of Citywide assessed property values. In accordance with SB 1096 and data from the California State Controller's Office, projected revenue from the Project is based on the Project's assessed value. Please refer to Appendix B Table 7 for the calculation of the property tax in-lieu of motor vehicle license fee revenues.

- ***Business Registration Fees and Commercial Rents Taxes*** – Annual business registration fees have been estimated based on the estimated annual business gross receipts. Commercial rent tax revenues have been estimated based on the Developer's anticipated rental income from office tenants and a 15% allocation to the General Fund. It has been assumed that the retail businesses will be “non-formula” establishments that are exempt from the tax. Please refer to Appendix B Tables 11 and 12 for the calculation of revenues.

- ***Sales Tax Revenues*** – Sales tax revenues will be generated by the Project’s retail and restaurant businesses and the retail expenditures of Project residents and employees at retail establishments throughout San Francisco. Resident spending estimates are based on statewide expenditure patterns and the estimated income of residents. The spending estimates differentiate between market rate and affordable units. Employee expenditures reflect the assumption that office employees work on-site an average of three days per week. Please refer to Appendix Tables 8 and 9 for the calculation of sales tax revenues to be generated by the Project.

- ***Utility User and Access Line Tax Revenues*** – Utility user and access line tax revenues to be generated by Project residents and businesses have been has been estimated based on City and County of San Francisco per capita budget factors for FY 2023/24. Please refer to Appendix B Table 14 for the calculation of utility user and access line tax revenues.

2. Annual ADR and Baseline Transfer Revenues

Per the City’s Charter, 28.43% of annual General Fund revenues are transferred to specific funds. The Project is anticipated to annually generate $2.8 million of baseline transfer revenues.

Table 5. Estimated Annual Other City/County Fund Revenue Upon Stabilization

	Amount	*% Allocation from GF Discretionary*
Municipal Transit Agency (MTA)	$912,000	9.1930%
Children’s Services Fund	$869,000	8.7600%
Library Preservation Fund	$227,000	2.2860%
Early Care and Education Baseline	$209,000	2.1035%
Housing Trust Fund	$108,000	1.0931%
Recreation and Parks	$187,000	1.8887%
Dignity Fund	$137,000	1.3785%
Student Success Fund	$120,000	1.2148%
Street Trees	$51,000	0.5154%
Total	***$2,820,000***	***28.4330%***

Please refer to Appendix B Table 15 for the calculation of ADR and baseline transfer revenues

3. Annual General Fund Service Costs

Upon buildout, the annual cost to provide municipal services to the Project is estimated to total $4.62 million. The breakdown of expenditures by departments is shown in the following Table.

Table 6. Annual Project-Generated General Fund Service Costs

Department	*Estimated Annual Department Service Costs*
Community Health	$551,000
Police Protection	$1,270,000
Fire Protection	$923,000
Other Protection	$307,000
Public Works, Transportation & Commerce	$428,000
Human Welfare and Neighborhood Development	$785,000
Culture and Recreation	$99,000
General Administration and Finance	$169,000
General City Responsibilities	$90,000
Total Annual General Fund Expenses	$4,662,000

The cost estimates have been derived based on the application of current citywide service cost factors to the Project's projected service population upon buildout. Citywide per capita service cost factors have been estimated based on the portion of each department's budget that is linked to population and employment growth. Based on prior fiscal impact analyses conducted for the City of San Francisco, it has been estimated that the portion of department budget that are driven by the growth of population is 100% for police and fire departments, 90% for the public works, transportation and commerce department, and 25% for all other departments. Consistent with other recent fiscal impact analyses prepared for the City, it has been assumed that the service population of the City (and of the Project) is equivalent to 100% of residents plus 50% of the number of employees. The 50% factor is in recognition that employees do not require the same level of services as do residents and that a portion of employees are also residents.

The Developer and future owners will be responsible for maintaining all Project improvements, including public plazas. Maintenance to be provided by the Developer/owner will be consistent with all Port standards. The Developer is not aware of any new publicly owned improvements that will be constructed by the Project for which the Port or City will be obligated to maintain or operate. Please see Appendix B Table 17 for the calculation of the Project's annual General Fund Service costs.

B. Financial Benefits to the Port of San Francisco

A primary benefit to the Port is securing a developer to undertake the $462 million of improvements necessary to reconstruct the piers and strengthen the seawall.

Direct ongoing annual revenues from the Project to the Port will consist of lease revenues. And because the Port is conveying the property to the Developer through long-term ground leases, the ownership and value of the entire property, including the office and residential units to be constructed by the Developer, will revert to the Port upon the expiration of the ground leases.

