The Economics of Land Use

Report

Seawall Lot 337 and Pier 48 Development Project

Findings of Fiscal Responsibility and Feasibility

Prepared for:

The City and County of San Francisco

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EXECUTIVE SUMMARY

Chapter 29 of the City's Administrative Code requires that the Board of Supervisors make findings of fiscal feasibility for certain development projects before the City's Planning Department may begin California Environmental Quality Act ("CEQA") review of those proposed projects. Chapter 29 requires consideration of five factors: (1) Direct and indirect financial benefits of the project, including, to the extent applicable, cost savings and/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 provides information for the Board's consideration in evaluating the fiscal feasibility of a proposed development by the SWL 337 Associates LLC on Seawall Lot 337 ("SWL 337"), and the improvement and use of Pier 48, collectively referred to as the "Project." A more detailed description of the Project is provided in the **INTRODUCTION** to this report**.**

(1) Financial Benefits. The Project will provide a range of direct and indirect benefits to the City and the Port. Additional details on and analysis of the Project's financial benefits are provided in **CHAPTER 1** of this report.

- **a. Fiscal Benefits to the City and Port**. The development of SWL 337 and the improvement and use of Pier 48 will provide both new ongoing and one-time revenues. Ongoing revenues to the City include new tax receipts from Property, Possessory, Sales, Parking, Hotel, and Gross Receipts taxes. Based on the proposed development, these ongoing revenues are currently estimated to amount to $21.5 million in annual revenue to the City upon full Project build-out in 2013 dollars. A portion of the possessory interest tax revenues will be allocated to construction of public facilities and infrastructure on the Project site through the use of financing districts.

  The City will also receive one-time benefits from Development Impact Fees (Jobs Housing Linkage, Child Care, Transportation Impact Development Fee), as well as revenue associated with construction of the Project. These one-time revenues are estimated to be $60.2 million in 2013 dollars and would be received over the course of project development.

- **b. Economic Benefits to the City**. The Project will have economic impacts that benefit the City's overall economy. New direct, indirect, and induced economic activity created by construction activity for the Project is projected to create approximately 10,100 annual full time job equivalents.[1] At full build-out, the Project itself is projected to support 11,100 permanent jobs in San Francisco.

[1] Construction jobs represent "job-years" generated over the course of development only.

c. **Direct Financial Benefits to the Port**. The Port will receive an annual rent projected at $4.5 million[2] when the development is complete; rent to the Port would be even greater to the extent that the disposition of the properties on the Project site generates more value than anticipated, and to the extent that the Port's participation rent from future buildings exceeds the minimum Base Rent. The participation rent from future buildings on parcels subject to competitive solicitation[3] will include 15 percent of gross revenues from retail uses (beginning in Year 16), and will include a share of revenue from housing and office uses (share to be determined in the forthcoming Disposition and Development Agreement[4]). The Port will also participate in a share of proceeds from certain sales and refinancings.

d. **Direct Benefits to the City**. The proposed Project will include a number of public benefits, including over eight acres of new publicly accessible parks and open spaces; landscaped pedestrian facilities including waterfront pathways and pedestrian-only street segments; bicycle networks for both commuters and recreational riders; the rehabilitation of Pier 48, with restored public access to its apron along Pier 48; a new personal watercraft embarkation point; and a ground-level retail environment thoughtfully designed to both serve local residents and workers and attract visitors.

Additional details and analysis on the financial and economic benefits of the Project are provided in **CHAPTER 1**.

(2) Cost of Construction. The Project as currently proposed will cost approximately $1.2 billion to construct ($1.5 billion in nominal terms). This cost estimate includes $1.1 billion for vertical building construction ($1.3 billion in nominal terms), and $130 million for new infrastructure and public facilities ($154 million in nominal terms, including Pier 48), as set forth in further detail in **CHAPTER 2**.

(3) Available Funding for the Project. Predevelopment and infrastructure costs initially will be privately financed by the Master Developer. The Master Developer will be reimbursed and the infrastructure funding potentially augmented by several sources, including the up-front sale of Development Rights to vertical developers, special taxes levied by Community Facilities Districts (each, a "CFD") formed under the Mello-Roos Community Facilities Act of 1982, tax increment financing from Infrastructure Financing

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[2] Term Sheet, February 22, 2013, Sec. 9a describes minimum Reserve Rent, projected to grow as shown in Term Sheet Exhibit E.

[3] Term Sheet, February 22, 2013, Sec. 9e

[4] The Development and Disposition Agreement ("DDA") is anticipated to be executed in 2015 following its negotiation and the completion of environmental and regulatory review and all required approval. Percentage revenue sharing from parcels acquired by the Master Developer affiliate will be determined in collaboration with the Port.

District ("IFD") project areas, and debt issuance backed by CFD and IFD revenues. Private funds will be used for construction of all residential and commercial uses, including costs for building design and construction, City impact fees, and other agency fees. Additional information is provided in the **INTRODUCTION** and in **CHAPTER 3.**

(4) Long-Term Operating and Maintenance Costs. The Master Developer (and/or subtenants) will be responsible for a portion of the Project's operation and maintenance, including all publicly accessible open space and routine street sweeping and maintenance for the term of the ground lease. City departments, including the San Francisco Police and Fire Departments, Municipal Transportation Agency ("SFMTA"), and the Department of Public Works ("DPW"), will have increased service responsibilities associated with the anticipated population and employment increase within the Project area. **CHAPTER 4** of this report provides additional information about the anticipated additional demands for services and cost estimates, where available. The cost estimates associated with these services will be further refined through the course of the California Environmental Quality Act ("CEQA") review of the Project.

(5) Debt Load to be Carried by the City or the Port. As described in further detail in the Term Sheet, the Project proposes to use proceeds of an IFD and a CFD for construction of public facilities and infrastructure. Such debt obligations will be secured by special taxes and possessory interest taxes paid by the Project lessees and property owners and will not obligate the City's General Fund or the Port's Harbor Fund. The IFD property tax increment may be used to pay for infrastructure directly, repay IFD bonds, or to pay debt service on CFD bonds, as described below. See **CHAPTER 5** for additional information.

INTRODUCTION

Chapter 29 of the City's Administrative Code requires that the Board of Supervisors review certain development projects before the City's Planning Department may begin California Environmental Quality Act ("CEQA") review of those proposed projects. In particular, the Board of Supervisors must make a determination of fiscal feasibility and responsibility when the plan for a proposed project exceeds $25 million in construction cost, and where at least $1.0 million of the cost is paid by certain public monies, including rent credits.

This report provides information under Chapter 29, subsection Sec. 29.2, for the Board's consideration in evaluating the feasibility of a proposed development by SWL 337 Associates (the "Master Developer") on Seawall Lot 337 ("SWL 337") and the reuse of Pier 48, collectively referred to as the "Project." The current Project program includes the construction of new office, residential, retail, parking, and open space uses on SWL 337, in addition to the rehabilitation and reuse of Pier 48 and its aprons.

Section 29.2 of the San Francisco Administrative Code lists five criteria for evaluating the fiscal feasibility of a project:

(1) Direct and indirect financial benefits of the project, 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 costs of the project; and

(5) Debt load to be carried by City departments and agencies.

Each of these criteria is discussed in the chapters that follow.

Central to this analysis is the Project's "Term Sheet," a non-binding document between the Port and the Developer, which outlines certain basic business terms of the Project. The Term Sheet:

- Describes negotiated deal terms for the Project, including financial terms.
- Describes the procedures for determining rents for Parcel Ground Leases (to vertical building developers) and, potentially, sale prices for outright parcel sales (if made possible through a future Public Trust swap).
- Has been informed by an ongoing public outreach process for the Project.
- Outlines certain basic terms contemplated for the Project's final transaction documents, including a Disposition and Development Agreement ("DDA").
- Is subject to endorsement by the Port Commission and the Board of Supervisors.

Provisions in the Term Sheet will be expanded upon in greater detail within various transaction documents to be created as the Project progresses.

The evaluation of fiscal feasibility, including financial benefits to the City and the Port, is preliminary, based on the current characteristics of the Project. The information is subject to change as the project description is revised through public review, the CEQA process, and the negotiation of final transaction documents. Actual fiscal outcomes also will depend on future economic conditions; local, State and Federal policies; and other possible actions that may affect the Project.

Proposed Development

Pier 48

The proposed Mission Rock Project includes two major components on separate Port parcels. The first parcel is Pier 48, a contributing resource to the Port of San Francisco Embarcadero Waterfront Historic District, which is listed on the National Register of Historic Places. The Master Developer has identified a potential tenant for the Pier 48 sheds and valley, and the Port has indicated its willingness to consider leasing the Pier 48 sheds and valley to the potential tenant after completion of environmental review for the Project. The proposed use of the Pier 48 sheds is allowed under existing zoning.

Pier 48 is a 212,500 square-foot facility, with two main pier sheds, Shed A and Shed B, connected by a connector shed, Shed C, at the east end of the pier. These three sheds collectively contain about 181,200 square feet of enclosed warehouse space, with a 31,300 square-foot uncovered "valley" between Shed A and Shed B. This report assumes that 10,000 square feet of Sheds A and B along Terry Francois Boulevard are utilized for retail uses.

