File No. 201302

Committee Item No. 10
Board Item No. 23

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee **Date** December 2, 2020

Board of Supervisors Meeting **Date** December 8, 2020

Cmte	Board	
☐	☐	**Motion**
X	X	**Resolution**
☐	☐	**Ordinance**
☐	☐	**Legislative Digest**
X	X	**Budget and Legislative Analyst Report**
☐	☐	**Youth Commission Report**
☐	☐	**Introduction Form**
X	X	**Department/Agency Cover Letter and/or Report**
☐	☐	**MOU**
☐	☐	**Grant Information Form**
☐	☐	**Grant Budget**
☐	☐	**Subcontract Budget**
X	X	**Contract/Agreement**
☐	☐	**Form 126 – Ethics Commission**
☐	☐	**Award Letter**
☐	☐	**Application**
☐	☐	**Public Correspondence**

OTHER **(Use back side if additional space is needed)**

X	X	Port Commission Resolution No. 20-48
X	X	Valid Judgment
☐	X	Department Presentation
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	
☐	☐	

Completed by: Linda Wong **Date** November 24, 2020
Completed by: Linda Wong **Date** December 4, 2020

[Pledge Agreement - City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) Sub-Project Areas I-1 through I-13 - Special Tax Bonds - CCSF Special Tax District No. 2020-1 (Mission Rock Facilities and Services)]

Resolution supplementing Resolution No. 37-18, approving a pledge agreement by City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) with respect to Sub-Project Areas I-1 through I-13 in connection with the issuance of special tax bonds for City and County of San Francisco (CCSF) Special Tax District No. 2020-1 (Mission Rock Facilities and Services); and determining other matters in connection therewith, as defined herein.

WHEREAS, California Statutes of 1968, Chapter 1333 (“Burton Act”) and San Francisco Charter, Section 4.114 and Appendix B, beginning at Section B3.581, empower the City and County of San Francisco (“City”), acting through the San Francisco Port Commission (“Port” or “Port Commission”), with the power and duty to use, conduct, operate, maintain, manage, regulate, and control the lands within Port jurisdiction; and

WHEREAS, Seawall Lot 337 Associates, LLC, a Delaware limited liability company (“Master Developer”) and the City, acting by and through the Port, are parties to a Disposition and Development Agreement (as amended from time to time, “DDA”), including a Financing Plan (as amended from time to time, “Financing Plan”), that governs the disposition and development of certain parcels in the jurisdiction of the Port, including Seawall Lot 337, 3.53 acres located at Terry A. Francois Boulevard from Third Street to Mission Rock Street, China Basin Park and ½ acre to the east of Terry A. Francois Boulevard between Pier 48 and Pier 50 (“Project Site”), and also provides for development of Pier 48, which DDA was approved by the Board of Supervisors of the City (“Board of Supervisors” or “Board”) by Resolution No. 42-

18, adopted on February 13, 2018, signed by the Mayor on February 23, 2018, and a copy of which is in Board File No. 180092 ("Mission Rock Project Resolution"); and

WHEREAS, The Port collaborated with the State Lands Commission and the Legislature, resulting in an amendment of the Burton Act to lift or suspend its statutory trust use restrictions that impede the Port's ability to realize the development potential of Port lands; under Senate Bill 815 (Stats. 2007, ch. 660, as amended by Stats. 2016, ch. 529) ("SB 815"), the Port is authorized to lease certain seawall lots south of Market Street, including the Project Site, for nontrust purposes, providing revenues for rehabilitation of historic wharves and piers and other trust uses; SB 815 allows long-term nontrust uses that are otherwise not permissible under the Burton Act as a primary mechanism to generate Port revenues for trust purposes, including the construction of infrastructure needed for development; and

WHEREAS, On November 3, 2015, San Francisco voters approved the Mission Rock Affordable Housing, Parks, Jobs and Historic Preservation Initiative ("Proposition D"), which authorized increased height limits on the Project Site, subject to environmental review, and established a City policy to encourage development of the Project Site; Proposition D specifically provides that it is intended to encourage and implement the lease and development of the Project Site as described in SB 815 to support the purposes of the Burton Act, especially the preservation of historic piers and historic structures and construction of waterfront plazas and open space; and

WHEREAS, The proposed development of the Project Site, which is commonly referred to as the Mission Rock project ("Project"), will be a new mixed-use neighborhood that is proposed to include a mix of commercial/office, retail, parking, and market rate and affordable residential uses and approximately eight acres of new and expanded parks and shoreline access; and

///

WHEREAS, Under the DDA, (i) the Master Developer is responsible for master development of the Project Site, including construction of public infrastructure, (ii) the Port and Master Developer will enter into a master lease for all of the Project Site, (iii) the Port will convey development parcels to vertical developers and those parcels will be released from the master lease, and (iv) the Port may enter into a separate lease with the Master Developer (or an affiliate of Master Developer) for development of Pier 48; and

WHEREAS, The City anticipates that, in addition to the infrastructure and private development described above, future improvements will be necessary to ensure that the shoreline, public facilities, and public access improvements will be protected should sea level rise in the vicinity of the Project Site, and the Board of Supervisors desires to provide a mechanism to pay for the costs of such improvements; and

WHEREAS, At its hearing on October 5, 2017, and prior to recommending proposed Planning Code amendments for approval, by Motion No. M-20017, the Planning Commission certified a Final Environmental Impact Report ("FEIR") for the Project pursuant to the California Environmental Quality Act ("CEQA") (California Public Resources Code, Section 21000 et seq.), the CEQA Guidelines (14 Cal. Code Reg., Section 15000 et seq.), and Administrative Code, Chapter 31; a copy of said Motion is on file with the Clerk of the Board in File No. 171117, and is incorporated herein by reference; and

WHEREAS, In recommending proposed Planning Code amendments for approval by the Board at its hearing on October 5, 2017, by Motion No. M-20018, the Planning Commission also adopted findings under CEQA, including a statement of overriding consideration, and a Mitigation Monitoring and Reporting Program ("MMRP"), and copies of said Motion and MMRP are on file with the Clerk of the Board in File No. 171117, and are incorporated herein by reference; and

///

WHEREAS, Under Chapter 43, Article X of the San Francisco Administrative Code (as it may be amended from time to time, "Code"), which Code incorporates by reference the Mello-Roos Community Facilities Act of 1982, as amended ("Mello-Roos Act"), the Board is authorized to establish a special tax district and to act as the legislative body for a special tax district; and

WHEREAS, The Board has conducted proceedings under and pursuant to the Code to form "City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services)" ("Special Tax District"), to authorize the levy of special taxes upon the land within the Special Tax District and to authorize the issuance of bonds and other debt (as defined in the Mello-Roos Act) secured by said special taxes for the purpose of financing certain improvements ("Authorized Facilities") and incidental expenses ("incidental expenses"), all as described in those proceedings; and

WHEREAS, Pursuant to Resolution No. 196-20, which was adopted on May 5, 2020, and signed by Mayor London Breed on May 15, 2020 ("Original Special Tax Bond Resolution"), the Board of Supervisors authorized the issuance of up to $3,700,000,000 of bonded indebtedness and other debt on behalf of the Special Tax District and directed staff to prepare documentation for such bonded indebtedness and other debt and return to the Board of Supervisors for approval of such documentation; and

WHEREAS, Section 43.10.15.2 of the Code authorizes the City, on behalf of the Special Tax District, to enter into an agreement with any third party that pledges to the Special Tax District funds that will be used to pay for facilities or services that the Special Tax District is authorized to finance or to pay debt service on bonds or debt issued by or for the Special Tax District; and

WHEREAS, Under California Government Code Sections 53395 et seq. ("IFD Law"), the Board of Supervisors is authorized to establish an infrastructure financing district and to act as the legislative body for such an infrastructure financing district; more specifically, the Board of Supervisors is authorized to establish “waterfront districts” under IFD Law Section 53395.8, including one or more waterfront districts; and

WHEREAS, By Ordinance No. 27-16, which the Board of Supervisors adopted on March 1, 2016, and which was signed by Mayor Edwin Lee on March 11, 2016 (“Ordinance Establishing IFD”), the Board of Supervisors, among other things, declared “City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)” (“IFD”) to be fully formed and established, approved an infrastructure financing plan for the IFD (“IFD Infrastructure Financing Plan”), and designated initial proposed project areas within the IFD; and

WHEREAS, In accordance with the DDA, by Ordinance No. 34-18, which the Board of Supervisors adopted on February 27, 2018, and which was signed by the Mayor on March 6, 2018 (“Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13”), the Board of Supervisors, among other things, declared the following project area (“Project Area I”) and sub-project areas (collectively, “Sub-Project Areas”) within the Project Site to be fully formed and established and approved Appendix I to the IFD Infrastructure Financing Plan: (i) “Project Area I (Mission Rock),” (ii) “Sub-Project Area I-1 (Mission Rock),” (iii) “Sub-Project Area I-2 (Mission Rock),” (iv) “Sub-Project Area I-3 (Mission Rock),” (v) “Sub-Project Area I-4 (Mission Rock),” (vi) “Sub-Project Area I-5 (Mission Rock),” (vii) “Sub-Project Area I-6 (Mission Rock),” (viii) “Sub-Project Area I-7 (Mission Rock),” (ix) “Sub-Project Area I-8 (Mission Rock),” (x) “Sub-Project Area I-9 (Mission Rock),” (xi) “Sub-Project Area I-10 (Mission Rock),” (xii) “Sub-Project Area I-11 (Mission Rock),” (xiii) “Sub-Project Area I-12 (Mission Rock),” and (xiv) “Sub-Project Area I-13 (Mission Rock)”; and

WHEREAS, Under Section 53395.2 of the IFD Law, the IFD is authorized to pledge revenues available from the Sub-Project Areas and allocated to it pursuant to Article 3 of the

IFD Law (commencing with Section 53396) to pay the principal of, and interest on, bonds issued pursuant to the Mello-Roos Act, the proceeds of which have been or will be used entirely for allowable purposes of the IFD; and

WHEREAS, By Resolution No. 37-18, which the Board of Supervisors adopted on February 13, 2018, and which was signed by Mayor Mark Farrell on February 23, 2018 ("Original Pledge Agreement Resolution"), the Board of Supervisors, acting as the legislative body of the IFD, authorized execution of one or more pledge agreements by the IFD that provides, among other things, for the pledge of tax increment revenues allocated to the IFD with respect to all or any of the Sub-Project Areas ("Tax Increment"), as applicable, to bonds issued for a special tax district that is formed by the Board of Supervisors to finance all or any of the facilities that can be financed by the IFD with Tax Increment; and

WHEREAS, A default judgment was entered on October 17, 2019, by the Superior Court of the County of San Francisco in a judicial validation action related to, among other things, the IFD, the Sub-Project Areas and such pledge agreements (Case No. CGC-18-565561) ("Validation Judgment"); and

WHEREAS, The Board of Supervisors is concurrently considering a resolution supplementing the Original Special Tax Bond Resolution to provide for the issuance of one or more series of special tax bonds for the Special Tax District ("2021 Bonds"); and

WHEREAS, In accordance with the DDA, Appendix I to the IFD Infrastructure Financing Plan and the IFD Law, the IFD and the City, on behalf of the Special Tax District, wish to enter into a pledge agreement ("Pledge Agreement") to memorialize a pledge by the IFD of certain Tax Increment to pay, among other things, debt service on the 2021 Bonds; and

WHEREAS, On October 27, 2020, staff provided an update on the Project and plan of finance, including the proposed issuance of the 2021 Bonds, and by Resolution No. 20-48, the Port Commission recommended that the Board of Supervisors, as the legislative body of the

IFD, approve the form of Pledge Agreement and related documents and actions; and authorized the Executive Director of the Port to cause the documents described herein to be submitted to the Board of Supervisors for its consideration; and

WHEREAS, A copy of Port Commission Resolution No. 20-48 is in Board File No. 201302, and is incorporated in this resolution by reference; and

WHEREAS, In the Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13, the Board of Supervisors appointed the Port Commission to act as the agent of the IFD with respect to Project Area I and the Sub-Project Areas (which is referred to as the IFD Agent in the DDA), which under the DDA includes the authority to determine in collaboration with the Office of Public Finance whether and in what amounts the IFD will issue or incur indebtedness for the purposes specified in Appendix I to the Infrastructure Financing Plan and enter into agreements related to such indebtedness; and

WHEREAS, In its capacity as legislative body of the IFD, the Board of Supervisors now wishes to supplement the Original Pledge Agreement Resolution to provide for the execution and delivery of the Pledge Agreement; and

WHEREAS, All conditions, things and acts required to exist, to have happened and to have been performed precedent to the execution and delivery of the Pledge Agreement as contemplated by this Resolution and the documents referred to herein exist, have happened and have been performed in due time, form and manner as required by applicable law, including the IFD Law; now therefore be it

RESOLVED, That the foregoing recitals are all true and correct; and, be it

FURTHER RESOLVED, That pursuant to the IFD Law, the Original Pledge Agreement Resolution, and this Resolution, the Board of Supervisors hereby approves the Pledge Agreement, in substantially the form on file with the Clerk of the Board of Supervisors, together with such additions or changes as are approved by an Authorized Officer (as defined below); the approval of such additions or changes shall be conclusively evidenced by the execution and delivery by an Authorized Officer of the Pledge Agreement; and, be it

FURTHER RESOLVED, That the Mayor, the Controller, and the Director of the Office of Public Finance, or such other official of the City as may be designated by such officials (each, an "Authorized Officer") is hereby authorized and directed to execute and deliver the Pledge Agreement on behalf of the IFD; and, be it

FURTHER RESOLVED, The Board of Supervisors previously approved the levy on the secured roll of ad valorem taxes on possessory interests in Project Area I pursuant to Resolution No. 200-20, which was adopted by the Board of Supervisors on May 5, 2020, and approved by the Mayor on May 15, 2020, and the Board of Supervisors agrees to continue such levy on the secured roll as long as the obligation under the Pledge Agreement remains in effect; and, be it

FURTHER RESOLVED, That all actions heretofore taken by the officers and agents of the City (including, but not limited to the IFD Agent in accordance with the DDA and the Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13) with respect to the establishment of the IFD, Project Area I and the Sub-Project Areas, the approval of the IFD Infrastructure Financing Plan and Appendix I, and the execution and delivery of the Pledge Agreement are hereby approved, confirmed and ratified, and the appropriate officers of the City (including, but not limited to the IFD Agent in accordance with the DDA and the Ordinance Establishing Project Area I and Sub-Project Areas I-1 through I-13) are hereby authorized and directed to do any and all things and take any and all actions and execute any and all certificates, agreements and other documents on behalf of the IFD, which they, or any of them, may deem necessary or advisable in order to consummate the execution and delivery of the Pledge Agreement in accordance with this Resolution, including but not limited to any actions required in connection with issuance of ratings or a municipal bond insurance policy with respect to the 2021 Bonds, and any certificate, agreement, and other document described in the documents herein approved; all actions to be taken by an Authorized Officer, as defined herein, may be taken by such Authorized Officer or any designee, with the same force and effect as if taken by the Authorized Officer; and, be it

FURTHER RESOLVED, That this Resolution shall take effect from and after its adoption; the provisions of any previous resolutions in any way inconsistent with the provisions hereof in and for the execution and delivery of the Pledge Agreement as herein described are hereby repealed.

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: /s/ Mark D. Blake
MARK D. BLAKE
Deputy City Attorney

n:\legana\as2020\2000156\01493856.docx

Items 9 and 10 **Files 20-1292 & 20-1302**	**Department:** Port

EXECUTIVE SUMMARY

Legislative Objectives

- File 20-1292: is a resolution that would authorize the Port to issue Development Special Tax Bonds in an amount not to exceed $43.3 million and approve related documents.
- File 20-1302: is a resolution that would approve the revised Pledge Agreement for the proposed bonds, allowing for incremental property revenue generated within the Mission Rock Project Area to be used in combination with Mission Rock special tax revenues to pay for bond debt service.

Key Points

- Phase 1 of the Mission Rock Development Project includes housing, office space, retail, creation of China Basin Park, and horizontal infrastructure, such as streets and utilities. The development agreement between the Port and Seawall Lot 337 Associate, LLC requires the developer to build horizontal infrastructure and the Port to reimburse those costs. Phase 1 horizontal infrastructure construction is expected to take two years.
- The Board of Supervisors previously approved Project Area I (Mission Rock) within the Port's Infrastructure Financing District, which allowed for incremental property taxes generated within that area to be used for infrastructure costs. In addition, the Board has approved the Mission Rock Special Tax District and levy of special taxes within that area.
- The proposed bonds would be repaid by a combination of special taxes and tax increment revenue. Ground lease tenants will receive a credit on their special taxes based on the prior year's tax increment revenue.

