

Mission Rock Community Facilities District 2021 Special Tax Bonds

December 2, 2020

Items 9-10

Presented by:

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Today's Actions

The Port requests the Budget & Finance Committee's positive recommendation of:

1. Resolution Authorizing the Issuance of Development Special Tax Bonds – City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) - Not to Exceed Aggregate Principal Amount of \$43,300,000
2. Resolution Authorizing a Pledge Agreement Related to City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) Sub-Project Areas I-1 through I-13 and Special Tax Bonds Issued by City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services)

Overview

- Project Overview
- Financing Structure
- Proposed Bond Issuance
- Next Steps



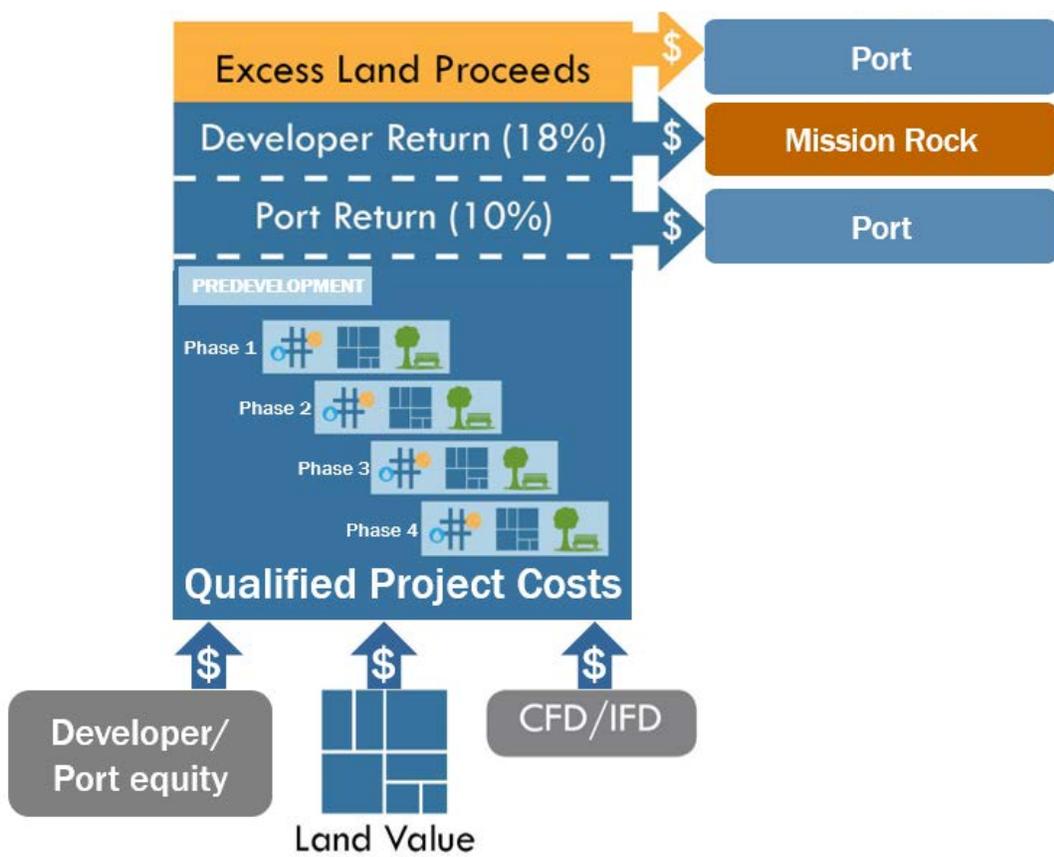
Mission Rock Overall Summary

At full build out:

- 2.7 to 2.8M GSF total
- Approximately 1,200 housing units, 40% of which will be affordable
- 972K - 1.4M GSF office
- ~240K GSF retail/production
- ~240K GSF Pier 48



Project Funding Structure



Strategies to limit Developer Capital and Return to reduce project costs:

- Use CFD/IFD sources when possible
- Maximize public financing
- Use tax-exempt debt
- Use Port Capital

Phase I Budget

- Horizontal Project Costs
 - Hard costs
 - Soft costs
 - Return on Developer Equity for the Phase 1 Horizontal Infrastructure improvements
- Projected Revenues
 - The four Phase 1 prepaid ground leases
 - Public financing sources
 - Special Tax District (CFD) bond proceeds
 - CFD pay-as-you-go (“pay-go”) taxes
 - Infrastructure Financing District Project Area I (IFD) pay-go taxes