Under the proposal, the Port would lease the warehouse sheds and valley at the facility to a user that would be responsible for certain superstructure, seismic, and possibly substructure improvements to the pier, in addition to ongoing maintenance and repairs and tenant improvements to suit the proposed use. It is anticipated that a potential lease for any portion of Pier 48 would reflect the Port's parameter rent for similar shed structures.[5]

Seawall Lot 337

The second parcel is Seawall Lot 337. The Master Developer proposes to divide SWL 337 into two parks, a waterfront plaza, and 11 development parcels, 10 of which would be developed as a mix of commercial/office, retail, and residential uses, and the 11th of which would be developed as structured parking. The structured parking parcel (the "Parking Structure") would serve new development and other nearby uses, including games and other events at the AT&T Ballpark. Flexible zoning controls proposed for the Project would permit some parcels to be developed for either commercial or residential uses to allow for development to respond to market conditions.

The proposed SWL 337 development includes 650 to 1,500 rental residential units; 1,300,000 to 1,700,000 square feet of commercial office and/or R&D space; 150,000 to 250,000 square feet of retail; and up to 3,000 parking spaces. This Report evaluates a specific program within these

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[5] Term Sheet, February 22, 2013, Sec. 24

ranges ("baseline development scenario"), consisting of 944 units of rental residential, 1.3 million gross square feet of office [6], 161,400 square feet of retail, and 2,816 parking spaces.

The Master Developer (and its development partners) will have options to develop the 10 mixed-use development parcels, subject to various exceptions defined in the Term Sheet.

Development is proposed to begin in approximately 2015 and continue in phases (each, a "Phase"); actual timing will depend on the certification of entitlements and market conditions. Immediately after the Project receives all required regulatory approvals, the Port and the Master Developer will enter into the DDA and an interim Master Lease for the Site. The Master Developer's base rent obligations under the Master Lease will be reduced as each parcel is transferred to a Vertical Developer for building development.

The Term Sheet lays out processes for these parcel transfers to Vertical Developers, including appraisal and auction mechanisms to ensure that the Vertical Developers pay fair market value in exchange for the use of the Port's land.

The baseline development scenario studied for this Report assumes that all vertical development parcels will be transferred to Vertical Developers under 75-year leases. The Port believes, however, that it may be able to obtain State approval for a Public Trust swap that would allow the Port to sell up to two of the development parcels (each, a "Trust Swap Parcel") outright.[7]

Parking Structure

Port and Master Developer have begun discussions with the San Francisco Municipal Transportation Agency ("SFMTA") to explore the feasibility of SFMTA financing and operating the Parking Structure. SFMTA operation of the garage could facilitate its implementation of City parking management and transportation policies. If the Parking Structure is not financed and operated by SFMTA, it may be offered for development to a Vertical Developer.[8] In any case, the Port is not expected to provide any public financing for the Parking Structure except the considerations to the Vertical Developer noted above, and CFD bond financing that can be serviced by special taxes levied on the taxable parcels at the Site or taxable parcels off-site that will benefit from the Parking Structure.[9]

Overview of Project Financing

Project economics are based on separate horizontal and vertical development stages. In general, the Master Developer will be responsible for all predevelopment and horizontal

[6] Commercial buildings will include parking and retail and will total at least 1.5 million gross square feet; in this report, uses are evaluated separately for purposes of the fiscal and economic analysis.

[7] Term Sheet, February 22, 2013, Sec. 18a.

[8] Term Sheet, February 22, 2013, Sec. 16c.

[9] Term Sheet, February 22, 2013, Sec. 16e. The levy of any such offsite special taxes would be subject to a vote by the affected landowners and/or residents, as required by CFD law.

infrastructure costs as development takes place and will be entitled to a market-based rate of return on its investment. Developer Return will be calculated separately for each Phase (with Entitlement Costs considered a separate Phase) and will be the greater of (i) the amount that is equivalent to a 20 percent IRR (computed with quarterly compounding) on unreimbursed Horizontal Development Costs for such Phase outstanding; and (ii) the amount that is 1.5 times the highest balance of horizontal development costs outstanding for that Phase, so that the Master Developer receives a minimum of a 1.5 times multiple on its peak equity.[10]

Parcels ready for development will be subject to an appraisal process whereby the value of each parcel is established. A portion of the value of each parcel will be transferred to Vertical Developers as “Development Rights”, and the remaining value will constitute ground rent to the Port. The Development Rights will be sized to pay off the Master Developer’s outstanding prior Phase costs, if any, fund additional infrastructure costs if possible, and provide Master Developer with Developer Return as defined above.

Prepaid fair market rent for the first two development parcels is expected to be high enough to reimburse all of Master Developer’s predevelopment costs and pay accrued return on its investment unless a severe economic downturn occurs in the next few years. The use of prepaid ground rent for this purpose minimizes the accrual of return owed to the Master Developer. Other mechanisms contemplated to reduce the Port’s financial obligation to the Master Developer and generate higher future rent revenues for the Port include efficient delivery of horizontal development within each Phase, timing public debt issuances to maximize benefits of low borrowing costs, selling one or more Trust Swap Parcels, and possibly employing prepaid ground leases for additional parcels.

In addition to utilizing the prepaid ground rent from the first two Phase 1 parcels and Development Rights sales revenues from subsequent parcels, the Port will reimburse the Master Developer’s horizontal costs through a combination of Development Rights payments, sale revenues (to the extent that trust swaps occur), CFD special taxes, and IFD tax increment financing.

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[10] Term Sheet, February 22, 2013, Sec. 12a.

1. FINANCIAL BENEFITS

The Project will generate a range of tax revenues that are summarized in **TABLES 1** and **2**. These revenues will help to fund services to the Project area, as well as Port and Citywide services and facilities. This chapter also describes other economic benefits from the Project, including increased economic activity in the City and the creation of new jobs, summarized in **TABLE 3**. Lease revenues to the Port are described in Section C of this chapter.

Key assumptions and calculations of fiscal benefits are shown in **APPENDIX A;** economic impact calculations are in **APPENDIX B**. The financial estimates are derived from the baseline development scenario proposed by SWL 337 Associates (described in the Proposed Development subsection above) and studied in the financial analyses that have underpinned the Term Sheet negotiation progress; actual results may vary depending on the actual development program and fiscal and economic conditions during the time the Project is developed and occupied. Flexible zoning controls will permit some parcels to be developed for either commercial or residential uses in response to market conditions at the time of development; this approach will help achieve full Project build out as quickly as practicable and in turn will maximize property value..

a. Fiscal Benefits to the City and the Port

New tax revenues from the Project will include both ongoing annual revenues and one-time revenues, as summarized in **TABLE 1** and **TABLE 2**, respectively. The revenues represent direct, incremental benefits of SWL 337 and Pier 48. These tax revenues will be available to help fund public improvements and services both within the Project and Citywide.

Table 1 Fiscal Results Summary – Ongoing Annual Revenues (2013$)

Item	Total
Annual General Revenue	
Property Tax in Lieu of VLF	$1,537,000
Sales Tax	$633,000
Gross Receipts Tax	$6,169,000
Parking Tax (City and County of SF @ 20%)	$423,000
Property Transfer Tax	$1,958,000
Subtotal	**$10,720,000**
Annual Other Dedicated and Restricted Revenue	
Parking Tax (MTA 80%)	$1,691,000
Public Safety Sales Tax	$316,000
SF County Transportation Authority Sales Tax	$316,000
Subtotal	**$2,323,000**
Possessory Interest Taxes (1)	**$8,453,000**
Total, General plus Other Dedicated and Restricted Revenues	**$21,496,000**

* Represent direct incremental public tax revenues attributable to SWL 37 and Pier 48.
Numbers have been rounded to the nearest thousand.

(1) Until project infrastructure costs are fully paid, the full $0.65 per possessory interest tax dollar generated from the site will be utilized to fund bond debt service and on a pay-go basis to fund infrastructure costs through an IFD approved by the Board of Supervisors.

Table 2 Fiscal Results Summary, One-Time Revenues (2013$)

Item	Total
Development Impact Fees (1)	
Jobs Housing Linkage - §413	$32,729,000
Affordable Housing-- §415 (2)	$0
Child Care	$1,424,000
TIDF - §411.3 (3)	$18,364,000
Total: Development Impact Fees	$52,517,000
Other One-Time Revenues	
Sales Taxes During Construction	$3,933,000
Gross Receipts Tax During Construction	$3,720,000
Total: Other One-Time Revenues	$7,653,000
Total One-Time Revenues	**$60,170,000**

(1) Impact fee rates as of January 17, 2013. Fee estimates per San Francisco Planning Dept. See Table A-4 for details on fee calculations.
(2) Project will provide inclusionary units and will not be subject to Affordable Housing Fee.
(3) Pending City legislation may modify the existing TIDF.
* Numbers have been rounded to the nearest thousand.

Possessory Interest Taxes

Possessory interest tax at a rate of 1 percent of value will be collected from the land and improvements associated with the Project.[11] The development (on publicly-owned land leased to private interests) will be charged a "possessory interest tax" in an amount equivalent to property tax.