Fiscal Impact

- The proposed bonds are expected to generate $44.8 million in bond proceeds, have a thirty-year term, and true interest cost of 4.68 percent. Total debt service is expected to be $88,579,518 or approximately $2,994,800, on average, per year.
- The proposed bonds are expected to be issued in the first quarter of 2021.
- Based on information provided by the Port, the proposed Special Tax Bonds are in compliance with the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

Section 53395.8(c)(3) of the California Government Code designates the Board of Supervisors as the legislative body for the Port Infrastructure Financing District.

Section 43.10.9 of the Administrative Code incorporates the 1982 Mello-Roos Community Facilities Act, which designates the Board of Supervisors the legislative body for Community Facilities Districts within San Francisco.

BACKGROUND

Mission Rock Development Project

The Mission Rock development project area comprises two pieces of Port property, Seawall Lot 337 and Pier 48. In February 2018, the Board of Supervisors approved a Disposition and Development Agreement (DDA) between the Port and Seawall Lot 337 Associates, LLC, a joint venture consisting of the San Francisco Giants and Tishman Speyer (File 18-0092). The DDA requires the developer to build horizontal and vertical improvements within the Mission Rock Project Area and the Port to reimburse the developer for certain infrastructure costs. Phase 1 will include 537 housing units, 550,000 square feet of office space, 65,000 of ground floor retail, China Basin Park, a 5.5 acre public park, and related infrastructure and is expected to be complete in 2022. The area is currently a parking lot.

Phase 1 of the development area is depicted in Exhibit 1 below.

Exhibit 1: Phase 1 of the Mission Rock Development Project

Source: Port

Financing Plan

To finance Phase 1 horizontal infrastructure costs, detailed below, the Port intends to use tax-increment financing and special taxes, as detailed below.

Infrastructure Financing District

The Board of Supervisors formed the Port Infrastructure Financing District 2 (Port IFD) in March 2016 (File 15-1119). The Port IFD includes eight project areas which are eligible to receive property tax increment revenues, each of which is subject to Board of Supervisors' approval. In February 2018, the Board of Supervisors established Project Area I (Mission Rock) and Sub-

Project Areas I-1 though I-13 within the Port's Infrastructure Financing District 2 (File 17-1314), approved the Infrastructure Financing Plan for that Project Area (File 17-1314), and approved the issuance of up to $1.378 billion tax increment bonds to finance construction of infrastructure within each Project Sub-Area (File 17-1315).

Special Tax District

The 1982 Mello-Roos Community Facilities Act allows for the formation of special tax districts to fund public infrastructure improvements. In April 2020, the Board of Supervisors approved a resolution forming Special Tax District No. 2020-1 (Mission Rock Facilities and Services) (File 20-0120) and in May 2020, the Board approved special taxes to be levied in that special tax district to fund infrastructure improvements (File 20-0125) and the sale and issuance of up to $3.7 billion in special tax bonds for infrastructure improvements (File 20-0124).

Entitlement and Phase 1 Horizontal Infrastructure

Table 1 below shows the estimated sources of funds that will be used to fund construction of horizontal infrastructure within Phase 1 of the Mission Rock Development Project. Sources include prepayments on ground leases, special taxes, and incremental property tax revenue.

Table 1: Mission Rock Phase 1 Horizontal Infrastructure ($millions)

Sources	Entitlement	Phase I Infrastructure	Total
Ground Lease Pre-payments	$42.2	$0	$42.2
Special Tax Bonds - Unimproved Land	4.0	31.2	35.2
Special Tax Bonds - Completed Buildings	0	140.8	140.8
Tax Increment (IFD)	0	47.2	47.2
Total Sources	**$46.2**	**$219.3**	**$265.4**
Uses			
Horizontal Infrastructure Costs *	$29.3	$145.4	$174.8
Developer Return **	16.9	73.8	90.7
Total Uses	**$46.2**	**$219.3**	**$265.5**

Source: Port

Note: Differences due to rounding

* The Budget and Legislative Analyst's report to the February 13, 2018 Budget and Finance Committee noted that the developer had incurred $27.4 million in entitlement costs with total estimated entitlement costs of $29 million. According to the staff report to the September 9, 2019 Port Commission meeting, the final audited entitlement costs are $29.3 million.

** The Development and Disposition Agreement provided for the developer to fund horizontal infrastructure with developer equity, subject to a return of the higher of (1) 18 percent per year[1], or (2) 1.5 times peak equity. The developer contributed $29.3 million in equity for entitlement costs, for which equity contribution and the return on equity is funded through the prepayment of project ground leases. According to the September 9, 2019 Port

[1] The original term sheet between the Port and the developer provided for a 20 percent return on equity, which was reduced to 18 percent in the final DDA approved by the Board of Supervisors.

Commission, the developer's total equity contribution is $145.4 million in Phase 1 and the 18 percent annual return totals $73.8 million. According to the financial pro forma prepared by Tishman Speyer for the Port, the estimated return to the developer of $73.8 million is based on repayment of the developer's equity contribution over time.

$70 Million Nominal Cost Increase Since 2018

As shown above, the total cost of horizontal infrastructure improvements in Phase 1 is $174.8 million, which is $70 million more than the estimated cost of the horizontal infrastructure reported by the Port to the Board of Supervisors in February 2018. According to the Port, the cost escalation is due to the heated construction cost escalation environment, increased costs related China Basin Park, and from an increase in soft costs, from an estimated 29 percent of hard costs to an estimated 38 percent of hard costs, which includes spending to date, costs for City and consultant review of the project, and project permitting.[2]

Horizontal Infrastructure

Horizontal infrastructure includes entitlements, demolition, raising the site to protect against sea level rise, hazardous soil removal, wet and dry utilities, earthwork and retaining walls, roadways and street utilities, as well as public open space. Phase 1 horizontal infrastructure construction is expected to take two years.

DETAILS OF PROPOSED LEGISLATION

File 20-1292: The proposed resolution would supplement Resolution 196-20 and authorize the Port to issue Development Special Tax Bonds in an amount not to exceed $43.3 million, approve the related documents: Official Statement, Fiscal Agent Agreement, Bond Purchase Agreement, and Continuing Disclosure Certificate, and authorize the Mayor, the Controller, and the Director of the Office of Public Finance, and other City officers to modify and execute those contracts. The proposed resolution would authorize a negotiated sale for the proposed bonds.

File 20-1292 would also find that the proposed bonds and related appraisal are consistent with Board of Supervisors Resolution 414-13, which approved the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts (File 13-0971).

File 20-1302: The proposed resolution would approve the revised Pledge Agreement for the proposed bonds, continue to approve the tax levy on the secured roll of ad valorem taxes on possessory interests in Project Area I (Resolution 200-20) that will be used to repay the proposed bonds, authorize City officers to take necessary actions and execute agreements to execute the revised Pledge Agreement.

[2] According to an October 21, 2019 presentation to the Capital Planning Committee, the City's Annual Infrastructure Construction Cost Inflation Estimate was 5.75% in 2018 and 6.0% in 2019. Accounting for this inflation, the Port determined that the real cost increase is $49.1 million (as compared to the nominal cost increase of $70 million). Phase 1 costs for parks and open space increased from $16.8 million to $27.4 million.

Revised Pledge Agreement

The proposed Pledge Agreement between the City and the Fiscal Agent (see below) revises the previously approved Pledge Agreement for the Port's Infrastructure District 2 (File 17-1315) to specify repayment of the proposed bonds. Like the original pledge agreement, the proposed Pledge Agreement states that property tax increment generated within the Mission Rock Project Area may be used in combination with Mission Rock Special Tax revenues to pay for bond debt service.

Under the DDA's Financing Plan, although the proposed bonds will be secured by the Mission Rock Development Special Tax revenue, ground lease tenants will receive a credit on their Development Special Taxes based on the prior year's tax increment revenue. According to the Port, this reduction in taxes enhances the value of the land, which is owned by the Port and leased proceeds of which were used to finance a portion of the horizontal infrastructure entitlement costs, as shown above in Table 1.

Fiscal Agent Agreement

The proposed Fiscal Agreement documents the bond attributes, including the maturity and interest rate, the use of Mission Rock Development Special Taxes and Mission Rock tax increments to repay the proposed bonds, and allowable uses of bond proceeds and reserves. The Fiscal Agreement would be between the City and a yet-to-be-determined fiscal agent, which would be responsible for holding and disbursing bond proceeds consistent with the Fiscal Agreement and Pledge Agreement. The Port will select a Fiscal Agent through a competitive process undertaken by the Port's municipal advisor, PFM.

Bond Purchase Agreement

The Port intends to issue the proposed bonds as a negotiated, rather than a competitive sale. According to the Port, this is necessary because the Mission Rock Project Area is still in the early stages of development and bonds would likely not be rated as investment grade and therefore the best price for the bonds will be achieved through a negotiated sale.

The Bond Purchase Agreement is between the City and Stifel, Nicolaus & Company, Incorporated, the underwriter for the proposed bonds. According to the Port, Stifel, Nicolaus & Company, Incorporated was selected as the underwriter through a competitive solicitation from the Office of Public Finance's pool of qualified underwriters qualified.

Preliminary Official Statement & Continuing Disclosure Statement

The Preliminary Official Statement describes the legal structure of the bonds as well as sources of revenue and major risks related to repayment for the benefit of prospective investors. The Preliminary Official Statement will be finalized after it is approved by the Board of Supervisors and Mayor and prior to the sale of the bonds.

The proposed resolution allows the Port and the Office of Public Finance to issue an annual Continuing Disclosure Statement, which provides financial information relevant for existing and prospective bond investors.

FISCAL IMPACT

Table 2 below shows the sources and uses of the proposed bonds. The Port intends to issue up to $43.3 million of Development Special Tax Bonds and to obtain a premium of $1.5 million, which is subject to market conditions at the time of sale.

Table 2: Bond Sources and Uses

Sources	Amount
Par Value	$43,300,000
Premium	1,542,087
Total Sources	**$44,842,087**
Uses	
Delivery Expenses & Reserves	
Debt Service Reserve	$3,743,500
Costs of Issuance	875,000
Underwriter's Discount	433,000
Subtotal, Delivery Expenses & Reserves	$5,051,500
Horizontal Improvements	
Entitlements	$3,429,304
Demolition & Hazardous Waste Removal	7,287,698
Utilities	7,366,116
Earthwork & Retaining Walls	12,183,808
Roadways	4,238,979
Streetscape	4,449,271
Parks & Public Spaces	835,412
Subtotal, Horizontal Improvements	$39,790,588
Total Uses	**$44,842,087**

Source: Port, PFM, and Stifel per Good Faith Estimate

The proposed resolution in File 20-1292 limits underwriter's discount to 1.5% of the bonds' par value. Based on the values in Table 2 above, the estimated underwriter's discount is one percent of the bonds' par value. The debt service reserve amount is based on 125 percent of the average annual debt service and will depend on market conditions at the time of sale. Costs of issuance include legal and consultant fees. The horizontal improvements are described above.

Debt Service

The proposed bonds will have a thirty-year term and true interest cost of 4.68 percent. Total debt service is expected to be $88,579,518 or approximately $2,994,800, on average, per year. Under the proposed Pledge Agreement, the bonds would be repaid with Development Special Tax revenue collected within the Mission Rock Special Tax District. The Port expects the bonds will be issued in the first quarter of 2021.

Compliance with City Special Tax Bond Policy

Under Section 4 of the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts, the appraised value of the taxable property within the Special Tax District must be at least three times the value of the par value of the proposed bonds. Under Section 6 of those same policies, the special tax formulas for CFDs shall provide for minimum special tax levels that satisfy the following payment obligations of a CFD: (i) 110 percent of gross debt service for all CFD bonded indebtedness; (ii) all administrative expenses of the City related to the CFD, and (iii) amounts equal to the differences between expected earnings on any escrow fund and the interest payments due on Bonds to the CFD .

The appraised value as of October 28, 2020 of the leasehold interests within the Mission Rock Special Tax Area is $130,000,000 and the proposed par value of the bonds is $43,300,000, which is approximately one-third the appraised value of the Special Tax Area. According to the Port, the maximum taxing capacity of the Mission Rock Special Tax for FY 2020-21 is $14.2 million, which is 474 percent greater than the expected annual debt service of $2.9 million. Based on information provided by the Port, the proposed Special Tax Bonds are in compliance with the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts.

RECOMMENDATION

Approve the proposed resolutions.

Jones Hall draft 10-20-20

PLEDGE AGREEMENT

by and among

CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO)

and

CITY AND COUNTY OF SAN FRANCISCO, for and on behalf of City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services)

and

[CORPORATE TRUSTEE],
as Fiscal Agent

Dated as of February 1, 2021

Relating to

PLEDGE AGREEMENT

This PLEDGE AGREEMENT, dated as of February 1, 2021 (this "Pledge Agreement"), by and between the CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO), an infrastructure financing district and a legally constituted governmental entity established pursuant to the laws of the State of California (the "IFD"), the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation and chartered city organized and existing under the Constitution and the laws of the State of California (the "City"), for and on behalf of City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) (the “Special Tax District”), and [CORPORATE TRUSTEE], a national banking association organized and existing under the laws of the United States, as fiscal agent (the "Fiscal Agent") under the Fiscal Agent Agreement (hereinafter defined);

W I T N E S S E T H:

WHEREAS, Seawall Lot 337 Associates, LLC, a Delaware limited liability company (“Master Developer”) and the City, acting by and through the San Francisco Port Commission (“Port” or “Port Commission”), are parties to a Disposition and Development Agreement (as amended from time to time, “DDA”), including a Financing Plan (as amended from time to time, “Financing Plan”), that governs the disposition and development of certain parcels in the jurisdiction of the Port, including Seawall Lot 337, 3.53 acres located at Terry A. Francois Boulevard from Third Street to Mission Rock Street, China Basin Park and ½ acre to the east of Terry A. Francois Boulevard between Pier 48 and Pier 50 (“Mission Rock Site”);

WHEREAS, the IFD is an infrastructure financing district and a legally constituted governmental entity established pursuant to the laws of the State of California, with the legal authority to exercise powers under and pursuant to the provisions of Chapter 2.8 of Division 2 of Part 1 of Title 5 of the California Government Code (the "IFD Law"), including the power to issue bonds;

WHEREAS, an Infrastructure Financing Plan (as defined herein) for the IFD, including Appendix I with respect to the following sub-project areas (each, a “Sub-Project Area”; collectively, the “Sub-Project Areas”), has been adopted in compliance with all requirements of the IFD Law:

(i) “Sub-Project Area I-1 (Mission Rock),”
(ii) “Sub-Project Area I-2 (Mission Rock),”
(iii) “Sub-Project Area I-3 (Mission Rock),”
(iv) “Sub-Project Area I-4 (Mission Rock),”
(v) “Sub-Project Area I-5 (Mission Rock),”
(vi) “Sub-Project Area I-6 (Mission Rock),”

(vii) "Sub-Project Area I-7 (Mission Rock),"
(viii) "Sub-Project Area I-8 (Mission Rock),"
(ix) "Sub-Project Area I-9 (Mission Rock),"
(x) "Sub-Project Area I-10 (Mission Rock),"
(xi) "Sub-Project Area I-11 (Mission Rock),"
(xii) "Sub-Project Area I-12 (Mission Rock)," and
(xiii) "Sub-Project Area I-13 (Mission Rock)";

WHEREAS, a default judgment was entered on October 17, 2019, by the Superior Court of the County of San Francisco in a judicial validation action related to the IFD, the Sub-Project Areas and this Pledge Agreement (Case No. CGC-18-565561) (the "Validation Judgment");

WHEREAS, pursuant to Section 53395.2 of the IFD Law, the IFD is authorized to pledge revenues available from the Sub-Project Areas and allocated to it pursuant to Article 3 of the IFD Law (commencing with Section 53396) to pay the principal of, and interest on, bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982 (Chapter 2.5 of Division 2 of Part 1 of Title 5 of the California Government Code, as amended (commencing with Section 53311)) (the "Mello-Roos Act"), the proceeds of which have been or will be used entirely for allowable purposes of the IFD;

WHEREAS, the San Francisco Special Tax Financing Law (Admin. Code ch. 43, art. X) (the "Special Tax Financing Law") incorporates the Mello-Roos Act by reference in full;

WHEREAS, pursuant to the Special Tax Financing Law, the City and County of San Francisco (the "City") formed the Special Tax District to finance certain improvements (the "Facilities") described in Resolution 160-20, adopted by the Board of Supervisors of the City on April 14, 2020 (the "Resolution of Formation"), and some or all of those Facilities are facilities that may be financed by the IFD;

WHEREAS, the Sub-Project Areas consist of certain parcels in the Mission Rock Site, and the Special Tax District includes certain parcels in the Sub-Project Areas; and

WHEREAS, concurrently herewith, the City is issuing for and on behalf of the Special Tax District its City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) Development Special Tax Bonds, Series 2021 (the "2021 Special Tax District Bonds") to finance acquisition and construction of the Facilities;

WHEREAS, the IFD and the Special Tax District wish to enter into this Pledge Agreement to memorialize a pledge by the IFD of Pledged Tax Increment (as defined herein) as security for and a source of payment of the IFD Payment Amount (as defined herein); and

WHEREAS, the IFD and the City also wish to provide for Subordinate Debt in the circumstances described in this Pledge Agreement;

NOW, THEREFORE, in consideration of the mutual covenants herein contained it is agreed by and between the parties hereto, as follows:

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section 1 shall, for all purposes of this Pledge Agreement and of any amendment hereto, and of any certificate, opinion, estimate or other document herein mentioned, have the meanings herein specified. Any capitalized term not defined in this Section 1 shall have the meaning given to such term in the recitals of this Pledge Agreement, the Fiscal Agent Agreement or the Financing Plan (including the Appendix to Transaction Documents for the Mission Rock Project referenced therein), as applicable.