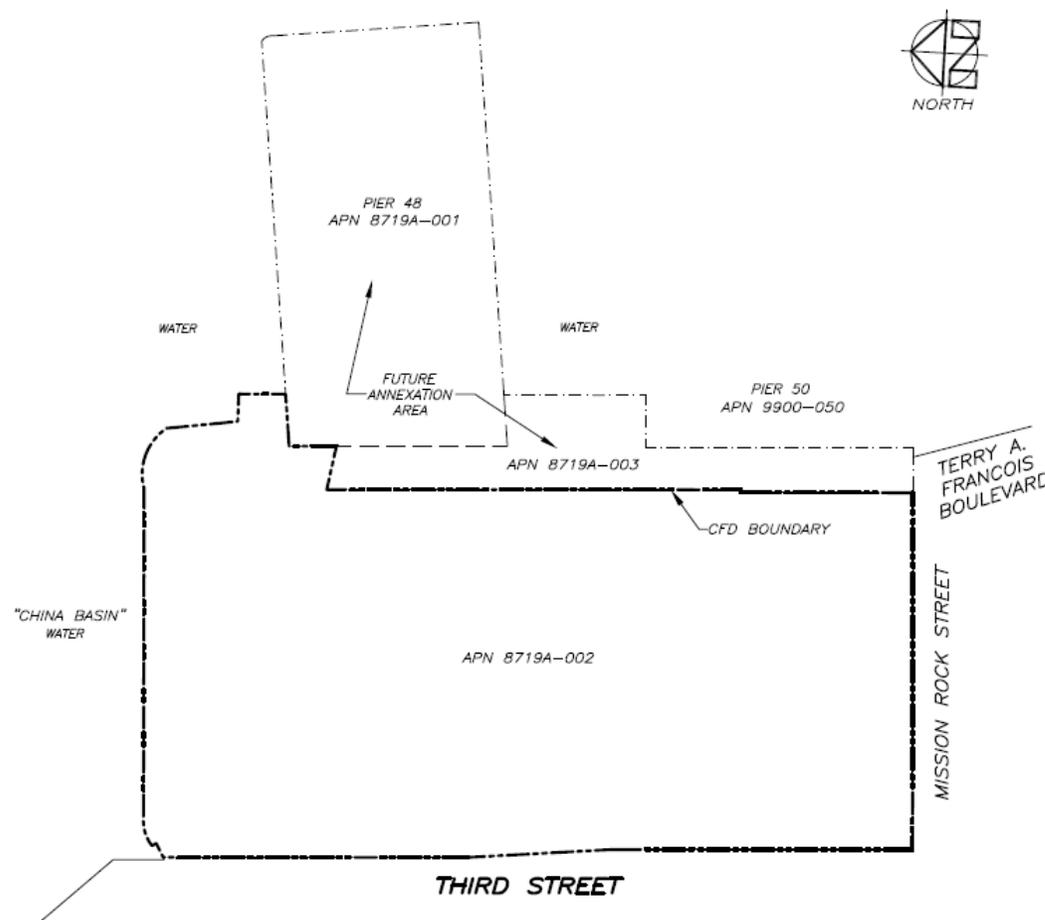
Overview of Phase 1 Budgeted Sources

Description	Entitlement	Phase 1	Total Phase 1
Net Development Rights Payments Advances	42.2	-	42.2
CFD Bonds - Unimproved Land	4.0	31.2	35.2
CFD Bonds - Completed Buildings	-	140.8	140.8
CFD Excess Pay Go Increment	-	<u>47.2</u>	<u>47.2</u>
Total Phase 1 Sources	46.2	219.3	265.5

All figures in \$millions.

Public Financing Board Actions to Date

- **February 2018:** Infrastructure Financing District Project Area I
- **September 2019:** Amendments to the City's Special Tax Law to align to Pier 70 and Mission Rock projects
- **May 2020:** Formation of Special Tax District



CFD Taxes and Uses

Development Tax

- Funds infrastructure and parks
- Available as long as Project Area tax increment available

Shoreline Tax

- Funds shoreline protection studies and facilities
- May be levied for 120 years

Office Tax

- Funds infrastructure and parks
- More flexible than development tax
- May be levied for 120 years

Services Tax

- Funds ongoing operations and maintenance for site
- May be levied in perpetuity