The City receives up to $0.65 of every property or possessory interest tax dollar collected; the balance goes to other agencies, including the Education Revenue Augmentation Fund, which provides funding for schools. The General Fund distributes $0.08 cents from its $0.65 of property tax revenue to other dedicated City purposes, including the Children's Fund, Library Fund, and Open Space Fund. Taxpayers also pay various "overrides", including taxes for Citywide General Obligation bonds, special taxes and assessments that exceed the constitutional 1 percent property tax. These overrides are not estimated in this analysis.

The Term Sheet proposes to use IFD tax increment revenues to help fund horizontal development (site preparation, infrastructure, and site-wide amenities) and portions of Pier 48's

[11] Ad valorem property taxes supporting general obligation bond debt in excess of this 1 percent amount are excluded for purposes of this analysis. Such taxes require separate voter approval and proceeds are payable only for uses approved by the voters.

rehabilitation.[12] This analysis also assumes that net available possessory interest tax derived from the Project will be deployed to cover these costs, as required, rather than remaining in the General Fund. This analysis assumes that possessory interest tax available to the IFD will only include net available increment from the Project itself. The infrastructure financing plan that will be adopted along with the approval of the IFD project area will direct where excess IFD increment will flow once all applicable horizontal development has been funded. For purposes of this analysis, excess IFD taxes are assumed to flow to the City's General Fund. However, under the proposed Port IFD policy, recommended to the Board of Supervisors by the Capital Planning Committee, excess IFD taxes would go either to the General Fund or the City's seawall, subject to the discretion of the Board and the Mayor.

Land, buildings, and other improvements will be assessed and taxed. In the event of the sale of a parcel at SWL 337, the land will be assessed at the new transaction price; following development of buildings (and their sale, if applicable) the property will be re-assessed. In the case of a long-term ground lease, it is likely that the land will be assessed at the "present value" of the lease, which will reflect the value of the land if sold subject to the conditions of the lease. The assessed values will be determined by the City Assessor; the estimates shown in this analysis are preliminary and subject to revision. The secured assessed value of the Project is estimated based on development costs and reflect value upon lease-up and stabilization.

The assessed value is assumed to grow at a 2 percent annual rate (or at CPI, whichever is less) as permitted by State law, unless a transaction occurs which would reset the assessed value to the transaction price, or unless depreciation or adverse economic conditions negatively affect assessed value. The analysis assumes that the overall growth in value will keep pace with inflation. The Term Sheet includes mechanisms, for example special taxes, to assure that infrastructure can be adequately funded even if IFD property taxes decline.

It is likely that taxes will also accrue during construction, depending on the timing and method of assessment and tax levy.

Property Tax In-Lieu of Vehicle License Fees

The State budget currently converts a significant portion of what used to be Motor Vehicle License Fee (VLF) subventions, previously distributed by the State based using a per-capita formula, into property tax distributions. These distributions increase over time based on assessed value growth within each jurisdiction. These revenues to the City are projected to increase proportionately to an increase in the assessed value of the Project.

[12] The Port has proposed a set of IFD guidelines (Nov. 2012) for infrastructure investments on Port land, which includes a provision that all of the City's share of tax increment be available the associated IFD, in recognition of the Port's extraordinary capital needs. If the Board of Supervisors were to adopt these guidelines, the Project would receive $0.65 for every dollar of IFD tax increment. The Term Sheet for this Project, and the economics associated therewith are based on $0.65 for IFD collection purposes.

Sales Taxes

The City General Fund receives 1 percent of taxable sales. Sales taxes will be generated from several Project-related sources:

- Sales at new retail and restaurant uses at the Project
- Taxable expenditures by new residents and commercial tenants at the Project

In addition to the 1 percent sales tax received by every city and county in California, voter-approved local taxes dedicated to transportation purposes are collected. Two special districts, the San Francisco County Transportation Authority and the San Francisco Public Financing Authority (related to San Francisco Unified School District) also receive a portion of sales taxes (0.50 and 0.25 percent, respectively) in addition to the 1 percent local portion. The City also receives revenues from the State based on sales tax for the purpose of funding public safety-related expenditures.

Sales Taxes from Construction

During the construction phases of the Project, one-time revenues will be generated by sales and use taxes on construction materials and fixtures. Sales tax will be allocated directly to the City and County of San Francisco in the same manner as described in the prior paragraph.

Transient Occupancy Tax (TOT)

Hotel Room Tax (also known as Transient Occupancy Tax or TOT) will be generated by hotel occupancies that could be enhanced by the commercial and residential uses envisioned for the Project. The City currently collects a 14 percent tax on room charges. However, given that no hotel component is envisioned for the Project (out-of-town visitors to the site will likely stay at hotels elsewhere in the City), the impact will not be direct and is excluded from this analysis.

Parking Tax

The City collects tax on parking charges at garages and lots open to the public. The tax is 25 percent of the pre-tax parking charge. The SFMTA retains 80 percent of the parking tax revenue; the other 20 percent is available to the General Fund for allocation to special programs or purposes. If SFMTA were to operate the Parking Structure, its revenues would be subject to the City's parking tax.

This analysis assumes that all parking spaces envisioned for the Project will generate parking tax. This analysis does not include any off-site parking tax revenues that may be generated by visitors to the Project that park off-site. A detailed parking and transit analysis will be conducted as a part of further evaluations of the Project, which will likely provide a more refined estimate of this additional offsite parking tax revenue.

Property Transfer Tax

The City collects a property transfer tax of $6.80 per $1,000 of transferred value on transactions up to $1 million, $7.50 per $1,000 on transactions up to $5 million, $20.00 per $1,000 on transactions from $5 million to $10 million, and $25.00 per $1,000 on transactions above $10 million.

Given that SWL 337's residential units are envisioned as rental apartments and its commercial program will be leased, the turnover within the Project will be infrequent and limited to entire buildings. The fiscal analysis assumes that all property sells once every ten to twenty years, or an average of about once every 15 years. For estimating purposes, it is assumed that sales are spread evenly over every year, although it is more likely that sales will be sporadic. An average tax rate has been applied to the average sales transactions to estimate the potential annual transfer tax to the City. Actual amounts will vary depending on economic factors and the applicability of the tax to specific transactions.

Gross Receipts Tax

Estimated gross receipts tax revenues from on-site businesses and activities are derived from revenue estimates using data from the City's Assessor, retail sales, and parking revenue projections. This analysis does not estimate the "phase in" of this tax during the 2014 to 2017 period and assumes gross receipts taxes will be substantial enough to replace the existing payroll tax. Actual revenues from future gross receipt taxes will depend on a range of variables, including business sizes, share of activity within San Francisco, and other factors.

Transfer Fees to the Port

The Term Sheet provides that the Port may collect transfer fees upon the sale, transfer, or refinancing proceeds of certain properties.[13] This fee is separate and distinct from the current transfer taxes collected by the City. Depending on the magnitude of the fee relative to sales prices, there may be a minimal adverse impact on sales prices, assessed values, and property tax revenues. This analysis does not include any property transfer fees since the residential property is expected to be rental (unless property is removed from the Tidelands Trust restrictions), and turnover of commercial property is infrequent and difficult to predict. However, when sales or refinancing of residential rental and commercial buildings within the Project occur, the City, under the auspices of the Port, will receive property transfer fees from these transactions.

One-Time Revenues

The City will collect a number of revenues that are not recurring, including Development Impact Fees (see below) and sales taxes from the sale of construction materials.

Development Impact Fees

The Project will generate a number applicable City impact fees which include:

- Jobs Housing Linkage (Planning Code Sec. 413) – A fee per each new square foot of commercial development.

- Affordable Housing (Planning Code Sec. 415) – New rental housing built for the Project will meet City inclusionary housing requirements under Planning Code §§ 415.1-415.11 for on-site inclusionary housing for 15 percent of the units at 55 percent of area median income as

[13] Term Sheet, February 22, 2013, Sec. 10c.

determined by the U.S. Department of Housing and Urban Development for the San Francisco area ("AMI"). Residential condominiums, if built, will not include inclusionary units. Instead, the Vertical Developer will pay in lieu fees for the development parcel.[14]

- Child Care (Planning Code Sec. 414) – A fee per square foot paid by the commercial uses (hotel, office and retail).
- Transit Impact Development Fee (Planning Code Sec. 411.3) – A fee per square foot paid by all commercial uses.

In addition to the impact fees charged by the City, there are a range of other utility connection and capacity charges that will be collected based on utility consumption and other factors. Other fees will include school impact fees to be paid to the San Francisco Unified School District.

b. Economic Benefits to the City

The construction of the Project on SWL 337, the improvement and use of Pier 48, and future economic activity of businesses and households that will occupy the Project, will create short-term construction spending and jobs, as well as longer-term, permanent jobs and economic activity in San Francisco. The economic analysis provides estimates of these benefits, including the "multiplier" effects from expenditures by new businesses and households that in turn generate more business to suppliers and other industries supporting the new businesses at the Project. The potential benefits are summarized in **TABLE 3**.

[14] Term Sheet, February 22, 2013, Sec. 20.