"Administrative Expenses" means costs directly related to the administration of the IFD consisting of: the actual costs of collecting the Allocated Tax Increment (whether by the City or otherwise); the actual costs of remitting the Allocated Tax Increment to the Fiscal Agent; actual costs of the Fiscal Agent (including its legal counsel) in the discharge of its duties under this Pledge Agreement; the actual costs of the City or its designee of complying with the disclosure provisions of the Act and this Pledge Agreement, including those related to public inquiries regarding the Allocated Tax Increment and disclosures to Owners of the Special Tax District Bonds and the Original Purchaser; costs of the dissemination agent, whether for the City or another party that has undertaken to provide continuing disclosure; any amounts required to be rebated to the federal government; an allocable share of the salaries of the City staff directly related to the foregoing and a proportionate amount of City general administrative overhead related thereto.

"Allocated Tax Increment" means the portion of Gross Tax Increment from Project Area I that the City has agreed to allocate to the IFD for use in Project Area I by approving Appendix I.

"Annual Debt Service" means, for each Bond Year, the sum of (i) interest due on the outstanding Special Tax District Bonds in such Bond Year, assuming that the outstanding Special Tax District Bonds are retired as scheduled, and (ii) the principal amount of the outstanding Special Tax District Bonds due in such Bond Year (by maturity or through mandatory sinking fund payments).

"Assessed Parcel" has the meaning given that term in the Rate and Method.

"Base Year" for the Sub-Project Areas is defined in Appendix I of the Infrastructure Financing Plan as Fiscal Year 2017-18.

"Bond Year" means the one-year period beginning on September 2 in each year and ending on September 1 in the following year, except that the first Bond Year shall begin on the closing date of the 2021 Special Tax District Bonds and shall end on September 1, 21.

"Bond Plan Limit" means the limitation on the principal amount of bonds issued by the IFDs with respect to the Sub-Project Areas set forth in resolution No. 37-18 adopted by the Board of Supervisors on February 13, 2018 and signed by the Mayor on February 23, 2018.

City" means the City and County of San Francisco, a chartered city and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Special Tax District Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Special Tax District Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Current Parcel" has the meaning given that term in the Financing Plan.

"Development Special Taxes" has the meaning given that term in the Rate and Method.

"Fiscal Agent" means [Corporate Trustee], or any successor as fiscal agent under the Fiscal Agent Agreement.

"Fiscal Agent Agreement" means the Fiscal Agent Agreement dated as of ____ 1, 20__, between the City and the Fiscal Agent, pursuant to which the Special Tax District Bonds are issued.

"Fiscal Year" means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

Gross Tax Increment" is, for each of the Sub-Project Areas, 100% of the revenue produced by the application of the 1% ad valorem tax rate to the Incremental Assessed Property Value of property within each Sub-Project Area.

"IFD" means the City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco), an infrastructure financing district and a legally constituted governmental entity established pursuant to the laws of the State of California.

"IFD Payment Amount" means, as of the IFD Payment Date, an amount equal to the lesser of (A) the Potential Development Special Tax Levy on all Current Parcels for the current Fiscal Year and (B) the amount of Pledged Tax Increment available to pay the IFD Payment Amount pursuant to Section 4.

"IFD Payment Date" means July 1.

"IFD Law" means Chapter 2.8 of Division 2 of Part 1 of Title 5 of the California Government Code and the acts amendatory thereof and in supplement thereto. Whenever reference is made in this Pledge Agreement to the IFD Law, reference is made to the IFD Law as in force on the date of the execution of this Pledge Agreement, unless the context otherwise requires.

"Incremental Assessed Property Value" is, in any year, for each Sub-Project Area, the difference between the assessed value of the property within such Sub-Project Area for that fiscal year and the assessed value of the property within such Sub-Project Area in the Base Year, to the extent that the difference is a positive number.

"Infrastructure Account" means the Infrastructure Account (Sub-Project Areas I-1 through I-13) established in the Special Fund.

"Infrastructure Financing Plan" means the Infrastructure Financing Plan for the IFD, adopted and approved by the Board of Supervisors of the City and County of San Francisco by Ordinance No. 27-16, passed on March 1, 2016 and the Mayor approved on March 11, 2016, as amended with respect to the Sub-Project Areas by Ordinance No. 34-18, passed on February 27, 2018 and the signed by the Mayor on March 6, 2018, as heretofore amended and as may hereafter be amended in accordance with the law.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service on the Special Tax District Bonds for the current or any future Bond Year, as certified in writing by the IFD to the City and the Fiscal Agent.

"Maximum Development Special Tax" has the meaning given that term in the Rate and Method.

"Ordinance" means any ordinance of the City Council of the City levying the Development Special Taxes under the Rate and Method, including but not limited to Ordinance No. 0079-20 enacted by the Board of Supervisors of the City on May 12, 2020.

"Parity Bonds" has the meaning given that term in the Fiscal Agent Agreement.

"Pledged Tax Increment" means the Allocated Tax Increment, but excluding the Waterfront Set-Aside except to the extent that the Waterfront Set-Aside may be used by the IFD under the IFD Law for its payment obligations hereunder based on the use of proceeds of the Special Tax District Bonds.

"Potential Development Special Tax Levy" has the meaning given that term in the Financing Plan.

“Rate and Method” means the Rate and Method of Apportionment of Special Tax for the Special Tax District, as it may be amended from time to time.

“Special Fund” means the “Special Fund (Sub-Project Areas I-1 through I-13)” established and maintained by the IFD pursuant to this Pledge Agreement.

"Special Tax District Bonds" means the City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) Development Special Tax Bonds”, issued and outstanding under the Fiscal Agent Agreement, including the 2021 Special Tax District Bonds and any Parity Bonds.

“Special Tax Financing Law” means the San Francisco Special Tax Financing Law (Admin. Code ch. 43, art. X), as amended from time to time.

“Subordinate Debt” has the meaning given that term in Section 6 of this Pledge Agreement.

"Subordinate Debt Instrument" means any instrument providing for the issuance or incurrence of Subordinate Debt.

“Sub-Project Area I-1” means Sub-Project Area I-1 (Mission Rock Site).

“Sub-Project Area I-2” means Sub-Project Area I-2 (Mission Rock Site).

“Sub-Project Area I-3” means Sub-Project Area I-3 (Mission Rock Site).

“Sub-Project Area I-4” means Sub-Project Area I-4 (Mission Rock Site).

“Sub-Project Area I-5” means Sub-Project Area I-5 (Mission Rock Site).

“Sub-Project Area I-6” means Sub-Project Area I-6 (Mission Rock Site).

“Sub-Project Area I-7” means Sub-Project Area I-7 (Mission Rock Site).

“Sub-Project Area I-8” means Sub-Project Area I-8 (Mission Rock Site).

“Sub-Project Area I-9” means Sub-Project Area I-9 (Mission Rock Site).

“Sub-Project Area I-10” means Sub-Project Area I-10 (Mission Rock Site).

“Sub-Project Area I-11” means Sub-Project Area I-11 (Mission Rock Site).

“Sub-Project Area I-12” means Sub-Project Area I-12 (Mission Rock Site).

"Sub-Project Area I-13" means Sub-Project Area I-13 (Mission Rock Site).

"Sub-Project Areas" has the meaning given that term in the recitals of this Pledge Agreement.

"Tax Increment Plan Limit" means the limitation, if any, contained in the Infrastructure Financing Plan on the number of dollars of taxes which may be divided and allocated to the IFD with respect to the Sub-Project Areas pursuant to the Infrastructure Financing Plan and the IFD Law.

"Waterfront Set-Aside" means a minimum of 20% of Allocated Tax Increment from Project Area I, which under IFD Law must be spent for shoreline restoration, removal of bay fill, and creation of waterfront public access to or environmental remediation of the San Francisco waterfront.

"Waterfront Set-Aside Account" means the Waterfront Set-Aside Account (Sub-Project Areas I-1 through I-13) established in the Special Fund.

"2021 Special Tax District Bonds" means the City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) Development Special Tax Bonds, Series 2021, issued and outstanding under the Fiscal Agent Agreement.

Section 2. Pledge of Pledged Tax Increment. The IFD hereby pledges and creates a lien on the Pledged Tax Increment for the benefit of the Fiscal Agent as security for its payment obligations hereunder (which pledge and lien shall attach and be binding and effective without the need for any physical delivery, recordation, filing, or further act). Such pledge shall be a first and exclusive pledge of the Pledged Tax Increment, subject to other permitted uses set forth in this Pledge Agreement.

The IFD and the City agree that the Pledged Tax Increment paid to the Fiscal Agent under this Pledge Agreement shall be used to pay debt service on the Special Tax District Bonds, replenish any debt service reserve fund for the Special Tax District Bonds and pay Horizontal Development Costs that are eligible to be paid with Pledged Tax Increment.

Section 3. Collection of Allocated Tax Increment; Special Fund. The IFD shall establish a fund to be held by or on behalf of the IFD as a separate restricted account, to be known as the "Special Fund (Sub-Project Areas I-1 through I-13)." The IFD shall establish the following accounts within the Special Fund to be held by or on behalf of the IFD as separate restricted accounts: the "Waterfront Set-Aside Account (Sub-Project Areas I-1 through I-13)" and the "Infrastructure Account (Sub-Project Areas I-1 through I-13)." Promptly upon receipt thereof, the IFD shall deposit 80% of the Allocated Tax Increment received in any Bond Year in the Infrastructure Account and 20% of such Allocated Tax Increment in the Waterfront Set-Aside Account. The IFD may establish separate accounts within the Special Fund (Sub-Project

Areas I-1 through I-13), and separate sub-accounts within the Infrastructure Account and the Waterfront Set-Aside Account in its discretion.

Amounts deposited to and held by the IFD in the Special Fund and the accounts therein shall be at all times separately accounted for by the IFD from all other funds or accounts, and the Allocated Tax Increment shall be used and applied solely as set forth in this Pledge Agreement.

On each September 1, Allocated Tax Increment in excess of the amounts required for the IFD to meet its obligations hereunder in such Bond Year shall be released from the pledge and lien created by this Pledge Agreement and shall be used by the IFD for authorized purposes under the Infrastructure Financing Plan.

Section 4. Payment of Allocated Tax Increment. The IFD shall withdraw Allocated Tax Increment from the accounts in the Special Fund and apply such amounts at the times and for the purposes, and in the following order of priority, each item to be fully satisfied (by payment of such item or reservation of Allocated Tax Increment for such item) before the item next in priority:

First: Administrative Expenses. The IFD shall pay Administrative Expenses when due and, prior to transferring the IFD Payment Amount pursuant to *Second* below, shall set aside any such Allocated Tax Increment required to pay Administrative Expenses from such Allocated Tax Increment.

Second. IFD Payment Amount. On each IFD Payment Date, the IFD shall transfer Pledged Tax Increment to the Fiscal Agent, for deposit into the Revenue Fund established and held by the Fiscal Agent under the Fiscal Agent Agreement, in an amount equal to the IFD Payment Amount.

Third: Surplus. After satisfying *First* and *Second* above, the IFD shall apply any remaining Allocated Tax Increment in the Special Fund to the purposes set forth in the Financing Plan.

Section 5. Coverage Covenant; Plan Limit.

(a) The IFD shall manage its fiscal affairs in a manner which ensures that it will have sufficient Allocated Tax Increment available under the Tax Increment Plan Limit in the amounts and at the times required to enable the IFD to pay meet its payment obligations under this Pledge Agreement.

(b) The IFD shall not issue any bonds or take any action that would cause it to exceed the Bond Plan Limit. Board of Supervisors Resolution No. 37-18 provides that the Bond Plan Limit does not apply to the Special Tax District Bonds or any “debt” as defined in the IFD Law other than bonds, including this Pledge Agreement.

Section 6. Issuance of Subordinate Debt. Subject to any limitations set forth in the Financing Plan, the IFD may issue additional bonds or incur other loans, advances or indebtedness payable from Allocated Tax Increment on a subordinate basis to its obligations under this Pledge Agreement ("Subordinate Debt") in such principal amount as shall be determined by the IFD. The IFD may issue or incur such Subordinate Debt subject to the following specific conditions precedent:

(a) Unless otherwise agreed by the City and the Developer, the conditions for the issuance of Subordinate Debt set forth in the Financing Plan have been satisfied.

(b) If, and to the extent, such Subordinate Debt is payable from Allocated Tax Increment within the Tax Increment Plan Limit, then the aggregate amount of the IFD Payment Amount and the principal of and interest to accrue on Subordinate Debt coming due and payable following the issuance of such Subordinate Debt shall not exceed the maximum amount of Allocated Tax Increment permitted under the Tax Increment Plan Limit to be allocated and paid to the IFD following the issuance of such Subordinate Debt.

(c) The IFD shall deliver to the Trustee a Written Certificate of the IFD certifying that the conditions precedent to the issuance of such Subordinate Debt set forth in paragraph (a) above have been satisfied.

Section 7. Tax Covenants. The following covenants shall apply to any Special Tax District Bonds to the extent the City and the IFD intended for the interest on such Special Tax District Bonds to be excluded from the gross income of the Owners of such Special Tax District Bonds for federal income tax purposes.

(a) Private Activity Bond Limitation. The City and the IFD will assure that the proceeds of the Special Tax Bonds are not so used as to cause the Special Tax District Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

(b) Federal Guarantee Prohibition. The City and the IFD will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Special Tax District Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(c) Rebate Requirement. The City and the IFD will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Special Tax District Bonds.

(d) No Arbitrage. The City and the IFD will not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the

Special Tax Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Special Tax District Bonds would have caused the Special Tax District Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

(e) Maintenance of Tax-Exemption. The City and the IFD will take all actions necessary to assure the exclusion of interest on the Special Tax Bonds from the gross income of the Owners of the Special Tax District Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Special Tax Bonds.

(f) Record Retention. The City and the IFD will retain their records of all accounting and monitoring that they carry out with respect to the Special Tax District Bonds for at least 3 years after the Special Tax District Bonds mature or are redeemed (whichever is earlier); however, if the Special Tax District Bonds are redeemed and refunded, the City and the IFD will retain their records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Special Tax District Bonds.

(g) Compliance with Tax Certificate. The City and the IFD will comply with the provisions of the Certificate as to Arbitrage and the Use of Proceeds Certificate with respect to the Special Tax District Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Special Tax District Bonds.

Section 8. Term. The term of this Pledge Agreement shall commence on the date of issuance of the Special Tax District Bonds, and shall end on the earlier of the date no Special Tax District Bonds are outstanding or the last day on which the IFD may repay indebtedness or receive property taxes under the Infrastructure Financing Plan.

Section 9. Amendment. This Pledge Agreement may be amended only with the prior written consent of the parties thereto and if the City shall have received an opinion of nationally recognized bond counsel that such amendment does not adversely affect the tax-exempt nature of interest on the Special Tax District Bonds.

IN WITNESS HEREOF, the parties hereto have executed this Pledge Agreement as of the day and year first above written.

