

The Economics of Land Use



Report

Pier 70 Waterfront Site and Illinois Street Parcel Development Projects

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 at Pier 70 (the "Project"). The Project consists of the Pier 70 Waterfront Site ("Waterfront Site") and the parcel bounded by Illinois Street to the west, 20th Street to the north, Michigan Street to the east, and Pier 70's southern border to the south ("Illinois Street Parcel"). The Port of San Francisco ("Port") owns both the Waterfront Site, which it plans to develop in partnership with Forest City Development California, Inc. ("Forest City"), and the Illinois Street Parcel, which it plans to sell to raise funds that will be reinvested in the Waterfront Site's infrastructure development. 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 the Pier 70 Waterfront Site and the Illinois Street Parcel will provide both new ongoing and one-time revenues. Ongoing revenues to the City include new tax receipts from Property, Possessory Interest, Sales, Parking, and Gross Receipts taxes. These ongoing revenues are currently estimated to amount to \$28.7 million in annual revenue to the City upon full build-out of the Waterfront Site and \$1 million upon buildout of the Illinois Street Parcel (in 2013 dollars, including possessory interest and property taxes to be utilized to help fund infrastructure). A portion of the possessory interest and property 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, as well as revenue associated with construction of the Project. The one-time revenues generated by the Pier 70 Waterfront Site are estimated to total \$91.2 million in 2013 dollars and would be received over the course of project development. The one-time revenues from the Illinois Street Parcel are estimated to total \$10.9 million.

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 of the Pier 70 Waterfront Site is projected to create approximately 14,300 direct, indirect and induced annual full time

construction-related job equivalents.¹ The construction on the Illinois Street Parcel is estimated to create a total of 720 direct, indirect and induced annual full time construction-related job equivalents.

At full build-out, ongoing direct, indirect and induced economic activity at the Pier 70 Waterfront Site is projected to support 18,000 permanent jobs in San Francisco. The Illinois Street Parcel is estimated to support 50 permanent jobs.

- c. Direct Financial Benefits to the Port.** The Port and Forest City have drafted terms related to the Pier 70 Waterfront Site development. Under those terms, the Port will receive: a share of the appraised value of developable parcels after Forest City achieves a market-based return of and on equity it has invested in entitlements and infrastructure development; an increasing share of modified gross revenues from building leases; a share of net proceeds from sales and refinancings; net operating income from district parking garages serving the development; and a share of future net tax increment generated by the development, for funding of Pier 70 improvements.²

The Port will seek Port Commission and Board approval to publicly offer and sell the Illinois Street Parcel. Revenues to the Port from the sale of this parcel, which is anticipated to occur in the near term, are expected to repay Forest City for its expenditures during the entitlement process, with a market return. This early repayment will limit the amount of return that can accrue to the Forest City on its entitlement costs, and thereby support greater revenue generation to the Port.

- d. Direct Benefits to the City.** As currently proposed, the Waterfront Site will include a number of public benefits, including the rehabilitation and preservation of historic structures; creation of a unique San Francisco urban waterfront with a creative core of local production, arts, and innovation uses; elimination of a significant existing liability to the Port due to Pier 70's existing and anticipated capital needs; 7 acres of open space and parks; approximately 950 units of housing, including affordable housing commensurate with or exceeding the City's inclusionary housing requirements; expansion of the City's inventory of job-creating commercial space by up to 2.25 million square feet; and \$155 million of new infrastructure.

Benefits of the Illinois Street Parcel's development include the creation of additional housing and neighborhood retail amenities. The developer of the Illinois Street Parcel may also be responsible for constructing adjacent roadways and/or plaza space, unless these benefits are instead assigned to adjacent Port-owned parcels.

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

² Term Sheet

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

- (2) Cost of Construction.** The Pier 70 Waterfront Site as currently proposed will cost approximately \$1.8 billion to construct. This cost estimate includes \$1.65 billion for construction of buildings and structured parking and \$155 million for new infrastructure and public facilities, as set forth in further detail in **CHAPTER 2**.

The Illinois Street Parcel will cost approximately \$95 million to construct. This cost estimate includes vertical building construction, and infrastructure.

- (3) Available Funding for the Project.** Predevelopment, infrastructure, and historic preservation costs for the Pier 70 Waterfront Site initially will be privately financed with risk capital by the Master Developer. The Master Developer's investment in public facilities will be reimbursed and the infrastructure funding potentially augmented by several sources, including the appraised value of the improved, developable land; 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 District ("IFD") project areas; and debt issuance backed by CFD and IFD revenues. Private risk capital 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, with the possible exception of historic buildings and Innovation/"Maker" uses (described in the Proposed Development section below in the **INTRODUCTION**), which may have certain IFD-eligible costs. Certain historic building rehabilitation costs will be eligible for project-generated IFD funding for purposes of gap financing and cultural/place-making uses may be eligible for support from project-generated public financing sources. Additional information is provided in the **INTRODUCTION** and **CHAPTER 3**.

The costs for vertical development on the Illinois Street Parcel will be paid entirely using private risk capital. Infrastructure obligations associated with the Illinois Street Parcel, which could consist of adjacent streets and/or a small plaza, could potentially utilize the same CFD and IFD public financing mechanisms utilized for the Waterfront Site's infrastructure.

- (4) Long-Term Operating and Maintenance Costs.** The Master Developer (and/or other property lessees or owners) will be responsible for a portion of the Pier 70 Waterfront Site's operation and maintenance costs, including those associated with all publicly accessible open space and routine street sweeping and maintenance, for the term of the ground lease. These costs may be paid through CFD special taxes from the Site, due from the Master Developer, property lessees or owners. Out-year capital improvements to these facilities (e.g., road repaving) may be funded by IFD tax increment not needed for debt service.

The Illinois Street Parcel will be subject to the same maintenance obligations as the Pier 70 Waterfront Site and may also utilize CFD special taxes and excess IFD tax increment to cover these costs, if deemed desirable by the Port and City at the time of the Parcel's disposition.

City departments, including the San Francisco Police and Fire Departments and the Municipal Transportation Agency (“SFMTA”), 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 Waterfront Site proposes to use Project-generated proceeds of an IFD and a CFD to fund and/or reimburse the cost of 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 or reimburse infrastructure costs directly or to pay debt service on CFD or IFD bonds, as described below. A CFD will be secured by the pledge of special taxes imposed by the District and either the Port's land at the Waterfront Site and the Illinois Street Parcel or by leasehold interests at the site. The Illinois Street Parcel may also utilize these forms of public financing, if deemed desirable by the Port and City at the time of the Parcel's disposition. 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 Forest City Development California, Inc., (the "Master Developer") of the Waterfront Site at Pier 70 and of the proposed development of the parcel bounded by Illinois Street to the west, 20th Street to the north, Michigan Street to the east, and Pier 70's southern boundary to the south (the "Illinois Street Parcel"), collectively referred to as the "Project." The current Project program includes the construction of new office, residential, retail, cultural, parking, and open space uses and the rehabilitation of historic buildings on the Waterfront Site at Pier 70, in addition to the development of new residential, ancillary retail, and parking on the Illinois Street Parcel.

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 Waterfront Site project's "Term Sheet," a non-binding document between the Port and the Developer, which outlines certain basic business terms and the proposed development project. The Term Sheet:

- Has been informed by an extensive ongoing public outreach process.
- Describes negotiated deal terms, including financial terms.
- Describes the procedures for determining land value and returns of and on Developer Capital.
- Designates the Illinois Street Parcel's sale revenues as a funding source to support the Waterfront Site's infrastructure and public benefits.
- 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 that will accompany the final project approvals. The evaluation of fiscal feasibility, including financial benefits to the City and the Port, is preliminary, based on the current conceptual Project plan. 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 70 Waterfront Site

The Pier 70 Waterfront Site proposes a mixed-use development with the following uses:

- **Office** – Up to 2.25 million gross square feet of office uses will accommodate a range of tenants, with an emphasis on knowledge economy tenants. For the purpose of analysis, this report assumes 2,182,550 gross square feet are constructed.
- **Innovation, Retail and Arts** – Up to 400,000 gross square feet will accommodate a combination of traditional retail space (e.g., restaurants and cafes, businesses and financial services, convenience items, personal services) and “Innovation” space oriented towards small scale local production, arts and cultural uses, small business incubator uses, and other publically accessible and activating uses. The Innovation space will provide low-cost facilities to help grow start-up enterprises and encourage collaboration and networking through shared facilities. These uses will provide economic vitality and create unique local character that will attract residents and office tenants to the Waterfront Site. For the purpose of analysis, this report assumes that 272,300 gross square feet of Innovation, Retail and Arts uses are constructed and that this space is divided evenly between traditional retail and Innovation uses.
- **Residential** –The Project will meet or exceed City inclusionary housing requirements. This analysis assumes that 949 housing units will be constructed, all of which will be rental apartments and 15 percent of which provide inclusionary affordable housing subject to City income limits.
- **Parking** – The number of parking spaces will be determined based on final mix of uses, in accordance with any parking maximums in applicable ordinances. The development program assumed for this analysis assumes the following parking ratios, which are the maximum ratios laid out in the Term Sheet: 0.5 spaces per residential rental unit and 0.9 spaces per 1,000 square feet of commercial space. These ratios would result in a maximum of 2,566 parking spaces, up to 1,200 of which could be provided in structured “district parking” facilities and the balance of which would be provided within residential and commercial buildings.
- **Open Space** – Approximately 7 acres of parks will be constructed, including a 4.5 acre Waterfront Park, courtyard space, and useable open space on the roofs of district parking structures.