Table 3 Estimated Annual Economic Impacts (2013$)

Impact Category	Total
Ongoing Project Employment[1]	Annual Average
Direct	6,550
Indirect	1,390
Induced	3,160
Total Employment	**11,100**
Annual Total Economic Output	**$2,106,295,000**
One-Time Construction-Related Employment	Job-Years
Direct	6,370
Indirect	1,490
Induced	2,270
Total Employment	**10,130**
Total Economic Output During Construction	**$2,055,958,000**

[1] Reflects full-time equivalents, including jobs generated by uses on SWL 337 and Pier 48.

Source: IMPLAN 2010; and Economic & Planning Systems.

The estimates are based on current proposals and plans that will be refined during the planning process and environmental review. The current analysis is intended to provide a general "order of magnitude" of benefits, and to provide a description of the types of benefits. A detailed market analysis has not been prepared at this time, but the assumptions and methodologies are believed sufficient for a planning-level analysis. Assumptions and calculations are further documented in **APPENDIX B**.

Short-Term (One-Time) Construction Impacts

Construction expenditures for site development and vertical construction of the mix of uses including, office, retail, and residential are likely to total approximately $1.3 billion over a three- to five-year period. In addition to "direct" construction activity and jobs on site, the construction expenditures will also generate new business and jobs "indirectly" for San Francisco firms serving the construction industry. Expenditures in San Francisco by the households of employees of companies benefiting from these direct and indirect expenditures will create additional "induced" benefits to the City.

Long-Term (Ongoing) Annual Economic Impacts

The Project's long-term impacts will be generated by the ongoing business operations of the anticipated mix of businesses that will occupy the Project at buildout, including retail stores and services, light manufacturing, and office-based businesses.

Office uses are projected to occupy the largest share of commercial space at the Project (over 78 percent) and, accordingly, are estimated to generate the greatest ongoing economic impacts. This analysis assumes a mix of office-based businesses consistent with employment projections for the region between 2010 and 2020.[15] Professional and business services are assumed to account for about 85 percent of office-based employment, with information technology (IT) and related services accounting for about one-half of that 85 percent. The remaining 15 percent is assumed to comprise a mix of finance, insurance, and real estate services, and medical offices. The mix of office types used for this analysis is a projected estimate that is representative of the overall Bay Area market; the final mix may vary depending on market conditions during each Phase. 1.3 million square feet of office space, amount studied in this analysis, is expected to generate approximately 5,700 jobs and $1.2 billion in direct output annually.

Retail uses are assumed to occupy 150,000 to 250,000 square feet at the Project, with 10,000 square feet of that retail on Pier 48 and the balance at SWL 337. This analysis studied 171,400 square feet of retail (including the 10,000 square feet on Pier 48) and assumes a mix of retail/neighborhood service businesses consistent with employment projections for the region between 2010 and 2020.[16] Food services and drinking places including restaurants, coffee shops, and bars are assumed to comprise almost 60 percent of retail type businesses, followed by retail stores (30 percent), with the remaining 10 percent made up of a mix of neighborhood financial services and variety of personal services. This mix reflects the projected regional average; the Project's retail mix has not yet been determined. Based on average employee densities in neighborhood commercial uses, about 570 jobs will be supported by the Project's retail uses, generating approximately $53.9 million in direct output annually.

Light manufacturing uses are proposed to occupy the 202,500 of the 212,500 leasable square feet on Pier 48, which consisting of 171,200 square feet of covered shed space and 31,300 square feet of paved yard space. Pier 48's additional 10,000 square feet of covered shed space would house retail uses and is included in the retail analysis described above. Total annual direct output of about $70.1 million and 200 jobs are estimated for the light manufacturing uses.[17]

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[15] Projections published by the Labor Market Information Division of the California Employment Development Department for the San Francisco-San Mateo-Redwood City Metropolitan Division, October 2012.

[16] Ibid.

[17] Based on EPS assumptions and San Francisco data from IMPLAN 2010; a brewery is the proposed light industrial use.

New Households

Development of residential units on SWL 337 will accommodate new households, generating a small number of new jobs and economic activity within the City. Expenditures by the occupants of the new units, other than those to support the small number of jobs directly serving the residential buildings such as building maintenance, janitorial services, waste collection, domestic services, and child care, are not included in the economic impact numbers. The analysis assumes that the projected economic activity generated by the Project is due to jobs locating onsite; however, the addition of a significant supply of residential units will help to ensure that induced expenditures are captured in San Francisco, and that expenditures by residents re-locating from other communities are also spent in the City. These effects will be a substantial benefit to San Francisco business revenues.

Total Output

"Output" refers to total income from all sources to the businesses located at the Project; it includes all supplies, labor, and profit required to produce the goods and services provided by the businesses. In addition, Project businesses will spend money on goods, supplies, and services in San Francisco, which will generate additional "indirect" economic activity and support additional jobs at those suppliers. The expenditures of the San Francisco households holding those direct and indirect jobs will spend a portion of their income in the City, which is an additional source of "output". Total output is the sum of direct, indirect, and induced business income in the City as a result of the Project.

Employment

New permanent full and part-time jobs will be created by the Project. The number of jobs to San Francisco residents will depend on the ability of local residents to compete for Project employment opportunities and implementation of local hire policies.

c. Direct Financial Benefits to the Port

The following sections provide a summary of key financial terms from the Term Sheet; however, they are not meant to be a comprehensive description of the deal structure, and should be considered in connection with the Term Sheet and its associated exhibits and materials.

Base Rent and Percentage Rent

In the near term, the Port will continue to be paid rent under a Seawall Lot 337 Master Lease (the "Master Lease") with terms consistent with those in Seawall Lot 337's current lease.[18] The Master Lease will provide for partial termination upon the release of each Development Parcel for vertical development. As the Development Parcels are transferred to Vertical Developers at fair market value, each parcel will be subject to a Parcel Ground Lease. For eight of the ten development parcels, the Port will receive an initial base rent established by a valuation procedure that allocates fair market value between initial base rent (which will be no lower than

[18] Lease No. L-14980: $2.4 million base rent and percentage rent of 66 percent of gross revenues after allowed expenses.

the parcel's share of the $3.5 million reserve rent absent Port Commission consent, and which is projected to be $4.5 million based on current estimates) plus a "Development Rights Payment" for associated infrastructure costs.[19] The Parcel Ground Leases for these eight parcels will include "percentage rent" participation in gross rental revenues received by Vertical Developers; the Port will receive the greater of percentage rent or base rent. For the first two parcels to be developed, all fair market value will go to Development Rights Payments.[20]

Pier 48 will be leased at fair market rent. In light of current projections of sea level rise, the Port will limit the maximum initial term to 30 years, after which the Port Commission will consider options to extend the term in light of policies and procedures in place to address sea level rise.

Proceeds from Building Sales and Refinancings

The Port will receive a 1.5 percent share of net proceeds from building and leasehold rights sales[21]; a 1.0 to 1.5 percent transfer fee when any Trust Swap Parcels are sold[22]; and a transfer fee of 1.5 percent of any proceeds of refinancing that are not invested back into the parcel being refinanced.[23] If the Master Developer exercises its right of first refusal to serve as Vertical Developer for a parcel and sells the rights to that parcel before the first site or building permit is issued, the Port is entitled to all net proceeds for that parcel.

Operating Expenses

Certain operational and maintenance expenses will be the responsibility of SWL 337 Associates LLC and subsequent purchasers of Development Rights over the lives of the Project leases, including (i) the maintenance of all built facilities and related landscaping, parks, and other publicly accessible open spaces, (ii) street sweeping and routine maintenance of public rights of way. These responsibilities are intended to be addressed through the creation of a CFD over the entire site for maintenance. This maintenance CFD would be additive to CFD special taxes for infrastructure funding. Special taxes levied against each taxable development parcel would provide pay-as-you-go funds for operating and maintenance costs of public access and open space areas.

IFD funds will be used for major street resurfacing and rehabilitation. Other operational responsibilities for sewers, electrical infrastructure, and water lines will be the responsibility of the applicable utility operator.

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[19] Term Sheet, February 22, 2013, Sec. 9a, 9b. See Attachment E for projections of Port rent.

[20] Term Sheet, February 22, 2013, Sec. 9e. Percentage sharing from parcels acquired by the Master Developer affiliate will be determined in collaboration with the Port.

[21] Term Sheet, February 22, 2013, Sec. 10, except for Phase 1 parcels that were sold at less than the amount required to reimburse Master Developer's predevelopment costs and accrued interest ("Upset" Transfers).

[22] Term Sheet, February 22, 2013, Sec. 10c.

[23] Term Sheet, February 22, 2013, Sec. 10d.

Capital Investment

SWL 337 Associates LLC will privately finance the entitlement and planning costs, as well as the hard and soft costs of site preparation, infrastructure, parks, and other public facilities which aren't otherwise funded directly through CFD or IFD revenues. These capital investments by SWL 337 Associates LLC, projected to equal up to $154 million,[24] will be subject to reimbursement at a 20 percent annual return. Reimbursement funds will come from IFD bond proceeds and tax increment revenues, CFD bond proceeds and CFD special tax revenues, and proceeds from the sale of Development Rights to the Vertical Developers of individual parcels.