CITY AND COUNTY OF SAN FRANCISCO
INFRASTRUCTURE FINANCING DISTRICT
NO. 2 (PORT OF SAN FRANCISCO)

By:____________________________________
Authorized Officer

CITY AND COUNTY OF SAN FRANCISCO,
for and on behalf of City and County of
San Francisco Special Tax District No.
2020-1 (Mission Rock Facilities and
Services)

By:____________________________________
Authorized Officer

[CORPORATE TRUSTEE], as Fiscal Agent

By:____________________________________
Authorized Officer

MEMORANDUM

October 23, 2020

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. John Burton
Hon. Gail Gilman
Hon. Doreen Woo Ho

FROM: Elaine Forbes
Executive Director

SUBJECT: Request approval of a Resolution recommending that the Board of Supervisors approve the Mission Rock Community Facilities District financing, including the issuance of bonds in an aggregate principal amount not to exceed $50,100,000(“Bonds”), and the execution and delivery of financing documents, including the: 1) the form of Bond Purchase Agreement, 2) the form of Fiscal Agent Agreement, 3) the form of Pledge Agreement, 4) the form of Continuing Disclosure Certificate, 5) the form of Preliminary Official Statement, and authorizing and directing the Executive Director to cause the package to be submitted to the Board of Supervisors and to work with the Director of the Office of Public Finance to finalize and cause the distribution of the Preliminary Official Statement and the issuance of the Bonds.

DIRECTOR'S RECOMMENDATION: Approve Attached Resolution No. 20-48

EXECUTIVE SUMMARY

The Mission Rock Project at Seawall Lot 337 and Pier 48 is a mixed-use development project that will create up to 1,200 units of housing, 1.4 million square feet of new office space, and a new waterfront park across from Oracle Park (“Project” or “Mission Rock Project”). The Port owns the land in the Project and leases it for development.
After more than a decade of planning, the Project is preparing to break ground on horizontal infrastructure construction and vertical development in the coming months.

THIS PRINT COVERS CALENDAR ITEM NO. 10A

Proceeds from the issuance of bonds issued by the City and paid with revenues from financing districts formed within Seawall Lot (“SWL”) 337 will fund the horizontal infrastructure improvements. In 2018, the City formed Project Area I of Infrastructure Financing District No. 2 (Port of San Francisco) at SWL 337 (which is referred to in this Memorandum as “IFD Project Area I”), and in 2020, the City formed Special Tax District No. 2020-1 (Mission Rock Facilities and Services), which is referred to in this Memorandum as the Mission Rock CFD. It is intended that the proposed financing (“Bonds”) will utilize both funding sources, with the City issuing the Bonds on behalf of the Mission Rock CFD, which are primarily secured by special taxes levied in the Mission Rock CFD. To the extent sufficient tax increment is generated in IFD Project Area I, it will be used as an offset against the primary pledge of special taxes (tax increment will become available to service debt when the assessed value of the Project increases in an amount sufficient to generate $100K of tax increment in a Sub-Project Area as a result of completed development).

The Mission Rock CFD will finance certain improvements through the levy of special taxes on the leasehold interests in the Project, while the IFD Project Area will finance improvements through the growth of tax increment in the assessed value of such leasehold interests.

STRATEGIC PLAN

This item and the Mission Rock Project as a whole support the efforts of the Port’s Strategic Plan to enhance and balance the Port’s maritime and economic purpose, rich history, and changing relationship with the City so the waterfront continues to be a treasured destination.

PROJECT BACKGROUND

On January 30, 2018, the Port Commission approved a mixed-use development project known as Mission Rock at Seawall Lot 337 and Pier 48 (“Project” or “Mission Rock Project”). Subsequently, on February 13, 2018, the San Francisco Board of Supervisors (“Board”) approved the Project and on August 15, 2018 the Port and Seawall Lot 337 Associates signed all Project-related documents. The Port owns the land in the Project and leases it for development.

The Port’s partner for development of the Project is Seawall Lot 337 Associates, LLC (“Developer”), an affiliate of the San Francisco Giants and Tishman Speyer. The Disposition and Development Agreement (“DDA”) and related agreements between the Port and the Developer govern the Project’s development.

The entitled Mission Rock Project anticipates up to 1,200 units of new rental housing including 40 percent affordable units, 1.4 million square feet of new commercial and office space, rehabilitation of historic Pier 48, space for small-scale manufacturing, retail and neighborhood services, waterfront parks, and public infrastructure. The Mission

Rock Project is located at SWL 337 and Pier 48 bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay.

The Project, now on the precipice of construction, represents 11 years of effort, led by the Port Commission, Port and City staff, and the Developer. These efforts include state legislation; neighborhood planning and neighborhood outreach; infrastructure planning and design; shoreline and sea level rise resiliency planning; development of a Special Use District; and successful collaborations with regulators and partner agencies related to topics like workforce development, affordable housing, transportation, public access, and park development.

FINANCING BACKGROUND

On September 20, 2019, the Port Commission approved the Phase 1 Budget of the Project, which outlined the expected costs and revenue sources for the phase improvements. The Phase 1 budget included:

- **Project Costs.** Projected hard costs, soft costs, and return on Developer equity for the Phase 1 Horizontal Infrastructure improvements.
- **Pro Forma Project Revenues.** Sources include:
  - The four Phase 1 prepaid leases
  - Public financing sources including Mission Rock CFD bond proceeds (including the proposed Bonds), Mission Rock CFD pay-as-you-go ("pay-go") special taxes (those not dedicated to bond debt service), and IFD Project Area I pay-go tax increment

Table 1 below summarizes the Phase 1 budget sources and uses.

*Table 1. Phase 1 Overview of Sources and Uses ($ millions)**

Description	Entitlement	Phase 1	Total Phase
Total Horizontal Costs	29.3	145.4	174.8
Developer Return*	16.9	73.8	90.7
Total Phase 1 Uses	**46.2**	**219.3**	**265.5**
Net Development Rights Payments	42.2	-	42.2
CFD Bonds - Unimproved Land	4.0	31.2	35.2
CFD Bonds - Completed Buildings	-	140.8	140.8
Excess Pay Go Tax Increment	-	47.2	47.2
Total Phase 1 Project Sources	**46.2**	**219.3**	**265.5**

*Numbers are rounded and thus may not appear to sum precisely.

The Board passed an ordinance establishing IFD Project Area I on February 27, 2018, which the Mayor signed on March 6, 2018.

On April 14, 2020, the Board passed a resolution approving the formation of the Mission Rock CFD. The Mayor signed this resolution on April 24, 2020. On May 5, 2020, after a public hearing and landowner vote, the Board approved a resolution determining a not to exceed limit on bonded indebtedness and other debt of $3,700,000,000 for the Mission Rock CFD, which the Mayor signed on May 15, 2020. Finally, the Board passed an ordinance levying special taxes within the Mission Rock CFD on May 12, 2020, which was signed by the Mayor on May 22, 2020 ("Ordinance 79-20").

IFD Project Area I generates revenues for the Project by capturing the growth tax increment generated in Project Area I when the tax increment exceeds $100K in a Sub-Project Area (i.e., ad valorem property tax revenues generated by increases in the assessed value of the Project above the value in the base year of 2017-2018). The Mission Rock CFD includes four separate special taxes:

1. **Development Special Tax** – funds horizontal infrastructure on the site; expected 45-year life. The financing plan for the Project assumes that, over time, the City will not need to levy the Development Special Tax to pay debt service because it will be offset by tax increment generated in IFD Project Area I.
2. **Office Special Tax** – funds horizontal infrastructure on the site; 120-year life
3. **Shoreline Special Tax** – a source for ongoing shoreline protection studies and facilities; Shoreline Taxes from Phase I can also fund horizontal infrastructure on the site; 120-year life
4. **Contingent Services Special Tax** – funds ongoing maintenance and services of the area if the Homeowners' Association dues do not fund these services

The proposed Bonds will only be secured by the payment of Development Special Taxes. No other Mission Rock CFD special taxes will be pledged to the repayment of the Bonds. However, the IFD Project Area I tax increment will provide an additional security for the Bonds, as discussed below.

Mission Rock CFD Special Tax Bonds

The proposed Bond Resolution would authorize the first sale of special tax bonds for the Mission Rock CFD, in an amount not to exceed $50,100,000. The proposed Bonds will be secured by a pledge of the Development Special Tax levied on taxable property in the Mission Rock CFD in accordance with Ordinance 79-20 and the Rate and Method of Apportionment of Special Taxes for the Mission Rock CFD ("RMA") adopted at formation.

Bond Security and Pledge of Tax Increment

The proposed Bond financing will utilize both the Mission Rock CFD and IFD Project Area I sources. Only the Development Special Taxes will be pledged to debt service on the Bonds; this Bonds will not be payable from any of the other three Mission Rock CFD special taxes listed previously. As additional security, the Bonds will also be payable from tax increment generated in IFD Project Area I. The proposed structure allows tax increment generated in IFD Project Area I to "offset" the Development Special Taxes. The offset increases the value of the Port's land by reducing the long-term tax burden on the site. Under this offset structure, tax increment from one year acts as a credit for the next year's Development Special Tax obligation once the developed property is assessed. Table 2 below illustrates a simplified example of the relationship between Development Special Taxes and tax increment generated in IFD Project Area I.

Hypothetical (for informational purposes only). In Year 1, the property lessee owes Development Special Taxes and ad valorem property taxes. The IFD tax increment generated in early years will not act as a credit until the property meets certain milestones, which are assumed to occur in Year 2. In Year 2, the lessee owes both Development Special Taxes and ad valorem property taxes. The IFD Project Area I tax increment generated in Year 2 now serves as a credit for Development Special Taxes in Year 3. In Year 3, the lessee continues to pay ad valorem property taxes but receives a credit for the Development Special Taxes that would otherwise be levied from the prior year's IFD Project Area I tax increment (they can only receive a credit up to the maximum Development Special Tax). In Year 4, the lessee owes ad valorem property taxes but again receives the benefit of the prior year's IFD Project Area I tax increment as a full credit offset for the Development Special Taxes that otherwise would be levied. This pattern will continue for the life of the Development Special Tax and IFD Project Area I, assuming no changes to the property. Depending on the timing of development, the assessment of properties, the real estate market, and other factors, the offset may not occur until a later year and may also not fully offset the Development Special Tax.

Table 2. Mission Rock CFD Offset Structure

	Year 1	**Year 2**	**Year 3**	**Year 4**
Development Special Tax	1,000,000	1,000,000	1,000,000	1,000,000
IFD Project Area I Tax Increment	400,000	1,100,000	1,100,000	1,100,000
Offset to Development Special Tax	0	0	(1,000,000)	(1,000,000)
Total Taxes	**1,400,000**	**2,100,000**	**1,100,000**	**1,100,000**

*Arrows show the Tax Increment from the previous year acting as a credit to the Development Special Tax.

To ensure tax increment from IFD Project Area I is available to pay debt service on the on the proposed Bonds, the resolution approves a form of Pledge Agreement, pursuant to which the IFD pledges to pay tax increment for debt service on the Bonds. Therefore, once the Mission Rock properties are assessed, the ongoing tax increment from IFD Project Area I will be pledged to fund debt service payments on the Mission Rock CFD special tax bonds (including the Bonds). Table 2 shows this debt service payment structure in Years 3 and 4, which is anticipated to continue for the life of the Bonds.

<u>The City began levying Mission Rock CFD special taxes on the Undeveloped Property within the Mission Rock CFD in Fiscal Year (FY) 2020-21. Additionally, the Port executed Vertical Parcel Leases for Parcel G on June 25, 2020 and Parcels A, B, and F on October 6, 2020. The execution of these Parcel Leases initiates a 24-month or longer countdown for the levying of the Mission Rock CFD special tax on Developed Property, whereby the levy on Developed Property begins in the Fiscal Year after the 24-month anniversary of Parcel Lease execution. Thus, the Mission Rock CFD special tax levy on Developed Property for Parcel G will begin in FY 2022-23 and for Parcels A, B and F in FY 2023-24. Prior to then, the Development Special Tax will be levied on the</u>

undeveloped property based upon each parcel's expected square footage and use, in accordance with the RMA approved by the Board, to provide revenues to fund any debt service obligations. The IFD Project Area I tax increment offset mechanism will begin when the Assessor finalizes the assessment of each parcel, which is not anticipated to occur until after the Mission Rock CFD special tax levy on developed properties begins.

The proposed Bonds will be sold without a rating ("Non-Rated"). The real estate development is in relatively early stages and likely would not receive an investment grade rating. Non-Rated special tax bonds have unique credit considerations and risk factors for investors, which are discussed in the Preliminary Official Statement Special Risk Factors section. The Bonds are limited obligations of the City, secured by and payable solely from a pledge of the Development Special Taxes levied in the Mission Rock CFD and tax increment generated in IFD Project Area I.

The General Fund of the City and the Port Harbor Fund are not liable for the payment of principle or interest on the Bonds, and the credit of the City, the credit of the Port, and the General Fund of the City are not pledged to the payment of the Bonds. Other than the Special Taxes and the IFD tax increment, the City is not obligated to levy any taxes for repayment of the Bonds.

Under the Fiscal Agent Agreement, the City, on behalf of the Mission Rock CFD, 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 Development Special Taxes on the leasehold interest in properties within the Mission Rock CFD, and will diligently pursue such proceedings to completion.

Bond Sizing and Value-to-Lien Ratio

Two factors limit the amount of Mission Rock CFD bonds that may be sold: 1) the ongoing tax revenue capacity; and 2) an appraisal or assessment of the value of the CFD.

Ongoing Development Special Tax capacity must be at least 110 percent of the debt service requirement on any Mission Rock CFD Development Special Tax bonds. For example, if the annual debt service payments are $1.0 million, the annual Development Special Tax revenue (after setting aside amounts for administrative expenses) must be at least $1.1 million.

Because the City will foreclose on the taxable leasehold interests in the Mission Rock CFD if they are delinquent in the payment of the Development Special Tax, the value of the leasehold interests – determined by an appraisal in this instance – is an important credit consideration for purchasers of the Bonds. Under the City's *Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts*, the City must sell the Bonds to achieve at least a 3-to-1 value-to-lien ratio based on 1) the appraised value or the assessed value of the leasehold interests in the taxable parcels in the Mission Rock CFD and 2) special tax and assessment debt encumbering such leasehold interests (including the Bonds). This policy means that the value of the leasehold interests in the Mission Rock CFD must be three times the outstanding amount of the Bonds and any other special tax and assessment debt.

Integra Realty Resources, Inc. ("Appraiser") prepared an Appraisal Report dated October 12, 2020, with a valuation date of April 22, 2020, estimating the market value of the leasehold interest of 11 of the 12 blocks within the Mission Rock CFD to be $150,400,000. Parcel D2 is excluded because it is not subject to the Lien of the Special Tax as a parking facility; separately, Pier 48 is not part of the Mission Rock CFD presently but may be annexed into the Mission Rock CFD in the future.

For the Bonds, the value-to-lien ratio is 3.0-to-1 based on the not to exceed par amount of $50,100,000 and the current appraised value (as of April 22, 2020) of the leasehold interests in the Mission Rock CFD of $150,400,000. The Appraisal Report is subject to certain assumptions and limiting conditions set forth therein. Additionally, the unprecedented economic effects of the COVID-19 pandemic created additional challenges to estimating the value of the leasehold interests within the Mission Rock CFD. Integra is currently preparing a revised appraisal to update the valuation to include the latest known information about COVID-19's economic impacts. If the appraised value of the Mission Rock CFD properties changes, the issuance will maintain at least a 3-to-1 value-to-lien ratio and not exceed a par amount of $50,100,000.

The value of individual leasehold interests in the parcels in the Mission Rock CFD may vary significantly, and no assurance can be given that should Development Special Taxes levied on one or more of the leasehold interests in the parcels become delinquent, and should the delinquent leasehold interests in the parcels be offered for sale at a judicial foreclosure sale, that any bid would be received for the leasehold interest in the property or, if a bid is received, that such bid would be sufficient to pay such parcel's delinquent Development Special Taxes.

While this value-to-lien calculation incorporates the value of all the leasehold interests in the Mission Rock CFD, the Bonds are sized based on the Development Special Taxes from only the four Phase 1 parcels. The Development Special Tax revenues on the first four parcels will far exceed the coverage required for the initial Bonds with a not-to-exceed amount of $50,100,000. Table 3 below shows the expected annual Development Special Tax revenues that are expected to be available to pay debt service on the Bonds.