Development is anticipated to occur over a period of approximately 13 years, subject to economic cycles and market conditions.

Illinois Street Parcel

The Illinois Street Parcel is proposed to consist of a mixed-use building (or buildings) with residential over ground-floor retail, as follows:

- **Retail** – Up to 40,000 gross square feet will provide neighborhood serving uses for the benefit of nearby residents and employees. These uses may include restaurants and cafes, businesses and financial services, convenience items, and personal services. For the purposes of analysis, this report assumes that 7,700 gross square feet are constructed.
- **Residential** – 120,000 to 220,000 gross square feet, which corresponds with a maximum of 200 to 250 units, depending on unit size. This analysis assumes that 214 units will be constructed. They may be rental apartments or for-sale condominiums, depending upon market conditions at the time of parcel disposition, but this analysis assumes that all will be condos that will provide affordable housing through the City's Affordable Housing Fee option.
- **Parking** – The Illinois Street Parcel may include both a) parking spaces associated with residential units and retail uses on that parcel, to be determined based on the final program, and b) parking spaces to serve other portions of Pier 70, outside of the Illinois Street Parcel and the Waterfront Site, that do not supply adequate parking for their buildings' users. For purposes of this analysis, 214 parking spaces are assumed to be constructed, all of them associated with on-site uses.

Overview of Project Financing

Waterfront Site

Forest City would be responsible for infrastructure and site improvements and would be eligible to be reimbursed for its risk capital invested in predevelopment and horizontal development costs on a priority return basis from project cash flows. Sources of funds would include the value of improved and entitled land (booked as revenue to Forest City for parcels when Forest City exercised its option to serve as the vertical developer or when parcels are auctioned to third parties), disposition proceeds from the lease or sale to a third party of the Illinois/20th Street parcel, Infrastructure Financing District (IFD) revenues, and Community Facilities District (CFD) special taxes.

Forest City will have the option to serve as vertical developer for all residential and commercial development parcels on the Waterfront Site. Only if Forest City were to waive this option would another third party vertical developer be selected to "take down" a parcel. Land disposition, either to Forest City or to a third party vertical developer, will occur through a combination of fee sales (for parcels developed with condominiums) and 99-year ground leases that will commence at take-down of each parcel (prior to construction). Forest City will bear the cost of building new cultural and "place-making" uses that may not generate sufficient rents to cover costs but are expected to add value to the project overall. The Port and Forest City will examine potential project-generated public financing strategies to build the place-making uses. The Port plans to publicly finance the development of the District Parking Garages, which Forest City may

construct and the Port would own. The parties will continue to discuss a number of options for financing the District Parking Facilities, with a final financing approach included in the DDA.

In consideration for the land and investment of public funds, the Port will receive project revenues from a variety of sources, estimated to total approximately \$152 million (NPV). These potential revenues are described in greater detail in subsequent chapters.

Illinois Street Parcel

The Port will publicly offer the Illinois Street Parcel for sale to a developer, at fair market value, through an auction process that is outlined in the Term Sheet. Forest City may participate in the auction. Proceeds to the Port from the lease or sale of this parcel, which is expected to occur in the near term, are expected repay Forest City for its expenditures during the entitlement process, with a market return. This early repayment will limit the amount of return that can accrue to the Forest City on its entitlement costs, thereby generating greater Project revenues to the Port.

New development at the Waterfront Site and the Illinois Street Parcel will generate a range of ongoing tax revenues (see **TABLES 1A** and **1B**) and one-time fees and revenues (see **TABLES 2A** and **2B**). These revenues will help to fund services to the new development, as well as provide Port and Citywide services and facilities. Other economic benefits from the Project will include increased economic activity in the City and the creation of new jobs, summarized in **TABLE 3A** and **TABLE 3B**. 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**. For the Waterfront Site, the financial estimates are derived from the baseline development scenario proposed by Forest City. For the Illinois Street Parcel, financial estimates are derived from a development scenario consistent with analysis by Port and City staff, advised by design and economic consultants. These are the same scenarios studied in the financial analyses that have underpinned the Term Sheet negotiation process.

The development scenarios for both the Waterfront Site and the Illinois Street parcel are described in the Proposed Development subsection above. As both the Waterfront Site and Illinois Street parcel programs are expressed as floor area ranges by land use, exact fiscal benefits may vary depending on the actual development program, as well as on fiscal and economic conditions during the time the Project is developed and occupied.

a. Fiscal Benefits to the City and the Port

Pier 70 Waterfront Site

New tax revenues from the Pier 70 Waterfront Site and Illinois Street Parcel will include both ongoing annual revenues and one-time revenues, as summarized in **TABLE 1A** and **TABLE 2A**, respectively. The revenues represent direct, incremental benefits. These tax revenues will be available to help fund public improvements and services both within the Project and Citywide.

**Table 1A Fiscal Results Summary – Ongoing Annual Revenues (2013\$)
Pier 70 Waterfront Site**

Item	Total
Annual General Revenue	
Property Tax in Lieu of VLF	\$1,735,000
Property Transfer Tax	\$2,423,000
Sales Tax	\$604,000
Parking Tax (City and County of SF 20% share)	\$489,000
Gross Receipts Tax	<u>\$10,096,000</u>
Subtotal	\$15,347,000
Annual Other Dedicated and Restricted Revenue	
Parking Tax (MTA 80% share)	\$1,954,000
Public Safety Sales Tax	\$302,000
SF County Transportation Authority Sales Tax	<u>\$302,000</u>
Subtotal	\$2,558,000
Possessory Interest and Property Taxes (1)	\$10,776,000
Total, General plus Other Revenues	\$28,681,000

* Represent direct incremental public tax revenues attributable to Pier 70 Waterfront Site.
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. The \$0.65 represents the General Fund and dedicated funds share; total IFD revenues available for infrastructure will also include the State's share that currently is distributed to ERAF.

**Table 2A Fiscal Results Summary, One-Time Revenues (2013\$)
Pier 70 Waterfront Site**

Item	Total
<u>Development Impact Fees (1)</u>	
Jobs Housing Linkage - §413	\$50,607,000
Affordable Housing-- §415 (1)	\$0
Child Care (2)	\$2,423,000
TIDF - §411.3	<u>\$28,074,000</u>
Total: Development Impact Fees (3)	\$81,104,000
<u>Other One-Time Revenues</u>	
Sales Taxes During Construction	\$4,974,000
Gross Receipts Tax During Construction	<u>\$5,076,000</u>
Total: Other One-Time Revenues	\$10,050,000
 Total One-Time Revenues	 \$91,154,000

* Numbers have been rounded to the nearest thousand.

(1) Impact fee rates as of January, 2013. Fee estimates per San Francisco Planning Dept.
See Table A-3 for details of fee calculations.

 Concept plans anticipate providing inclusionary rental units.

(2) Childcare fee will be waived if child care facilities are constructed on site.

(3) The Project is assumed to provide in-kind improvements in excess of Eastern Neighborhoods Dev. Impact Fees.

**Table 1B Fiscal Results Summary, Ongoing Annual Revenues (2013\$)
Illinois Street Parcel**

Item	Total
Annual General Revenue	
Property Tax in Lieu of VLF	\$99,000
Property Transfer Tax	\$137,000
Sales Tax	\$92,000
Parking Tax (City and County of SF 20% share)	\$0
Gross Receipts Tax	<u>\$4,000</u>
Subtotal	\$332,000
Annual Other Dedicated and Restricted Revenue	
Parking Tax (MTA 80% share)	\$0
Public Safety Sales Tax	\$46,000
SF County Transportation Authority Sales Tax	<u>\$46,000</u>
Subtotal	\$92,000
Property Taxes (1)	\$618,000
Total, General plus Other Revenues	\$1,042,000

* Represent direct incremental public tax revenues attributable to Illinois Street Parcel.
Numbers have been rounded to the nearest thousand.

- (1) Until project infrastructure costs are fully paid, the full \$0.65 per property 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. The \$0.65 represents the General Fund and dedicated funds share; total IFD revenues available for infrastructure will also include the State's share that currently is distributed to ERAF.

**Table 2B Fiscal Results Summary, One-Time Revenues (2013\$)
Illinois Street Parcel**

Item	Total
<u>Development Impact Fees (1)</u>	
Jobs Housing Linkage - \$413	\$164,000
Affordable Housing-- \$415 (1)	\$10,124,000
Child Care (2)	\$0
TIDF - \$411.3	<u>\$102,000</u>
Total: Development Impact Fees (3)	\$10,390,000
<u>Other One-Time Revenues</u>	
Sales Taxes During Construction	\$285,000
Gross Receipts Tax During Construction	<u>\$268,000</u>
Total: Other One-Time Revenues	\$553,000
 Total One-Time Revenues	 \$10,943,000

* Numbers have been rounded to the nearest thousand.