All new buildings will be funded solely through private sources of investment. These investments are projected to total $1.3 billion through buildout.[25] Other public financing mechanisms may be explored including various revenue bonds specific to particular infrastructure and programs.[26]

d. Direct Benefits to the City – Creation and Maintenance of New Public Access Facilities

Mission Rock will provide a range of public parks, public access and open space, including:

- Three major new open spaces connected with the surrounding neighborhoods. These parks, totaling approximately eight acres, will be phased over the course of development.
- A network of landscaped pedestrian connections.
- Multiple classes of bicycle networks, from commuting lanes to recreational pathways, throughout the Project site.
- Rehabilitation of the apron along Pier 48, which is currently red-tagged and unsafe for public use. The restored apron is intended to be opened to the public as the northern terminus of the Blue Greenway. Pier 48 itself, part of the Embarcadero Historic District, will also be rehabilitated in accordance with the Secretary of the Interior standards.

As previously noted, maintenance of these facilities will be funded by a CFD. Maintenance special taxes levied against each taxable development parcel, in addition to special taxes levied to pay for infrastructure, will provide pay-as-you-go funds for operating and maintenance costs of public access and open space areas.

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[24] Term Sheet, February 22, 2013, Exhibit E, and Port Memorandum, 2/22/13; includes inflation.

[25] Horizontal Project Budget, 2/22/13; includes inflation. Excludes vertical development costs for Parcel D parking facility.

[26] Term Sheet, February 22, 2013, Sec. 19.

e. Other Public Benefits

Development of Seawall Lot 337 (SWL 337) and the adjoining Pier 48 represents an opportunity to complete an important component of the revitalization of the San Francisco waterfront, bringing a vital mix of uses that will support business, residential, retail, and recreational activities to an area now characterized by surface parking lots and an underutilized pier in need of renovation. The redevelopment of the SWL 337 and improvement of Pier 48 will generate benefits for the City and community in the form of urban revitalization, employment and living opportunities, preservation of historic maritime facilities and structures, improved public waterfront access, delivery of affordable housing, improvements to Port property including sea level rise protections, new outdoor recreation opportunities, and City-wide fiscal and economic benefits as described in prior sections of this report.

2. COSTS OF CONSTRUCTION FOR THE PROJECT

Development Costs

Entitlement and Planning

The costs for entitlements and Project planning are estimated to total up to $20 million.[27]

Project Infrastructure

The site will require substantial new infrastructure, as it consists largely of bay fill which has never before been developed. These improvements include but are not limited to investment in streets, sewer, water, and drainage systems, electrical and data utilities, shoreline stabilization improvements, parks, and landscaping. These costs are estimated to total $154.1 million in nominal terms.[28] In addition, construction of structured parking will be needed to replace the existing surface parking and to serve a portion of Project-related demand.

Building Construction and Other Improvements

The total cost for other private vertical improvements, including the office and residential buildings, are anticipated to total $1.3 billion in nominal terms.[29] These costs will be privately funded through a combination of private investment sources.

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[27] Horizontal Project Budget, 2/22/13; includes inflation.

[28] Horizontal Project Budget, 2/22/13; includes inflation.

[29] Horizontal Project Budget, 2/22/13; includes inflation. Excludes costs for Parcel D parking facility and Pier 48.

3. AVAILABLE FUNDING FOR THE PROJECT

a. Predevelopment

SWL 337 Associates LLC will privately finance the predevelopment costs. Reimbursement for these costs is anticipated to come from the sale of Development Rights on the two initial parcels to be developed, [30] and if necessary, additional parcels in future phases. The Port will not receive any ground rent for these parcels, instead devoting such land value to Master Developer reimbursement. By fully repaying the predevelopment costs as soon as possible, the City will minimize the amount of equity return owed to SWL 337 Associates LLC. In the unlikely event that the value of the two initial parcels is insufficient to reimburse the predevelopment costs and associated returns (described below), the Term Sheet contains provisions for how the City would reimburse the outstanding balance.

As provided in the Term Sheet, SWL 337 Associates LLC cost reimbursements for predevelopment and infrastructure will include a 20 percent annual cost of funds. This cost of funds is within the typical range for a major, long-term mixed-use project of this scale, considering the risks associated with potential future market conditions, and cost uncertainty.

In addition, the Term Sheet includes consideration for a minimum level of return requirement, or “equity multiple” of 1.5 times equity, necessary to attract financing; without this consideration, it will be difficult for the Project to attract equity financing given the significant amount of investment, risk-reward profile, and due diligence required.

b. Project Infrastructure

SWL 337 Associates LLC will provide initial financing for the construction of project infrastructure, except in cases where financing can be obtained for a lower cost of funds. Any financing will be reimbursed and augmented from the following sources:

- Sale of Development Rights – A portion of the development value of any given parcel, which will depend on the parcel’s development capacity, type of development allowed, and ground lease payments required.
- Proceeds of Community Facilities District (CFD) –CFD debt payments will be secured by a special tax lien on the property lessees. A portion of IFD revenues generated by the value created by the Project are intended to pay the CFD debt service. CFD special taxes not required for debt service may be used for “pay as you go” funding.
- Proceeds of Infrastructure Financing District (IFD) – Tax increment may be used to pay Horizontal Development Costs on a pay-as-you-go basis, to service tax increment bond

[30] Most likely to be Parcels A and B

financing used to pay Qualified Project Costs, to repay CFD debt, or for any other reason authorized by IFD law.[31]

- IFD tax increment revenues not otherwise required for debt service ("Pay-Go")– As noted above, additional IFD revenues will be available to fund infrastructure on a pay-as-you-go basis, since only a portion of the revenues will be committed to debt service due to coverage requirements. Once all IFD-eligible infrastructure has been completed and debt has been serviced, the tax increment will go to the General Fund. If the proposed Port IFD policy is adopted, a portion of the remaining tax increment could also flow to the Harbor Fund for infrastructure improvements consistent with the IFD financing plan.

Detailed terms and conditions related to the sale of Development Rights, financing district revenues and debt issuance, and rent payments are further described in the Term Sheet. The Term Sheet also identifies other funding options that will be explored, including state and federal incentives that might be available for horizontal and vertical construction of the Project, such as for brownfield remediation, transit-oriented development, and sustainability pilot programs; general obligation bonds for certain parks; housing mortgage revenue bonds; revenue bonds for infrastructure; and GreenFinanceSF bond financing for energy and water conservation and renewable energy improvements to buildings.[32]

c. Building Construction and Other Improvements

Private funds will be used for construction of all residential and commercial uses, including all costs for building design and construction, City impact fees, and other agency fees.

The Port and Master Developer have begun discussion with the San Francisco Municipal Transportation Agency ("SFMTA") to explore the feasibility of SFMTA financing and operating the Parking Structure. The structure would be funded by SFMTA through some combination of parking revenues from the structure, and other local, State and federal revenues dedicated to this purpose. In any case, the Port's contribution to the Parking Structure would be limited to providing the land and facilitating the final financing structure for the facility, as described in this report. Neither the City's General Fund nor the Port will provide funding for the Parking Structure.

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[31] Term Sheet, February 22, 2013, Sec. 13b.

[32] Term Sheet, February 22, 2013, Sec. 19.

4. LONG-TERM OPERATING AND MAINTENANCE COSTS

The increase in public facilities needed to serve the Project, additional parks and open space amenities, and the addition of new residents, employees, and visitors will generate demand for public services. This chapter summarizes a number of key issues facing City departments and the Port that will be further refined during the course of environmental review and addressed through a combination of Project mitigation measures. Any funding required is likely to come from a combination of Project-generated public revenues, one-time and ongoing Project fees, special taxes or assessments, or other sources to be determined. Public facilities and services will be evaluated in greater detail during the environmental review process to determine specific need, implementation and funding.

a. Public Open Space

Parks and open spaces will be owned by, and will remain under the jurisdiction of, the Port, and will be managed and programmed by Master Developer, subject to Port approval and conditions of the BCDC major permit applicable to the Project site. Maintenance of the parks and open spaces will be funded by special taxes imposed on Vertical Developers through the maintenance CFD. Delivery of these parks, totaling approximately eight acres, will be phased over the course of development.[33]

b. Police

The SFPD will respond to police needs and calls for service generated by the Project. The Project area is located within the Bayview District of San Francisco Police Department (SFPD). The Bayview District is one of ten districts in the City, though the district boundaries may be realigned in the future as new development occurs in the City. The Project area is also adjacent to the new Public Safety Building currently under construction, which will house the SFPD's Command Center Headquarters and the Southern District Police Station. The Port currently contracts with the SFPD to provide two officers that respond to calls for service on Port property. It is assumed that this current level of service by the contracted officers will continue.

The Project's demand for additional police service will be generated by the new office, residential, and retail uses and related residential and employment activity, as well as by events and visitors to the parks and open space, and by new activity on Pier 48. SFPD indicates that the Project will result in a range of types of incidents requiring police responses including retail theft, traffic accidents, burglaries, and other public nuisances in the neighborhood; the specific level and types of impacts will depend on the Project's design, visibility, configuration, and access.[34]

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[33] Term Sheet, February 22, 2013, Sec. 15.; verified by Katherine Petruccione, Department of Recreation and Parks (February 19, 2013).