1. Lease Revenues

It is anticipated that two ground leases will be executed for the SWL property – Phase 1 and Phase 2. Annual base rent on SWL 330 and Piers 30-32 will be $600,000 ($300,000 for each phase) and $900,0000, respectively (with escalations). During construction, the annual rent will be reduced to $150,000 for SWL 330 and $200,000 for Piers 30-32. Ground rent will increase based on the CPI (limited to 2 to 6 percent annually) every five years. Construction rent on SWL 330 leases will be effective from the execution of the lease until the issuance of a certificate of occupancy, up to a maximum of 36 months. Construction rent on the Piers 30-32 lease will be effective from the execution of the lease until the issuance of a certificate of occupancy, up to a maximum of 60 months.

If a site permit for Piers 30-32 is not approved within 24 months of completion of the first residential building, the total base rent will increase to $1.8 million per year (plus CPI adjustments), with $900,000 apportioned to Phase 1 and $900,000 apportioned to Phase 2. If at any time the Developer receives a site permit for Piers 30-32, base rent will return to $600,000 annually with CPI adjustments. The table below summarizes the Ground lease terms for each of the four sites:

Table 7. Piers 30-32 and SWL 330 Ground Lease Terms

Site	*Term*	*Base Rent*	*Construction Rent*	*Additional Terms*
SWL 330 Phase 1	75 years	$300,000	$75,000 (up to 36 months)	Rent increases to $900,000 annually if performance benchmarks not met
SWL 330 Phase 2	75 years	$300,000	$75,000 (up to 36 months)	Rent increases to $900,000 annually if performance benchmarks not met
SWL 330 Affordable Site	75 years	$0	$0	
Piers 30-32	66 years	$900,000	$200,000 (up to 60 months)	

Base ground lease payments over the 66-year ground lease term for the pier property and the 75-yeare term for the SWL property are anticipated to total $265 million in nominal dollars, or $71 million in uninflated dollars. The ground rent on the affordable housing site will be $0.

Table 8. Anticipated Base Ground Lease Revenues to the Port

	Nominal Dollars	*Uninflated Dollars*
Piers 30-32 Ground Lease	$129,474,000	$37,053,000
SWL 330 Leases	$135,425,000	$34,018,000
Total	$264,899,000	$71,071,000

In addition to base lease revenues, the Port is eligible to receive two forms of participation payments. The first component is a participation payment equal to 20% of net sales or refinance proceeds after the Project generates a return on equity in excess of 18% from the first sale or refinancing resulting in the repayment of project equity. The Project is not anticipated to achieve the 18% threshold and therefore not anticipated to generate this form of participation revenue to the Port. The second component is participation in subsequent resales or refinances of vertical improvements. The Port will receive participation payments equal to 1.5% of net proceeds (gross proceeds less outstanding debt, equity and transaction costs). Given that the timing of future resales/refinances is unknown, this analysis has conservatively modeled a scenario in which the pier improvements will experience a resale in year 2065, which is 30 years after the Developer's estimate of the initial sale and prior to the lease expiration in 2091. It has been assumed that the SWL improvements will sell in year 2062 and again in year 2092, which reflect 30-year hold periods until the SWL ground lease expires in 2100. It has been assumed that outstanding debt has fully been retired and equity recovered during the 30-year hold periods. Under this scenario, it is estimated that participation payments to the Port from resales will approximate $127.5 million if inflated dollars, or $28.8 million in uninflated dollars.

Table 9. Anticipated Participation Payments to the Port from Resales/Refinancings

	Nominal Dollars	***Uninflated Dollars***
Piers 30-32 (one resale until ground lease expires in 2091)	$42,700,000	$12,700,000
SWL 330 (two resales until ground lease expires in 2100)	$84,800,000	$16,100,000
Total	$127,500,000	$28,800,000

2. Reversion Value upon the Expiration of the Leases

When the leases on the Pier and SWL properties expire, the ownership of the property, including all vertical improvements will revert to the Port. While the future value of the Project at the lease termination date has not been evaluated, the value of the improved property upon completion is estimated at approximately $1.29 billion.

3. Additional Benefits to the Port

The Project will provide a range of public benefits including publicly accessible waterfront space, maritime uses, revenue generation, and significant resilience and infrastructure improvements. Through the Project, the Port will redevelop existing surface parking lots into major mixed-use buildings with seismically strengthened infrastructure built to protect against sea level rise. Additionally, the Project will activate the South Beach waterfront area through on-site retail space and aquatic activities. Subject to all necessary approvals and completion, the Project will achieve seven of the Port's Strategic Plan objectives: 1) economic recovery; 2) resilience; 3) evolution; 4) engagement; 5) equity; 6) sustainability; and 7) productivity.

C. Economic Benefits to the City of San Francisco

It is estimated that the Project's businesses will create approximately 1,860 permanent jobs and over $203 million of annual wage earnings. The construction of the Project will generate approximately 4,100 job years of construction jobs, and over $335 million of construction wages. In addition to the direct employment, wages, and tax revenues to be generated by the Project, the new businesses and the employees will support other businesses in San Francisco. Including indirect and induced impacts, the Project's operations are estimated to support the creation of over 2,600 new jobs in San Francisco and over $267 million of new wage earnings. Please see Appendix B Table 19 for the calculation of economic benefits to be generated by the Project.