Table 3. Mission Rock CFD Projected Development Special Tax Revenues

Planning Parcel	FY20-21 Expected Maximum	FY20-21 Actual Levy	FY21-22 Actual Levy	FY22-23 Actual Levy	FY23-24 Actual Levy
Parcel A	$1,598,937	$207,107	$246,340	$35,566	$589,116
Parcel B	$1,690,703	$218,993	$260,477	$37,607	$622,926
Parcel F	$988,931	$128,094	$152,359	$21,997	$364,364
Parcel G	$1,878,431	$243,309	$289,400	$1,954,320	$692,094
Other Parcels	$8,025,363	$1,039,507	$1,236,424	$178,510	$0
Total	**$14,182,366**	**$1,837,010**	**$2,185,000**	**$2,228,000**	**$2,268,500**

Notes: Other Parcels includes all eight parcels from Phases 2-4 except the proposed parking garage in Parcel D. Actual tax levy shows amounts for debt service on the Bonds only.

Use of Proceeds

The Bond proceeds will 1) finance or reimburse entitlements and horizontal improvements for the Project, 2) fund a debt service reserve fund for the Bonds, 3) fund capitalized interest on the Bonds, if any, 4) fund administrative expenses, and 5) pay costs of issuance. Proceeds of the initial issuance of Bonds will reimburse the Developer for outstanding entitlement costs and the initial stages of Phase 1 horizontal improvements (e.g. utilities, streets, sidewalks, parks, etc.).

Table 4 below summarizes the estimated sources and uses for the Bonds, based on current market conditions and the current appraised value.

Table 4. Estimated Sources and Uses of the Special Tax Bonds, Series 2021

Sources	**Amount**
Bond Proceeds	
Par Amount	$50,100,000.00
Premium	$3,800,506.75
Total Sources	**$53,900,506.75**

Uses	**Amount**
Improvement Fund	$48,519,043.75
Debt Service Reserve Fund	$4,430,463.00
Delivery Date Expenses:	
Cost of Issuance	$450,000.00
Underwriter's Discount	$501,000.00
Total Uses	**$53,900,506.75**

Source: Stifel

Interest Rate and Projected Debt Service

Based upon current market conditions, a 30-year term, and a true interest cost of 4.45 percent, which assumes the issuance of all Bonds on a tax-exempt basis, Stifel estimates average annual debt service of approximately $3.4 million. If issued at the not to exceed total par amount of $50.1 million is estimated to result in approximately $51.0 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately $101.1 million.

Method of Sale and Bond Purchase Agreement

Given that the proposed Bonds will be unrated, and the underlying project is a new real estate development project, the City's independent municipal advisor recommend a negotiated sale for this transaction. The Bonds will be secured as to repayment from

Development Special Taxes from specific leasehold interests within the CFD and are outside of the City's customary credit profile. Prior to formation, the Port selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve as the Underwriter. Stifel is in the City's Underwriter Pool, which was established via a competitive process, and was selected for this transaction through a competitive RFP. A Board Resolution will approve the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to Stifel.

The Capital Plan

The Bonds are limited obligations of the City payable solely from the Development Special Tax revenues and tax increment generated in IFD Project Area I and therefore are not subject to policy constraints of the Ten-Year Capital Plan.

ADDITIONAL INFORMATION

The proposed Bond financing requires two separate actions by the Board of Supervisors: (i) the Board of Supervisors, as legislative body of the CFD, must adopt a resolution approving the issuance of the Bonds and related documents and actions and (ii) the Board of Supervisors, as legislative body of the IFD, must adopt a resolution approving the Pledge Agreement and related documents and actions.

The two resolutions are expected to be introduced at the Board of Supervisors meeting on Tuesday, November 3, 2020. The forms of the financing documents related to the Special Tax Bonds—including the Bond Purchase Agreement, Fiscal Agent Agreement, Pledge Agreement, Preliminary Official Statement, the Continuing Disclosure Certificate — will also be submitted.

Bond Purchase Agreement: The City intends to pursue a negotiated sale of the Bonds with a sale of the Bonds to the Underwriter. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the Bonds to the Underwriter as well as agreements regarding expenses, closing and disclosure documents.

Fiscal Agent Agreement: The Fiscal Agent Agreement governs the use of Development Special Taxes and tax increment from IFD Project Area I to pay debt service on the Bonds. The Fiscal Agent Agreement also provides for the terms of the Bonds, including principal amount, interest rate, redemption, and the conditions for issuance of additional parity bonds. The Fiscal Agent holds Bond proceeds and will disburse them as directed by authorized City representatives.

Preliminary Official Statement ("POS"): The POS is distributed to investors prior to the sale of the Bonds and provides information for investors in connection with the public offering by the City of the Bonds. The POS describes the Bonds, the Project, including sources and uses of funds; security for the Bonds (including information about the Mission Rock CFD and IFD Project Area I); risk factors; and other legal matters, among other information. The Appraisal Report will be attached as an appendix to the Official Statement.

Official Statement. The final Official Statement contains the same information as the POS but includes the results of the pricing of the Bonds (i.e., sale results including principal amounts, offering prices, interest rates, underwriters' compensation). The Official Statement is distributed to prospective purchasers of the Bonds.

Under the anti-fraud provisions of the federal securities laws, the City is required to ensure that the POS and the Official Statement are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. Much of the information in the Official Statement was provided by the Developer, and the Developer will certify in writing that the information provided by the Developer is accurate and complete in all material respects. "Material" in this context means that there is a substantial likelihood that the information would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Bonds. The draft Preliminary Official Statement has been submitted for the Port Commission's review prior to its publication.

The Board of Supervisors and the Mayor, in adopting and approving the Bond Resolution, approve and authorize the use and distribution of the Preliminary and Final Official Statements by the Underwriters and financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates.

Continuing Disclosure Certificate: In connection with the issuance of the Bonds, the City will agree to provide certain financial information and operating data relating to the Bonds ("Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist the Underwriters of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

NEXT STEPS

If the Port Commission approves this item, staff will work with the OPF to seek Board approval of the Bonds and related documents. With this approval, the OPF will lead the distribution of the POS and sale of the Bonds. Table 5 below shows an estimated timeline of key financing items.

Table 5. Mission Rock CFD Financing Schedule

Item	Date
Introduction of Legislation to Board of Supervisors	Nov 3, 2020
Capital Planning Committee Presentation	Nov 9, 2020
Budget & Finance Committee Hearing	Nov/Dec 2020
Board Approval of Legislation	Nov/Dec 2020
Sale and Closing of Bonds	Jan/Feb 2020

Prepared by: Wyatt Donnelly-Landolt
Finance & Administration

Phil Williamson
Real Estate & Development

Prepared for: Rebecca Benassini
Real Estate & Development
Assistance Deputy Director

Katie Petrucione
Finance & Administration
Deputy Director

PORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 20-48

WHEREAS, The Mission Rock Project at Seawall Lot 337 and Pier 48 is a mixed-use development project that will create up to 1,200 units of housing including 40 percent affordable units, 1.4 million square feet of new office space, and a new waterfront park across from Oracle Park; and

WHEREAS, After over a decade of planning, the Mission Rock Project is preparing to break ground on horizontal infrastructure construction and vertical development in the coming months; and

WHEREAS, The Port Commission approved the Mission Rock Project on January 30, 2018, the Board of Supervisors approved the project on February 13, 2018, and on August 15, 2018, the Port and Seawall Lot 337 Associates signed all project-related documents; and

WHEREAS, The Mission Rock Project supports the Port's efforts to enhance and balance the Port's maritime and economic purpose, rich history, and changing relationship with the City so the waterfront continues to be a treasured destination; and

WHEREAS, Under Chapter 43, Article X of the San Francisco Administrative Code (as it may be amended from time to time, "Code"), which incorporates by reference the Mello-Roos Community Facilities Act of 1982, as amended ("Mello-Roos Act"), the Board of Supervisors previously conducted proceedings to form "City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services)" ("CFD"), to authorize the levy of special taxes upon the land within the CFD, which consists of the property comprising the Mission Rock Project, and to authorize the issuance of bonds and other debt secured by said special taxes for the purpose of financing certain improvements ("Authorized Facilities") and incidental expenses; and

WHEREAS, Pursuant to Resolution No. 196-20, which was adopted on May 5, 2020 and signed by the Mayor on May 15, 2020, the Board of Supervisors authorized the issuance of up to $3,700,000,000 of bonded indebtedness and other debt on behalf of the CFD, and directed staff to prepare documentation for such bonded indebtedness and other debt and return to the Board of Supervisors for approval of such documentation; and

WHEREAS, Under California Government Code Sections 53395 et seq. ("IFD Law"), the Board of Supervisors previously conducted proceedings to form "City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)" ("IFD") and, within the IFD, Project Area I (including 13 sub-project areas) ("Project Area I"); Project Area I consists of the property comprising the Mission Rock Project; and

WHEREAS, On September 20, 2019, the Port Commission approved Resolution 19-39, which approved the Phase 1 Budget outlining the expected costs and revenue sources for the Mission Rock Project Phase 1 improvements; and

WHEREAS, In the Phase 1 Budget for the Mission Rock Project, the financial sources projected to fund the Mission Rock Project included the four Phase 1 prepaid leases and multiple public financing sources, including CFD bond proceeds, CFD pay-as-you-go (pay-go) taxes, and pay-go tax increment from Project Area I; and

WHEREAS, A CFD bond on unimproved land was one of two early Mission Rock Project sources in the Phase 1 Budget that will limit Developer return on Mission Rock Project expenses; and

WHEREAS, Port staff is proposing that the City, on behalf of the CFD, issue one or more series of special tax bonds (the "Bonds") that will be secured by (i) the Development Special Tax levied in the CFD and (ii) tax increment generated in Project Area I, which the IFD will pledge to the Bonds under a Pledge Agreement; and

WHEREAS, The Development Special Tax will be levied on leasehold interests in the parcels in the CFD, and the Project Area I tax increment will be generated by increases in the assessed value of those leasehold interests; and

WHEREAS, The primary purpose of pledging the Project Area I tax increment to the Bonds is to reduce and potentially eliminate the need to levy the Development Special Taxes in the CFD; and

WHEREAS, The General Fund of the City and Harbor Fund are not liable for the payment of principle or interest on the Bonds, and the credits of the City and the Port are not pledged to the payment of the Bonds; and

WHEREAS, Because the Bonds will be payable only from Development Special Taxes and tax increment from Project Area I, the Bonds are not subject to policy constraints of the Ten-Year Capital Plan; and

WHEREAS, Two factors limit the amount of Bonds that can be sold: (i) ongoing Development Special Tax capacity must be at least 110 percent of the debt service on the Bonds and (ii) the City's *Amended and Restated*

Local Goals and Policies for Community Facilities Districts and Special Tax Districts generally require the City to sell the Bonds to achieve at least a 3-to-1 value-to-lien ratio based on (A) the appraised value or the assessed value of the leasehold interests in the taxable property in the CFD and (B) the special tax and assessment debt encumbering such leasehold interests, including the Bonds; and

WHEREAS, Integra Realty Resources, Inc. prepared an Appraisal Report dated October 12, 2020, which estimates that the market value of the leasehold interests in 11 of the 12 blocks within the CFD was $150,400,000 as of April 22, 2020; Parcel D2 is not included in the Appraisal Report because, as a parking facility, it is not subject to Development Special Tax, and Pier 48 is not part of the CFD presently; and

WHEREAS, Staff is proposing a not to exceed principal amount of the Bonds of $50,100,000, which would achieve a value-to-lien ratio of 3-to-1 based on the appraised value as of April 22, 2020; and

WHEREAS, The Bonds will be sized based on the Development Special Taxes that may be levied on the leasehold interests in the four Phase 1 parcels, and the Development Special Tax capacity of those four parcels exceeds the 110 percent coverage requirements for the Bonds if they are issued in the principal amount of $50,100,000; and

WHEREAS, The Bond proceeds will 1) finance or reimburse entitlements and horizontal improvements for the Project, 2) fund a debt service reserve fund for the Bonds, 3) fund capitalized interest on the Bonds, if any, 4) fund administrative expenses, and 5) finance costs of issuance; and

WHEREAS, The City's municipal advisors recommend a negotiated sale for the Bonds; and

WHEREAS, The Bonds will be issued pursuant to a Fiscal Agent Agreement by and between the City, for and on behalf of the CFD, and a fiscal agent to be identified by the Director of the Office of Public Finance; and

WHEREAS, The Bonds will be marketed to potential investors by distribution of a Preliminary Official Statement, and the Bonds will be sold to the underwriter(s) pursuant to a bond purchase agreement ("Bond Purchase Agreement") between the City and the underwriter(s); and

WHEREAS, The Port Commission wishes to recommend that the Board of Supervisors, as legislative body of the CFD, adopt a resolution approving the issuance of the Bonds and related documents and actions; and

WHEREAS, The Port Commission further wishes to recommend that the Board of Supervisors, as legislative body of the IFD, adopt a resolution approving the Pledge Agreement and related documents and actions; and

WHEREAS, The forms of the proposed resolutions, the Fiscal Agent Agreement, the Pledge Agreement, the Preliminary Official Statement, and the Bond Purchase Agreement are on file with the Secretary of the Port Commission; and

WHEREAS, The Commissioners have had the opportunity to review the information in the Preliminary Official Statement; now therefore be it

RESOLVED, That the foregoing recitals are all true and correct; and, be it

RESOLVED, That the Port Commission recommends that the Board of Supervisors, as legislative body of the CFD, adopt a resolution (i) approving the issuance of the Bonds in one or more series in the aggregate principal amount not to exceed the lesser of (A) $50,100,000 and (B) such lower amount required to achieve a 3-to-1 value-to-lien ratio if a revised Appraisal concludes that the market value of the leasehold interests in the taxable parcels in the CFD are lower than $150,400,000 and (ii) approving related documents and actions; and, be it

RESOLVED, That the Port Commission recommends that the Board of Supervisors, as legislative body of the IFD, adopt a resolution approving the Pledge Agreement and related documents and actions; and, be it

RESOLVED, That all actions heretofore taken by the officers and agents of the Port with respect to the establishment of the CFD, the IFD and Project Area I, the sale and issuance of the 2020 Bonds, and the execution and delivery of the documents described herein are hereby approved, confirmed and ratified, and the appropriate officers of the Port are hereby authorized and directed to do any and all things and take any and all actions and execute any and all certificates, agreements, and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Bonds in accordance with this resolution, provided that no such actions shall increase the risk to the City or Port or require the City or Port to spend any resources not otherwise described herein; and, be it

RESOLVED, That the Port Commission hereby authorizes the Executive Director to cause the resolutions and documents described herein to be submitted to the Board of Supervisors and to work with the Director of the Office of

Public Finance to finalize and cause the distribution of the Preliminary Official Statement

I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of October 27, 2020.

DocuSigned by:

Carl Nicita

Secretary

BFA59E31E3B84A8...

6

FILED
San Francisco County Superior Court

OCT 17 2019

CLERK OF THE COURT
BY: [signature]
Deputy Clerk

DENNIS J. HERRERA, State Bar #139669
City Attorney
ROBB W. KAPLA, State Bar #128896
Deputy City Attorney
City Hall
1 Dr. Carlton B. Goodlett Place, Room 234
San Francisco, California 94102-4682
Telephone: (415) 554-4647
Facsimile: (415) 554-4757
E-Mail: robb.kapla@sfcityatty.org

CHRISTOPHER K. LYNCH, State Bar #143429
JUAN M. GALVAN, State Bar #256647
JONES HALL, A PROFESSIONAL LAW CORPORATION
475 Sansome Street, Suite 1700
San Francisco, CA 94111
Telephone: (415) 391-5780
Facsimile: (415) 276-2088
Email: clynch@joneshall.com
jgalvan@joneshall.com

Attorneys for Plaintiffs
CITY AND COUNTY OF SAN FRANCISCO,
CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE
FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO)

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SAN FRANCISCO

UNLIMITED JURISDICTION

CITY AND COUNTY OF SAN FRANCISCO, CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO), Plaintiffs, vs. ALL PERSONS INTERESTED IN THE MATTER OF PROJECT AREA I (MISSION ROCK), AND SUB-PROJECT AREAS I-1 THROUGH I-13 THEREIN, OF CITY AND COUNTY OF SAN FRANCISCO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO), AND APPENDIX I TO AN EXISTING INFRASTRUCTURE FINANCING PLAN AND AMENDMENTS THEREOF, RELATED TO PROJECT AREA I (MISSION ROCK), AND SUB-PROJECT	Case No. CGC-18-565561 [~~PROPOSED~~] JUDGMENT Hearing Date: Hearing Judge: Time: 9:00 AM Department: Dept. 514 Date Action Filed: April 5, 2018

AREAS I-1 THROUGH I-13 THEREIN, PURSUANT TO WHICH TAX INCREMENT WILL BE ALLOCATED TO INFRASTRUCTURE FINANCING DISTRICT NO. 2 (PORT OF SAN FRANCISCO) FROM SUB-PROJECT AREAS I-1 THROUGH I-13 IN PROJECT AREA I, INCLUDING THE ADOPTION OF RESOLUTIONS AND AN ORDINANCE AND THE AUTHORIZATION OF THE MATTERS THEREIN, AND ALL BONDS, DEBT, CONTRACTS AND OTHER MATTERS AND PROCEEDINGS RELATED THERETO,

Defendants.