(1) Impact fee rates as of January, 2013. Fee estimates per San Francisco Planning Dept.
See Table A-3 for details of fee calculations.

Concept plans assume condos and no inclusionary units.

(2) Childcare fee only apply to office uses.

(3) The Project is assumed to provide in-kind improvements in excess of Eastern Neighborhoods Dev. Impact Fees.

New tax revenues from the Project will include both ongoing annual revenues and one-time revenues, as summarized in the prior tables. The revenues represent direct, incremental benefits of the Project. These tax revenues will be available to help fund public improvements and services both within the Project and Citywide. The following sections describe key assumptions and methodologies employed for estimating each revenue.

Possessory Interest and Property Taxes

Possessory interest tax or property tax at a rate of 1 percent of value will be collected from the land and improvements associated with the Project.³ The development on parcels transferred in fee will be charged property taxes, while the development on parcels under ground lease will be charged a "possessory interest tax" in an amount equivalent to property tax. Parcels on the Waterfront Site may be sold for residential condominium development, with a site-wide maximum for residential condominium units to be set in the final Development Agreement. The Illinois Street Parcel is assumed to be sold for purposes of condominium development, although it may be leased for residential rental housing or commercial depending on final zoning.

³ 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.

The City receives up to \$0.65 of every property or possessory interest tax dollar collected. The Education Revenue Augmentation Fund (ERAF) receives \$0.25 of every property or possessory interest tax dollar collected, although the State of California has authorized the capture of this tax increment for purposes of furthering state interests at Pier 70, pursuant to AB 1199 (Assemblymember Ammiano, Chapter 664 of the statutes of 2010). The remaining \$0.10 of every property or possessory interest tax dollar collected is distributed directly to other local taxing entities, including the San Francisco Unified School District, City College of San Francisco, the Bay Area Rapid Transit District and the San Francisco Bay Area Air Quality Management District. 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 one percent property tax. These overrides are not estimated in this analysis.

The Waterfront Site's Term Sheet proposes to use IFD tax increment revenues, including the ERAF share of tax increment, to fund predevelopment, horizontal development (site preparation, infrastructure, and site-wide amenities), and the development of a shoreline park at the Pier 70 Waterfront Site. The Illinois Street Parcel may also use IFD tax increment revenues for eligible infrastructure and public benefits, if deemed desirable by the Port and City at the time of the Parcel's disposition.

This analysis assumes that net available possessory interest tax derived from the Waterfront Site and possibly also the Illinois Street Parcel could be deployed to cover these costs, as required, rather than remaining in the General Fund or flowing to ERAF. This analysis assumes that possessory interest tax available to the IFD will only include net available increment generated by 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 eligible costs have been funded. For purposes of this analysis, excess IFD taxes are assumed to flow to the City's General Fund. However, according to the Port IFD policy passed by the Board of Supervisors on April 23, 2013, excess IFD taxes may go either to the General Fund or the City's seawall, subject to the discretion of the Board and the Mayor.

For the Waterfront Site and the Illinois Street Parcel, land (and the possessory interest in the land), buildings, and other improvements will be assessed and taxed. In the event of the sale of a parcel, 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. For purposes of this analysis, the secured assessed values of the Project are estimated based on development costs; values may vary depending on actual rents and occupancy levels.

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 Waterfront Site's Term Sheet includes mechanisms, for example special taxes, to

assure that infrastructure can be adequately funded even if IFD property taxes decline (e.g., due to an assessment appeal).

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 added by new development.

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
- Taxable sales by businesses located in the Innovation/"Maker" space
- 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 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 when hotel occupancies are 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 or dedicated to commercial users. 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. This analysis assumes that all new parking spaces envisioned for the Project will generate parking tax, if eligible. This analysis does not include any off-site parking tax revenues that may be generated by visitors to the Project that park off-site.

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 most of the Pier 70 Waterfront Site's residential units are expected to be rental apartments and its commercial program will be leased, the turnover within the Project will be infrequent and limited to entire buildings. Although it is possible that several residential parcels could be sold to vertical developers outright and become condominiums, the fiscal analysis makes the conservative assumption that all residential units will be rental. The fiscal analysis therefore 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.

The residential units on the Illinois Street Parcel are assumed to be condos, which can turn over independently of one another at a rate more frequent than rental buildings, generating more transfer tax revenue than rental buildings. This analysis conservatively assumes that the average condominium will be sold to a new owner every 10 years.

Gross Receipts Tax

Estimated gross receipts tax revenues are generated from on-site businesses and rental income. 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. It is likely that the majority of businesses in the "Innovation/Maker" space will be small businesses and therefore exempt from the gross receipts tax.

Proposition D was passed by San Francisco voters in 2008 to assist with development of Pier 70 (codified primarily at sections B7.310-B7.320). The November 2008 Voter Pamphlet provides the following description of Proposition D:

Proposition D is a Charter Amendment that would provide City funds to develop Pier 70 if the Board approves a financial and land use plan for Pier 70 (Pier 70 Plan).

The Pier 70 Plan would determine the geographic boundaries for development, improvements, and financing. At the time the plan is submitted, the City would calculate the amount of payroll tax revenues collected from the Pier 70 Plan area

and estimate the new hotel and payroll tax revenues the City would collect over the next 20 years if the proposed development occurs. If the Board approves the Pier 70 Plan, the City would provide funds for historic preservation and the development of infrastructure such as parks and utilities in an amount up to 75% of projected new Pier 70 hotel and payroll tax revenues.⁴

The Board's approval of the Pier 70 Plan would also authorize long-term Port leases in the area without any further Board approval.

The Mayor may also submit to the Board agreements to facilitate the transfer of funds between City agencies and the Port. If the Board approves such agreements, the City would be required to provide the necessary funding.

The Port and Forest City do not intend to utilize the financing provisions of Proposition D to fund improvements to the Waterfront Site or to the Illinois Street Parcel. During the project entitlement phase, the Port intends to continue examining the potential role of Proposition D in funding other improvements to Pier 70 or to provide increased transit to Pier 70.

Transfer Fees to the Port

The Term Sheet provides that the Port may collect transfer fees upon certain refinancings, ground lease transfers, and property sales.⁵ These fees are separate and distinct from the current transfer taxes collected by the City. Depending on the magnitude of the fees 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 due to the uncertainty regarding timing and nature of refinancings. However, when sales and refinancings 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, excluding square footage within Buildings 12 and 21 and Parcels E1-A and E1-B, which will provide benefits through historic preservation, cultural, and place-making functions but are not expected to generate profits.

⁴ Under Proposition E, passed by San Francisco voters on November 6, 2012, the City payroll tax will be phased out and replaced by a gross receipts tax that will be phased in over a 5-year period beginning in 2014.

⁵ Term Sheet

- Affordable Housing (Planning Code Sec. 415) – New rental housing built for the Waterfront Site will meet City inclusionary housing requirements under Planning Code §§ 415.1-415.11 for on-site inclusionary housing by providing 15 percent of the units at 55 percent of area median income as determined by the U.S. Department of Housing and Urban Development for the San Francisco area (“AMI”). The Port and Master Developer will explore the feasibility of producing 80/20 tax credit projects at the Waterfront Site, in which individual residential rental buildings would include 20 percent inclusionary housing. The Illinois Street Parcel is assumed to be developed with condos that meet affordable housing requirements through the fee option.
- Child Care (Planning Code Sec. 414) – A fee per square foot will be paid by the commercial uses, applicable to the extent that childcare facilities are not provided on-site and excluding square footage within Buildings 12 and 21 and Parcels E1-A and E1-B.
- Transit Impact Development Fee (Planning Code Sec. 411.3) – A fee per square foot paid by all commercial uses, also expected to exclude square footage within Buildings 12 and 21 and Parcels E1-A and E1-B.

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.

With regard to the Eastern Neighborhoods Development Impact Fee, development projects at Pier 70 are expected to deliver in-kind improvements in excess of the attributable Eastern Neighborhoods Development Impact Fees due to the value of new infrastructure and public facilities at the Waterfront Site (estimated at \$155 million), as well as other public benefits outside the Project, including Crane Cove Park.

b. Economic Benefits to the City

The construction of the Project on the Pier 70 Waterfront Site and Illinois Street Parcel 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 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 as a part of this report; however, the assumptions and methodologies are believed sufficient for a planning-level analysis. Assumptions and calculations are further documented in **APPENDIX B**.

The potential economic benefits of the Pier 70 Waterfront Site are summarized in **TABLE 3A**.

**Table 3A Estimated Annual Economic Impacts (2013\$)
Pier 70 Waterfront Site**

Impact Category	Total
Pier 70 Waterfront Site	
<u>Ongoing Project Employment¹</u>	<u>Annual Average</u>
Direct	10,540
Indirect	2,230
Induced	<u>5,250</u>
Total Employment	18,020
Annual Total Economic Output	\$3,570,007,000
<u>One-Time Construction-Related Employment</u>	<u>Job-Years</u>
Direct	9,230
Indirect	1,980
Induced	<u>3,110</u>
Total Employment	14,320
Total Economic Output During Construction	\$2,797,136,000

(1) Reflects full-time equivalents.