D. One-Time Construction Revenues to the City of San Francisco.

The construction of the Project will also generate one-time revenues to the City of San Francisco. Sales and use tax revenues from the purchase of construction materials are estimated to total $8.4 million, with $6.0 million accruing to the General Fund and $2.4 million accruing to Baseline transfer funds. Additionally, the Project will generate a total of $70.1 million of development impact fee revenues. Impact fee revenues are restricted revenues to mitigate the impacts created by the Project and are not available for General Fund expenditures.

E. Fiscal Benefits to Other Taxing Agencies

Other taxing agencies will receive a direct financial benefit from a portion of the Project's annual property taxes, as follows:

Table 10. Non-City Taxing Agency Benefit

	Percent of Base 1% Property Tax Levy	***Estimated Annual Property Tax Revenues***
San Francisco Community College District	1.44%	$186,000
San Francisco Unified School District	7.70%	$993,000
County Office of Education	0.10%	$13,000
Bay Area Air Quality Management District	0.21%	$27,000
Bay Area Rapid Transit District	0.63%	$82,000
Educational Revenue Augmentation Fund (ERAF)	25.33%	$3,268,000
Total Property Tax Revenues to Non-City Agencies	35.41%	$4,568,121

IV. COST OF CONSTRUCTION AND AVAILABLE FUNDING

A. Cost of Construction

The Project's development costs are anticipated to exceed $1.65 billion[6], comprised of $1.12 billion of improvements on Piers 30-32 and $0.53 billion of improvements on SWL 330. The cost to replace the piers and stabilize the seawall is anticipated to total $462.1 million.

Table 11. Summary of Project Costs ($millions)

	Piers	***SWL 330***	***Total***
Vertical Development			
Hard Costs	$449.1	$417.8	$866.9
Soft Costs/ Impact Fees	$169.0	$82.6	$251.6
Financing Costs	$38.1	$23.2	$61.3
Total Vertical Costs	***$656.3***	***$523.6***	***$1,179.9***
Horizontal Costs			
Entitlement Costs	$0.0	$10.0	$10.0
Horizontal Costs	$462.1	$0.0	$462.1
Financing Costs	$0.0	$0.0	$0.0
Total Horizontal Costs	***$462.1***	***$10.0***	***$472.1***
Total Development Costs	**$1,118.3**	**$533.6**	**$1,652.0**

B. Available Funding for the Project

Identified funding sources for the Project currently total $1.53 billion. As shown in the following chart, it is expected that the Project will support $854.2 million of private debt and $523.1 million of private equity that will not subject to reimbursement by IFD revenues or other grant funds, yielding a combined total of $1.38 billion of private funds. The Project's $1.18 billion of vertical improvement costs will be fully funded by a combination of private debt and equity, leaving a balance of $197 million of available equity for infrastructure and entitlement costs. It is anticipated that the $462.1 million of pier infrastructure and seawall improvements will be funded with $187.5 million of permanent equity, an additional $71.4 million of equity to be advanced by the Developer but reimbursed by CFD/IFD revenues, $78.2 million of CFD bond proceeds[8], and $125 million of additional funding that has not yet been secured.

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[6] The development budget excludes the cost of developing the stand-alone affordable housing development with 94 units. While the Developer will be providing the development site, a non-profit developer partner will develop the affordable project.

[8] Debt service on the CFD bonds will be funded with property tax and possessory interest taxes allocated to the IFD.

Table 12. Anticipated Sources of Funds ($millions)

	Piers	*SWL*	*Total*
Construction Loan	$534.1	$320.2	$854.2
CFD with IFD paying Debt Service	$78.2	$0	$78.2
Equity Funds to be reimbursed by additional CFD/IFD	$71.4	$0	$71.4
Equity Funds not subject to reimbursement	$309.6	$213.4	$523.1
Total Identified Funds	$993.3	$533.6	$1527.0
Total Funds Needed	$1,118.3	$533.6	$1652.0
Additional Funds Needed for Infrastructure (Financial Gap)	$125.0	$0	$125.0

Potential sources to fund the $125 million gap include the following:

- Additional private investment supported by improved market conditions
- Federal and/or State funds for resilience, waterfront infrastructure, or affordable housing
- Reductions or adjustments to the amount of local development impact fees to be paid by the Project
- Waiving or adjusting the City Transfer Tax
- Dedication of other local tax revenues to be generated by the Project
- Coastal Conservancy Grant Funding

While the Developer and Port staff have not identified the exact mix of funds to close the $125 million infrastructure feasibility gap at this time, the team believes that it will be able to secure these funds by the time the Piers 30-32 side of the Project is ready to commence construction.

Per the Project's anticipated financing plan, the portion of the Project to be built on SWL 330 will be fully funded by private debt and equity, will not require any public investment, and will be able to proceed independently from the improvements to Piers 30-32.