Plaintiffs City and County of San Francisco ("City") and City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) ("IFD No. 2" and together with the City, "Plaintiffs") came properly before the Court for review and determination. The Court having reviewed the application, the supporting papers, the other papers and pleadings on file in this action, and good cause appearing, hereby ORDERS, ADJUDGES AND DECREES as follows:

1. Jurisdiction over all interested persons was obtained by:

a. publishing the summons pursuant to Code of Civil Procedure Section 861 and Government Code Section 6063 in The San Francisco Examiner;

b. within five days of the entry of the order, posting a copy of the summons in one public location in City Hall prior to completion of publication;

c. within five days of the entry of the order, mailing the Summons and the Complaint to the California Attorney General and the Treasurer; and

d. mailing copies of the summons and complaint to those persons, if any, or their attorneys of record, who, not later than ten days after publication of summons is complete, or such other time as the Court may order, have notified in writing Plaintiffs' attorneys of record of their interest in this matter or have filed a responsive pleading challenging the validity of the proceedings.

2. The notice procedures were in accordance with the Validation Statute, and the notice provided by the Plaintiffs in this action, provide due and proper notice to all persons interested in

the subject matter of this action, and pursuant to such notice, this Court has jurisdiction over all persons and the subject matter of this action.

3. On the First Cause of Action, the Court hereby determines that:

(a) This action is properly brought under Government Code Section 53511, Sections 53395.6 and 53395.7 of the IFD Law and the Validation Statute.

(b) All proceedings by and for the City and IFD No. 2 in connection with Appendix I, including without limitation the Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU, and all other matters authorized therein, were, are and will be in conformity with the applicable provisions of all laws and enactments at any time in force or controlling upon such proceedings, whether imposed by law, constitution, statute, charter or ordinance, and whether federal, state or municipal, and were, are and will be in conformity with all applicable requirements of regulatory bodies, agencies or officials having or asserting authority over said proceedings or any part thereof.

(c) The waiver by the Master Developer and each Vertical Developer, as an inducement for the issuance of bonds payable from tax increment generated in the Sub-Project Areas, of their respective rights to appeal the assessed value of any Taxable Parcel in the Project Site, as provided in the DDA, each Vertical DDA, the Pier 48 Lease or other similar agreement, will be a valid, legal and binding obligation of the Master Developer and each Vertical Developer in accordance with its terms.

(d) All conditions, things and acts required by law to exist, happen or be performed precedent to the adoption of the Resolutions, and the terms and conditions thereof, including the authorization for the execution, delivery and performance of Appendix I, the Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU, and all other matters authorized therein, including the division of taxes described in Appendix I, have existed, happened and been performed in the time, form and manner required by law.

(e) The exercise by the City of the State Legislature's Constitutional authority to apportion property tax revenue to districts, which the State Legislature delegated to the City in the SF

Port IFD Law and which the City exercised by approving Appendix I, does not violate the Constitutional Debt Limit.

(f) Upon issuance, levy, or execution and delivery thereof, as applicable, Appendix I, Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU, and all other matters authorized therein, will be and are valid, legal and binding obligations of the parties thereto in accordance with their terms.

(g) Because the SF Port IFD Law authorizes IFD No. 2 to issue the Project Area I Bonds and incur the Project Area I Debt, the Project Area I Bonds and the Project Area I Debt will be payable from a special fund established pursuant to the SF Port IFD Law and IFD No. 2 is not subject to the Constitutional Debt Limit, the issuance by IFD No. 2 of the Project Area I Bonds and the incurrence by IFD No. 2 of the Project Area I Debt without a two-thirds vote of the qualified electors in the City does not violate the Constitutional Debt Limit.

(h) IFD No. 2 is not required to adopt an appropriations limit under the SF Port IFD Law or Article XIIIB of the California Constitution because the allocation by the City to IFD No. 2 of tax increment revenues generated in the Sub-Project Areas is not the receipt by IFD No. 2 of proceeds of taxes levied by or on behalf of IFD No. 2 within the meaning or for the purposes of Article XIII B of the California Constitution.

(i) Appendix I complies with the "set-aside" provisions of the SF Port IFD Law with respect to property tax revenues allocated to IFD No. 2 from the Sub-Project Areas.

(j) IFD No. 2 is authorized to use property tax revenues allocated to IFD No. 2 from the Sub-Project Areas to pay the costs of administering IFD No. 2.

(k) The allocation to IFD No. 2 by the Board of Supervisors of specific percentages of incremental property tax revenues from the Sub-Project Areas as set forth in Appendix I will be and is valid, legal, binding and irrevocable from and after the effective date of the Ordinance Establishing Project Area I and the Sub-Project Areas.

(l) The Board of Supervisors has the legal authority to approve by ordinance pursuant to the procedures set forth in Appendix I certain amendments of Appendix I described in Appendix I and summarized above and any other amendments of Appendix I consistent with the SF Port

IFD Law, and Appendix I, as amended by any such amendment, is legal, valid and binding, and all actions of the City, IFD No. 2 and Port in accordance with Appendix I, as amended, shall be valid, legal and binding obligations of the City, IFD No. 2 and the Port, respectively.

(m) Under Section 53395.8(i)(7) of the SF Port IFD Law and Revenue & Taxation Code 96.1, the applicable county auditor or officer will transfer the Allocated Tax Increment generated in the Sub-Project Areas to IFD No. 2 at the same time or times as the payment of taxes into the funds of the respective taxing agencies of the county and, as a result, the City will not receive the Allocated Tax Increment for deposit into the City and County General Fund.(n) Each Sub-Project Area constitutes a "project area" for purposes of the SF Port IFD Law.

4. That the Court permanently enjoin and restrain all persons from the institution of any action or proceeding challenging, *inter alia*, the validity of Project Area I and the Sub-Project Areas, Appendix I, the Resolutions, Project Area I Bonds, Project Area I Debt, Bond Contracts, Port Advance and MOU and any other related contracts or agreements or actions authorized by the City, the Port Commission or IFD No. 2 in connection with the financing program described in Appendix I, or any matters herein adjudicated or which at this time could have been adjudicated against the Plaintiffs and against all other persons.

5. For costs of suit incurred herein; and

6. For such other and further relief as the Court may deem just and proper.

All capitalized terms used but not defined herein have the meanings given to such terms in Plaintiff's Complaint for Validation.

Dated: Oct 17, 2019

Judge of the Superior Court
Gail Dekreon

MEMORANDUM

TO: Honorable Members, San Francisco Board of Supervisors
Mayor London Breed

FROM: Elaine Forbes, Port of San Francisco, Executive Director

SUBJECT: **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**

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)

DATE: November 17, 2020

Recommended Action

We respectfully request that the Board of Supervisors ("Board") consider for review and approval the resolution authorizing the issuance of not to exceed $43,300,000 aggregate principal amount of Development Special Tax Bonds for City and County of San Francisco Community Special Tax District No. 2020-1 (Mission Rock Facilities and Services) ("Mission Rock CFD") ("Bond Resolution") and the resolution authorizing the Pledge Agreement between the Infrastructure Financing District No. 2 (Port of San Francisco) Sub-Project Areas I-1 through I-13 ("IFD Project Area I") and the Mission Rock CFD ("Pledge Agreement Resolution") .

Executive Summary

On January 30, 2018, the Port Commission approved a mixed-use development project known as Mission Rock at Seawall Lot 337 and Pier 48 ("Project" or "Mission Rock Project"). Subsequently, on February 13, 2018, the San Francisco Board of Supervisors ("Board") approved the Project and on August 15, 2018 the Port and Seawall Lot 337 Associates signed all Project-related documents. The Port owns the land in the Project and leases it for development.

The Port's partner for development of the Project is Seawall Lot 337 Associates, LLC ("Developer"), an affiliate of the San Francisco Giants and Tishman Speyer. The Disposition and Development Agreement ("DDA") and related agreements between the Port and the Developer govern the Project's development.

The entitled Mission Rock Project anticipates up to 1,200 units of new rental housing including 40 percent affordable units, 1.4 million square feet of new commercial and office space, rehabilitation of historic Pier 48, space for small-scale manufacturing, retail and neighborhood services, waterfront parks, and public infrastructure. The Mission Rock Project is located at SWL 337 and Pier 48 bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay.

The Project, now on the precipice of construction, represents 11 years of effort, led by the Port Commission, Port and City staff, and the Developer. These efforts include state legislation; neighborhood planning and neighborhood outreach; infrastructure planning and design; shoreline and sea level rise resiliency planning; development of a Special Use District; and successful collaborations with regulators and partner agencies related to topics like workforce development, affordable housing, transportation, public access, and park development.

Proceeds from the issuance of bonds issued by the City and paid with revenues from financing districts formed within Seawall Lot ("SWL") 337 will fund the horizontal infrastructure improvements. In 2018, the City formed Project Area I of Infrastructure Financing District No. 2 (Port of San Francisco) at SWL 337 ("IFD Project Area I"), and in 2020, the City formed Special Tax District No. 2020-1 (Mission Rock Facilities and Services) ("Mission Rock CFD"). It is intended that the proposed financing ("Bonds") will utilize both funding sources, with the City issuing the Bonds on behalf of the Mission Rock CFD, which are primarily secured by special taxes levied in the Mission Rock CFD. To the extent sufficient tax increment is generated in IFD Project Area I, it will be used as an offset against the primary pledge of special taxes (tax increment will become available to service debt when the assessed value of the Project increases in an amount sufficient to generate $100K of tax increment in a Sub-Project Area as a result of completed development).

The Mission Rock CFD will finance certain improvements through the levy of special taxes on the leasehold interests in the Project, while the IFD Project Area will finance improvements through the growth of tax increment in the assessed value of such leasehold interests.

STRATEGIC PLAN

This item and the Mission Rock Project as a whole support the efforts of the Port's Strategic Plan to enhance and balance the Port's maritime and economic purpose, rich history, and changing relationship with the City so the waterfront continues to be a treasured destination.

PROJECT BACKGROUND

On January 30, 2018, the Port Commission approved a mixed-use development project known as Mission Rock at Seawall Lot 337 and Pier 48 ("Project" or "Mission Rock Project"). Subsequently, on February 13, 2018, the San Francisco Board of Supervisors ("Board") approved the Project and on

August 15, 2018 the Port and Seawall Lot 337 Associates signed all Project-related documents. The Port owns the land in the Project and leases it for development.

The Port's partner for development of the Project is Seawall Lot 337 Associates, LLC ("Developer"), an affiliate of the San Francisco Giants and Tishman Speyer. The Disposition and Development Agreement ("DDA") and related agreements between the Port and the Developer govern the Project's development.

The entitled Mission Rock Project anticipates up to 1,200 units of new rental housing including 40 percent affordable units, 1.4 million square feet of new commercial and office space, rehabilitation of historic Pier 48, space for small-scale manufacturing, retail and neighborhood services, waterfront parks, and public infrastructure. The Mission Rock Project is located at SWL 337 and Pier 48 bound by China Basin Channel, Third Street, Mission Rock Street, and San Francisco Bay.

The Project, now on the precipice of construction, represents 11 years of effort, led by the Port Commission, Port and City staff, and the Developer. These efforts include state legislation; neighborhood planning and neighborhood outreach; infrastructure planning and design; shoreline and sea level rise resiliency planning; development of a Special Use District; and successful collaborations with regulators and partner agencies related to topics like workforce development, affordable housing, transportation, public access, and park development.

FINANCING BACKGROUND

On September 20, 2019, the Port Commission approved the Phase 1 Budget of the Project, which outlined the expected costs and revenue sources for the phase improvements. The Phase 1 budget included:

- **Project Costs.** Projected hard costs, soft costs, and return on Developer equity for the Phase 1 Horizontal Infrastructure improvements.
- **Pro Forma Project Revenues.** Sources include:
  - The four Phase 1 prepaid leases
  - Public financing sources including Mission Rock CFD bond proceeds (including the proposed Bonds), Mission Rock CFD pay-as-you-go ("pay-go") special taxes (those not dedicated to bond debt service), and IFD Project Area I pay-go tax increment

Broadly, the DDA requires the Developer to build horizontal improvements and the Port to reimburse the Developer for horizontal expenses from available sources. Available sources include proceeds from transactions of the Port's land within the project area ("Development Rights Payments"), special taxes from the Mission Rock CFD, and tax increment from IFD Project Area I. In addition to reimbursement for horizontal improvement expenses, the Port must also reimburse the Developer for an 18 percent return on its project investment. Table 1 below summarizes the Phase 1 budget sources and uses.

Table 1. Phase 1 Overview of Sources ($ millions)*

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

Excess Pay Go Tax Increment	-	47.2	47.2
Total Phase 1 Project Sources	**46.2**	**219.3**	**265.5**

**Numbers are rounded and thus may not appear to sum precisely.*

The Board passed an ordinance establishing IFD Project Area I on February 27, 2018, which the Mayor signed on March 6, 2018.

On April 14, 2020, the Board passed a resolution approving the formation of the Mission Rock CFD. The Mayor signed this resolution on April 24, 2020. On May 5, 2020, after a public hearing and landowner vote, the Board approved a resolution determining a not to exceed limit on bonded indebtedness and other debt of $3,700,000,000 for the Mission Rock CFD, which the Mayor signed on May 15, 2020. Finally, the Board passed an ordinance levying special taxes within the Mission Rock CFD on May 12, 2020, which was signed by the Mayor on May 22, 2020 ("Ordinance 79-20").

IFD Project Area I generates revenues for the Project by capturing the tax increment generated by application of the 1% ad valorem tax to increases in the assessed value of the taxable leasehold interests in the Project above the value in the base year of 2017-2018. Tax increment may begin to be allocated to the IFD from each Sub-Project Area when the amount of increment available to be allocated from the Sub-Project Area in the fiscal year is equal to at least $100,000.

The Mission Rock CFD includes four separate special taxes:

1. **Development Special Tax** – funds horizontal infrastructure on the site; expected 45-year life. The financing plan for the Project assumes that, over time, the City will not need to levy the Development Special Tax to pay debt service because it will be offset by tax increment generated in IFD Project Area I.
2. **Office Special Tax** – funds horizontal infrastructure on the site; 120-year life
3. **Shoreline Special Tax** – a source for ongoing shoreline protection studies and facilities; Shoreline Taxes from Phase I can also fund horizontal infrastructure on the site; 120-year life
4. **Contingent Services Special Tax** – funds ongoing maintenance and services of the area if the Homeowners' Association dues do not fund these services

The proposed Bonds will only be secured by the payment of Development Special Taxes. No other Mission Rock CFD special taxes will be pledged to the repayment of the Bonds. However, the IFD Project Area I tax increment will provide an additional security for the Bonds, as discussed below.

Mission Rock CFD Special Tax Bonds

The proposed Bond Resolution would authorize the first sale of special tax bonds for the Mission Rock CFD, in an amount not to exceed $43,300,000. The proposed Bonds will be secured by a pledge of the Development Special Tax levied on taxable leasehold interests in the Mission Rock CFD in accordance with Ordinance 79-20 and the Rate and Method of Apportionment of Special Taxes for the Mission Rock CFD ("RMA") adopted at formation.

Bond Security and Pledge of Tax Increment

The proposed Bond financing will be payable from both the Mission Rock CFD and IFD Project Area I sources. The Development Special Tax is the only Mission Rock CFD special tax that will be pledged to debt service on the Bonds; the Bonds will not be payable from any of the other three Mission Rock CFD special taxes listed above. As additional security, the Bonds will also be payable from tax increment generated in IFD Project Area I. The proposed structure allows tax increment generated in IFD Project Area I to "offset" the Development Special Taxes. The offset increases the value of the Port's land by reducing the long-term tax burden on the site. Under this offset structure, tax increment from one year acts as a credit for the next year's Development Special Tax obligation once the developed property is assessed. Table 2 below illustrates a simplified example of the relationship between Development Special Taxes and tax increment generated in IFD Project Area I.