Source: IMPLAN 2010; and Economic & Planning Systems.

The potential economic benefits of the Illinois Street Parcel are summarized in **TABLE 3B**.

**Table 3B Estimated Annual Economic Impacts (2013\$)
Illinois Street Parcel**

Impact Category	Total
Illinois Street Parcel	
<u>Ongoing Project Employment¹</u>	<u>Annual Average</u>
Direct	41
Indirect	4
Induced	<u>6</u>
Total Employment	51
Annual Total Economic Output	\$7,026,452
<u>One-Time Construction-Related Employment</u>	<u>Job-Years</u>
Direct	440
Indirect	125
Induced	<u>157</u>
Total Employment	722
Total Economic Output During Construction	\$147,284,425

(1) Reflects full-time equivalents.

Source: IMPLAN 2010; and Economic & Planning Systems.

Short-Term (One-Time) Construction Impacts

Construction expenditures for site development and vertical construction will create a range of economic benefits to the City. In addition to generating “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.

Pier 70 Waterfront Site

Construction expenditures of \$1.8 billion over a 13-year period will generate approximately 9,200 direct job-years⁶. The indirect and induced effects will create another 5,100 job-years.

⁶ A “job-year” is one full-time equivalent construction job for a period of one year.

Illinois Street Parcel

Construction expenditures of \$95 million over a 3-year period will generate approximately 440 direct job-years. The indirect and induced effects will create another 300 job-years.

Long-Term (Ongoing) Annual Economic Impacts

Pier 70 Waterfront Site

The Pier 70 Waterfront Site's long-term impacts will be generated by the ongoing operations of the anticipated mix of businesses and activities that will occupy the Waterfront Site at buildout, including offices, retail stores and services, innovation-focused activities and other cultural uses.

Office uses are projected to occupy the largest share of commercial space at the Waterfront Site (approximately 2.25 million square feet) and, accordingly, are estimated to generate the greatest ongoing economic impacts. The office space is designed to attract firms with an innovation focus. While the precise mix of companies cannot be predicted at this time, for evaluation purposes this analysis assumes a mix of office-based businesses consistent with employment projections for the region between 2010 and 2020.⁷ 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.

Traditional retail uses are planned to occupy about 136,000 square feet at the Waterfront Site. This analysis assumes a mix of retail/neighborhood service businesses consistent with employment projections for the region between 2010 and 2020.⁸ 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.

Small-scale local production, and cultural uses ("Innovation, Retail, and Arts" uses), are proposed to occupy 136,000 square feet. These uses can include a range of activities, such as incubator/accelerator organizations and shared workspace environments; shared technical workspaces and local production (e.g., crafts, electronics, apparel, food and beverage products); artist workspace, galleries, and performance venues; and food stalls and kiosks. These uses are intended to create a highly collaborative and creative environment to encourage innovation and business growth, which in turn will help to activate the Pier 70 Waterfront Site and encourage increased residential and office occupancies and rents. While the planned innovation and production uses are anticipated to be densely occupied during certain periods of time, the total

⁷ 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.

⁸ Ibid.

estimated utilization also reflects the likely mix of part-time and avocational users of shared facilities, as well as use by independent professionals, businesses located elsewhere requiring special facilities, and home-based businesses. Many of the businesses utilizing the incubator space will support employees, however it is possible that a majority will be early-stage startups not yet generating sales and economic output beyond salaries funded by equity investors.

Illinois Street Parcel

The Illinois Street Parcel will accommodate new residents who will help to support commercial activity on site, on the Pier 70 Waterfront Site, and Citywide. Additional jobs will be created by services specific to the new 214 residential units. In addition, 7,700 square feet of retail, assumed to include a mix of commercial services similar to the traditional retail proposed for the Waterfront Site, will generate new, ongoing jobs.

Other Economic Factors

New Households

Development of residential units at the Pier 70 Waterfront Site and Illinois Street Parcel will generate a small number of new jobs directly serving the residential buildings and occupants, for example building maintenance, janitorial and repair services, waste collection, domestic services, and child care. Expenditures by the residents of the new units are not included in the economic impact numbers because the analysis projects economic activity generated by the Project due to onsite jobs, and the indirect and induced expenditures associated with those onsite jobs. 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

“Direct” output refers to the total income from all sources to the businesses located at the Project; these sources of income in turn are spent by the businesses on 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 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 “induced” 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.

“Innovation” jobs are based on a potential mix of businesses and uses, including shared office environments, shared manufacturing work environments, arts and culture, and food-related uses. The number of jobs potentially generated by the shared uses is based on a percentage of the total potential patronage, ranging from 10 percent to 50 percent. The users sharing the work, manufacturing and arts/culture spaces are assumed to include a percentage of users who are either hobbyists or self-employed persons who would otherwise be working at home or in

other public spaces; therefore, these users are not treated as a net increase in San Francisco jobs.

c. Direct Financial Benefits to the Port

The following sections provide a summary of key financial terms from the Waterfront Site's Term Sheet, as well as a summary of the anticipated land disposition structure for the Illinois Street Parcel. They are not, however, meant to be comprehensive descriptions of deal structures. For the Waterfront Site, they should be reviewed in the Term Sheet and its associated exhibits and materials.

Waterfront Site

The transfer of Waterfront Site parcels for vertical development will occur through 99-year leases and a limited number of outright land sales for condominium development, which are allowable because the land will be removed from the Public Trust through "Trust Swaps" that add the Trust to other Port Pier 70 land in exchange. The Port will receive various revenues over the 99-year lease period and in conjunction with any land sales; the estimates below provide the net present value (NPV) of revenues that are projected to be generated to the Port, based on current financial projections based on the program assumptions described in the **INTRODUCTION** to this report.

- Profit participation in land value, calculated as 55 percent of all horizontal cash flow after Forest City achieves an 18 percent return on its predevelopment and infrastructure investments, estimated at \$67 million (NPV);
- participation in modified gross rent from buildings, starting at 1.5 percent 30 years after construction and increasing to 2.5 percent 60 years after construction, estimated at \$22 million (NPV);
- 1.5 percent of all net proceeds from sale or refinancing of properties, along with transfer fees when any on-site condominiums are sold, collectively estimated at \$6 million (NPV);
- a share of parking revenues estimated at \$39 million (NPV);
- a share of IFD revenues, designated for capital improvements on other portions of Pier 70, estimated at \$18 million (NPV).

Additional revenues will accrue from interim rent revenue and any additional revenues not otherwise required for Pier 70 improvements that could become available under the proposed City IFD policy for the Port.

Illinois Street Parcel

The revenues to the Port from the lease or sale of the Illinois Street Parcel (subject to Port Commission and Board approval), which is expected to occur in the near term, are expected repay Forest City for its expenditures during the entitlement process, with a market return. This early repayment will benefit the Port in the long term by limiting the amount of return that can accrue to Forest City on its entitlement costs. The Port revenues from the Waterfront Site

project, as listed above, would be substantially lower if this early repayment mechanism did not exist.

Operating Expenses

At the Waterfront Site, certain operational and maintenance expenses will be the responsibility of the Master Developer, vertical developers, and any subsequent property holders, including (i) the maintenance of all built facilities on development parcels, (ii) related landscaping, public parks, and other publicly accessible open spaces, and (iii) street sweeping and routine maintenance of public rights of way. These responsibilities are intended to be addressed through the creation of a CFD on the Pier 70 Waterfront 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 may 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. **CHAPTER 3** describes public services provided by the City and the Port.

No significant operating expenses are anticipated for the Illinois Street Parcel, which is already served by City infrastructure. However, the Illinois Street Parcel is not precluded from forming a maintenance CFD or contributing to the funding of maintenance elsewhere on Pier 70 through a district or other mechanism.

Capital Investment

The Master Developer will fund, with risk capital, the Waterfront Site's entitlement and planning costs, as well as the hard and soft costs of site preparation, infrastructure, parks, and other public facilities which are not otherwise funded directly through CFD or IFD revenues. These investments are projected to equal up to \$20 million for entitlement and planning costs and up to \$155 million for infrastructure and public facilities for the Pier 70 Waterfront Site.⁹ Public infrastructure and facilities costs will be eligible for reimbursement from IFD bond proceeds and tax increment revenues, CFD bond proceeds and CFD special tax revenues.

All new commercial office and residential buildings will be funded solely through private sources of investment. Certain vertical improvements, such as the rehabilitation of historic structures and district parking structures will be eligible for reimbursement from project-generated public financing sources. The cultural and place-making uses on parcels E1-A and E1-B may also include costs that are eligible for reimbursement from project-generated public financing sources. Other public financing mechanisms may be explored including various revenue bonds specific to particular types of infrastructure and use programs.¹⁰

⁹ Term Sheet.

¹⁰ Term Sheet

Development of the Illinois Street Parcel, which is estimated to cost \$95 million, is expected to be entirely funded by the developers of those parcels, with the possible exception of infrastructure or public facilities obligations that could potentially utilize the CFD and IFD public financing mechanisms as the Waterfront Site's infrastructure.