[34] Interview with Lieutenant Roualdes, 12/26/12.

The CEQA process is anticipated to address specific impacts and potential mitigations that may be required for this project. Based on preliminary discussions with SFPD, it is estimated that the Project's increased population and employment will require an additional patrol unit; the Project will add about 8,300 residents and employees, approximately double the current daytime population within the Mission Bay area, which is currently served by a patrol unit. On a full-time basis, this patrol translates into about five additional officers. Depending on the demand for additional supervisorial and other specialized law enforcement services in addition to patrol, the number of required sworn officers could be greater. Based on five officers at an average cost of $143,926 per officer[35], the additional cost would total $719,630.

c. Fire and EMS

The San Francisco Fire Department (SFFD) deploys services with the closest station responding, supplemented by additional resources based on the nature of the call. Responding stations include Stations 35, 29, 25 and 8. Emergency Medical Service (EMS) is provided by ambulances which "float" at different positions around the City, depending on coverage requirements. Approximately one-third of ambulance costs are recovered, on average, from fees and charges.[36]

A new Fire Station #4 will be housed within the new Public Safety Building under construction immediately south of the Project. The new station is intended to provide service to a number of new development projects planned along the waterfront, and will serve existing development. This station is expected to open in the Fall of 2014 and will include a ladder truck, fire engine, and nine firefighters at all times. Demand from the Project will contribute to the need for the new station, including its equipment and staffing, along with other growth and development in the City. The SFFD indicates that services from the new station will be sufficient to handle the increase in development at the Project without incurring additional costs or adversely affecting existing services levels, assuming that no current stations serving the area are closed.[37] Although no additional costs would be incurred due to the Project, assuming the new station were already operational, an allocation of Citywide costs to the Project would indicate a cost share of $1.5 million.[38]

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[35] Average cost per officer includes salary, benefits per Lieutenant Roualdes, 2/20/2013.

[36] Interview with Captain Zanoff, CCSF Fire Department, 9/11/12.

[37] Interview with Assistant Deputy Chief Ken Lombardi, CCSF Fire Department, 12/27/12.

[38] Assumes 550 incidents annually based on Citywide average of 64 incidents/year per 1,000 service population (population and jobs). This represents approximately 20 percent of the average for stations Citywide, each station with an average cost of $7.7 million based on 43 stations and total budget of $332.9 million.

d. SFMTA

The San Francisco Municipal Transportation Agency (SFMTA) will be responsible for providing a broad range of transportation related services and facilities to the Project. Currently, SFMTA is preparing a comprehensive assessment of services and facilities that will be affected by a number of large planned development projects in the general vicinity of the Project. The purpose of the assessment is to anticipate and assure a balanced, financially-sustainable transportation network designed to accommodate future growth, including the Project.

The development of the Project may be determined to have a number of impacts on SFMTA and other public transportation providers, including additional operations and maintenance costs for increased transit service required to handle increased ridership on lines serving the Project. Additional capital rolling stock and expanded facilities to maintain it may be required. Additional traffic control during Giants events will continue to be required, although transportation patterns will change as a result of the Project. The development of the Project will also require SFMTA to address parking management.

The feasibility of an E Line rail transit terminal loop in the vicinity of the Site to enhance public transportation options is being explored. The issue of feasibility may include a discussion of providing a financing mechanism under which landowners benefitting from the loop would contribute to the cost of construction, operation, and maintenance of the tracks, operating infrastructure and terminal service facilities integral to the loop.

The Developer will implement a Transportation Demand Management Plan ("TDMP") that will provide a comprehensive strategy to manage the transportation demands created by the Mission Rock project and set goals and incentivize the associated travel behavior to sustain a desired multi-modal transportation balance. The mixed-use nature of the Project's land use program, its rich transit options, and proximity to San Francisco's resources and services mandate that single-occupancy vehicle trips be reduced. Market-based pricing strategies for parking will be supported by innovative programs to reduce automobile dependence, and promote the use of public transit and other modes of travel including walking and biking. The transportation strategy at Mission Rock is based on reducing vehicle miles traveled by fostering multiple modes of sustainable transportation, emphasizing non-automobile travel such as pedestrian, bicycle, and public transit options.[39]

The TDMP will incorporate smart and sustainable transportation planning principles, including optimal parking management strategies by the SFMTA, to address the transportation needs of the Project, consistent with the City's Transit First, Better Streets, Climate Action, and Transportation Sustainability Plans and Policies. The TDMP will outline a series of implementation strategies intended to effectively manage the transportation demands created by the Project. The goal of these strategies will be to minimize the Project's dependence on the automobile and to optimize the inclusion of non-auto travel modes providing access to the Project.

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[39] Term Sheet, February 22, 2013, Sec. 22.

The costs for these programs will be funded by a range of mechanisms. Public tax revenues and fees may help to mitigate SFMTA costs. SFMTA is funded through a combination of local, State and Federal sources as well as from fee revenues and other potential sources to be determined, including Developer funding. These and other issues, mechanisms and funding sources will be further evaluated in detail in future studies as part of the SFMTA-led transportation assessment and the CEQA process.

Port and Master Developer also have begun discussions with the San Francisco Municipal Transportation Agency ("SFMTA") to explore the feasibility of SFMTA financing and operating the Parking Structure. In any case, the Port's contribution to the Parking Structure would be limited to providing the land and supporting this transaction through approval of required documents. SFMTA operating the parking structure would provide significant advantages to the City, such as ensuring that this garage would fit into the entire portfolio of City garages currently managed by the SFMTA and facilitating the implementation of overall parking management policies for the City, such as demand based pricing and related technology. SFMTA financing of the facility is another potential option, and would require the annual garage revenue to fully support administration costs, debt service, and some funding for the transportation network.

e. DPW

Development-related funding sources will cover the street and sidewalk maintenance services commonly provided by the Department of Public Works (DPW). The Project may create a private entity to perform these services or contract them out to DPW.[40] Regardless, based on the lengths of streets, sidewalks, and other pedestrian ways within the Project, DPW estimates annual street sweeping and litter removal costs at approximately $14,000.[41] Additional costs will be incurred periodically for resurfacing and other major maintenance needs which are anticipated to be funded through IFD funds.

[40] Interview with Larry Stringer, Department of Public Works, 1/11/12.

[41] Per Larry Stringer, 3/3/13.

5. DEBT LOAD TO BE CARRIED BY THE CITY OR THE PORT

The Project proposes to use a portion of newly created property tax funds from the Project, collected through an Infrastructure Financing District (IFD), to help pay for the horizontal development costs required by the Project. The IFD obligations will be secured by property taxes (and possessory interest taxes) paid by the Project lessees and property owners, and will not obligate the City's General Fund or the Port's Harbor Fund. The property tax increment may be used to repay IFD bonds, or to pay debt service on CFD bonds, as described below.

The Project may use CFD bonds to reimburse infrastructure costs, with CFD debt service to be paid by IFD revenues. The CFD bonds will be secured by special taxes paid by Project lessees, and will not obligate the City's General Fund or the Port's Harbor Fund, though such taxes may negatively impact land value and the Port's corresponding revenues.

Although specific financing vehicles will be refined as the financial planning continues, it is expected that the annual IFD revenues, which are estimated to total $10.9 million annually at full buildout, will repay debt service on $140 million of net proceeds from bonds. The specific mix of CFD and IFD bonds will be determined based on future market conditions, and on the appropriate mix necessary to minimize financing costs.

APPENDIX A:

Fiscal Analysis

Table 1
Fiscal Results Summary, Ongoing Revenues (2013 dollars)*
Seawall Lot 337 and Pier 48

Item	Total
Annual General Revenue	
Property Tax in Lieu of VLF	$1,537,000
Sales Tax	$633,000
Gross Receipts Tax	$6,169,000
Parking Tax (City and County of SF @ 20%)	$423,000
Property Transfer Tax	$1,958,000
Subtotal	**$10,720,000**
Annual Other Dedicated and Restricted Revenue	
Parking Tax (MTA 80%)	$1,691,000
Public Safety Sales Tax	$316,000
SF County Transportation Authority Sales Tax	$316,000
Subtotal	**$2,323,000**
Possessory Interest Taxes (1)	**$8,453,000**
Total, General plus Other Dedicated and Restricted Revenues	**$21,496,000**

* Represent direct incremental public tax revenues attributable to SWL 37 and Pier 48.
Numbers have been rounded to the nearest thousand.

(1) Until project infrastructure costs are fully paid, the full $0.65 per possessory interest tax dollar generated from the site will be utilized to fund bond debt service and on a pay-go basis to fund infrastructure costs through an IFD approved by the Board of Supervisors.