Hypothetical (for informational purposes only). In Year 1, the property lessee owes Development Special Taxes and ad valorem property taxes. The IFD tax increment generated in early years will not act as a credit until the property meets certain milestones, which are assumed to occur in Year 2. In Year 2, the lessee owes both Development Special Taxes and ad valorem property taxes. The IFD Project Area I tax increment generated in Year 2 now serves as a credit for Development Special Taxes in Year 3. In Year 3, the lessee continues to pay ad valorem property taxes but receives a credit for the Development Special Taxes that would otherwise be levied from the prior year's IFD Project Area I tax increment (they can only receive a credit up to the maximum Development Special Tax). In Year 4, the lessee owes ad valorem property taxes but again receives the benefit of the prior year's IFD Project Area I tax increment as a full credit offset for the Development Special Taxes that otherwise would be levied. This pattern will continue for the life of the Development Special Tax and IFD Project Area I, assuming no changes to the property. Depending on the timing of development, the assessment of properties, the real estate market, and other factors, the offset may not occur until a later year and may also not fully offset the Development Special Tax.

Table 2. Mission Rock CFD Offset Structure

	Year 1	Year 2	Year 3	Year 4
Development Special Tax	1,000,000	1,000,000	1,000,000	1,000,000
IFD Project Area I Tax Increment	400,000	1,100,000	1,100,000	1,100,000
Offset to Development Special Tax	0	0	(1,000,000)	(1,000,000)
Total Taxes	**1,400,000**	**2,100,000**	**1,100,000**	**1,100,000**

**Arrows show the Tax Increment from the previous year acting as a credit to the Development Special Tax.*

To ensure tax increment from IFD Project Area I is available to pay debt service on the on the proposed Bonds, the Bond Resolution and the IFD Pledge Agreement Resolution approve a form of Pledge Agreement, pursuant to which the IFD Project Area I pledges to pay tax increment for debt service on the Bonds. Therefore, once the Mission Rock properties are assessed, the ongoing tax increment from IFD Project Area I will be pledged to fund debt service payments on the Mission Rock CFD special tax bonds (including the Bonds). Table 2 shows this debt service payment structure in Years 3 and 4, which is anticipated to continue for the life of the Bonds.

The City began levying Mission Rock CFD special taxes on the Undeveloped Property (as defined in the RMA) within the Mission Rock CFD in Fiscal Year (FY) 2020-21. Additionally, the Port executed Vertical Parcel Leases for Parcel G on June 25, 2020 and Parcels A, B, and F on October 6, 2020. The execution of these Parcel Leases initiates a 24-month or longer countdown for the levying of the Mission Rock CFD special tax on Developed Property (as defined in the RMA), whereby the levy on Developed Property begins in the Fiscal Year after the 24-month anniversary of Parcel Lease execution. Thus, the Mission Rock CFD special tax levy on Developed Property for Parcel G will begin in FY 2022-23 and for Parcels A, B and F in FY 2023-24. Prior to then, the Development Special Tax will be levied on the Undeveloped Property based upon each parcel's expected square footage and use, in accordance with the RMA, to provide revenues to fund any debt service obligations. The IFD Project Area I tax increment offset mechanism will begin when the Assessor finalizes the assessment of each parcel, which is not anticipated to occur until after the Mission Rock CFD special tax levy on Developed Property begins.

The proposed Bonds will be sold without a rating ("Non-Rated"). The real estate development is in relatively early stages and likely would not receive an investment grade rating. Non-Rated special tax bonds have unique credit considerations and risk factors for investors, which are discussed in the Special Risk Factors section of the Preliminary Official Statement. The Bonds are limited obligations of the City, secured by and payable solely from a pledge of the Development Special Taxes levied in the Mission Rock CFD and tax increment generated in IFD Project Area I.

The General Fund of the City and the Port Harbor Fund are not liable for the payment of principle or interest on the Bonds, and the credit of the City, the credit of the Port, and the General Fund of the City are not pledged to the payment of the Bonds. Other than the Special Taxes and the IFD tax increment, the City is not obligated to levy any taxes for repayment of the Bonds.

Under the Fiscal Agent Agreement, the City, on behalf of the Mission Rock CFD, 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 Development Special Taxes on the leasehold interest in properties within the Mission Rock CFD, and will diligently pursue such proceedings to completion.

Bond Sizing and Value-to-Lien Ratio

Two factors limit the amount of Mission Rock CFD bonds that may be sold: 1) the ongoing tax revenue capacity; and 2) an appraisal or assessment of the value of the taxable leasehold interests in the Mission Rock CFD.

Ongoing Development Special Tax capacity must be at least 110 percent of the debt service requirement on any Mission Rock CFD Development Special Tax bonds. For example, if the annual debt service payments are $1.0 million, the annual Development Special Tax capacity (after setting aside amounts for administrative expenses) must be at least $1.1 million.

Because the City will foreclose on the taxable leasehold interests in the Mission Rock CFD if they are delinquent in the payment of the Development Special Tax, the value of the leasehold interests – determined by an appraisal in this instance – is an important credit consideration for purchasers of the Bonds. Under the City's *Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts*, the City must sell the Bonds to achieve at least a 3-to-1 value-to-lien ratio based on 1) the appraised value or the assessed value of the leasehold interests in the taxable parcels in the Mission Rock CFD and 2) special tax and assessment debt encumbering such leasehold interests (including the Bonds). This policy means that the value of the leasehold interests in the Mission Rock CFD must be three times the outstanding amount of the Bonds and any other special tax and assessment debt.

Integra Realty Resources, Inc. ("Appraiser") prepared an Update Appraisal Report dated November 9, 2020, with a valuation date of October 28, 2020, estimating the market value of the leasehold interest of 11 of the 12 blocks within the Mission Rock CFD to be $130,000,000. Parcel D2 is excluded because it is not subject to the Lien of the Special Tax as a parking facility; separately, Pier 48 is not part of the Mission Rock CFD presently but may be annexed into the Mission Rock CFD in the future.

The not to exceed par amount of $43,300,000 for the Bonds is based on a 3.0-to-1 value-to-lien ratio based on the current appraised value (as of October 28, 2020) of the leasehold interests in the Mission Rock CFD of $130,000,000. The Appraisal Report is subject to certain assumptions and limiting conditions set forth therein.

The value of individual leasehold interests in the parcels in the Mission Rock CFD may vary significantly, and no assurance can be given that should Development Special Taxes levied on one or more of the leasehold interests in the parcels become delinquent, and should the delinquent leasehold interests in the parcels be offered for sale at a judicial foreclosure sale, that any bid would be received for the leasehold interest in the property or, if a bid is received, that such bid would be sufficient to pay such parcel's delinquent Development Special Taxes.

While this value-to-lien calculation incorporates the value of all the leasehold interests in the Mission Rock CFD, the Bonds are sized based on the Development Special Taxes from only the four Phase 1 parcels. The Development Special Tax capacity on the first four parcels will far exceed the coverage required for the initial Bonds with a not-to-exceed amount of $43,300,000. Table 3 below shows the expected annual Development Special Tax levies.

Table 3. Mission Rock CFD Projected Development Special Tax Levy

Planning Parcel	FY20-21 Expected Maximum	FY20-21 Actual Levy	FY21-22 Actual Levy	FY22-23 Actual Levy	FY23-24 Actual Levy
Parcel A	$1,598,937	$207,107	$246,340	$35,566	$1,696,805
Parcel B	$1,690,703	$218,993	$260,477	$37,607	$1,794,188
Parcel F	$988,931	$128,094	$152,359	$21,997	$1,049,461
Parcel G	$1,878,431	$243,309	$289,400	$1,954,320	$1,993,407
Other Parcels	$8,025,363	$1,039,507	$1,236,424	$178,510	$0
Total	**$14,182,366**	**$1,837,010**	**$2,185,000**	**$2,228,000**	**$6,533,860**

Notes: Other Parcels includes all eight parcels from Phases 2-4 except the proposed parking garage in Parcel D. Actual tax levy shows amounts for debt service on the Bonds only.

Use of Proceeds

The Bond proceeds will 1) finance or reimburse entitlements and horizontal improvements for the Project, 2) fund a debt service reserve fund for the Bonds, 3) fund capitalized interest on the Bonds, if any, 4) fund administrative expenses, and 5) pay costs of issuance. Proceeds of the initial issuance of Bonds will reimburse the Developer for outstanding entitlement costs related to horizontal improvements and the initial stages of Phase 1 horizontal improvements (e.g. utilities, streets, sidewalks, parks, etc.).

Table 4 below summarizes the estimated sources and uses for the Bonds, based on current market conditions and the current appraised value.

Table 4. Estimated Sources and Uses of the Special Tax Bonds, Series 2021

Sources	Amount
Bond Proceeds	
Par Amount	$43,300,000.00
Premium	$1,542,087.15
Total Sources	**$44,842,087.15**

Uses	Amount
Improvement Fund	$39,790,587.62
Debt Service Reserve Fund	$3,743,499.53
Delivery Date Expenses:	
Cost of Issuance	$875,000.00
Underwriter’s Discount	$433,000.00
Total Uses	**$44,842,087.15**

Source: Stifel & PFM

Interest Rate and Projected Debt Service

Based upon current market conditions, a 30-year term, and a true interest cost of 4.68 percent, which assumes the issuance of Bonds on a tax-exempt basis, staff estimates an average annual debt service of approximately $2.9 million. The anticipated total par amount of $43.3 million is estimated to result in approximately $45.2 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately $88.5 million.

Method of Sale and Bond Purchase Agreement

Given that the proposed Bonds will be unrated, and the underlying project is a new real estate development project, the City’s independent municipal advisor recommend a negotiated sale for this transaction. The Bonds will be secured by payment of Development Special Taxes from specific leasehold interests within the Mission Rock CFD and are outside of the City's customary credit profile. Prior to formation, the Port selected Stifel, Nicolaus & Company, Incorporated ("Stifel") to serve as the Underwriter. Stifel is in the City's Underwriter Pool, which was established via a competitive process, and was selected for this transaction through a competitive RFP. The proposed Bond Resolution approves the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to Stifel.

The Capital Plan

The Bonds are limited obligations of the City payable solely from the Development Special Tax revenues and tax increment generated in IFD Project Area I and therefore are not subject to policy constraints of the Ten-Year Capital Plan.

ADDITIONAL INFORMATION

The proposed Bond financing requires two separate actions by the Board of Supervisors: (i) the Board of Supervisors, as legislative body of the CFD, must adopt a resolution approving the issuance of the Bonds and related documents and actions and (ii) the Board of Supervisors, as legislative body of the IFD, must adopt a resolution approving the Pledge Agreement and related documents and actions.

The forms of the financing documents related to the Special Tax Bonds—including the Bond Purchase Agreement, Fiscal Agent Agreement, Pledge Agreement, Preliminary Official Statement, and the Continuing Disclosure Certificate — are included with the two resolutions.

Bond Purchase Agreement: The City intends to pursue a negotiated sale of the Bonds with a sale of the Bonds to the Underwriter. The Bond Purchase Agreement details the terms, covenants, and conditions for the sale of the Bonds to the Underwriter as well as agreements regarding expenses, closing and disclosure documents.

Fiscal Agent Agreement: The Fiscal Agent Agreement governs the use of Development Special Taxes and tax increment from IFD Project Area I to pay debt service on the Bonds. The Fiscal Agent Agreement also provides for the terms of the Bonds, including principal amount, interest rate, redemption, and the conditions for issuance of additional parity bonds. The Fiscal Agent holds Bond proceeds and will disburse them as directed by authorized City representatives.

Preliminary Official Statement ("POS"): The POS is distributed to investors prior to the sale of the Bonds and provides information for investors in connection with the public offering by the City of the Bonds. The POS describes the Bonds, the Project, including sources and uses of funds; security for the Bonds (including information about the Mission Rock CFD and IFD Project Area I); risk factors; and other legal matters, among other information. The Appraisal Report will be attached as an appendix to the Official Statement.

Official Statement. The final Official Statement contains the same information as the POS but includes the results of the pricing of the Bonds (i.e., sale results including principal amounts, offering prices, interest rates, underwriters' compensation). The Official Statement is distributed to prospective purchasers of the Bonds.

Under the anti-fraud provisions of the federal securities laws, the City is required to ensure that the POS and the Official Statement are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the document as well as City staff charged with preparing the document. Much of the information in the Official Statement was provided by the Developer, and the Developer will certify in writing that the information provided by the Developer is accurate and complete in all material respects. "Material" in this context means that there is a substantial likelihood that the information would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Bonds. On October 27, 2020, the Port

Commission approved a Resolution recommending that the Board of Supervisors approve the Mission Rock Community Facilities District financing.

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 City to repay the bonds. Board members cannot approve a Preliminary Official Statement if they are aware that it contains material misstatements or omissions.

The Board of Supervisors and the Mayor, in adopting and approving the Bond Resolution, approve and authorize the use and distribution of the Preliminary and Final Official Statements by the Underwriters and financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are "deemed final" as of their respective dates.

Continuing Disclosure Certificate: In connection with the issuance of the Bonds, the City will agree to provide certain financial information and operating data relating to the Bonds ("Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist the Underwriters of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

NEXT STEPS

The Port and OPF staff anticipate the Resolutions and related documents will be introduced to the Board of Supervisors on November 17, 2020. With Board approval and the Mayor's signature, OPF will lead the distribution of the POS and sale of the Bonds. Table 5 below shows an estimated timeline of key financing items.

Table 5. Anticipated Mission Rock CFD Financing Schedule

Item	Date
Introduction of Legislation to Board of Supervisors	November 17, 2020
Capital Planning Committee	November 30, 2020
Budget & Finance Committee Hearing	December 2, 2020
Board Approval of Legislation	December 8, 2020
Sale and Closing of Bonds	Jan/Feb 2020

Your consideration of this matter is greatly appreciated. Please contact Wyatt Donnelly-Landolt (wyatt.donnelly-landolt@sfgov.org) if you have any questions.

cc: Anna Van Degna, Director of the Controller's Office of Public Finance

ATTACHMENT 1

Good Faith Estimates for the CFD Bonds

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the Underwriter and Municipal Advisor for the CFD Bonds as of November 2020:

1. True interest cost of the CFD Bonds: 4.68%.

2. Finance charge for the CFD Bonds, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): $1,308,000.

3. Amount of CFD Bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the CFD Bonds: 39,790,587.62.

4. Total payment amount for the CFD Bonds, being the sum of (a) debt service on the CFD Bonds to final, maturity, and (b) any financing costs not paid from proceeds of the CFD Bonds: $88,579,518.

The information set forth above is based upon estimates of prevailing market conditions. Actual results may differ if assumed market conditions change.

From:	Peacock, Rebecca (MYR)
To:	BOS Legislation, (BOS)
Cc:	Kittler, Sophia (MYR); Delepine, Boris (PRT); Donnelly-Landolt, Wyatt (PRT)
Subject:	Mayor -- [Resolution] -- [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 Co]
Date:	Tuesday, November 17, 2020 4:31:41 PM
Attachments:	(6) Reso_PRT_Mission Rock IFD.zip

Attached for introduction to the Board of Supervisors is a **resolution supplementing Resolution No. 37-18, approving a pledge agreement by City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) with respect to Sub-Project Areas I-1 through I-13 in connection with the issuance of special tax bonds for City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services); and determining other matters in connection therewith, as defined herein.**

Please let me know if you have any questions.