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

The Pier 70 Waterfront Site will provide a range of public parks, public access, and open space, including:

- Approximately 7 acres of public parks, including a 4.5 acre Waterfront Park and useable open space on the roofs of the district parking structures
- A network of landscaped pedestrian connections
- Multiple classes of bicycle networks, from commuting lanes to recreational pathways, throughout the Project site

As previously noted, maintenance of these facilities will be funded by a CFD. Maintenance special taxes levied against each taxable development parcel, separate from 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.

The Illinois Street Parcel may also provide pedestrian and bicycle connections and a possible plaza but is not expected to include substantial parks or open spaces. Instead, it will be served by the adjacent Waterfront Site park system and Crane Cove Park, a 9-acre public park currently under development one block to the north. The Illinois Street parcel's developer(s) may be required to contribute to these public facilities and other new area-wide infrastructure which benefit the Illinois Street Parcel.

e. Other Public Benefits

Development of the Project 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 vacant and underutilized land and intermittent buildings. The Project will result in the rehabilitation of historic buildings, to be maintained by the building owners/tenants. The redevelopment of the Project 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 other sections of this report.

1. COSTS OF CONSTRUCTION FOR THE PROJECT

Development Costs for the Pier 70 Waterfront Site

Entitlement and Planning

The costs for entitlements and Project planning are estimated to total approximately \$20 million.¹¹

Project Infrastructure

The site will require substantial new infrastructure. These improvements include but are not limited to investment in streets, sewer and water systems, drainage systems, electrical and data utilities, shoreline stabilization improvements including those needed to address projected sea level rise, parks, and landscaping. These costs are estimated to total approximately \$155 million in 2013 dollars.¹² In addition, construction of structured parking will be needed to serve Project-related demand.

Building Construction and Other Improvements

The total cost for private vertical improvements, including new commercial and residential construction, historic rehabilitation, and the creation of cultural and creative spaces are anticipated to total \$1.65 billion.¹³ These costs will be privately funded through a combination of private investment sources, as well as project-generated taxable or tax-exempt financing for eligible costs. They may be delivered by the Master Developer, which has the option to serve as vertical developer for any and all parcels, or by third party vertical developers for parcels where the Master Developer chooses not to exercise its option.

Development Costs for the Illinois Street Parcel

Vertical development of the Illinois Street Parcel is estimated to total approximately \$95 million including onsite infrastructure and improvements. These costs will be privately funded through private investment sources.

¹¹ Project pro forma.

¹² Project pro forma.

¹³ Project pro forma.

2. AVAILABLE FUNDING FOR THE PROJECT

Pier 70 Waterfront Site

a. Predevelopment

The Master Developer will privately finance the predevelopment costs with risk capital. Reimbursement for these costs is anticipated to come from lease or sale proceeds from the disposition of the Illinois Street Parcel and potential other non-Waterfront Site Port land. By fully repaying the predevelopment costs as soon as possible, the City will minimize the amount of equity return owed to the Master Developer, thereby increasing the Port's participation in Project revenues.

As provided in the Term Sheet, predevelopment cost reimbursements to the Master Developer will include an 18 percent annual cost of funds. This cost of funds is within the typical market range for a major, long-term mixed-use project of this scale, considering the risks associated with potential future market conditions and cost uncertainty.

b. Project Infrastructure

The Master Developer will provide initial financing for the construction of project infrastructure, except in certain cases where financing can be obtained for a lower cost of funds. Any financing will be reimbursed and augmented from the following sources:

- Appraised value of development parcels – The development value of any given parcel, which will depend on the parcel's development capacity, type of development allowed, and disposition mechanism (e.g., prepaid ground lease, annual ground lease payments, and outright sale). Land value may also be utilized as security for project infrastructure costs intended to be reimbursed by the CFD and IFD sources described below, as those sources become available.
- Proceeds of Community Facilities District (CFD) – CFD debt payments will be secured by a special tax lien on the Waterfront Site and Illinois Street property or the Project's lessees and owners. A portion of IFD revenues generated by the value created by the Waterfront Site 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) – Project-generated tax increment may be used to pay or reimburse Horizontal Development Costs on a pay-as-you-go basis, to service tax increment bond financing used to pay qualified project costs, to repay CFD debt, or for any other reason authorized by IFD law.¹⁴
- 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

¹⁴ Term Sheet

requirements. Once all IFD-eligible infrastructure has been completed and debt has been serviced, the tax increment will go to the General Fund and possibly, as allowed by the Port's IFD Policy, to the Port for investment in the City's sea wall. A portion of the remaining tax increment may also flow to the Harbor Fund for infrastructure improvements consistent with the IFD financing plan.

Detailed terms and conditions related to the land value, 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, 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.¹⁵

c. Building Construction and Other Improvements

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

Illinois Street Parcel

Predevelopment costs of the Illinois Street Parcel after project entitlement will be funded by the developer of the Illinois Street Parcel; design guidelines and environmental review costs to be paid by Forest City and booked as Waterfront Site project costs to be reimbursed according to the Waterfront Site project's Term Sheet. Infrastructure costs and vertical development costs will also be funded by the developer of the Illinois Street Parcel, with the possible exception of certain infrastructure obligations that could potentially utilize the same CFD and IFD public financing mechanisms utilized for the Waterfront Site's infrastructure.

¹⁵ Term Sheet

3. LONG-TERM OPERATING AND MAINTENANCE COSTS

The increase in public facilities needed to serve the Pier 70 Waterfront Site and Illinois Street Parcel, the 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

As described above, the Waterfront Site will include approximately 7 acres of public parks and open spaces, phased in over the course of development, while the Illinois Street Parcel will utilize adjacent parks and open spaces. All of the Waterfront Site's at-grade 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 or CFD maintenance district, subject to Port approval and conditions of the BCDC major permit applicable to the Waterfront Site. Maintenance of the parks and open spaces will be funded by special taxes imposed on Vertical Developers through the maintenance CFD.¹⁶

Plans for the Waterfront Site call for additional open space on the rooftops of certain buildings, including public open space on top of the proposed parking structure, which would also be maintained via maintenance CFD special taxes. The installation and maintenance of private open space on the roofs of residential and commercial buildings, on either the Waterfront Site or the Illinois Street Parcel, will be the responsibility of those buildings' vertical developers.

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 the largest of ten districts in the City, covering more than 18 percent of the City's land area. Currently, the Bayview District extends from the eastern edge of McLaren Park to the San Francisco Bay and south of Channel Street to the San Mateo County line, although the district boundaries may be realigned in the future as new development occurs in the City. Police services in the Bayview District are provided from the Bayview Police Station, located on Williams Avenue near 3rd Street.

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

¹⁶ Term Sheet reference; verified by Katherine Petruccione, Department of Recreation and Parks May 9, 2013.

officers will continue. The Project's demand for additional police service will be generated by the new office, residential, and Retail, Innovation, and Arts uses and related residential and employment activity, as well as by events and visitors. The specific level and types of impacts will depend on the Project's design, visibility, configuration, and access.

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 increased population and employment at the Waterfront Site and the Illinois Street Parcel, totaling nearly 13,000 residents and employees, will require one patrol unit as a baseline. Patrol units typically consist of four or five officers on staggered shifts. Depending on the demand for additional supervisory and other specialized law enforcement services in addition to patrol, and the number and type of service calls generated from the area, the number of required sworn officers could be greater. Based on five officers at an average cost of \$143,926 per officer,¹⁷ the additional annual cost would total approximately \$720,000.

Allocating this cost between the Waterfront Site and the Illinois Street Parcel based on projected population, approximately \$691,000 of the projected annual cost (96 percent) will be attributed to the Waterfront Site and \$29,000 (4 percent) will be attributable to the Illinois Street Parcel.

c. Fire and EMS

The San Francisco Fire Department (SFFD) deploys services from the closest station with available resources, supplemented by additional resources based on the nature of the call. Responding stations for the Project are expected to include Stations 4, 8, 9, 17, 25, and 29. 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.

Demand from the Project will contribute to the need for the new station currently under construction as part of the new Public Safety Building in Mission Bay (Station 4), including its equipment and staffing, along with other growth and development in the City. The SFFD indicates that services from the new and existing stations will be sufficient to handle the increase in development at the Waterfront Site and Illinois Street Parcel without incurring additional costs or adversely affecting existing services levels, assuming that no current stations serving the area are closed.¹⁸ Although no additional costs would be incurred due to the Project, assuming the

¹⁷ Average cost per officer includes salary, benefits per Lieutenant Roualdes, 2/20/2013 and 5/9/2013.

¹⁸ Assistant Deputy Chief Ken Lombardi, CCSF Fire Department, 5/9/2013.

new station was already operational, an allocation of Citywide costs to the Project would indicate an annual cost of \$2.4 million, or about \$2.3 million for the Waterfront Site and \$100,000 to the Illinois Street Parcel.¹⁹

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 Pier 70 Waterfront Site. 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. The development of the Project will also require SFMTA to address parking management.

For the Waterfront Site, Forest City will implement a Transportation Demand Management Plan ("TDMP") that will provide a comprehensive strategy to manage new transportation demands. The mixed-use land use program, the transit options in the Central Waterfront, and the Waterfront Site's proximity to San Francisco's resources and services mandate that single-occupancy vehicle trips be reduced. The transportation strategy for the Project is based on reducing vehicle miles traveled by fostering multiple modes of sustainable transportation, emphasizing pedestrian, bicycle, and public transit options. The land use plan is oriented to create a dense, urban neighborhood clustered near accessible transit with streets and paths that favor walking and bicycling.