Bond Issuance Parameters

- Amount of bonds sold limited by two factors:
 1. Appraised value of the CFD
 - The City has a policy of issuing CFD debt with a value-to-lien ratio of at least 3:1
 - Valuation of \$130.0 million, resulting in \$43.3 million in bonds
 2. Ongoing Development Special Tax Capacity
 - Requires 110% debt service coverage from Development Special Tax Capacity
 - This bond issuance is sized to the Development Special Tax from Phase I
 - Maximum Development Special Tax capacity from Phase 1 will be far in excess of 110 percent coverage
 - Additional Development Special Tax capacity will support future bonds

Bond Sources and Uses

- Sale of bonds in amount of \$43.3M results in potential total sources of \$44.8M with premium
- Bond uses shown in table to right; proceeds used to repay remaining Entitlement Sum and Phase I Infrastructure Improvements

Uses	Preliminary Estimate
Improvement Fund	\$39,790,588
<i>Remaining Entitlement Sum</i>	\$3,429,304
<i>Demolition & Hazardous Soil Removal</i>	\$7,287,698
<i>Utilities (e.g. Sewer, Water, Joint Trench)</i>	\$7,366,116
<i>Earthwork and Retaining Walls</i>	\$12,183,808
<i>Roadways</i>	\$4,238,979
<i>Streetscape</i>	\$4,449,271
<i>Parks and Public Spaces</i>	\$835,412
Debt Service Reserve Fund	\$3,743,500
Delivery Date Expenses	
Cost of Issuance	\$875,000
Underwriter's Discount	\$433,000
Total Uses	\$44,842,087

Source: Stifel & PFM

Estimated Financing Terms

- Final Maturity of September 1, 2050
- Estimated True Interest Cost: 4.68%
- Estimated Bond Proceeds: \$39.79M
- Estimated Financing Costs: \$1.31M
- Estimated Total Debt Service: \$88.58M

Source: Stifel & PFM



Bond Overview & Risks

- The proposed Bonds will be sold without a rating (“Non-Rated”). The transaction is for new real estate development still underway and would not receive an investment grade rating.
 - **Risk:** Non-Rated special tax bonds have unique credit considerations and risk factors for investors which are discussed in the Official Statement, including:
 - Until fully built-out, all Land-Secured bonds bear some degree of development risk. In troubled real estate markets, projects can struggle and may be abandoned by developers and homebuilders potentially leading to defaults.
 - Taxpayer concentration risk, as the Bonds are secured by only 1 taxpayer at this time.
 - The Bonds are limited obligations of the City, secured by and payable solely from a pledge of the special taxes levied in the Mission Rock CFD.
 - **Risk:** While the General Fund of the City is not liable for the payment of principal or interest on the Bonds, and the credit of the City is not pledged to the payment of the Bonds, they still carry the “City and County of San Francisco” issuer name and market recognition, therefore the City is subject to reputational risk.
 - The City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that, under certain circumstances, the City will commence judicial foreclosure proceedings with respect to delinquent special taxes on property within the Mission Rock CFD, and will diligently pursue such proceedings to completion.