Rebecca Peacock (they/them)
(415) 554-6982 | Rebecca.Peacock@sfgov.org
Office of Mayor London N. Breed
City & County of San Francisco

Mission Rock Community Facilities District 2021 Special Tax Bonds

December 2, 2020

Items 9-10

Presented by:

Wyatt Donnelly-Landolt

PORT OF SAN FRANCISCO

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)

PORT OF SAN FRANCISCO

Overview

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

PORT OF SAN FRANCISCO

Mission Rock Overall Summary

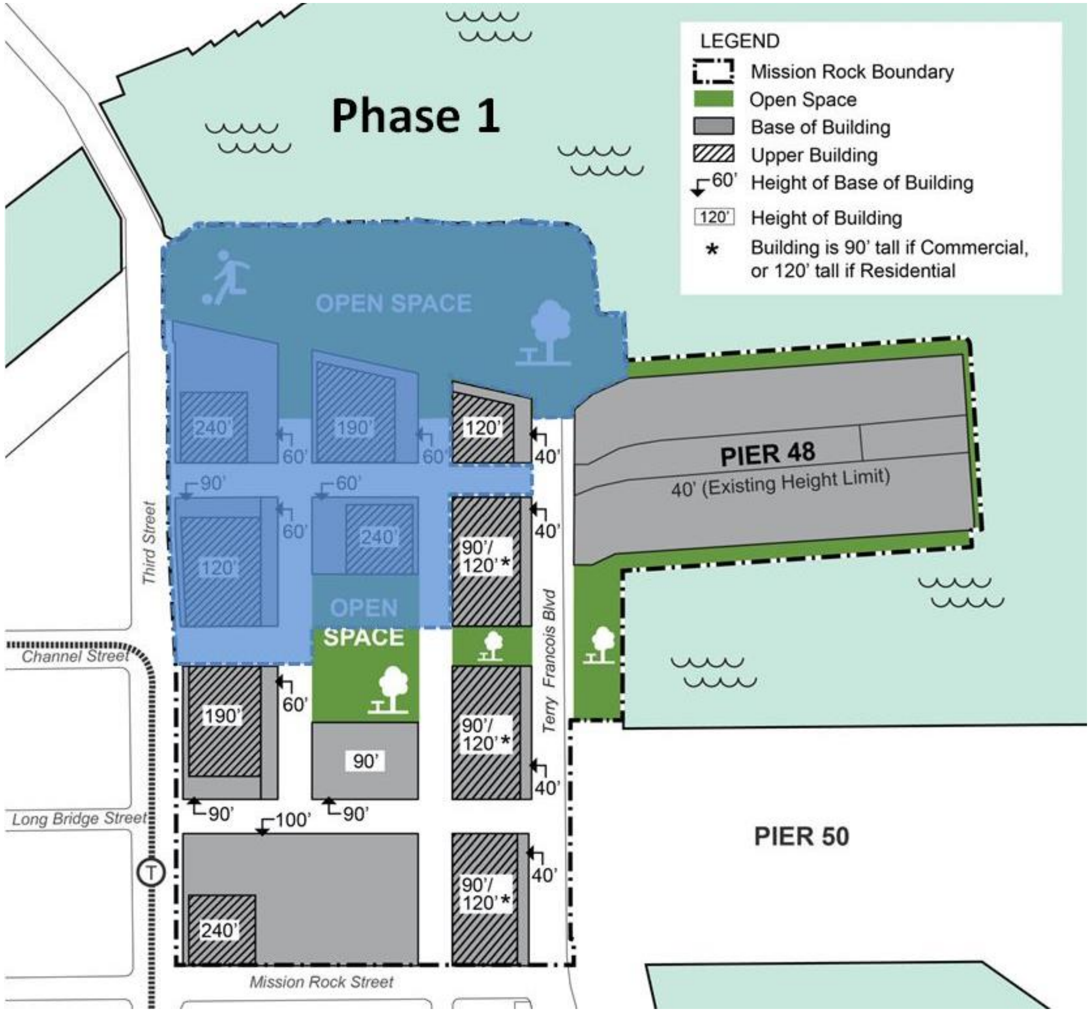
At full build out:

- 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

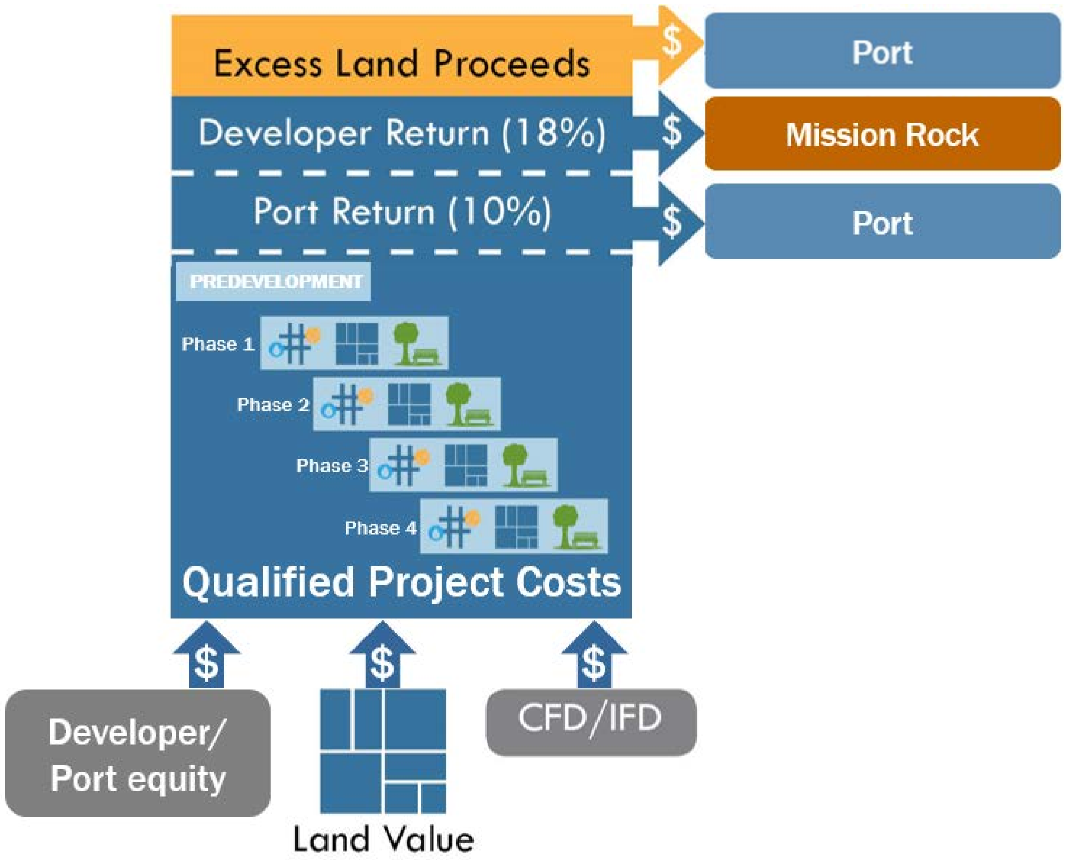
PORT OF SAN FRANCISCO

Mission Rock Phase 1

- Housing (2 buildings)
  - ~540 units total
  - ~ 200 affordable
- Commercial Office (2 buildings)
  - ~550,000 gross square feet
- Ground Floor Retail
  - ~65,000 square feet
- China Basin Park (5 Acres)
- Project Infrastructure
- Targeting completion in 2022



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

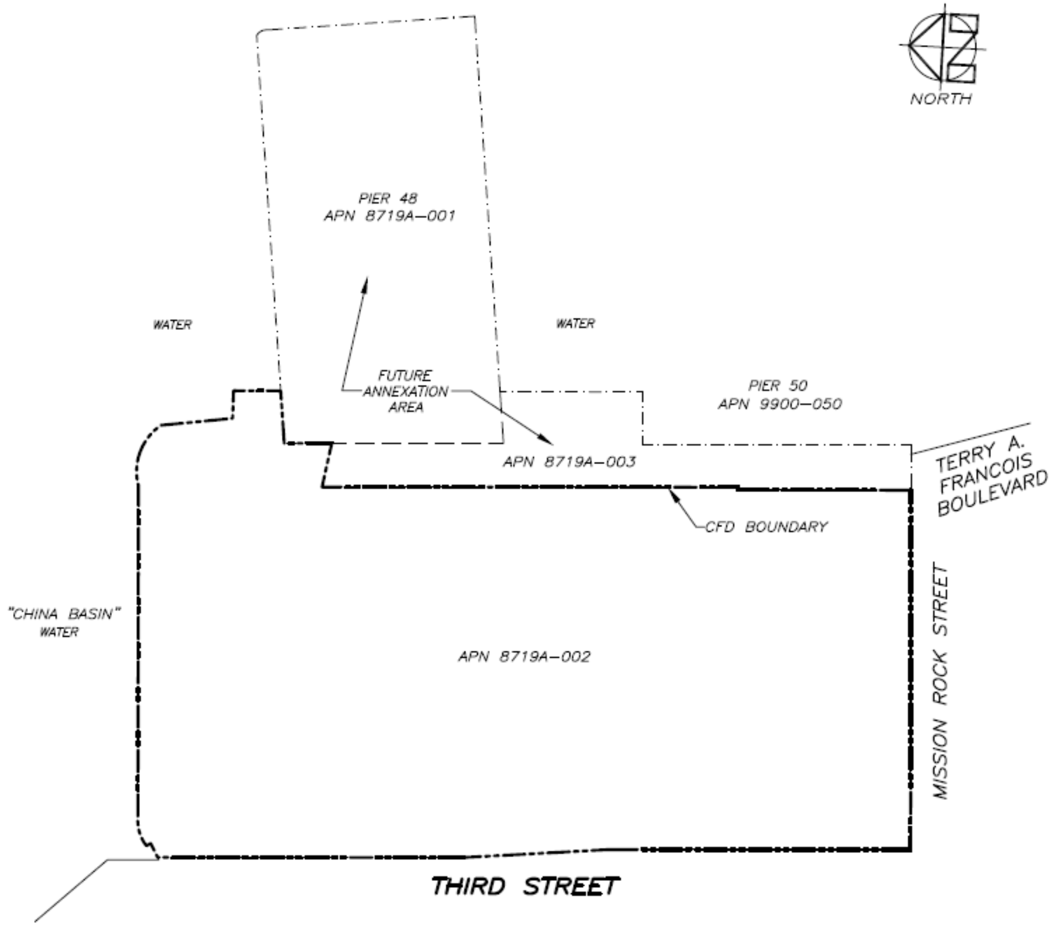
Overview of Phase 1 Budgeted Sources

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	-	47.2	**47.2**
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

PORT OF SAN FRANCISCO

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
Remaining Entitlement Sum	*$3,429,304*
Demolition & Hazardous Soil Removal	*$7,287,698*
Utilities (e.g. Sewer, Water, Joint Trench)	*$7,366,116*
Earthwork and Retaining Walls	*$12,183,808*
Roadways	*$4,238,979*
Streetscape	*$4,449,271*
Parks and Public Spaces	*$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

PORT OF SAN FRANCISCO

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

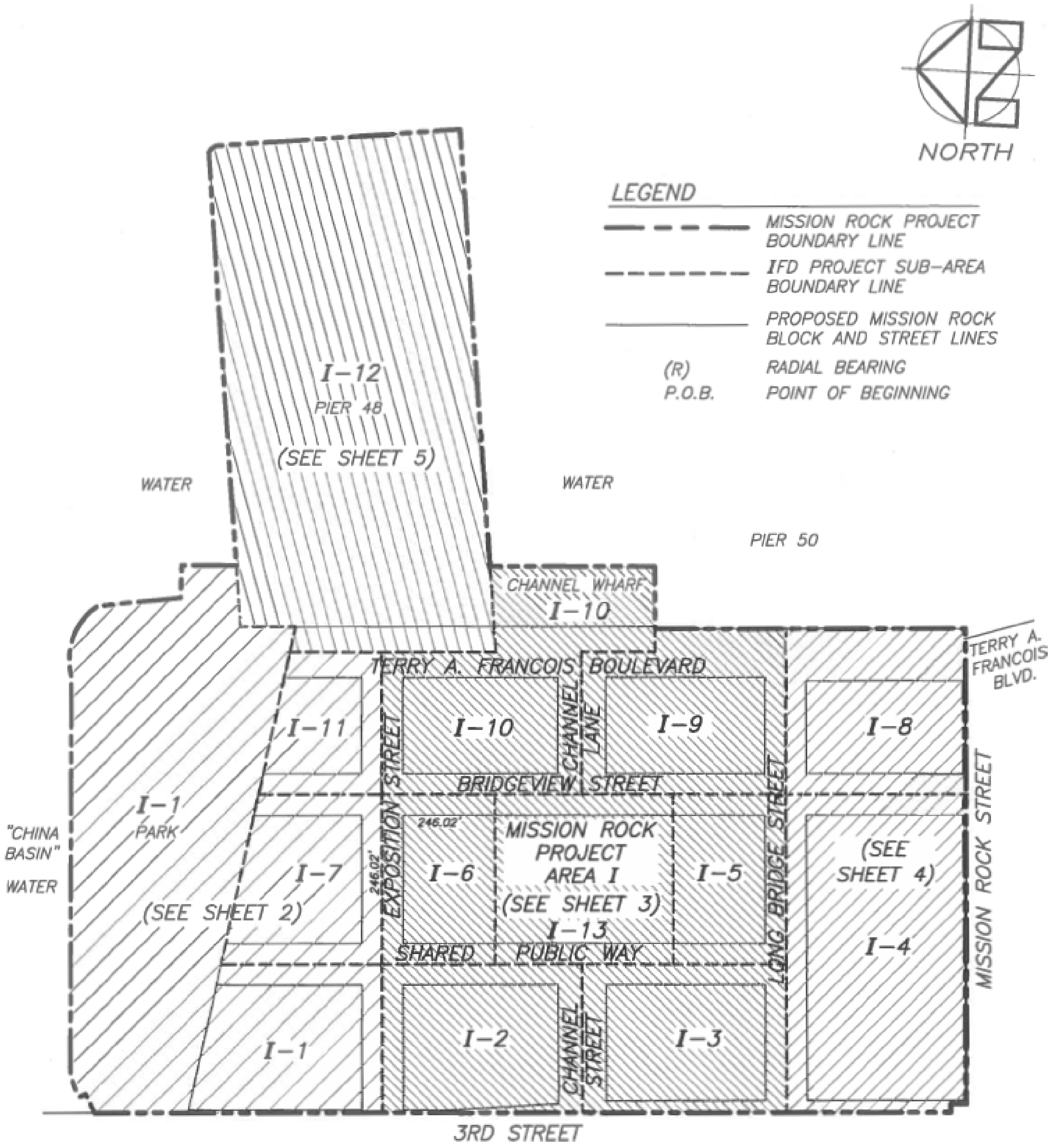
- Board members have a responsibility under federal securities laws to ensure that staff is aware of information that Board members may have unique in their capacity as Board members that would have a material bearing of the capacity of the CFD to repay the bonds. Board members cannot approve a POS if 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?

PORT OF SAN FRANCISCO

LATER SLIDES FOR REFERENCE ONLY

IFD Map



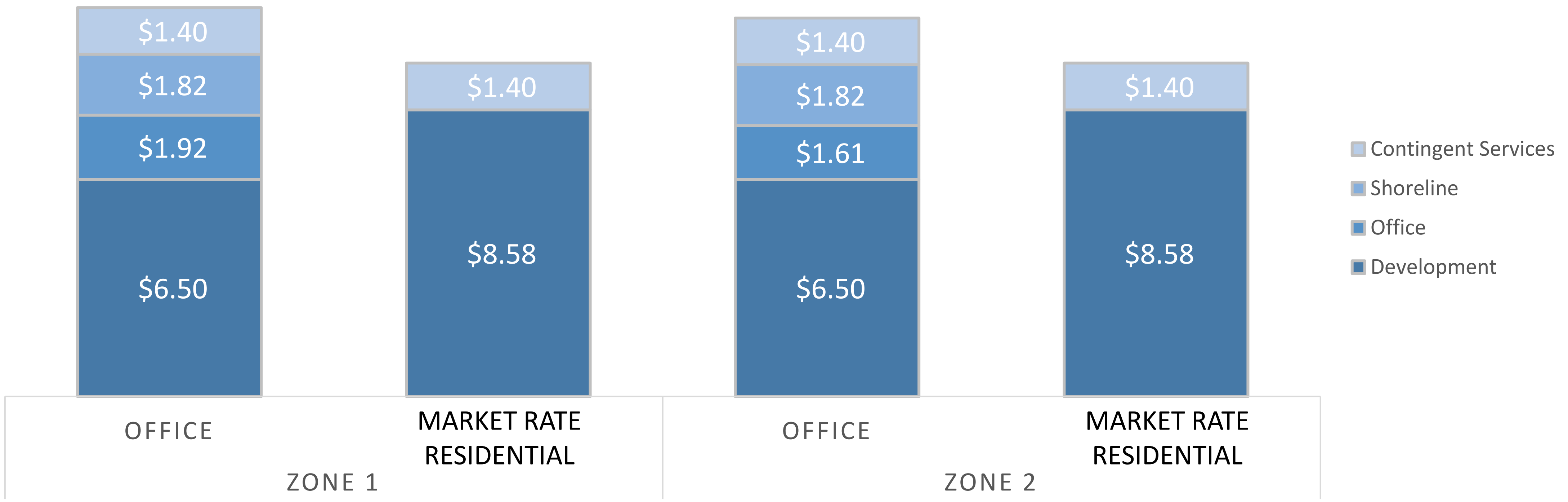
PORT OF SAN FRANCISCO

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

PORT OF SAN FRANCISCO

Mission Rock Tax Rates



Note: All tax rates are $/sq. ft.