Market-based pricing strategies for parking will be supported by innovative programs to reduce automobile dependence and promote the use of public transit. A district parking strategy enables delivery of parking as needed to meet actual future demands as development proceeds. Parking for the site will be managed to maximize availability of on-street parking within the Pier 70 area and to maximize shared use of available parking by different users at different times of the day or week.

The TDMP will incorporate smart and sustainable transportation planning principles 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. Consistent with the CEQA investigation, the TDMP will outline a series of implementation strategies intended to manage

¹⁹ Assumes 800 incidents annually based on Citywide average of 64 incidents/year per 1,000 service population (population and jobs). This represents approximately 30 percent of the Citywide per-station average, each station with an average cost of \$7.7 million based on 43 stations and total budget of \$332.9 million.

effectively 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.

The Illinois Street Parcel shares many of the same transportation conditions as the Waterfront Site. As the Port refines the Illinois Street Parcel's land use plan and parking program, it expects to uphold the same transportation goals as the Waterfront Site's TDMP. Given that the Illinois Street Parcel is substantially smaller, however, these goals are most likely to express themselves through appropriately-scaled strategies such as pedestrian and bicycle facilities and parking management strategies.

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. As described above, Proposition D may be an additional source of revenue to fund SFMTA capital or operating expenses. 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.

e. DPW

Development-related funding sources will cover the street and sidewalk maintenance services commonly provided by the Department of Public Works (DPW). The Waterfront Site may create a private entity to perform these services or contract them out to DPW. Regardless, based on the lengths of streets, sidewalks, and other pedestrian ways within the Project, as well as certain short external rights of way needed within Port property to provide access to the Project, DPW estimates annual street sweeping and litter removal costs at approximately \$23,000.²⁰ Additional costs will be incurred periodically for resurfacing and other major maintenance needs, which are anticipated to be funded through IFD funds.

It is still to be determined whether any streets or sidewalks will be associated with the Illinois Street Parcels. To the extent that they are, the maintenance of these rights of way would also be privately funded and would likely be performed in the same manner as for the Waterfront Site. These streets and sidewalks would increase the Project's total right of way length by no more than 6 percent, with a corresponding maintenance cost increase estimated at \$1,400 per year.

²⁰ Larry Stringer, Department of Public Works, 5/9/2013 and 5/10/2013.

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

The Pier 70 Waterfront Site 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 Pier 70 Waterfront Site 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 Pier 70 Waterfront Site 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 will fund debt service on \$169 million of net proceeds from bonds (in nominal dollars). 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.

The Illinois Street Parcel is not anticipated to require debt funding, with the possible exception of project-based debt serviced by CFD and/or IFD in the same manner as described for the Waterfront Site above. The Illinois Street Parcel's developer is expected to fund all development costs. Tax increment generated by new development will help to fund required infrastructure, public facilities and services. As noted above, there will be no impact or obligation on the City's General Fund or the Port's Harbor Fund.



APPENDIX A:
Fiscal Analysis

**Table A-1
Project Description Summary
Pier 70 Waterfront Site and Illinois Street Parcel**

Item	Gross Bldg. Sq.Ft.	Units or Spaces	Notes
Pier 70 Waterfront Site			
Retail (1)	136,150	na	
Innovation (2)	136,150	na	
Office	2,182,550	na	
Residential (3)	803,991	949 units	modeled as rental (3)
Parking	<u>955,935</u>	2,566 spaces	
Subtotal	4,078,626		
Illinois Street Parcel			
Retail	7,700		
Residential (3)	213,500	214 units	assumed condo (3)
Parking	<u>69,336</u>	214 spaces	
Subtotal	290,536		
Total	4,369,162		

(1) For analysis purposes, conventional retail is assumed to comprise 50% of the floor areas dedicated to the Innovation, Retail, and Arts use delineated in the Waterfront Site's Term Sheet.

(2) Reflects a mix of small scale local production, arts and cultural uses, small business incubator uses, innovation retail and other publicly accessible and activating uses. For analysis purposes, these uses are assumed to comprise 50% of the floor area dedicated to the Innovation, Retail, and Arts use delineated in the Term Sheet.

(3) Includes 0.5 spaces/rental residential unit, 0.9 spaces/1,000 commercial sq.ft., and additional spaces to serve other Pier 70 uses.

Sources: Forest City and Economic & Planning Systems, Inc.

**Table A-2
Population and Employment
Pier 70 Waterfront Site and Illinois Street Parcel**

Item	Assumptions	Total
Pier 70 Waterfront Site		
Population (1)	2.2 persons per unit	2,088
<u>Employment (FTEs)</u>		
Retail (2)	300 sq.ft. per FTE	454
Innovation (3)	429 sq.ft. per FTE	318
Office (4)	225 sq.ft. per FTE	9,700
Residential (5)	15 units per FTE	63
Parking (2)	270 spaces per FTE	<u>10</u>
Total		10,544
Total Service Population		12,632
Illinois Street Parcel (2)		
Population (1)	2.2 persons per unit	471
<u>Employment (FTEs)</u>		
Retail (2)	300 sq.ft. per FTE	26
Office (4)	225 sq.ft. per FTE	0
Residential (5)	15 units per FTE	14
Parking (2)	270 spaces per FTE	<u>1</u>
Total		41
Total Service Population		512

(1) Based on ABAG and Woods & Poole projections.

(2) EPS estimate.

(3) Based on Forest City/AECOM, adjusted by EPS for part-time and other jobs likely to exist in the City independent of the Project.

(4) EPS estimates based on Forest City/AECOM projections.

(5) Includes janitorial, cleaning and repair, childcare, and other domestic services.

Table A-3
San Francisco City Development Impact Fee Estimate*
Pier 70 Waterfront Site and Illinois Street Parcel

Item	Residential	Office <i>per gross building sq. ft.</i>	Innovation/ Retail	TOTAL
Pier 70 Waterfront Site				
New Development (sq.ft.) (1)	803,991	2,182,550	272,300	
New Residential Units	949			
Adaptive Reuse (buildings 2, 12, 21, and E1)	<u>86,093</u>	<u>0</u>	<u>235,693</u>	
Net of Adaptive Reuse	717,898	2,182,550	36,607	
City Fees (per gross building sq.ft.) (2)				
Jobs Housing-§413	\$0.00	\$22.83	\$21.30	\$50,607,346
Affordable Housing-§415 (3)	\$0.00	\$0.00	\$0.00	\$0
Child Care-§414 (4)	\$0.00	\$1.11	\$0.00	\$2,422,631
TIDF (§411.3)	\$0.00	<u>\$12.64</u>	<u>\$13.30</u>	\$28,074,305
Subtotal (per sq.ft.)		\$36.58	\$34.60	
Total		\$79,837,679	\$1,266,602	\$81,104,281
Illinois Street Parcel (2)				
New Development (sq.ft.) (1)	213,500	0	7,700	
New Residential Units	214			
City Fees (per gross building sq.ft., except for "Affordable housing" (2))				
Jobs Housing-§413	\$0.00	\$22.83	\$21.30	\$164,010
Affordable Housing-§415 (3) (assumes 1-bdrm avg.)	\$236,545	\$0.00	\$0.00	\$10,124,126
Child Care-§414 (4)	\$0.00	\$1.11	\$0.00	\$0
TIDF (§411.3)	\$0.00	<u>\$12.64</u>	<u>\$13.30</u>	\$102,410
Subtotal (per sq.ft.)		\$36.58	\$34.60	
Total	\$10,124,126	\$0	\$266,420	\$10,390,546

(1) No fees assumed related to the parking.

(2) All impact fees are as of January 2013.

(3) Concept plans anticipate providing inclusionary rental units on Waterfront Site; Illinois Street assumed to be condos and pay the fee. Assumes in-lieu fees based on 20% of onsite units.

(4) Childcare fee will not apply if child care facilities are constructed on site. Fees only apply to office.

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

Table A-4
Assessed Value Estimate (2013 dollars)*
Pier 70 Waterfront Site and Illinois Street Parcel

Item	Dev. Cost	Assessed Value
Pier 70 Waterfront Site (1)		
Infrastructure	\$154,700,000	<i>none assumed</i>
Innovation Retail	\$73,707,000	\$73,707,000
Office	\$1,028,268,000	\$1,028,268,000
Residential	\$488,053,000	\$488,053,000
Parking Structure	<u>\$67,868,000</u>	<u>\$67,868,000</u>
Total	\$1,812,596,000	\$1,657,896,000
Illinois Street Parcel (2)		
Infrastructure (2)	<i>included in residential total</i>	
Retail	<i>included in residential total</i>	
Residential	<u>\$95,000,000</u>	<u>\$95,000,000</u>
Total	\$95,000,000	\$95,000,000

*Note: estimated based on projected vertical costs and values from pro forma. Value estimates for integrated retail and parking are reflected in other uses.

- (1) Mixed use retail is reflected in the values for other uses.
 Innovation and traditional retail consolidated for purposes of assessed value estimates.
 (2) Illinois Street onsite infrastructure and utility connections only, estimated based on 10% of vertical costs.

