



MEMORANDUM

TO: Members, Board of Supervisors
STAFF CONTACT: Jack Sylvan, Economic & Workforce Development
CC: Starr Terrell, Mayor's Office
DATE: April 6, 2010
RE: Legislation Supporting the Redevelopment of Former Naval Station
Treasure Island, including:

- 1) Terms of Economic Development Conveyance Memorandum of Agreement for Transfer of Property with United States Navy
- 2) Update to Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island with Treasure Island Community Development, LLC
- 3) Term Sheet for Amended and Restated Base Closure Homeless Assistance Agreement with Treasure Island Homeless Development Initiative

I. EXECUTIVE SUMMARY

A. Introduction

On behalf of the Treasure Island Development Authority Board of Directors ("TIDA"), we are very pleased to present a package of resolutions for the Board of Supervisors' endorsement of three distinct but integrally related documents that form the comprehensive vision for the redevelopment of former Naval Station Treasure Island ("NSTI"), which includes portions of both Treasure Island and Yerba Buena Island (together, "Treasure Island"). The three documents are:

- 1) Terms of Economic Development Conveyance Memorandum of Agreement for Transfer of Property with United States Navy ("EDC MOA Terms")
- 2) Update to Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island with Treasure Island Community Development, LLC ("Development Plan Update")

- 3) Term Sheet for Amended and Restated Base Closure Homeless Assistance Agreement with Treasure Island Homeless Development Initiative (“TIHDI Term Sheet”)

Copies of these documents are on file with the Clerk of the Board of Supervisors and are available on line for review at <http://www.sfgov.org/treasureisland> for the main Treasure Island Development Authority website or <http://sftreasureisland.org/index.aspx?page=26> for a direct link to the documents. The documents are listed as “Legislation submitted April 6, 2010 to Board of Supervisors Supporting the Redevelopment of Former Naval Station Treasure Island.”

In summary, these documents outline the following terms for the redevelopment of NSTI:

EDC MOA Terms. The Navy will receive initial consideration of \$55 million paid over 10 years with interest, to be paid on behalf of TIDA by Treasure Island Community Development, LLC (“TICD”). The Navy will receive additional consideration of 100% of net cashflow in excess of an 18% return to the developer up to a maximum of \$50 million and the Navy will receive 35% of net cashflow in excess of a return to the developer in excess of 22.5%. The Navy will transfer property on a fixed schedule included in the final EDC MOA and, if the Navy’s fails to perform on that schedule, payments to the Navy will be tolled or reduced as defined in the EDC MOA. The document identifies key controls that give the Navy certain objection rights and ensures that TIDA and TICD sell property as part of the redevelopment project at fair market value.

Development Plan Update. In order to update the redevelopment plans for Treasure Island to incorporate the economic terms of the Navy transfer agreement and current economic market conditions, in a manner that ensures a financially and fiscally feasible project and that delivers the project vision that has received overwhelming public support, the following updates are incorporated as part of the Development Plan Update: (i) incorporating the economic terms of the Navy deal, (ii) updating the development program to, among other slight adjustments, include up to 8,000 homes, (iii) updates the infrastructure scope and budget to incorporate current approaches to mitigate geotechnical and sea level rise conditions, adjustments to the open space budget, more efficient approaches to financing transit capital, and progress with the San Francisco Public Utilities Commission and San Francisco Fire Department on infrastructure and public facilities as part of the redevelopment project, (iv) an updated affordable housing program that maintains the commitment to 30% of all units at below market rates, delivers more of the affordable housing as units delivered by non-profit affordable housing developers in buildings in which 100% of the units are affordable and increases the total project contribution to affordable housing to \$519 million, and (v) updates the cost, revenue and timing assumptions to be consistent with the program scope and budget adjustments just described, updated market revenue and public financing assumptions, and adjustments to the transaction structure consistent with the terms of the Navy agreement.

TIHDI Term Sheet. Describes the terms by which the Treasure Island Homeless Development Initiative (“TIHDI”) will participate in the redevelopment of NSTI via new supportive homeless housing and economic development opportunities. Specifically, TIHDI will have the right to construct 435 new units of affordable housing, will receive at no cost developable land and vertical subsidy for the construction of the housing. TIDA and TIHDI will meet and confer at each major phase of the redevelopment project to determine how the TIHDI units will be delivered (type of program, whether mixed in non-supportive affordable housing buildings, etc.) and develop in more detail an economic development component that includes TIHDI’s lead role in the Job Broker program and specific economic development opportunities that will create jobs for TIHDI members.

While these documents are the product of one of the most extensive public review processes for a large development project in the City’s history, their endorsement will not signal the end of the planning process for Treasure Island. Activities still to be completed include project specific environmental review under the California Environmental Quality Act ("CEQA"), and the preparation and negotiation of hundreds of pages of implementing documents, including a final Economic Development Conveyance Memorandum of Agreement (“EDC MOA”) with the United States Navy (“Navy”), adoption of a Redevelopment Plan for Treasure Island under California Redevelopment Law, a comprehensive Disposition and Development Agreement with Treasure Island Community Development, LLC (“ TICD DDA”), an Amended and Restated Base Closure Homeless Assistance Agreement with the Treasure Island Homeless Development Initiative (“Amended and Restated TIHDI Agreement”), plus final approvals by TIDA and the City and County of San Francisco Board of Supervisors (“BOS”), all estimated for completion in Fiscal Year 2010-2011.

However, the endorsement of these documents will mark an important milestone in the project planning, together representing the culmination of more than 10 years of concentrated effort by TIDA, the Treasure Island/Yerba Buena Island Citizens Advisory Board (the “TI CAB”), the Land Use and Economic Development Committee of the Board of Supervisors, TICD, TIHDI, staff and key stakeholders including local, regional and state departments and agencies, local organizations, residents and members of the public.

To help direct the reader, this staff summary includes the following sections:

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The Executive Summary section, which is slightly longer than typical, is intended to provide sufficient information so that the reader can gain an understanding of the proposed resolutions by reviewing this section alone. Sections 3 through 6 are provided for those interested in more comprehensive and detailed information on the package of resolutions that form the overall vision of the redevelopment of Treasure Island.

B. 2006 Development Plan

In December 2006, the Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (“2006 Development Plan”) with TICD, which outlined an innovative vision for the future of Treasure Island, was overwhelmingly endorsed by the TI CAB by a 17-0-1 vote, by TIDA by a 6-0 vote and by the BOS by a 10-1 vote. The comprehensive package included detailed plans regarding land uses, phasing, infrastructure, transportation, sustainability, housing, including affordable housing, parks and open space, jobs and equal opportunity programs, community facilities and project financing. The vision for the future of Treasure Island was centered around the fulfillment of several key objectives:

- New San Francisco Neighborhood. Creation of a new, mixed-use and transit-oriented neighborhood on the former military base, incorporating the best principles of smart growth and quality urban design.

- New Regional Destination. Establishment of Treasure Island as a regional destination.
- Affordable Housing. A commitment to constructing significant levels of new below-market rate housing, 30% of all units (1,800 units in 2006), including hundreds of supportive housing units through the nationally-recognized TIHDI program.
- Waterfront Parks System. The creation of 300 acres of new waterfront parks and open space for the City and region.
- Sustainable Development. The commitment to making the redevelopment of Treasure Island a model of environmentally sustainable development.
- Economic Development. The opportunity to generate thousands of annual construction jobs via build out of the project and thousands of permanent jobs at project completion.
- Community Benefits. A package consisting of educational, social, cultural, environmental and public safety facilities and programs.

The 2006 Development Plan acknowledged that there was considerable work remaining to be done over the following several years to reach final project approvals, including among other things: project-specific environmental review as required by CEQA, adoption of a Redevelopment Plan and Design for Development, negotiation of the final TICD DDA and related transaction documents between TIDA and TICD, negotiation of a Trust Exchange Agreement with State Lands Commission, and the design and engineering of infrastructure and utility systems required to support development. One of the most important project milestones to achieve was an agreement with the Navy on the terms for the transfer of the property to TIDA. The 2006 Development Plan also explicitly acknowledged the need – for a project of the scale, complexity and risk as the redevelopment of former NSTI – to update the terms of the 2006 Development Plan to reflect materially changed conditions, such as terms of the deal with the Navy and/or changes to economic assumptions.

C. Project Planning Since 2006

Over the past three years the project plans and due diligence have continued to move forward within a shifting policy, regulatory and economic context. Key activities and components incorporated into the project plans include:

- Environmental Review. Environmental review under CEQA was initiated in 2007 and the analysis has continued to influence the project plans.
- Reuse of Historic Structures. In response to TIDA and BOS direction at endorsement of the 2006 Development Plan to explore ways to improve the feasibility of reuse of the historic structures on Treasure Island. Project plans have evolved slightly by shifting the orientation of the ferry terminal and mixed-use town center to incorporate Buildings One, Two and Three into the retail main street.
- Geotechnical Strategy. An expert geotechnical team was convened and recommended a revised strategy for addressing the geotechnical challenges for new buildings and infrastructure.
- Proactively Responding to Potential Sea Level Rise. The issue of sea level rise has been addressed head on by developing an adaptive management strategy, in coordination with the San Francisco Public Utilities Commission (“SFPUC”) and the Bay Conservation and Development Commission (“BCDC”), for mitigating the impacts of potential sea level rise.