Preliminary Official Statement

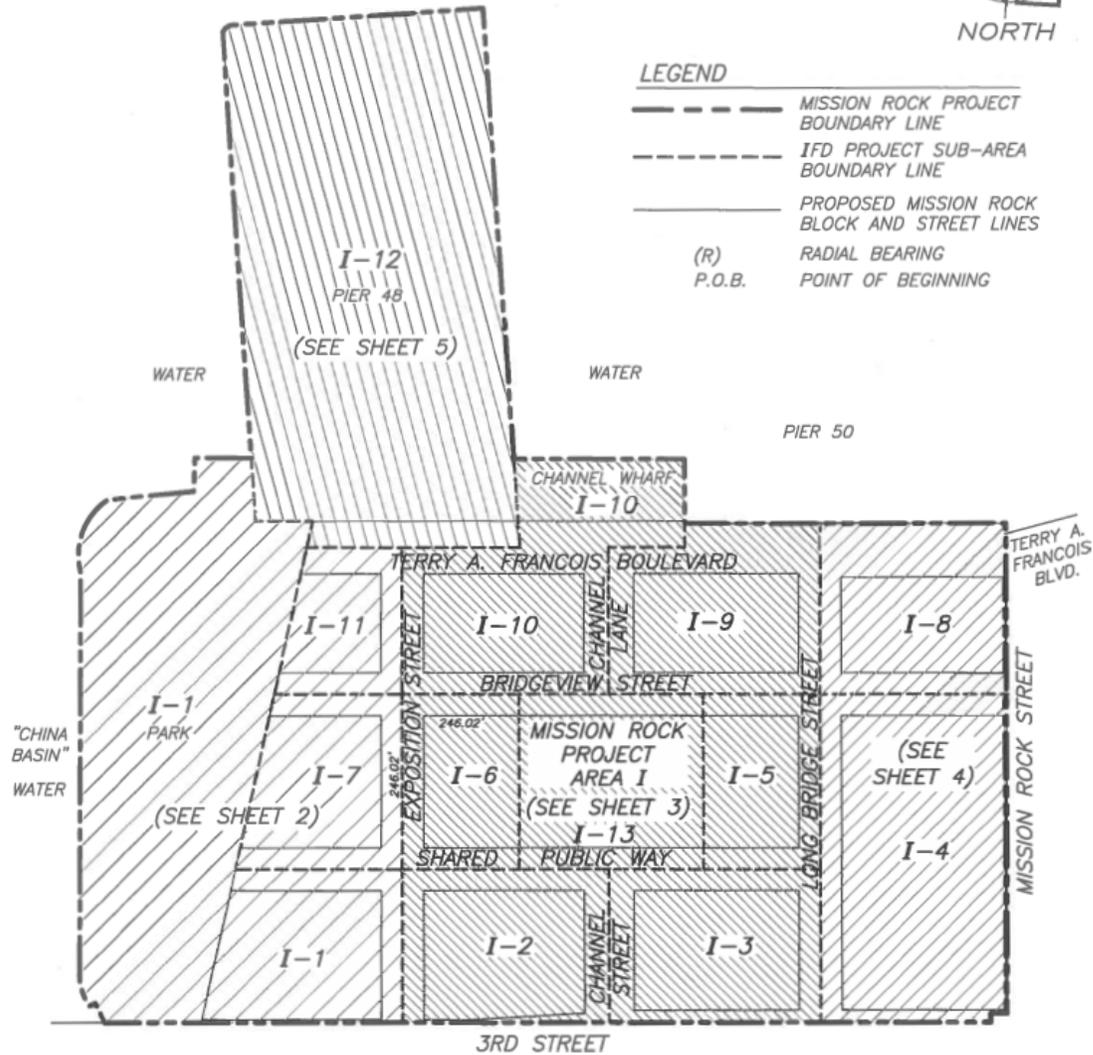
- Board members have a responsibility under federal securities laws to ensure that staff is aware of information that Board members may have unique in their capacity as Board members that would have a material bearing of the capacity of the CFD to repay the bonds. Board members cannot approve a POS if they are aware that it contains material misstatements or omissions.
- In connection with the Bonds, Staff has prepared a Preliminary Official Statement (“POS”) for prospective investors. The POS describes:
 - i. The terms of the Bonds
 - ii. Sources of repayment and the security for the Bonds (i.e., CFD special taxes; foreclosure covenant)
 - iii. Information about the CFD and its operations and financial ability of the CFD to make timely payments of principal of and interest on the Bonds.
 - iv. Risk Factors related to investment in CFD bonds
- Prior to the distribution of the POS (and final Official Statement with pricing information), the POS will have been thoroughly and critically reviewed by Port and City and staff (in consultation with the City/Port’s professional advisors, including Disclosure Counsel) to provide the most current material financial and other material information available.



QUESTIONS?

LATER SLIDES FOR REFERENCE ONLY

IFD Map



Mission Rock Tax Rates

Tax Zone	Land Use	Parcels	Tax	Rate/sq. ft	
Zone 1	Market Rate Residential	A, F	Development	\$ 8.58	
			Contingent Services	\$ 1.40	
	Office	B, G	Development	\$ 6.50	
			Office	\$ 1.92	
			Shoreline	\$ 1.82	
			Contingent Services	\$ 1.40	
	Zone 2	Market Rate Residential	D1, F, K, H*, I*, J*	Development	\$ 8.58
				Contingent Services	\$ 1.40
Office		C, E, H*, I*, J*	Development	\$ 6.50	
			Office	\$ 1.61	
			Shoreline	\$ 1.82	
			Contingent Services	\$ 1.40	
Future Annexation Area		TBD	Pier 48	Development	TBD
				Office	TBD
	Shoreline			TBD	
	Services			TBD	

Mission Rock Tax Rates