Table 2
Fiscal Results Summary, One-Time Revenues (2013 dollars)
Seawall Lot 337 and Pier 48

Item	Total
Development Impact Fees (1)	
Jobs Housing Linkage - §413	$32,729,000
Affordable Housing-- §415 (2)	$0
Child Care	$1,424,000
TIDF - §411.3 (3)	$18,364,000
Total: Development Impact Fees	$52,517,000
Other One-Time Revenues	
Sales Taxes During Construction	$3,933,000
Gross Receipts Tax During Construction	$3,720,000
Total: Other One-Time Revenues	$7,653,000
Total One-Time Revenues	**$60,170,000**

(1) Impact fee rates as of January 17, 2013. Fee estimates per San Francisco Planning Dept.
See Table A-4 for details on fee calculations.
(2) Project will provide inclusionary units and will not be subject to Affordable Housing Fee.
(3) Pending City legislation may modify the existing TIDF.
* Numbers have been rounded to the nearest thousand.

Table 3
Population and Employment
Seawall Lot 337 and Pier 48

Item	Assumptions		Total
Population	2.2	persons per unit	2,076
Employment (FTEs)			
Residential	15	units per FTE	63
Office	225	sq.ft. per FTE	5,702
Retail	300	sq.ft. per FTE	571
Manufacturing (Pier 48)			200
Parking	270	spaces per FTE	10
Total			6,547
Total			**8,623**

Table 4
San Francisco Citywide Population and Employment
Seawall Lot 337 and Pier 48

Item	Total
Population (1)	820,349
Employment (2)	982,000
Total	**1,802,349**

1) Cal. Dept. of Finance, 2012
2) Cal. Employment Development Dept., 2012

Table A-1
Project Description Summary
Seawall Lot 337 and Pier 48

Item	Gross Bldg. Sq.Ft.	Units / Spaces	
Retail (1)	171,400	na	
Office	1,283,000	na	
Residential	920,000	944	units
Parking	1,097,500	2,816	spaces
Manufacturing (Pier 48) (2)	171,200	na	
Total	**3,643,100**		

*Note: while the development strategy relies on flexible zoning, the evaluated scenario reflects one likely program on site.

(1) Includes 161,400 sq.ft. of retail at SWL337 and 10,000 sq.ft. at Pier 48.
(2) Additional "valley space" outside the sheds will also be leased to the Pier 48 tenant.

Sources: SWL 337 Associates, LLC and Economic & Planning Systems, Inc.

Table A-2
San Francisco Revenue Summary (2013 dollars)
Seawall Lot 337 and Pier 48

Item	Calculation Reference	Annual Total
Annual General Revenue		
Property Tax in Lieu of VLF	*Table A-6*	$1,537,000
Sales Tax	*Table A-8*	$633,000
Parking Tax (CCSF 20%)	*Table A-9*	$423,000
Gross Receipts Tax	*Table A-10*	$6,169,000
Property Transfer Tax	*Table A-7*	$1,958,000
Subtotal		**$10,720,000**
Annual Other Dedicated and Restricted Revenue		
Public Safety Sales Tax	*Table A-8*	$316,000
San Francisco County Transportation Authority Sales Tax	*Table A-8*	$316,000
Parking Tax (MTA 80%)	*Table A-9*	$1,691,000
Subtotal		**$2,323,000**
Possessory Interest Taxes	*Table A-5*	**$8,453,000**
TOTAL REVENUES		**$21,496,000**

Source: Economic & Planning Systems, Inc.

Table A-3
San Francisco One-Time Revenue Summary (2013 dollars)
Seawall Lot 337

Item	One-Time Total
Development Impact Fees	$52,517,000
Sales Taxes During Construction	$3,933,000
Gross Receipts Tax During Construction	$3,720,000
TOTAL REVENUES	**$60,170,000**

Table A-4
San Francisco City Development Impact Fee Revenue Estimate
Seawall Lot 337 and Pier 48

Item	Residential	Office	Retail	TOTAL
		per gross building sq. ft.		
New Development (sq.ft.) (1)	920,000	1,283,000	161,400	
New Residential Units	944			
City Fees (per gross building sq.ft., except for "Affordable housing" (2)				
Jobs Housing-§413	$0.00	$22.83	$21.30	**$32,728,710**
Affordable Housing-§415 (3)	$0.00	$0.00	$0.00	**$0**
Child Care	$0.00	$1.11	$0.00	**$1,424,130**
TIDF (§411.3)	$0.00	$12.64	$13.30	**$18,363,740**
Subtotal (per sq.ft.)	-	$36.58	$34.60	
Total Development Impact Fee	$0	$46,932,140	$5,584,440	**$52,516,580**
Other In-Lieu Impact Fees				
Public Art - Installation or Fee	$0.00	1% const. cost	1% const. cost	
Street Trees	1 tree per 20' frontage, with an additional tree per remaining 10'. In-lieu fee is $1,744/tree that can't be planted.			

(1) No fees assumed related to the parking garage or improvements and use of Pier 48.
(2) All impact fees are preliminary as of 1/23/13. Inclusionary affordable housing provided onsite, therefore no housing fees are calculated.
(3) Project is providing affordable inclusionary housing onsite, therefore no in lieu fees are calculated.

Sources: City of San Francisco, and Economic & Planning Systems, Inc.

Table A-5
Possessory Interest Tax Estimate (2013 dollars)
Seawall Lot 337 and Pier 48

Item	Assumptions		Total
Land Use		**Dev. Cost**	**Secured A.V. (6)**
Infrastructure		$107,500,000	*none assumed*
Commercial (1)		$668,300,000	$794,300,000
Residential (2)		$432,700,000	$516,600,000
Parking		$120,000,000	*none assumed*
Total		**$1,328,500,000**	**$1,310,900,000**
			Tax
Gross Secured Possessory Interest Tax	1.0% of new AV excluding overrides (7)		$13,109,000
(less) Existing Possessory Interest Tax (3)			($104,658)
Net New Possessory Interest Tax			$13,004,342
Possessory Interest Tax (4)			
Net New General Fund Share (after ERAF) (5)	65.00% of total tax increase		**$8,452,822**
SF Unified School District	7.70% of total tax increase		**$1,001,334**

Notes to Table A-5
(1) Includes office, retail, and Pier 48 uses ($18.4 mill. development cost assumed for Pier 48).
(2) Includes parcels A, J, F, and K.
(3) Annual tax payment by the San Francisco Giants for the Project site.
(4) Property tax allocations from Rincon Hill Infrastructure Financing District documentation.
(5) Includes special funds set aside for Library, Open Space, and Children's Fund.
(6) Estimated value (constant dollars) for tax purposes increased approximately 20% in year of stabilized occupancy.
Based on projected vertical costs available for bonding discounted by inflation.
(7) Does not include potential additional 10% CSD services tax for maintenance
or other special taxes, assessments or bonds above 1% tax factor

Sources: City of San Francisco, and Economic & Planning Systems, Inc.

Table A-6
Property Tax in Lieu of VLF Estimate (2013 dollars)
Seawall Lot 337 and Pier 48

Item	Assumptions	Total
Citywide Total Assessed Value (1)		$147,299,540,000
Project Assessed Value		$1,310,900,000
Growth in Citywide AV due to Project		0.89%
Total Citywide Property Tax in Lieu of Vehicle License Fee (VLF) (2)		$172,710,000
Net New Property Tax in Lieu of VLF (3)		**$1,537,042**

(1) Based on the CCSF FY11 total taxable assessed value recorded by Controller's office, City and County of San Francisco.
(2) City and County of San Francisco Annual Appropriation Ordinance for Fiscal Year Ending June 30, 2013, page 124.
(3) Equals the increase in Citywide AV due to the Project multiplied by the current Citywide Property Tax In Lieu of VLF.

Sources: City of San Francisco, and Economic & Planning Systems, Inc.

Table A-7
Property Transfer Tax (2013 dollars)
Seawall Lot 337 and Pier 48

Item	Assumptions		Total
<u>Annual Transfer Tax From Building Sales</u>			
Residential Value			
Residential Assessed Value (AV)	$516,600,000		
Avg. Sales Value	6.7%	annual turnover	$34,440,000
Transfer Tax From Residential Buildings	*(avg. sale once/15 years)*		$747,800
Commercial Value			
SWL 337 Non-Residential Value	$794,300,000		
Avg. Sales Value	6.7%	annual turnover	$52,953,333
Transfer Tax From Commercial Buildings	*(avg. sale once/15 years)*		$1,210,633
Ongoing Annual Average Transfer Tax (constant $)			**$1,958,433**

(1) Assumes all residential buildings are rental units, and sales of all buildings average once/15 years.

Tax rate on the first $10 million ranges from $6.80/$1,000 (first $1 million of sales), $7.50/$1,000 ($1 million to $5 million), and $20/$1,000 ($5 million to $10 million), an average of $13.68/$1,000 of sales. $25/$1,000 applies to amount above $10 million.

Sources: City of San Francisco, and Economic & Planning Systems, Inc.