- Urban Design. Two major efforts have been undertaken: first, a block by block analysis to fit the desired development program within the available developable acres of the land use plan. This first effort set the framework for the second step, preparation of a draft Design for Development document, which was recently published for public comment and presented to the BOS Land Use and Economic Development Committee and the San Francisco Planning Commission.
- Transportation Authorizing Legislation. State legislation was signed authorizing the creation of Treasure Island Transportation Management Agency to implement the cutting-edge transportation program proposed for Treasure Island, including implementation of a congestion management pricing program.
- Trust Exchange. State Legislation was signed making the Tidelands Trust Exchange consistent with the current land use plans; staff also worked to prepare the terms of a Trust Exchange Agreement, pending completion of final project approvals.
- Utilities Infrastructure. Extensive work with the Department of Public Works (“DPW”) and the SFPUC on infrastructure design criteria and master plans, including approval by TIDA of an Exclusive Negotiating Agreement with the SFPUC (“SFPUC ENA”) regarding sharing of responsibilities for construction of new infrastructure.
- Streets System. Significant progress with a Streets Working Group (consisting of staff from the Planning Department, MTA, DPT, SFPUC, DPW, San Francisco Fire Department, Mayor’s Office of Disability, Department of Public Health, and the San Francisco Bicycle Coalition) to develop standards, criteria and master plans for the network of streets, paths and lanes that will prioritize cyclists and pedestrians, including a Shared Public Way component.
- Transit Plans. Significant progress on ferry terminal planning with the San Francisco Bay Area Water Emergency Transit Authority (WETA) and the San Francisco Municipal Transportation Agency (SFMTA) on the Treasure Island intermodal transit hub, bus routes and service planning.

D. Project Recognition

Along the way the project has received recognition for its innovative approach to sustainability across the triple bottom line (environmental, social, economic measures), including:

- California Governor’s Environmental and Economic Leadership Award. The project received the 2008 award for Sustainable Communities.
- 2009 American Institute of Architects Honor Award for Urban Design.
- Clinton Climate Initiative and US Green Building Council. The CCI/USGBC partnership selected the Treasure Island project as one of 17 projects around the world to partner with in its Climate Positive Development Program.

E. Agreement on Basic Financing Terms for Transfer of Property from Navy

In December 2009, TIDA and the Navy reached agreement on the basic financial terms for the transfer of the property to TIDA. After 15 years of discussions with the Navy, the achievement of this significant milestone also represented the final piece needed to prepare an updated project budget reflecting current conditions.

F. Current Package of Term Sheet Documents Supporting Redevelopment of Treasure Island

Based on the work conducted since endorsement of the 2006 Development Plan and the achievement of the milestone agreement on basic financial terms with the Navy, staff has worked with the TI CAB, TIDA, TICD and TIHDI to prepare the comprehensive set of term sheet documents that update the vision for Treasure Island consistent with the economic terms of the proposed Navy deal, current economic conditions and recognition of realistic project funding sources that reflect an implementable project.

The EDC MOA Terms, the Development Plan Update (together with the 2006 Development Plan) and the TIHDI Term Sheet outline the terms upon which TIDA, the Navy, TICD and TIHDI will negotiate in good faith to reach agreement on final transaction documents for the project, including the EDC MOA, the TICD DDA and the Amended and Restated TIHDI Agreement. The parties understand that all entitlements and other approvals by government agencies required for the project will first undergo environmental review under CEQA and be subject to public review in accordance with the processes of TIDA and the City.

1. EDC MOA Terms with the Navy

The EDC MOA Terms outlines the key economic and other terms associated with transferring the property from the Navy to TIDA. The consideration for the property is based on a guaranteed, fixed initial payment plus additional consideration subject to the project achieving certain financial benchmarks. One very important concept that merits highlighting is the fact that these EDC MOA Terms are structured such that the developer, TICD, will make all payments to the Navy on behalf of TIDA. That fundamental structure is also incorporated into the Development Plan Update between TIDA and TICD and will be included in the TICD DDA. Furthermore, the City will not be required to fund any of the consideration to the Navy and the City's General Fund is insulated from any obligation to pay on behalf of TIDA. The consideration to the Navy essentially becomes a project land cost and is funded in the same manner as other infrastructure and land preparation costs. Key terms include:

- The Navy will receive guaranteed initial consideration of \$55 million, paid in 10 annual \$5.5 million payments. The TICD DDA will obligate the developer to make these payments on behalf of TIDA.
- The Navy will commit to a schedule for transferring property and, if property is not transferred on that schedule, adjustments would be made to the payment schedule including deferring or reducing the payment.
- TIDA will provide the Navy security for the initial consideration – in the event TICD does not make payments on TIDA's behalf – by pledging assignment of its existing rent revenues (existing housing and commercial uses) and certain tax increment financing subordinate to bondholders. In all cases, the General Fund will not fund the Navy payments and the Navy will not be able to seek payment from the General Fund.
- TICD will pay directly to the Navy an additional \$50 million if and when private capital achieves an unleveraged 18% return and 35% of any net revenues if and when private capital achieves an unleveraged 22.5% return.
- The document includes a series of controls, consistent with the 2006 Development Plan between TIDA and TICD, which ensures property is transferred from TICD at fair market value.
- The MOA provides the Navy with certain objection rights if they do not believe the objective standards outlined in the controls have been followed; any Navy objection would be resolved through an expedited dispute resolution process that enables the redevelopment to continue expeditiously.

- Requires funds associated with and generated by the redevelopment project to be used for economic development purposes and/or consideration payable to the Navy for the property.

These EDC MOA Terms, if endorsed, will serve as the framework for the preparation of a final EDC MOA, which would be brought to TIDA and the BOS as part of the overall redevelopment project approvals.

2. Development Plan Update

In a fiscal environment where Proposition 13 and its progeny and ever stingier federal and state governments have significantly limited the ability of cities to pay for the creation of new public benefits like parks and affordable housing, our mandate for the redevelopment of Treasure Island has been to maximize the creation of public benefits without relying on the City's General Fund. The way to achieve that goal is by leveraging private capital and land value created from the redevelopment itself to the greatest extent possible. At the same time, we have created a project which reflects the highest values of environmental sustainability and good urban design. We believe we have succeeded enormously in both respects, as demonstrated by the recognition the project has received over the past three years.

The redevelopment of Treasure Island will fund approximately \$519 million towards the creation of 2,260 below market housing units (30% of all new housing), including TIHDI's groundbreaking supportive housing program. The redevelopment of Treasure Island will also create more than 300 acres of public parks and open space in the middle of San Francisco Bay. Perhaps most remarkably, this project will deliver these public benefits, plus other benefits like thousands of permanent and construction jobs and significant economic development opportunities, without any new contribution from the City's General Fund.

The Development Plan Update retains the overall vision for the redevelopment of Treasure Island outlined in the 2006 Development Plan, which has received overwhelming public support and significant national and international recognition, and makes minor updates and adjustments to reflect current conditions. These minor adjustments and updates include:

1. Navy Deal. Incorporates the economic terms of the Navy deal.
2. Development Program. Consistent with the CEQA review being prepared for the project, adjusts the maximum development program to include up to 8,000 residential units, which supports project feasibility and viable retail, transit and community services.
3. Infrastructure Scope and Budget. Updates the infrastructure budget, which has increased from \$1.2 billion in 2006 to \$1.5 billion currently, as follows:
 - a. Incorporates the current approaches to address geotechnical requirements and proactively addressing sea level rise via an adaptive management strategy.
 - b. Retains the overall 300-acre waterfront parks and open space zone; adjusts the scope and budget based on the strategy of partnering with a non-profit open space conservancy (as is done with the GGNRA Conservancy, Central Park and Battery Park in NYC) to deliver the open space program. Includes certain funds for on-going operations.
 - c. Based on discussions with the SFMTA and WETA, incorporates a more efficient approach to providing ferry boats and buses.
 - d. Includes assumptions for sharing of infrastructure costs consistent with the SFPUC ENA.

- e. Incorporates further work with the San Francisco Fire Department on a Treasure Island “superstation” facility.
4. Affordable Housing. Retains the commitment to 30% of all residential units, which increases the overall amount of affordable housing delivered from 1,800 to about 2,260 units, and the overall project contribution to affordable housing from \$406 million in 2006 to \$519 million in the current program. Adjusts the delivery of the affordable housing such that a greater portion of the affordable units would be constructed by non-profit affordable housing developers in buildings in which all units are at below-market rates.
5. Updated Financing Plan. Incorporates updated real estate and economic market assumptions for residential and commercial uses; updated infrastructure and affordable housing budgets; updated project-generated private and public financing assumptions; updated fiscal analysis. With the exception of adjustments to TIDA’s backend profit participation consistent with incorporating terms of the Navy deal, the overall structure of the deal remains the same.

The remainder of the redevelopment plan and program, as outlined in the 2006 Development Plan – including the guiding principles, commitment to comprehensive sustainability and commitments that enable existing residents to remain part of the new community – are unchanged. The Development Plan Update incorporates only those adjustments noted above.

3. TIHDI Term Sheet

Federal law requires that local communities include a component that addresses homelessness in the reuse of former military bases. The Treasure Island Homeless Development Initiative, or TIHDI, was formed in 1995 and submitted a notice of interest to be the local organization that provides the homeless assistance component for former NSTI. TIHDI consists of affordable housing development and supportive homeless housing organizations (Catholic Charities, Mercy Housing, Community Housing Partnership) as well as job training and development programs (Rubicon, Toolworks). A 1996 TIHDI Agreement was negotiated and completed but never executed as environmental review under CEQA had not been completed. The 1996 TIHDI Agreement outlined three key components of TIHDI’s participation in the reuse of the property: 1) rights to occupy on an interim basis the existing, former military housing (TIHDI currently occupies 250 housing units); 2) rights to future new housing as part of the redevelopment; and 3) job training, economic development opportunities and support facilities.

The TIHDI Term Sheet is consistent with (i) the current redevelopment plan and program, (ii) TIHDI’s current interim use of and activities on the island and (iii) economic assumptions included in the Development Plan Update with TICD. The TIHDI Term Sheet will become the basis for a full Amended and Restated TIHDI Agreement, which will update and supercede the 1996 TIHDI Agreement. The TIHDI Term Sheet outlines the following rights and obligations of the parties:

- TIHDI has the right to 435 new units as part of the redevelopment project
- TIHDI will not be displaced from its existing program of 250 housing units until its new replacement units have been constructed on Treasure Island, which is anticipated to occur in the early phases of the project.
- Consistent with the timing and process for the implementation of the redevelopment project in 3-4 major phases, at the beginning of each major phase, TIDA and TIHDI will meet to determine how (what program, unit sizes, which partners, in stand alone or mixed income buildings, location, etc.) to deliver the new TIHDI units based on (i) TIHDI’s then existing programs, (ii) TIDA and the City’s affordable housing policy priorities at the time (iii) available non-project

generated affordable housing capital funding sources and (iv) available non-project generated operating subsidies.