Sources: Forest City and Economic & Planning Systems, Inc.

**Table A-5
Possessory Interest and Property Tax Estimate (2013 dollars)
Pier 70 Waterfront Site and Illinois Street Parcel**

Item	Assumptions	Total
Waterfront Site		
Gross Secured Possessory Interest and Property Tax	1.0% of new AV excluding overrides (2)	\$16,579,000
Possessory Interest Tax		
Net New General Fund Share (after ERAF) (1)	65.00% of total tax increase	\$10,776,350
ERAF (2)	25.33% of total tax increase	\$4,199,000
SF Unified School District	7.70% of total tax increase	\$1,277,000
Illinois Street Parcels		
Gross Secured Possessory Interest and Property Tax	1.0% of new AV excluding overrides (2)	\$950,000
Property Tax		
Net New General Fund Share (after ERAF) (1)	65.00% of total tax increase	\$617,500
ERAF (2)	25.33% of total tax increase	\$241,000
SF Unified School District	7.70% of total tax increase	\$73,000

Notes to Table A-5

(1) Includes special funds set aside for Library, Open Space, and Children's Fund.

(2) Current ERAF allocations will be available to the IFD.

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

Table A-6
Property Tax in Lieu of VLF Estimate (2013 dollars)
Pier 70 Waterfront Site and Illinois Street Parcel

Item	Assumptions	Total
Citywide Total Assessed Value (1)		\$165,043,120,000
Total Citywide Property Tax in Lieu of Vehicle License Fee (VLF) (2)		\$172,710,000
Pier 70 Waterfront Site		
Project Assessed Value		\$1,657,896,000
Growth in Citywide AV due to Project		1.00%
Net New Property Tax in Lieu of VLF (3)		\$1,735,000
Illinois Street Parcel		
Project Assessed Value		\$95,000,000
Growth in Citywide AV due to Project		0.06%
Net New Property Tax in Lieu of VLF (3)		\$99,000

(1) Based on the CCSF FY2012-13 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)
Pier 70 Waterfront Site and Illinois Street Parcel**

Item	Assumptions	Total
Pier 70 Waterfront Site		
<u>Annual Transfer Tax From Building Sales</u>		
Residential Value (1)		
Residential Assessed Value (AV)	\$488,053,000	
Avg. Sales Value	6.7% annual turnover	\$32,537,000
Transfer Tax From Residential Buildings (2)	(avg. sale once/15 years)	\$700,000
Commercial Value		
Non-Residential Assessed Value (AV)	\$1,101,975,000	
Avg. Sales Value	6.7% annual turnover	\$73,465,000
Transfer Tax From Commercial Buildings (2)	(avg. sale once/15 years)	\$1,723,425
Annual Average Transfer Tax (2013 dollars)		\$2,423,425
Illinois Street Parcel		
<u>Annual Transfer Tax From Building Sales</u>		
Residential Value (1)		
Residential Assessed Value (AV)	\$95,000,000	
Avg. Sales Value	10.0% annual turnover	\$9,500,000
Transfer Tax From Residential Buildings (2)	(avg. sale once/10 years)	\$136,800
Commercial Value		
Non-Residential Assessed Value (AV)	\$0 (included above)	
Avg. Sales Value	6.7% annual turnover	\$0
Transfer Tax From Commercial Buildings (2)	(avg. sale once/15 years)	
Annual Average Transfer Tax (2013 dollars)		\$136,800

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

Illinois Street Parcels assumed to be condos.

(2) 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)
Pier 70 Waterfront Site

Item	Assumptions	Total
Taxable Sales From New Residential Uses		
Average Annual Housing Payment	\$35,800 per household	
Average Annual HH Income (1)	21%	\$170,900
Average HH Retail Expenditure (2)	27%	\$46,700
Residential Units		949
Total New Retail Sales from Households		\$44,318,000
New Taxable Retail Sales Captured in San Francisco	80% of retail expenditures	\$35,454,400
Net New Sales Tax to GF From Residential Uses	1.0% tax rate x taxable sales	\$355,000
Taxable Sales From Commercial Space		
Retail Sq.Ft.		
Innovation (3)		30,000
Retail		<u>136,150</u>
Total		166,150
Retail Taxable Sales		
Innovation	\$300 per sq.ft.	\$9,000,000
Retail	\$300 per sq.ft.	<u>\$40,845,000</u>
Total		\$49,845,000
Sales Tax to San Francisco	1.0% tax rate x taxable sales	\$498,450
(less) New On-Site Residential Sales (4)	25% of commercial sales	(\$124,613)
(less) Shift From Existing Sales (5)	25%	<u>(\$124,613)</u>
Net New Sales Tax to GF from Retail Space		\$249,225
TOTAL Sales Tax to General Fund (1%)		\$604,225
Annual Sales Tax Allocation		
Sales Tax to the City General Fund	1.00% tax rate x taxable sales	\$604,225
Other Sales Taxes		
Public Safety Sales Tax (6)	0.50% tax rate x taxable sales	\$302,113
San Francisco County Transportation Authority (6)	0.50% tax rate x taxable sales	\$302,113
SF Public Financing Authority (Schools) (6)	0.25% tax rate x taxable sales	\$151,056
One-Time Sales Taxes on Construction Materials and Supplies (rounded)		
Total Development Value		\$1,657,896,000
Supply/Materials Portion of Construction Cost	60.00%	\$994,738,000
San Francisco Capture of Taxable Sales	50.00%	\$497,369,000
Sales Tax to San Francisco General Fund	1.0% tax rate x taxable sales	\$4,973,690

(1) Based on the 2011 American Community Survey average share of income allocated towards rent by San Francisco renters.

(2) Based on blended assumptions with average household expenditure based on typical household spending as reported for the San Francisco MSA by the State Board of Equalization.

(3) Only a small share of the tenants of innovation space will generate sales taxes (30,000 sq.ft. assumed).

Innovation space will be distributed between shared office work environment, shared manufacturing, arts and culture, and food stall and kiosk retail uses. With the exception of food stall and kiosk retail, innovative retail uses are not assumed to generate substantial retail sales.

(4) A portion of new sales from San Francisco residents are assumed captured by retail in the Project (calculated above).

(5) Reflects a deduction of retail sales that could be captured elsewhere in San Francisco were the Project not built.

(6) Sales tax proportions for these entities as reported by Controller's Office.

Sources: Forest City, State Board of Equalization, and Economic & Planning Systems, Inc.

Table A-9
Sales Tax Estimates (2013 dollars)
Illinois Street Parcel

Item	Assumptions	Total
Taxable Sales From New Residential Uses		
Average Annual Housing Payment	\$35,800 per household	
Average Annual HH Income (1)	21%	\$170,900
Average HH Retail Expenditure (2)	27%	\$46,700
Residential Units		214
Total New Retail Sales from Households		\$9,994,000
New Taxable Retail Sales Captured in San Francisco	80% of retail expenditures	\$7,995,200
Net New Sales Tax to GF from Residential Uses	1.0% tax rate x taxable sales	\$80,000
Taxable Sales From Commercial Space		
Retail Sq.Ft.		7,700
Retail Taxable Sales	\$300 per sq.ft.	\$2,310,000
Sales Tax to San Francisco	1.0% tax rate x taxable sales	\$23,000
(less) New On-Site Residential Sales (3)	25% of commercial sales	(\$5,750)
(less) Shift From Existing Sales (4)	25%	(\$5,750)
Net New Sales Tax to GF from Retail Space		\$11,500
TOTAL Sales Tax to General Fund (1%)		\$91,500
Annual Sales Tax Allocation		
Sales Tax to the City General Fund	1.00% tax rate x taxable sales	\$91,500
Other Sales Taxes		
Public Safety Sales Tax (5)	0.50% tax rate x taxable sales	\$45,750
San Francisco County Transportation Authority (5)	0.50% tax rate x taxable sales	\$45,750
SF Public Financing Authority (Schools) (5)	0.25% tax rate x taxable sales	\$22,875
One-Time Sales Taxes on Construction Materials and Supplies (rounded)		
Total Development Value		\$95,000,000
Supply/Materials Portion of Construction Cost	60.00%	\$57,000,000
San Francisco Capture of Taxable Sales	50.00%	\$28,500,000
Sales Tax to San Francisco General Fund	1.0% tax rate x taxable sales	\$285,000

- (1) Based on the 2011 American Community Survey average share of income allocated towards rent by San Francisco renters
(2) Based on blended assumptions with average household expenditure based on typical household spending as reported for the San Francisco MSA by the State Board of Equalization.
(3) A portion of new sales from San Francisco residents are assumed captured by retail in the Project (calculated above).
(4) Reflects a deduction of retail sales that could be captured elsewhere in San Francisco were the Project not built.
(5) Sales tax proportions for these entities as reported by Controller's Office.

Sources: Forest City, State Board of Equalization, and Economic & Planning Systems, Inc.