Table A-8
Sales Tax Estimates (2013 dollars)
Seawall Lot 337 and Pier 48

Item	Assumptions		Total
Taxable Sales From New Residential Uses			
Average Annual Rental Payment (1)	$38,074	per household	
Average Annual HH Income (2)	21%		$181,801
Average HH Retail Expenditure (1)	27%		$49,731
Residential Units			944
Total New Retail Sales from Households			$46,925,286
New Taxable Retail Sales Captured in San Francisco	80%	of retail expenditures	$37,540,229
Net New Sales Tax From Residential Uses	1.0%	of taxable sales	**$375,402**
Taxable Sales From Commercial Space			
Retail Sq.Ft.			171,400
Retail Taxable Sales	$300	per sq.ft.	$51,420,000
Sales Tax to San Francisco	1.0%	of taxable sales	$514,200
(less) New On-Site Residential Sales (2)	25%	of commercial sales	($128,550)
(less) Shift From Existing Sales (3)	25%		($128,550)
Net New Sales Tax From Retail Space			**$257,100**
Annual Sales Tax Allocation			
Sales Tax to the City General Fund	1.00%		**$632,502**
Public Safety Sales Tax (4)	0.50%	of taxable sales	**$316,251**
San Francisco County Transportation Authority (3)	0.50%	of taxable sales	**$316,251**
SF Public Financing Authority (Schools) (4)	0.25%	of taxable sales	**$158,126**
One-Time Sales Taxes on Construction Materials and Supplies			
Total Development Value			$1,310,900,000
Supply/Materials Portion of Construction Cost	60.00%		$786,540,000
San Francisco Capture of Taxable Sales	50.00%		$393,270,000
Sales Tax to San Francisco	1.0%	of taxable sales	**$3,932,700**

(1) Based on blended rent assumptions with average household expenditure based on typical household spending as reported for the San Francisco MSA by the State Board of Equalization.
(2) A portion of new sales from San Francisco residents are assumed captured by retail in the Project (calculated above).
(3) Reflects a deduction of retail sales that could be captured elsewhere in San Francisco were the Project not built.
(4) Sales tax proportions for these entities are as reported by Controller's Office.

Sources: SWL 337 Associates LLC, State Board of Equalization, and Economic & Planning Systems, Inc.

Table A-9
Parking Tax (2013 dollars)
Seawall Lot 337 and Pier 48

Item	Assumption		Total
Total Spaces (1)			2,816
Parking Revenues			
Annual Total (2)	$16	per day	$13,156,352
(less) existing parking revenues (3)			-$4,700,000
Net Increase			$8,456,352
San Francisco Parking Tax	25%	of revenue	**$2,114,088**
Parking Tax Allocation to General Fund/Special Programs	*20%*	*of tax proceeds*	$422,818
Parking Tax Allocation to Municipal Transp. Fund	*80%*	*of tax proceeds*	$1,691,270

(1) This analysis assumes that all Project parking will generate parking tax, based on parking program.
(2) Not including parking tax; assumes 80% occupancy.
(3) Total existing parking revenues, excluding taxes, are deducted to estimate net increase due to Project.
Parking Facility Operating Report, Nov. 2011

Sources: SWL 337 Associates LLC, and Economic & Planning Systems, Inc.

Table A-10
Gross Receipts Tax Estimates (2013 dollars)
Seawall Lot 337 and Pier 48

Item	GR Allocated to SF for GR Tax (1)	Gross Revenue Tier (2) *up to $1m*	*$1m - $2.5m*	*$2.5m - $25m*	*$25m+*	Gross Receipts Tax
Annual Impacts						
Retail	$46,210,000	*0.075%*	*0.100%*	*0.135%*	*0.160%*	$62,384
Office (3)	$1,061,428,000	*0.400%*	*0.460%*	*0.510%*	*0.560%*	$5,413,283
Manufacturing	$70,068,000	*0.125%*	*0.205%*	*0.370%*	*0.475%*	$308,299
Parking	$13,156,000	*0.075%*	*0.100%*	*0.135%*	*0.160%*	$17,761
Subtotal	$1,190,862,000					$5,801,726
Rent (4)						
Retail	$6,170,000	*0.285%*	*0.285%*	*0.300%*	*0.300%*	$18,510
Office	$78,520,000	*0.285%*	*0.285%*	*0.300%*	*0.300%*	$235,560
Manufacturing	$2,054,400	*0.285%*	*0.285%*	*0.300%*	*0.300%*	$5,855
Residential	$35,926,000	*0.285%*	*0.285%*	*0.300%*	*0.300%*	$107,778
Subtotal	$122,670,400					$367,703
Total Gross Receipts	**$1,313,532,400**					**$6,169,429**
Project Construction						
Total Development Value (5)	$1,330,000,000					
Direct Construction Cost (6)	$930,000,000	*0.300%*	*0.350%*	*0.400%*	*0.450%*	**$3,720,000**

*Note: reflects tax implementation after the payroll tax is phased out.

(1) Rounded; gross receipts for retail, office, and manufacturing uses are based on direct output of onsite uses, from IMPLAN.
(2) Given uncertainty about business size among various categories, this analysis applies a tax rate in the third tier, assuming an average gross revenue of $2.5 to $25 million per business. The actual gross receipts will depend on the size of business in each category and their gross receipts generated within the City. Manufacturing is based on 2/3 top tier, 1/3 to third tier.
(3) 90% of gross receipts are assumed to be subject to the tax as businesses with receipts below $1 million and employment outside of San Francisco will be exempt.
(4) Based on the monthly rent of $3.00 per sq.ft. for retail (NNN), $5.10 per sq.ft. for class A office (FS), $1.00 per sq.ft. (GI) for Manufacturing, and $3,172 per unit for blended residential uses.
(5) Based on vertical development cost plus infrastructure cost.
(6) As a planning estimate, 70% is assumed to represent direct construction costs.

Sources: City of San Francisco; IMPLAN; SWL 337 Associates LLC; and Economic & Planning Systems.

APPENDIX B:

Economic Analysis

Table B-1
Summary Annual Economic Impacts at Buildout (2013 dollars)
Seawall Lot 337 and Pier 48

Impact Category	Total
Ongoing Project Employment[1]	Annual Average
Direct	6,550
Indirect	1,390
Induced	3,160
Total Employment	**11,100**
Annual Total Economic Output	**$2,106,295,000**
One-Time Construction-Related Employment	Job-Years
Direct	6,370
Indirect	1,490
Induced	2,270
Total Employment	**10,130**
Total Economic Output During Construction	**$2,055,958,000**

[1] Reflects full-time equivalents, including jobs generated by uses on SWL 337 and Pier 48.

Source: IMPLAN 2010; and Economic & Planning Systems.

Table B-2
Annual Economic Impacts by Land Use at Buildout (2013 dollars)
Seawall Lot 337 and Pier 48

			Gross Impacts	
Land Use	**Impact Type**	Jobs	Employment (FTEs)	Economic Output
Retail	Direct	571	571	$53,911,833
	Indirect	97	88	$18,455,727
	Induced	113	98	$18,060,879
	Total	**782**	**758**	**$90,428,439**
Office Commercial	Direct	5,702	5,702	$1,179,363,940
	Indirect	1,413	1,282	$255,088,500
	Induced	3,464	3,049	$550,803,516
	Total	**10,579**	**10,034**	**$1,985,255,955**
Manufacturing (1)	Direct	200	200	$70,067,872
	Indirect	48	47	$11,386,613
	Induced	53	48	$8,565,275
	Total	**302**	**296**	**$90,019,760**
Parking (2)	Direct	10	10	$8,500,000
	Indirect	6	5	$4,733,651
	Induced	4	3	$3,443,365
	Total	**20**	**18**	**$16,677,017**
Residential	Direct	63	63	$8,642,745
	Indirect	12	9	$2,455,425
	Induced	17	13	$2,835,489
	Total	**92**	**86**	**$13,933,659**
Total Ongoing Impacts	Direct	6,547	6,547	$1,250,418,518
	Indirect	1,528	1,385	$280,733,303
	Induced	3,599	3,164	$575,143,249
	Total	**11,674**	**11,095**	**$2,106,295,070**
One-Time Impacts				
Construction	Direct	6,687	6,373	$1,328,447,436
	Indirect	1,656	1,494	$307,972,541
	Induced	2,594	2,272	$419,538,166
	Total	**10,937**	**10,138**	**$2,055,958,144**

1) Based on IMPLAN brewery sector, adjusted by EPS based on production increase relative to existing production.
2) Parking direct output based on projected parking revenue net of existing revenue (excluding tax).

Source: IMPLAN 2010; and Economic & Planning Systems.

Table B-3
Land Uses and Onsite Employment Estimates
Seawall Lot 337 and Pier 48

Land Use	Lot	Gross Sq. Ft.	Units/ Spaces	Employment Density[1]	Estimated Jobs
Nonresidential					
Office	Seawall Lot 337	1,283,000	-	225	5,702
Retail	Seawall Lot 337	161,400	-	300	538
Retail	Pier 48	10,000	-	300	33
					571
Manufacturing	Pier 48	171,200	-	856	200
Residential[2]	Seawall Lot 337	920,000	944	15	63
Parking	Seawall Lot 337	1,097,500	2,816	270	10
Total Project		**3,643,100**			**6,547**

[1] Building sq. ft. per employee for office, retail, and manufacturing uses; or Dwelling units per employee for residential; and parking spaces per employee for parking.
[2] Residential jobs include building services, waste management, domestic services, child care, etc.

Sources: SWL 337 Associates, LLC ; and Economic & Planning Systems, Inc.