- TIDA will provide developable land at no cost and vertical construction gap subsidy required to construct the new TIHDI units, which will come from vertical subsidy payments delivered by TICD under the terms of the TICD DDA and from other project-generated sources such as Tax Increment Financing.
- The TIHDI Term Sheet incorporates the comprehensive economic development opportunities and support components outlined in the 2006 Development Plan.

This TIHDI Term Sheet has been crafted in partnership with TIHDI and included participation by the Mayor's Office of Housing.



Illustrative Conceptual Land Plan

II. BACKGROUND

A. History of Treasure Island

Treasure Island was constructed between 1937 and 1938 with the ultimate goal of becoming the future San Francisco airport. Its first use was as the site for the 1939-1940 Golden Gate International Exposition, or the San Francisco World's Fair. When the United States became involved in World War II, all of Treasure Island and portions of Yerba Buena Island were transferred to the U.S. Navy for use as a military facility, called Naval Station Treasure Island. After serving as a center for receiving, training and dispatching service personnel during World War II, NSTI was subsequently used for more than 50 years as a location for naval training and as an administrative center. In 1993, NSTI was selected for closure by the Base Realignment and Closure ("BRAC") Commission and the base was operationally closed in 1997.

B. Site Characteristics and Constraints

Treasure Island and Yerba Buena Island are located in the middle of San Francisco Bay and at the heart of the San Francisco Bay region. Treasure Island proper is a flat, man-made island comprising approximately 405 acres, of which 37 acres are owned by the U.S. Department of Labor and occupied by a Job Corps campus, a vocational training program for young people between the ages of 16 to 24. Yerba Buena Island (exclusive of the U.S. Coast Guard facility located on Yerba Buena's eastern half) is a natural rock outcropping of approximately 94 acres, located approximately mid-way on the Bay Bridge between Oakland and San Francisco.

While Treasure Island, with its sweeping views of San Francisco and the Bay, affords a tremendous opportunity for San Francisco and the region, it is also a site that is characterized by several significant development challenges. These include the following:

- *Access and Bridge Construction.* The Islands only current access to San Francisco or Oakland is the Bay Bridge, which is often at capacity, via substandard ramps. In addition, the on-going construction of the eastern span of the Bay Bridge presents logistical challenges for the existing community and the phasing of development.
- *Geology and Seismic.* Treasure Island is composed of bay fill and in its current state would be susceptible to failure during an earthquake without seismic stabilization of the perimeter and portions of the interior of the island. Improvements to mitigate this challenge are technologically feasible but add unique costs to the project.
- *Microclimate.* Treasure Island's location in the middle of the Bay and flat terrain expose it to strong winds coming from the west through the Golden Gate, particularly during the afternoon.
- *Deteriorating Infrastructure.* The infrastructure constructed by the Navy is deteriorating, does not conform to City standards and must be entirely replaced.
- *Environmental Contamination.* Environmental remediation will be necessary to support the proposed land use plan. The remediation required at Treasure Island, which was primarily an administrative and residential military facility, is not significant in comparison to other closed military bases, but is an additional project cost.
- *Tidelands Trust.* All of Treasure Island proper is subject to the public trust for commerce, navigation and fisheries ("Tidelands Trust"). Among other things, the Tidelands Trust generally prohibits a number of uses like housing, office and industrial uses. Yerba Buena Island is not

subject to the Tidelands Trust. Fortunately, state law allows for the Tidelands Trust to be exchanged off of certain portions of Trust property and placed on other lands under certain circumstances. TIDA obtained State legislation authorizing such an exchange between Treasure Island and Yerba Buena Island. Still, as a result of the application of the Tidelands Trust, the location of various uses under the Land Use Plan is severely restricted.

- *Job Corps Campus.* While the Job Corps provides important public benefits, its location almost directly in the middle of Treasure Island impacts the Land Use Plan. The boundaries of the campus pose planning challenges and other challenges related to infrastructure and community development. In conjunction with the adoption of a final Redevelopment Plan, TIDA intends to work with the Department of Labor to better integrate the Job Corps campus and programs into the overall future island community.

C. Initial Reuse Planning for Treasure Island

In 1994, a Citizen's Reuse Committee ("CRC"), representing a broad spectrum of community interests, was formed to review reuse planning efforts regarding Treasure Island for the San Francisco Planning Department, the San Francisco Redevelopment Agency, and the Board of Supervisors. This planning effort resulted in the establishment of a Draft Reuse Plan for Treasure Island that was endorsed in 1996 by the Mayor, the Board of Supervisors and the Planning Commission. The 1996 Draft Reuse Plan operated like a "general plan" for Treasure Island, identifying opportunities and constraints and policy goals and recommendations related to the redevelopment effort. The goals and policies recommended in the Draft Reuse Plan continue to guide the planning for Treasure Island and are reflected in the 2006 Development Plan and Development Plan Update.

Also in 1996, the City finalized the 1996 TIHDI Agreement as part of the homeless component of the Reuse Plan. Among other things, the 1996 TIHDI Agreement (1) gave TIHDI certain rights to participate in economic development opportunities on Treasure Island, (2) facilitated implementation of a permanent employment program related to TIHDI's activities, (3) gave TIHDI certain rights to both temporary and permanent housing in support of TIHDI's programs, and (4) provided TIHDI with financial support. TIDA, TICD and TIHDI have worked together closely to ensure that the Development Plan Update is consistent with the TIHDI Term Sheet.

One of the key recommendations from the reuse planning process was for the City to create a single-purpose authority to govern the redevelopment of Treasure Island. TIDA was created in 1997 to serve as that entity. Under the Treasure Island Conversion Act of 1997 (the "Act"), the California Legislature (1) designated TIDA as a redevelopment agency under California Community Redevelopment Law with authority over Treasure Island, and (2) with respect to those portions of Treasure Island that are subject to the Tidelands Trust, vested in TIDA the authority to administer the Tidelands Trust in accordance with the terms of the Act.

D. The Treasure Island/Yerba Buena Island Citizens Advisory Board.

The TI CAB was formed in 2000 to provide broad-based community policy guidance and oversight regarding the redevelopment of Treasure Island. The TI CAB has 25 members, including four members of the TI CAB who must be residents of the Island. The Mayor appoints 12 members, the Board of Supervisors appoints 9 members and the four Island residents were elected by a vote of Island residents. Since its inception, the TI CAB has held more than 100 meetings regarding the redevelopment of Treasure Island.

E. Selection of Master Developer

Another key recommendation from the reuse planning process was that the redevelopment of Treasure Island should be planned and implemented as a public/private partnership in collaboration with a private “master developer.” Accordingly, on June 14, 2000, TIDA authorized the issuance of a Request for Qualifications (“RFQ”) regarding the master development of Treasure Island. The RFQ contemplated the issuance of a Request for Proposals (“RFP”) to those respondents who met the qualifications under the RFQ. Based on review of the submittals to the RFQ by the TI CAB, staff and a team of consultants, TIDA selected TICD as the most qualified to proceed to the RFP phase.

After an extensive public process of drafting the RFP with direct input from the TI CAB, TIDA issued a focused RFP in April 2002. After almost another year of intensive analysis and numerous public meetings, on March 12, 2003, TIDA determined that TICD’s final response to the focused RFP met the criteria set forth in the RFP and warranted TIDA entering into exclusive negotiations with TICD. On June 1, 2003, TIDA entered into an Exclusive Negotiating Agreement with TICD, which was amended and restated in September 2006, and further amended most recently in March 2010 (the “ENA”). All together, the public process of reviewing the form of and the responses to the RFQ, the RFP and the ENA involved nearly 60 public meetings.

F. Exclusive Negotiations and Redevelopment Planning

The ENA includes a schedule of performance setting forth a number of major milestones. The first key milestone, TICD’s presentation of certain additional studies regarding the alternative locations of a future ferry terminal, the feasibility of on-site wastewater treatment and peer review of TICD’s geotechnical assumptions and approaches (collectively, the “Studies”), was achieved in January 2004. In addition, after significant planning with the California State Lands Commission and input from the TI CAB and TIDA, in September of 2004, the Governor signed into law Senate Bill 1873, which authorizes an exchange of Tideland Trust properties between Treasure and Yerba Buena Islands. This legislation was a major milestone for the project because it established the areas on Treasure Island where residential and other non-Trust uses could be developed. This exchange legislation was further amended in 2007 and 2009 to be consistent with the proposed land plan for the project.

In December 2006, the 2006 Development Plan was overwhelmingly endorsed by the Treasure TI CAB by a vote of 16-0-1, by TIDA by a vote of 6-0 and by the BOS by a vote of 10-1. The 2006 Development Plan anticipated the need to reach agreement with the Navy on the economic terms of the transfer of the property to TIDA, which would then have to be incorporated into the redevelopment project budget. Since that time significant work has been achieved through the public planning process, as outlined in the Executive Summary section above.