Table A-10
Parking Tax (2013 dollars)
Pier 70 Waterfront Site and Illinois Street Parcel

Item	Assumption	Total
Pier 70 Waterfront Site		
Total Spaces		<u>2,566</u>
Residential Spaces	0.5 per unit	475
Non-Residential Spaces (1)		2,092
<u>Parking Revenues</u>		
Annual Total (2)	\$16 per day	\$9,771,488
<u>San Francisco Parking Tax</u>		
Parking Tax Allocation to General Fund/Special Programs	25% of revenue	\$2,442,872
Parking Tax Allocation to Municipal Transp. Fund	20% of tax proceeds	\$488,574
	80% of tax proceeds	\$1,954,298
Illinois Street Parcel		
Total Spaces		<u>214</u>
Residential Spaces	1.0 per unit	214
Non-Residential Spaces (1)		0
<u>Parking Revenues</u>		
Annual Total (2)	\$16 per day	\$0
<u>San Francisco Parking Tax</u>		
Parking Tax Allocation to General Fund/Special Programs	25% of revenue	\$0
Parking Tax Allocation to Municipal Transp. Fund	20% of tax proceeds	\$0
	80% of tax proceeds	\$0

(1) This analysis assumes that all non-residential Project parking will generate parking tax, based on parking program.

Number of residential spaces could vary depending on the mix of condo vs. rental units.

(2) Not including parking tax; assumes 80% occupancy.

Sources: Forest City, and Economic & Planning Systems, Inc.

**Table A-11
Gross Receipts Tax Estimates (2013 dollars)
Pier 70 Waterfront Site and Illinois Street Parcel**

Item	GR Allocated to SF for GR Tax (1)	Gross Revenue Tier (2)				Gross Receipts Tax
		up to \$1m	\$1m - \$2.5m	\$2.5m - \$25m	\$25m+	
Pier 70 Waterfront Site						
<u>Business Income</u>						
Retail	\$40,845,000	0.075%	0.100%	0.135%	0.160%	\$55,141
Innovation (3)	\$6,771,000	0.075%	0.100%	0.135%	0.160%	\$9,141
Office (4)	\$1,864,213,000	0.400%	0.460%	0.510%	0.560%	\$9,507,486
Parking	<u>\$9,771,000</u>	0.075%	0.100%	0.135%	0.160%	<u>\$13,191</u>
Subtotal	\$1,921,600,000					\$9,584,959
<u>Rental Income (5)</u>						
Innovation	\$6,180,000	0.285%	0.285%	0.300%	0.300%	\$18,540
Office	\$120,072,000	0.285%	0.285%	0.300%	0.300%	\$360,216
Structured Parking	\$3,199,000	0.285%	0.285%	0.300%	0.300%	\$9,597
Residential	<u>\$40,991,000</u>	0.285%	0.285%	0.300%	0.300%	<u>\$122,973</u>
Subtotal	\$170,442,000					\$511,326
Total Gross Receipts	\$2,092,042,000					\$10,096,285
<u>Project Construction</u>						
Total Development Value (6)	\$1,810,000,000					
Direct Construction Cost (7)	\$1,269,000,000	0.300%	0.350%	0.400%	0.450%	\$5,076,000
Illinois Street Parcel						
<u>Business Income</u>						
Retail	\$2,310,000	0.075%	0.100%	0.135%	0.160%	\$3,119
Parking	<u>\$0</u>	0.075%	0.100%	0.135%	0.160%	<u>\$0</u>
Subtotal	\$2,310,000					\$3,119
<u>Rental Income (5)</u>						
Retail	\$349,512	0.285%	0.285%	0.300%	0.300%	\$1,049
Residential	<u>\$0</u>	0.285%	0.285%	0.300%	0.300%	<u>\$0</u>
Subtotal	\$349,512					\$1,049
Total Gross Receipts	\$2,659,512					\$4,167
<u>Project Construction</u>						
Total Development Value (6)	\$95,000,000					
Direct Construction Cost (7)	\$67,000,000	0.300%	0.350%	0.400%	0.450%	\$268,000

*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.
- (3) 10% 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) 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.
Illinois Street Parcel assumed to be condos.
- (5) Pier 70 office and residential rents include rent from retail and non-structured parking components. Estimates are based on the Forest City Financial Plan.
- (6) Based on vertical development cost plus infrastructure cost.
- (7) As a planning estimate, approximately 70% is assumed to represent direct construction costs.

Sources: City of San Francisco; IMPLAN; Forest City; and Economic & Planning Systems.

APPENDIX B:
Economic Analysis



Table B-1
Summary Annual Economic Impacts at Buildout (2013 dollars)
Pier 70 Waterfront Site and Illinois Street Parcel

Impact Category	Total
Pier 70 Waterfront Site	
<u>Ongoing Project Employment¹</u>	<u>Annual Average</u>
Direct	10,540
Indirect	2,230
Induced	<u>5,250</u>
Total Employment	18,020
Annual Total Economic Output	\$3,570,007,000
<u>One-Time Construction-Related Employment</u>	<u>Job-Years</u>
Direct	9,230
Indirect	1,980
Induced	<u>3,110</u>
Total Employment	14,320
Total Economic Output During Construction	\$2,797,136,000

(1) Reflects full-time equivalents.

Source: IMPLAN 2010; and Economic & Planning Systems.

Impact Category	Total
Illinois Street Parcel	
<u>Ongoing Project Employment¹</u>	<u>Annual Average</u>
Direct	41
Indirect	4
Induced	<u>6</u>
Total Employment	51
Annual Total Economic Output	\$7,026,452
<u>One-Time Construction-Related Employment</u>	<u>Job-Years</u>
Direct	440
Indirect	125
Induced	<u>157</u>
Total Employment	722
Total Economic Output During Construction	\$147,284,425

(1) Reflects full-time equivalents.

Source: IMPLAN 2010; and Economic & Planning Systems.

Table B-2
Annual Economic Impacts by Land Use at Buildout (2013 dollars)
Pier 70 Waterfront Site

Land Use	Impact Type	Jobs	Gross Impacts	
			Employment (FTEs)	Economic Output
Traditional Retail (1)	Direct	454	454	\$40,845,000
	Indirect	77	32	\$13,966,258
	Induced	<u>90</u>	<u>50</u>	<u>\$13,636,907</u>
	Total	621	536	\$68,448,166
Innovation Retail	Direct	318	318	\$67,711,248
	Indirect	93	84	\$17,495,213
	Induced	<u>119</u>	<u>105</u>	<u>\$19,215,825</u>
	Total	530	506	\$104,422,285
Office	Direct	9,700	9,700	\$2,071,348,174
	Indirect	2,403	2,180	\$445,414,642
	Induced	<u>5,893</u>	<u>5,187</u>	<u>\$951,623,754</u>
	Total	17,996	17,068	\$3,468,386,570
Residential	Direct	63	63	\$8,679,328
	Indirect	12	9	\$2,465,818
	Induced	<u>17</u>	<u>13</u>	<u>\$2,847,491</u>
	Total	93	86	\$13,992,637
Parking (1)	Direct	10	10	\$9,771,488
	Indirect	5	5	\$5,477,380
	Induced	<u>4</u>	<u>3</u>	<u>\$3,930,858</u>
	Total	19	17	\$19,179,726
Total Ongoing Impacts	Direct	10,544	10,544	\$2,130,643,990
	Indirect	2,498	2,226	\$467,324,099
	Induced	<u>6,004</u>	<u>5,253</u>	<u>\$972,039,011</u>
	Total	19,046	18,024	\$3,570,007,099
One-Time Impacts				
Construction	Direct	9,228	9,228	\$1,812,596,000
	Indirect	2,191	1,977	\$410,988,485
	Induced	<u>3,546</u>	<u>3,106</u>	<u>\$573,551,523</u>
	Total	14,965	14,310	\$2,797,136,008

(1) Direct output based on net increase in estimated revenue.

Source: IMPLAN 2010; and Economic & Planning Systems.

Table B-3
Annual Economic Impacts by Land Use at Buildout (2013 dollars)
Illinois Street Parcel

Land Use	Impact Type	Jobs	Gross Impacts	
			Employment (FTEs)	Economic Output
Traditional Retail (1)	Direct	26	26	\$2,310,000
	Indirect	4	2	\$789,865
	Induced	<u>5</u>	<u>3</u>	<u>\$771,239</u>
	Total	35	30	\$3,871,104
Residential	Direct	14	14	\$1,957,193
	Indirect	3	2	\$556,043
	Induced	<u>4</u>	<u>3</u>	<u>\$642,111</u>
	Total	21	19	\$3,155,347
Parking (1)	Direct	1	1	\$0
	Indirect	0	0	\$0
	Induced	<u>0</u>	<u>0</u>	<u>\$0</u>
	Total	1	1	\$0
Total Ongoing Impacts	Direct	41	41	\$4,267,193
	Indirect	7	4	\$1,345,909
	Induced	<u>9</u>	<u>6</u>	<u>\$1,413,350</u>
	Total	57	51	\$7,026,452
One-Time Impacts				
Construction	Direct	440	440	\$95,000,000
	Indirect	139	125	\$23,337,435
	Induced	<u>179</u>	<u>157</u>	<u>\$28,946,989</u>
	Total	757	722	\$147,284,425

(1) Direct output based on net increase in estimated revenue.

Source: IMPLAN 2010; and Economic & Planning Systems.