III. OVERVIEW OF DEVELOPMENT PLAN

The 2006 Development Plan and the Development Plan Update are referred to collectively herein as the Development Plan. The Development Plan contains a variety of land uses that promote both a new San Francisco neighborhood and a major new destination for local, regional, national and international visitors. The four primary components of the land use plan continue to be (i) residential, (ii) open space and recreation, (iii) commercial and adaptive reuse, and (iv) community and public facilities. The development program includes the following specific components:

- Approximately 300 acres of parks and public open space including cultural uses such as a museum;
- Up to approximately 8,000 residential units, 30% at below-market rates;
- Up to approximately 140,000 sq. ft. of new commercial and retail space;
- Up to approximately 100,000 sq. ft. of new office space,
- Adaptive reuse of Buildings 1, 2, and 3 with up to 311,000 sq. ft. of commercial/flex space (the adaptive reuse would include approximately 67,000 square feet of additional retail, which, when combined with the 140,000 square feet of new retail yields a total of 207,000 square feet of retail proposed on the Islands);
- Rehabilitation of the historic buildings on Yerba Buena Island;
- Up to approximately 500 hotel rooms;
- Geotechnical stabilization of Treasure Island and the causeway connecting it to Yerba Buena Island, and fill to raise the surface elevation on Treasure Island to proactively address flood protection and potential sea level rise;
- New/upgraded public facilities, including a joint police/fire station, a school, & other community facilities;
- New and/or upgraded public utilities, including the water distribution system, wastewater collection and treatment, recycled water system, and storm water collection and treatment;
- New and/or upgraded streets and public ways;



Treasure Island Illustrative Rendering

A. Land Use Plan and Urban Design Concepts

1. Treasure Island

The redevelopment of Treasure Island requires the complete transformation of a physical environment which today retains the character of a former military base. With the exception of the historic structures, the Treasure Island Elementary School and the Job Corps campus (which is outside of TIDA's jurisdiction) it is expected that all of the existing structures on Treasure Island will be deconstructed in phases commensurate with new development, creating the opportunity for an entirely new urban environment. The densest development will be focused around an intermodal transit hub, including a newly created ferry quay on the west side of Treasure Island. Buildings, streets and open spaces will be oriented to respond to Treasure Island's unique microclimate of wind, sun and fog, accomplished, in part, by shifting the conventional street grid to orient certain streets 68 degrees, as opposed to the typical orthogonal traditional urban street grid. The project will create a compact neighborhood with public open spaces and land uses that are organized to encourage walking, bicycling and public transit and discourage the use of private automobiles. Public and private art will be integrated throughout the project.

Specifically, Treasure Island will be comprised of the following districts:

Island Center

The Island Center would occupy the southern portion of Treasure Island and would abut the southern/southeastern boundary of the Jobs Corps campus. This new neighborhood would feature a dense mix of retail, restaurant, office, hotel, residential, transit and community services uses. The ferry quay/intermodal transit hub would be located in the Island Center at the southwestern shore of Treasure Island. A pedestrian and vehicular network of streets and pathways is planned between the ferry quay and Clipper Cove around and through Buildings 1, 2 and 3. The highest densities and tallest buildings are proposed in this district. Proposed new buildings have been designed to complement and integrate the adaptive reuse of the historic structures into the overall character and feel of the district. A residential tower up to 650 feet tall is proposed. The Island Center could also include several additional high-rise towers up to 450 feet tall.

Residential Neighborhoods

The Cityside and Eastside districts would provide high-density residential land uses adjacent to the retail and transit services in the Island Center. The Cityside district would occupy the western portion of Treasure Island and would abut the western and northern boundaries of the Job Corps campus. The Eastside neighborhood would be adjacent to and northeast of the Island Center. Individual neighborhood blocks would consist primarily of dense, low-rise structures of up to 70 feet and mid-rise buildings of between 70 and 125 feet, with neighborhood high-rise towers (up to 240 feet) serving as neighborhood markers, and located to maximize sunlight and mitigate wind on planned neighborhood parks. Housing in the Cityside neighborhood would be east of the Waterfront Park along the shoreline and sited around neighborhood parks of approximately 0.1 to 0.3 acres. The Eastside neighborhood housing would form the border of a six-block-long linear park. The buildings would be spaced to enhance views and preserve view corridors and would contribute to a varied skyline when seen from San Francisco and the East Bay. Most residential parking would be in subsurface garages in residential buildings. Approximately 20 percent of residential parking is anticipated to be in centralized parking garages; neighborhood parking structures would be surrounded by residential or other active uses to reduce visual impacts. Community and commercial spaces would be permitted at the ground-floor level of some of the buildings.



Island Center Mixed-Use District Illustrative Rendering



Island Center Retail Street Illustrative Rendering

Yerba Buena Island

Development on Yerba Buena Island would include limited uses and much lower densities than those planned for Treasure Island. A wellness lodging facility/hotel is planned, and the historic Nimitz House and eight other Senior Officers' Quarters (collectively, the "Great Whites"), and the Torpedo Storehouse would be rehabilitated and programmed for public uses. New residential development (approximately 200 to 300 units) would be clustered and placed primarily on the sites of existing buildings, replacing the 100 existing housing units. The development would consist of predominantly low-rise buildings, stepping down hillsides, and would be designed to preserve and enhance views from and of the new hilltop park. Building height limitations would ensure that development would not substantially interfere with existing views, as they existed on January 1, 2010, from the proposed new Trust Lands on the eastern and western hilltop public park areas. New structures would be designed to complement Yerba Buena Island's natural conditions and would not restrict access to the hillside open spaces and trail network. An adaptive management strategy for preserving, restoring and enhancing habitat would be implemented over the course of the build-out of the project, and would continue over the long term.



Yerba Buena Island - Illustrative Conceptual Land Plan

Open Space

The system of open space on Treasure Island would include neighborhood- and visitor-serving parkland, ecological, recreational, neighborhood, and cultural areas. The approximately 300 acres of open space would include a wide variety of programmed and natural habitat elements, including public spaces and recreation areas; shoreline trails and access improvements, including the proposed extension of the San Francisco Bay Trail from the Bay Bridge bicycle and pedestrian path on the new East span, down Yerba Buena Island, and around the entire perimeter of Treasure Island; a stormwater wetland of about 10 to 15 acres to provide water quality treatment and natural habitat; an urban farm of approximately 20 acres; a cultural park adjacent to Building 1; the Building 1 Plaza adjacent to the ferry quay and Transit Hub; a pedestrian promenade along Clipper Cove on the south shoreline of Treasure Island; preserved and new wildlife habitat on Yerba Buena Island; and a new hilltop park with vista points, overlooks, and trails on Yerba Buena Island. Also included in the 300 acres of open space are approximately 30-40 acres proposed on the east side of Treasure Island for a regional sports complex with baseball, softball, and soccer fields, as well as other sports facilities. The Waterfront Plaza, Cityside Waterfront Park, Northern Shoreline Park, Eastern Shoreline Park, and Clipper Cove Promenade would provide extensive public access to the shoreline on all sides of Treasure Island. A Habitat Management Plan (“HMP”) is proposed to manage and improve vegetation and wildlife habitat in the undeveloped areas on Yerba Buena Island. The gardens adjacent to the historic Nimitz House on Yerba Buena Island would be improved as part of the open space program.



Open Space Framework Diagram

B. Phasing of Development

The Development Plan focuses on the “horizontal,” or “land,” development of Treasure Island. In this context, horizontal development means that TICD is responsible for all of the planning and entitlements for the project and then is obligated to transform the land that currently exists at Treasure Island with new infrastructure, including new streets, sidewalks, parks, utilities and public, community and transportation facilities – ultimately creating developable “pads” for the “vertical” construction of buildings. In return, TICD has the right to sell or lease this improved land for the uses permitted under the Development Plan. The buyers of these developable pads – in some cases affiliates of TICD as described more particularly below – then separately build the individual vertical buildings themselves.

The Phasing Plan described in the Development Plan is designed to achieve a number of objectives, including (i) retaining the existing housing for as long as reasonably possible to avoid housing interruption and to ensure sufficient new housing for transition of existing resident households, (ii) creating a vibrant new community by delivering significant community benefits as early in the project as economically feasible, (iii) retaining the ability to adjust project phases to respond to market conditions, cost and availability of financing and (iv) achieving financial feasibility. The Phasing Plan is complicated by the need to account for uncertainty regarding the timing of the Navy's transfer of the property and hazardous material remediation, the needs of the existing residents during redevelopment, including mitigating construction impacts and providing continued utility and other services, and the impacts and timing of the ongoing construction of the new eastern span of the Bay Bridge.

Construction and build-out of the project would be phased and is anticipated to occur over an approximately 15- to 20 year period. The redevelopment project is expected to involve four major phases. The first phase would include the installation of the infrastructure backbone and portions of the geotechnical stabilization; the subsequent phases would include the extension of infrastructure and ground improvements and the development of the residential, commercial, open space/recreational, historic, and institutional and public uses. New development will generally start near intermodal transit hub and town center, to create a sense of place early, and radiate outwards from there.

Affordable housing would be constructed in phases such that approximately 30 percent of the residential units built during each phase would be affordable. Infrastructure and public facilities would be phased with the intent of providing continuous service to existing residents and businesses. Open space and recreational uses would be developed proportionally with the proposed housing and commercial uses; the proposed Great Park would be developed in the final phase to allow retention of the existing housing in that location until that time.

C. Infrastructure Improvements

An entirely new infrastructure system must be constructed to redevelop Treasure Island.

Geotechnical/Seismic Improvements. The geotechnical approach for Treasure Island takes into consideration the need to elevate the interior of the island in anticipation of sea level rise and the desire to reduce damage to surface and subsurface improvements in the case of a seismic event. The geotechnical programs consists of three parts: (1) the sands will be densified throughout the development area to minimize liquefaction and earthquake-induced settlements, creating a long-term stable platform for development; (2) additional fill will be added to compensate for the loss of elevation caused by densification and to raise the site grades in developed areas above the expected flood level, taking an allowance for long-term sea level rise into account; and, (3) the perimeter and causeway between Treasure and Yerba Buena Islands will be similarly densified to be seismically

stable and to provide protection against overtopping under extreme combinations of tide and storm activity. The perimeter will not be required to act as a levee or seawall for flood protection purposes.

Adaptive Management Strategy for Potential Sea Level Rise. TIDA staff have worked with BCDC to evaluate and adopt the standards for sea level rise (“SLR”) recommended by BCDC and the CALFED Independent Science Board, which recommends as a plausible/high value planning for 16 inches of SLR by 2050 and 55 inches by 2100. Based on an evaluation of the site specific conditions of Treasure Island, the project will incorporate initial improvements consisting of (i) setting back the development 200 to 350 feet from the shoreline to mitigate against storm events, (ii) elevating all development and vital infrastructure by 42 inches, which would accommodate potential SLR for 75 to 150 years depending on the actual rate of increase in sea levels and (iii) enhancing the island’s perimeter to protect from wave overtopping in large storm events. In addition, the project will adopt an adaptive management strategy that enables a variety of responses to actual future SLR conditions, if they exceed 55 inches, that could include raising the shoreline edge, constructing a series of embankments inland from the shoreline, laying back the shoreline to create ecosystems that limit wave run-up and overtopping. To accommodate such future improvements, the project will include a mechanism to create a steady stream of project-generated funding dedicated to future adaptive management improvements. A two-page document summarizing the proactive adaptive management strategy that has been proposed for Treasure Island in collaboration with BCDC is attached to this staff summary.

Utility Infrastructure. The entire utility infrastructure for Treasure Island must be rebuilt from scratch, including the following:

- **Backbone Infrastructure and Street Network.** The backbone utility systems and street network on Treasure Island, which includes the causeway between Treasure Island and Yerba Buena Island, will be completely rebuilt to current standards and on a stable platform achieved by seismically reinforcing the development areas as described above.
- **Wet Utilities.** The project will build brand new wet utility systems for Treasure Island, including new water tanks on Yerba Buena Island, new trunk lines throughout both islands, and connect to a new secondary/emergency water line on the new Eastern Span of the Bay Bridge linked to the East Bay Municipal Utility District water system. Under the terms of the SFPUC ENA being, the SFPUC would finance, construct, own and operate an entirely new wastewater treatment and recycled water plant, that would tie into a new waste water collection system being constructed by the project. The project would also construct a new storm water drainage and treatment system. Storm water will be directed to low impact development (LID) treatment systems in the open space and street rights-of-way, and portions would be conveyed to a constructed storm water treatment wetland for polishing before it is discharged to the Bay.
- **Dry Utilities.** An entirely new dry utility network will be constructed for Treasure Island, including new electrical, gas and telecommunications lines.

Public Safety Facilities. A new joint police and fire “super station” will be constructed on Treasure Island at a central location determined in consultation with the departments. In addition, an entirely new fire water supply system, including supplemental water supply, will be constructed based on input from the Fire Department.

Environmental Remediation. The land use plan for Treasure Island is designed to ensure that environmental remediation activities will support the proposed land uses. To that end, TICD's

infrastructure obligations will include completing certain environmental remediation beyond that which the Navy is legally required to perform under Federal law, but is necessary to implement the Development Plan under State and local regulations.

Demolition and Deconstruction. To the extent practical, existing structures would be “deconstructed,” allowing for reuse or recycling of the wood, concrete, metals and other materials. Demolition/deconstruction would begin with removal and abatement of any hazardous materials such as lead paint and asbestos. Where possible, concrete and asphalt pavements would be recycled or used on site or made available for use elsewhere; a concrete/asphalt crushing plant would be operated on Treasure Island to assist in recycling/reuse of these materials.

D. Transportation Plan

In order to achieve the project’s goals regarding sustainable development and in light of Treasure Island’s severe access constraints, the Transportation Plan is one of the most complex and unique elements of the Development Plan. The Transportation Plan outlines goals and objectives, proposes new transit services and infrastructure, and provides a framework for both funding and periodically adjusting the transportation system over time to respond to actual future conditions.

The Transportation Plan is based on five key principles:

- a) Create a dense, urban neighborhood clustered around a multi-modal transit hub with streets and paths that favor walking and bicycling.
- b) Provide high levels of transit service across multiple modes of travel that serve key destination points off Treasure Island, operate at high frequencies, particularly during peak travel periods, and utilize fare structures that cost less than private automobile use.
- c) Develop a comprehensive set of transportation demand management programs to encourage and facilitate transit use.
- d) Mitigate private automobile use through programs such as ramp metering, the physical and economic unbundling of residential parking from residential units, and congestion pricing, transit pass and parking fee structures that can be adjusted to influence travel behavior.
- e) Create a flexible institutional structure that can set parking and congestion pricing rates, enforce programs, monitor performance of the system, and collect revenues to pay for public transit systems serving the Islands.

In 2008, Governor Schwarzenegger signed AB 981 (Leno) authorizing the creation of the Treasure Island Transportation Management Agency (“TITMA”), the implementation of a congestion management pricing program and the collection of parking and transit pass revenues for the purposes of administering an overall transit demand management program as part of the redevelopment of Treasure Island.

a) Dense, Compact Transit-Oriented Development. As discussed previously, the land use plan concentrates density in an urban core located next to a multi-modal transit hub, including the new ferry quay. All new homes will be located within a 17-minute walk of this transit hub, and streets and pathways will be designed to give priority to bicycles and pedestrians.

b) Provide High Levels of Transit Service. Transit service to and from Treasure Island will include ferries and busses and an intra-island shuttle transit service running on clean fuels that will provide frequent stops to locations across Treasure Island.

- **Ferry Transit.** Ferry service will be a key element for providing access to and from Treasure Island. Initial ferry service is planned between the ferry quay on the western shore of Treasure Island and the Ferry Building in San Francisco. It is projected that at project build-out three ferries will provide service between Treasure Island and San Francisco at approximately 15-20 minute intervals during peak use.
- **Bus Service.** In addition to the ferry service, the intermodal transit hub will offer regular bus service to and from San Francisco and the East Bay. The San Francisco bus service is currently planned to provide connections to the Transbay Terminal and a second location, currently proposed as the Civic Center and to be determined working in conjunction with MUNI, at 5 and 13 minute intervals respectively during peak periods. Bus service to the East Bay is anticipated to be provided by AC Transit via one line that would service two Oakland BART Stations.
- **Intra-Island Shuttle.** The Transportation Plan also provides for free on-island shuttle service. The shuttle routes will serve residential, commercial and open space areas on both islands. Each route will provide timed transfer connections to bus and ferry service, and will make frequent stops to maximize passenger access and convenience.

c) Comprehensive Demand Management Programs. The proposed TITMA will implement a Transportation Demand Management (TDM) Program on Treasure Island. The elements of the TDM Program will include (i) a travel coordinator, (ii) a bicycle library program, (iii) space for car share pods, possibly including incentive programs funded in a manner to be described in the TICD DDA, (iv) guaranteed ride home for qualified individuals in an emergency, (v) ride share (e.g., carpool/van pool), and (vi) employee and visitor TDM programs. The TDM program will also include an innovative concept in which a “transit pass” is provided to households, with the cost of the pass built into the household’s cost of housing. This Transit Pass will both provide a dedicated annual stream of funding for transportation services and make transit a much more attractive alternative to driving because residents will already have paid to ride the ferries and busses.

d) Mitigate Impact and Use of Automobiles. The Transportation Plan proposes to discourage private automobile use through various means, including the country’s first congestion pricing program, ramp metering, and parking policies, as discussed below.

- **Congestion Pricing.** Residents driving on or off Treasure Island during peak periods will incur a congestion pricing charge as a disincentive for automobile use, to increase competitiveness and attractiveness of transit, to mitigate the impact of generated trips, and to provide an additional source of subsidy funding for transit service. The TITMA, discussed below, will have the authority to adjust the times and amounts of the congestion pricing charge. The program will be monitored on a regular basis and changes will be made as required to meet the overall objectives of the Transportation Plan.
- **Ramp Metering.** Ramp metering is proposed to be established at the entrances to the Bay Bridge from the Yerba Buena Island ramps and will operate during periods of congestion to manage ramp volumes. Ramp metering effectively limits the number of automobiles that can access the freeway depending on the volume of traffic on the Bay Bridge. The mechanism is flexible and can be adjusted easily to meet the objectives of the Transportation Plan. As part of the ramp metering and management program and the design of new ramps to the Bay Bridge, opportunities for queue jumping lanes for transit and high-occupancy vehicles will be explored.
- **Parking Policies.** The Transportation Plan requires effective parking management to limit the supply of parking on Treasure Island to the minimum level necessary for a financially and socially viable project and to manage the demand for that parking. The main parking principles

are (i) all parking will incur a charge, (ii) shared parking among uses will be incorporated to the maximum extent possible, (iii) supply is managed to affect overall use, (iv) parking regulations are enforced and monitored, (v) pricing is the mechanism for encouraging the use of other transportation modes, (vi) all residential parking will be unbundled from units, (vii) all parking ratios will be maximums rather than minimums, and (viii) an appropriate sign package for wayfinding, travel planning and real-time parking availability will be provided. This set of policies is intended to allow the use of automobiles by Treasure Island's residents, but to de-prioritize the automobile over other transportation modes.

Residential off-street parking will be provided at the ratio of one space per residential unit. Residential parking for both for sale and rental units will be financially unbundled from the residential units – that is, parking spaces will be sold or leased separate from the sales price or rent for residential units.

e) Establish Flexible Institutional Structure and Authority. To be successful, the transportation program must be designed to be adjustable over time to meet the needs of changing circumstances, alter costs and fee structures as necessary to achieve program objectives, and effectively direct available resources to transit services to and from Treasure Island. The Transportation Plan contemplates that the TITMA will be created to achieve these goals through a combination of monitoring and fee-setting activities. The monitoring will include travel demand monitoring, peak and off-peak monitoring and TDM monitoring. Based on this information, the TITMA will set the time and amount of the congestion pricing charges and collect the congestion pricing revenues. The TITMA will set and enforce parking rates and other parking control measures, collect parking revenues and work with Caltrans to establish the ramp metering periods. All revenues collected by the TITMA will be used to pay for public transit facilities and equipment, as well as the ongoing transit and ride share operating costs of Treasure Island.

E. Key Public Benefits

The redevelopment of Treasure Island will provide an extraordinary package of public benefits that generally fall into the five categories described below.

1. Affordable Housing

Housing, particularly below-market rate housing, is vitally needed in San Francisco. The redevelopment of Treasure Island will create up to 8,000 new homes (the current financing plan models a 7,540 unit project). The Housing Plan element of the Development Plan is based on the following guiding principles:

1. Establish and promote Treasure Island as a place for families and children, with a diversity of housing types and a spectrum of amenities that serve the needs of families with children
2. Provide 30 percent of all homes (approximately 2,260 units based on the 7,540 total residential unit program) at below-market rates affordable to a spectrum of household incomes and household types
3. Phase the affordable housing in with the development of new market rate homes and ensure sensitive and appropriate transition of the households occupying the existing housing

Establishing Treasure Island as a place that is attractive to families and children begins with the most fundamental elements of the Land Use Plan. By creating a dense, pedestrian and transit-oriented development, Treasure Island will offer easy access to a range of family-friendly amenities like schools,

child care, neighborhood-serving retail, parks, recreation and open space and community services. In addition, approximately 30% of all housing units will be appropriately sized for families (two or more bedrooms), compared to the current citywide average of 15% for new housing construction, and the 20% recommended for new developments by the Mayor's Policy Council on Children, Youth and Families.

The approximately 2,260 new, below-market rate, affordable housing units that will be created through the redevelopment of Treasure Island will be made available to a range of income levels. TIDA and TICD have worked closely with TIHDI and the Mayor's Office of Housing to develop the affordable housing program set forth in the Development Plan. Under that plan, the affordable housing on Treasure Island will be delivered in three ways.

Treasure Island Homeless Development Initiative. TIHDI will develop and operate approximately 435 new housing units, an increase of 185 units over their current portfolio. These homes are and will be affordable at extremely low income levels and are directed to formerly homeless individuals and families.

Inclusionary Units. TICD and other third party market rate builders will be required to provide 5 percent of all market rate homes (currently estimated at approximately 275 units based on the 7,540 unit total residential program) as Inclusionary affordable units. Rental units will be priced for households earning no more than 60 percent of Area Median Income (AMI) and for-sale units will be priced for households earning no more than 100 percent of AMI.

TIDA Units. TIDA will partner with local affordable housing developers to construct the remainder of the affordable housing program that comprises 30% of all residential units, currently estimated at approximately 1,550 homes. TIDA will determine the final tenure split, affordability levels and other characteristics of these homes but it is expected that these units will serve the income levels between the TIHDI units and the Inclusionary units with an average affordability of 50 percent of AMI.

The affordable housing units will be phased in with new development such that at each major phase of the project 30 percent of all units are affordable. The affordable units will be generally distributed throughout the various residential areas and across product types.

2. Parks, Open Space and Recreation

The redevelopment of Treasure Island will create approximately 300 acres of new parks, open space and recreational amenities that will benefit San Franciscans, the entire Bay Area and visitors from all over the world. The open space elements of the land use plan are designed to effectively program this new park land with a variety of active and passive uses, including:

- A shoreline path for pedestrians and bicycles around the entire perimeter of Treasure Island and form an extension of the San Francisco Bay Trail; pedestrian and bicycle paths would continue on Yerba Buena Island to connect to the new pedestrian and bicycle path on the eastern span of the Bay Bridge and from there to the Bay Trail in the East Bay. The proposed alignment would also allow the Yerba Buena Island pedestrian and bicycle facilities to connect to any future pedestrian and/or bicycle path added to the western span of the Bay Bridge. The shoreline path and regional Yerba Buena Island facilities would be part of a network of bicycle and pedestrian trails connecting the various land uses that would serve as a recreational exercise system.
- The Northern Shoreline Park forms an approximately 100-acre park with stormwater wetlands, passive open space, the existing sailboarding launch area, and space for an environmental education center that would likely have a gift shop, small café, interpretive center, and classrooms.

- About eight neighborhood parks and playgrounds of 7,500 to 15,000 sq. ft. each in the Cityside neighborhood, some with community gardens, and connecting linkages between parks.
- A linear park connecting the Island Center and Eastside neighborhood to the Eastside Shoreline Park.
- Off-leash dog park areas.
- Spaces for public and private permanent and temporary art installations, including space in the Cityside Waterfront Park on the western shoreline and the Cultural Park across from Building 1 (see below), and spaces for festivals and other special events.
- Urban Agricultural Park, an approximately 20-acre demonstration organic urban farm in the center of Treasure Island, with composting facilities to compost the portion of the green waste projected to be generated by households on the Islands, a plant nursery, and possibly some greenhouses. The compost would be used in the park and in other open spaces.
- Sports Park, a regional recreational park of up to 40 acres with a variety of athletic fields and associated facilities. The facilities may include courts and fields for baseball (including batting cages), softball, soccer, rugby, and volleyball, as well as associated services such as a concessionaire, parking, and rest facilities.
- Yerba Buena Island natural open space (about 80 acres), including a 5- to 6-acre hilltop park, trails connecting the hilltop park to the shore and Treasure Island, improved and managed natural habitat areas, a beach, and the Nimitz Gardens.

3. Sustainability

A major component of the redevelopment project is the *Sustainability Plan*. The *Sustainability Plan* documents the guiding principles for the Development Program and identifies implementation measures to be undertaken by TICD and other stakeholders. The *Sustainability Plan* includes a framework that encompasses ten key focus areas: (i) site design and land use; (ii) landscape and biodiversity; (iii) transportation; (iv) energy; (v) water and wastewater; (vi) solid waste; (vii) materials; (viii) health, safety, and security; (ix) community and society; and (x) economic development and viability.

A series of specific goals and obligations has been established for each of the focus areas; the plan includes strategies and targets to support each goal. Many of these measures are integral to the Development Program, and are intended to facilitate progressively higher levels of sustainability over time. These include the proposed residential densities, proximity to transit facilities, orientation of streets and buildings, and green building specifications which would apply to all new construction. In addition, the project includes strategies intended to achieve Gold certification under the Neighborhood Development program of the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED-ND) rating system, and TIDA and TICD have committed to making good-faith efforts to achieve Platinum certification.

Because new technologies and higher performance standards would likely emerge during the phased buildout of the Development Program and beyond, the *Sustainability Plan* also describes goals, strategies, and targets that could be achieved through collaboration between TIDA, TICD, other government agencies, utility providers, and various organizations. These include a number of proposed transportation strategies, including transit-oriented development, parking capacity controls, congestion pricing, ramp metering, and a comprehensive TDM program, including the establishment of an on-island transportation management agency, intended to achieve greater sustainability through reduced automobile use. Other strategies include provision of infrastructure to maximize the on-site production of renewable energy as technologies and delivery mechanisms become available through partnerships with utility providers,

public agencies and private parties; and a parks and open space program to create, restore and maintain habitat and landscape areas, and other features that would reduce potable water usage.

The project's focus on the "triple bottom line" (social, economic and environmental) approach to sustainable community development and the commitments made by TIDA and TICD, have garnered state, national and international recognition and awards. In 2008, the Governor gave the project plans the State's highest environmental award, the Governor's Economic and Environmental Leadership Award in the Sustainable Communities category for its comprehensive approach to addressing greenhouse gas emissions reductions and integrating principles of sustainable development. In 2008, the project also received the prestigious American Institute of Architects' Honor Award for Urban Design from a pool of international projects. And in May 2008, the Clinton Climate Initiative and the US Green Building Council selected the project as one of sixteen founding projects worldwide to partner with them in their Climate Positive Development Program to demonstrate how large scale urban developments could achieve carbon neutrality and provide replicable business models for the real estate development community across the globe.

4. Jobs and Economic Development

It is currently projected that the redevelopment of Treasure Island will generate up to 2,000 construction jobs annually over the 15 to 20 year build out of the project and 2,500 to 3,000 permanent jobs at project completion. To best direct these jobs for the City's benefit, the Development Plan includes a jobs, economic development and equal opportunity program to provide job training and employment to formerly homeless and economically disadvantaged persons and other residents of San Francisco consistent with the project's unique infrastructure and vertical building needs that will require specialized workforce construction trades labor. The programs establish participation goals for construction and permanent workforce employment of (i) 25 percent of jobs to be filled by qualified formerly homeless or economically disadvantaged persons and (ii) 50 percent of jobs to be filled by San Francisco residents both consistent with collective bargaining agreements customary in San Francisco. TIHDI and other appropriate partners would act as job brokers interfacing with potential employee candidates and coordinating with job training agencies. The program would leverage the success of CityBuild to interface with developers and contractors. In addition, under the Development Plan, 41% of the dollar value of all construction work and 38% of the dollar value of professional service contracts are targeted for local Small Business Enterprises ("SBEs"). The Development Plan also incorporates provisions from the 1996 TIHDI Agreement that grant TIHDI various economic development opportunities. These opportunities are intended to create even more jobs for formerly homeless and economically disadvantaged San Franciscans through revenue generating business opportunities such as building deconstruction, grounds maintenance, building maintenance, and recycling.

The Development Plan also demonstrates a commitment to good labor relations through TICD's agreement to adhere to the City's prevailing wage and card check neutrality laws. TICD has also indicated its intention to enter into a Project Labor Agreement with the San Francisco Building and Construction Trades Council and its affiliates

5. Community Facilities, Transition and Interim Management

The Development Plan includes a community facilities program, a plan for sensitively and appropriately transitioning households occupying the existing housing throughout the redevelopment process, and improved interim operations and maintenance.

Community Facilities. Building a new community on Treasure Island requires building the physical infrastructure necessary to fulfill public safety and operational needs, provide social services and programs, and create social linkages across different backgrounds, income levels and age groups. The Development Plan includes a complete spectrum of community facilities such as a joint use police and fire station, a wastewater and recycled water treatment facility, an open space maintenance/corporation yard, a recycling center and office space for TIHDI, TIDA and the transportation coordinator. In addition, key “community-building” spaces include the neighborhood serving retail area at the ferry quay, a main Treasure Island community center and visitors welcome center in Building One, a refurbished Treasure Island Museum (also in Building One), a neighborhood reading room/library, space for adult and senior service programs, youth centers, community information boards, and community gardens. Educational facilities include plans to reopen the Treasure Island school, child care space, both center based and family based, the Delancey Street Life Learning Academy, and substantial recreational amenities as part of the open space program.

The Development Plan will provide a healthy array of basic community services and facilities. In addition, TIHDI and its member organizations will provide services specific to the needs of their population. Additional community services are expected to be provided in organic fashion, as with any neighborhood, based on the actual population that moves to Treasure Island, their specific needs, and available local, state, federal and private funding, and the active participation of the City’s non-profit and business communities.

Housing Transition. Treasure Island currently houses an existing community of residents. Most of the existing housing will be retained and occupied through the last phase of the Project’s build-out to avoid unnecessary impacts to existing residents. Under the Development Plan, TICD is required to provide interim property management and maintenance services to Treasure Island until the build-out is complete. Furthermore, during construction, specific measures will be undertaken to reduce the effects of construction impacts on existing residents. Existing households also will be given preferential rights to move into both new market rate and, to the extent existing households qualify, below-market rate housing. The Development Plan retains all commitments made to qualifying households living on the island at the time the TICD DDA is approved to remain part of the new development. As part of the overall redevelopment project approvals, TIDA and TICD will develop specific transition policies and programs to effectuate a successful transition program.

F. Financing

The Financing Plan is intended to do four main things: (i) explain the project’s basic economics and general financing concepts, including the proposed “sources” and “uses” of funds, (ii) establish the overall financial feasibility of the Development Plan at this point in time, (iii) describe the basic financial transaction structure and (iv) evaluate the fiscal impacts of the project on the City generally.

1. Sources and Uses of Funds.

The costs of TICD making the necessary horizontal improvements to Treasure Island are approximately \$1.5 billion. Those costs are summarized as follows:

Land Payment. Consistent with and as outlined in the EDC MOA Terms, the Development Plan includes the value of the payments to the Navy for the land. This includes \$55 million paid over 10 years, with interest, plus an additional \$50 million upon TICD achieving an unleveraged 18% IRR, estimated in the cashflow in the Financing Plan exhibits to occur in year 11 of the project build out. The total budget for land payments is approximately \$117 million.

Infrastructure Costs. The costs associated with the geotechnical improvements, initial improvements to addressing potential future sea level rise, the replacement and repair of the various infrastructure systems, utility networks and connections, open space improvements certain operations and maintenance, transportation, public service and community facilities and conducting necessary environmental remediation as well as associated soft costs and management costs are expected to total approximately \$1,059 million.

Affordable Housing. The *cost* to the project of providing the affordable housing is approximately \$291 million. Those costs include (i) \$199 million for the cost of providing improved developable pads at no cost to TIHDI and TIDA for affordable housing, and (ii) because reasonably foreseeable subsidy sources alone will not ensure the construction of all of the units, additional gap funding provided directly by TICD in the amount of approximately \$92 million. In addition, \$115 million of the tax increment generated by the project will be combined with other typical funding sources like available tax credits and TICD's gap funding to pay for the vertical construction of TIHDI's and TIDA's affordable units. Thus, the project will directly *contribute* \$406 million towards the creation of affordable housing. Furthermore, because an additional 5% of all of the market rate housing will be provided at below-market rates as part of the project's inclusionary affordable housing program, at a cost to the project of approximately \$113 million, the project's total contribution to affordable housing is approximately \$519 million.

Other Costs: There are several other significant costs associated with the redevelopment of Treasure Island totaling \$227 million that include the following:

- **Transportation Operating Shortfalls in Early Years.** As outlined in the Transportation Plan, the transportation program is designed to be self-sufficient at build out by using fare-box revenues and parking and congestion pricing fees to fund the project's unique transit services and other programs. However, it is expected that in the early years of the project, these revenues will not be sufficient to support these services. To offset this projected shortfall, the Development Plan defines a payment schedule of fixed transportation program mitigation payments to be made by TICD. This total shortfall amount is currently estimated at \$60 million and will be updated prior to entering into any final agreements. These costs do not include MUNI operations, which are covered in the Fiscal Analysis.
- **Historic Rehabilitation and Retail Subsidy.** As part of the Development Plan, TICD will complete the renovation of Building One consistent with the Secretary of the Interior Standards for Rehabilitation and will work with prospective tenants to complete historic renovations on other historic resources in conjunction with an appropriate adaptive reuse, including Buildings Two and Three and the "Great Whites" Officers Housing on Yerba Buena Island. TICD will subsidize the initial phase of retail development, before it is financially viable, to ensure that core neighborhood serving retail uses are developed in the early phases of the project. The amount of the subsidy associated with conducting this work to support a viable mixed-use town center from early phases of the project is approximately \$46.8 million.
- **Planning & Entitlement.** The pre-development planning and entitlement work necessary to secure project approvals from the City and other regulatory agencies and to support conveyance and remediation negotiations with the Navy, including the payment by TICD of all of TIDA's costs, is estimated to cost \$120 million from the initiation of the ENA through the close of escrow under the TICD DDA.

Sources of Funds. Given the need to rely on project-generated sources of capital financing, there are really only two sources of money to pay for the horizontal development costs of redeveloping Treasure Island: (i) private capital and (ii) project-generated public financing tools that leverage tax revenues generated by the project itself and which would not exist but for the development, like tax increment and Mello-Roos bonds.¹

- *Private Capital.* A significant amount of private capital is necessary to support the redevelopment of Treasure Island, including all of the work associated with the planning and pre-development necessary to support the entitlement process. In addition, substantial private capital is required to fund infrastructure development, land preparation and other improvements necessary for redevelopment, much of which must be constructed prior to the availability of the project-generated public financing. Based on current financial projections, it is estimated that TICD's private capital contribution to the project will be approximately \$549 million.
- *Mello Roos Bonds.* This financing mechanism requires developers and/or tenants and residents of new, market-rate development to pay an additional special tax on top of their regular annual property tax bill. The proceeds from this additional special tax is used to retire debt service from bonds that can be issued upfront to cover the costs of eligible public infrastructure, such as utilities, roads, geotechnical improvements and development of open space. Mello Roos bonds have been used in large-scale suburban development projects in California for decades, and more so recently in urbanized areas. Mello Roos bonds are not an investment of City dollars into the project; they are a self-appointed tax on the development that will ultimately be paid by the market-rate residential unit owners and commercial tenants. Mello Roos special taxes will not be levied on existing tenants or TIDA's or TIHDI's affordable housing units. Based on the overall value of the proposed development, Mello Roos bond proceeds are expected to total approximately \$421 million at Treasure Island.
- *Tax Increment Financing.* In a redevelopment area such as the one proposed for Treasure Island, the net new property tax revenues generated by the new development can be dedicated to affordable housing and eligible capital improvements of public infrastructure. Tax increment financing is typical of urban redevelopment projects in California as a means for redevelopment activity to self-finance necessary improvements via tax revenues that would not exist but for the redevelopment activity itself, which the tax increment financing in turn supports. All of the available tax increment generated by redevelopment will be used for the purpose of producing new affordable housing and the construction of public infrastructure like parks, roads, transportation infrastructure, utilities and geotechnical reinforcement of Treasure Island. Overall, it is estimated that approximately \$524 million will be available from tax increment financing.

The Development Plan Update also contemplates that certain public facilities – specifically, the joint police/fire station and public parking garages – could be financed by lease revenue bonds, certificates of participation or other financing mechanisms. The expectation is that if these vehicles are utilized, along with obtaining any requisite approvals, the project would pay all debt service and financing costs from project-generated sources such that there was no cost to the financing entity.

2. Financial Feasibility

The enormity of the up-front costs necessary to develop Treasure Island presents one of the project's greatest challenges. \$140 million of private capital must be spent on the project before the first parcel is sold and the private investment of almost \$550 million that the project requires is not projected to achieve

¹ In order to qualify for tax-exempt status, the proceeds of these types of financing are generally limited to public uses like infrastructure, streets, and parks.

break-even until 2017. An updated project cashflow is included in the Financing Plan exhibits, to estimate the annual timing of all of the expected revenues and costs associated with the project. Based on the updated cost, revenue and timing assumptions, TICD and TIDA believe that the cashflow demonstrate the feasibility of the project.

3. Transaction Structure

The transaction structure outlined in the Development Plan Update is amended from the 2006 Development Plan to be consistent with the EDC MOA Terms. The transaction structure is designed to allow TICD to receive a commercially reasonable market rate return on its investment of private capital, with TIDA participating with the Navy in any profits that exceed market expectations. Perhaps most importantly for the City, TIDA does not bear any of the risk if the targeted returns are not achieved; the key public benefits that are embodied in the project – like affordable housing, parks and open space, and community facilities – are treated in the Financing Plan as net horizontal project costs and, thus, must be provided by TICD prior to and regardless of their economic return. The proposed transaction structure would distribute the net project revenues as follows:

- First, 100% to TICD, until TICD has achieved a cumulative 18% annual internal rate of return (“IRR”) as calculated on TICD’s unleveraged cash flow;
- Second, 100% to the Navy, so long as TICD’s IRR remains at 18%, until the Navy has received \$50 million;
- Third, to 100% to TICD, until TICD has achieved a cumulative unleveraged 22.5% annual IRR;
- Fourth, to be split 55% to TICD, 10% to TIDA and 35% to the Navy until TICD has achieved a cumulative unleveraged 25% IRR; and
- Fifth, the remainder to be split 50% to TICD, 15% to TIDA and 35% to the Navy.

4. Vertical Development

While the Financing Plan is focused on the horizontal development of Treasure Island, it relates to the project’s vertical development in three important ways.

First, after TICD completes the horizontal development for each phase of development and the improved land is subdivided into marketable lots or blocks, much of the land will be transferred back to TIDA or TIHDI for affordable housing development, or will be retained by TIDA and/or dedicated to the City for streets, open space, community facilities and other public uses, all at no cost to TIDA, the City or TIHDI.

Second, the remaining finished parcels that are slated for private development under the Development Plan will be sold for vertical development as follows:

- 20% of the market-rate residential units may be sold via a blind auction or other mutually agreeable process to qualified third party builders (not TICD affiliates) subject to a minimum bid price for the land uses permitted in the Development Plan.
- 20% of the market-rate residential units may be sold subject to an appraisal process directly to a joint venture in which TICD or one of its affiliates can participate, but cannot serve as the managing member during the design and construction phase.
- 60% of the market-rate residential units may be sold subject to an appraisal process directly to TICD or one of its affiliates for development.

- TICD and its affiliates will have the right to develop 100% of the vertical commercial development, including the hotels.

The purpose of this allocation – as opposed to simply letting TICD affiliates do all of the vertical development - is twofold: (i) to create more development and architectural diversity within the project and (ii) to “benchmark” land prices to assist the appraisal process described below.

To the extent TICD and affiliated companies participate in the vertical development, they will pay full fair market value for the land, just as any third party developer would, pursuant to an appraisal process to be set forth in the TICD DDA. In order to uphold the overall quality of the development, the TICD DDA will require that any third party builder be qualified to perform the proposed vertical development and TICD affiliates also must have similar creditworthiness and development experience. All vertical development also will be subject to design guidelines set forth in a Design for Development document and processes set forth in a Design Review and Development Application Procedure document incorporated in the TICD DDA.

Third and finally, as an added layer of financial protection for the City and TIDA, the Development Plan provides that the sales of finished lots for vertical development – to a TICD affiliate or a third-party - will generally be subject to a separate profit participation (defined in the EDC MOA Terms as an “Excess Land Appreciation Structure”). Through this vertical profit participation, TIDA and the Navy would share in the profits of vertical development to the extent a particular project’s profitability exceeds thresholds agreed upon at the time of the lot sale. For purposes of calculating TIDA’s and the Navy’s shares of horizontal profits (as described above in the transaction structure), net project revenues will include proceeds from this vertical profit participation.

5. General Fund Fiscal Analysis

Overall municipal revenues and service costs associated with the new development of Treasure Island are measured by a Fiscal Impacts Study, included in the Financing Plan exhibits. This analysis measures the net increase in revenues accruing to the City’s General Fund from the new development and the net increase in expenses associated with providing additional public and community services like MUNI, police, fire, DPW, public health, 311, 911, elections, etc., as a result of the development. These net impacts are compared against the baseline represented by the current revenues and costs associated with the present use and operations of the Islands, without any new development. As shown on the Fiscal Impacts Study attached to the Development Plan Update, net annual fiscal revenues accruing to the City are expected to be greater than net annual costs of providing services from project initiation through project build-out. On an annual basis, at project build out the net increase over the current baseline is estimated to be \$13 million. Over the 20 year timeframe of the cashflow in the Financing Plan exhibits, the General Fund is projected to experience a \$144 million net positive impact as compared against the baseline. In addition, there are certain tax revenues created by the project that are restricted, non-General Fund revenues that would generate an additional \$2.1 million annually at project build out.

G. Keys to Enforcement

In order for the City to realize many of the public benefits provided by the Development Plan, the project must move forward and be implemented in the manner set forth in the Development Plan. The Development Plan incorporates a number of protections to ensure that result.

First, the Development Plan is based on an enormous amount of analysis and due diligence. Among other things, the financial and other technical assumptions underlying the Development Plan have been thoroughly vetted. The infrastructure plans are far along for a project at this stage and, thus, the resulting

cost estimates are more reliable. Similarly, the revenue projections are based on detailed residual land value analyses broken out by product type and based on extensive current supporting data, each of which are attached to the Financing Plan. And everything from the subsidy projections for the affordable housing component in the Housing Plan to the mode-split assumptions in the Transportation Plan, to that tax-increment projections in the Financing Plan, have been reviewed and vetted and re-reviewed by both a team of outside consultants and experts from within the City and other governmental agencies, including, among others:

- TIHDI
- Mayor’s Office of Housing
- Bay Area Water Transit Authority
- San Francisco County Transportation Authority
- MUNI
- AC Transit
- San Francisco County Transportation Authority
- Public Utilities Commission
- Planning Department
- SF Redevelopment Agency
- Department of Public Works
- San Francisco Fire Department
- San Francisco Police Department
- Department of Children, Youth and Their Families
- Department of the Environment

And, as noted previously, each of the elements of the Development Plan have been carefully reviewed in multiple iterations in multiple public forums, including the TI CAB, the TIDA Board, the Land Use Committee of the Board of Supervisors and a variety of additional public workshops.

Second, the Development Plan provides that the final disposition and development agreements will include a number of specific protections to ensure the project is delivered as promised. For example, permitted land uses will be codified in a project-specific redevelopment plan that cannot be amended without TIDA and Board of Supervisors approval and affordable housing provisions will be formally codified in deed restrictions that “run with the land”. As set forth in the Development Plan, the final disposition and development agreements will also include detailed design guidelines and specific procedures for securing approvals for each vertical development project. The final agreements will also establish the full extent of TICD’s responsibilities under the various sustainability, transportation, affordable housing and other elements of the Development Plan, including related phasing plans and schedules of performance, and TIDA will retain a number of remedies if TICD defaults in those obligations, including, in certain circumstances and subject to certain conditions, the “right of reverter” – the right to take the land back from the developer.

Third, for each major phase of development, TIDA will not be required to transfer land to TICD for development until a wide-range of “closing conditions” have been satisfied for that phase, including TIDA’s approval of required construction documents supported by detailed cost estimates and evidence that TICD had secured sufficient financial commitments, including performance bonds and/or completion guarantees, to complete the work pursuant to a budget approved by TIDA.

Fourth, and finally, the fact that the costs of developing Treasure Island are so heavily front-loaded means, as a practical matter, that if TICD starts this project, TICD will very likely have to finish it. Because the Development Plan calls for TICD to construct various major infrastructure improvements first, like the seismic stabilization of the perimeter of the entire island, the seismic stabilization of the causeway, the construction of the ferry quay and the construction of reinforced utility corridor, TICD will be required to invest hundreds of millions of dollars of private capital before a single home or other revenue generating property can be sold or leased. As a result, TICD will have an extraordinarily strong financial incentive to complete the development in a manner consistent with the Development Plan and in compliance with the terms and conditions of the final development agreements.

IV. OVERVIEW OF TIHDI TERM SHEET

Federal law governing the closure and reuse of former military bases requires the established Local Reuse Authority, which is TIDA in the case of former NSTI, to propose a plan that provides for the use of buildings, property and other resources on and off the base to assist homeless persons in the community. Based on this, TIHDI was formed in 1994 as a coalition of member organizations and submitted a Notice of Interest to the City in 1995 requesting use of certain buildings and proposing various programs on the base to serve homeless and economically disadvantaged persons.

The City and TIHDI then developed the 1996 TIHDI Agreement, which outlined the terms for TIHDI's use of facilities and resources to fill gaps in the continuum of care for homeless individuals and families in the City. Generally, the 1996 TIHDI Agreement described the terms under which TIHDI (i) could utilize up to 375 units of existing former military housing on an interim basis, (ii) had the right to new housing opportunities as part of redevelopment of the base, (iii) would receive certain rights to economic development opportunities, (iv) would participate in a permanent employment program related to activities on the base, and (v) could receive certain financial support and facilities. Because environmental review under CEQA has not been completed, the 1996 TIHDI Agreement has not been executed.

A. Interim Activities Consistent with 1996 TIHDI Agreement

Over the past decade, TIDA and TIHDI have effectuated many of the policies of the 1996 TIHDI Agreement as part of the interim use of the islands. These include:

- Housing. Today, TIHDI member organizations operate 250 units of supportive homeless housing through subleases with TIDA.
- Economic Development Opportunities. TIDA has entered into contracts with TIHDI member organizations for certain services, including building janitorial services through Toolworks and landscaping services through Rubicon. In addition, TIDA has entered into an agreement with a joint venture of TIHDI, Toolworks and Wine Valley Catering to manage TIDA's special events venues.
- Community Services. TIHDI member organization Catholic Charities currently operates the childcare center on the island. The Boys and Girls Club of San Francisco, also a TIHDI member organization, operates a clubhouse on the island. TIHDI also provides a food pantry, a community center in the Shipshape Building and an economic self-sufficiency program.

TIHDI also generates revenues through a Sharing Agreement with TIDA, entered into in 1999. In 1999, TIHDI elected to enable TIDA to utilize a portion of TIHDI's right to 375 units as market rate units. In exchange, TIHDI receives a percentage of the rent distributed to TIDA under the terms of the sublease and property management agreement with the John Stewart Company. This enabled TIHDI to generate revenues necessary to support renovation of existing housing units for its occupancy as well as for ongoing support programs. It also enabled TIHDI to receive 54 units in 2007 that had already been renovated by the John Stewart Company.

Today, TIHDI is a coalition of 9 member organizations that provide housing, support and community services and job training and employment opportunities, which include Catholic Charities, Community Housing Partnership, Rubicon Programs, Haight Ashbury Free Clinics, Swords to Plowshares, Walden House, Mercy Housing, Toolworks and Boys and Girls Club of San Francisco.

B. Redevelopment Planning

The 2006 Development Plan with TICD included terms related to TIHDI's participation in the redevelopment project via new housing and economic development opportunities. The Housing Plan section of the 2006 Development Plan outlined TIHDI's right to 435 new units and the Jobs and Economic Development section outlined general terms for TIHDI's participation in economic development opportunities consistent with the 1996 TIHDI Agreement. The 2006 Development Plan also acknowledged that, ultimately, TIHDI's participation in the redevelopment project would be memorialized in an agreement directly between TIDA and TIHDI that would supercede the 1996 TIHDI Agreement.

C. TIHDI Term Sheet

The proposed TIHDI Term Sheet would become the basis for the full Amended and Restated TIHDI Agreement), which would be submitted as part of the overall redevelopment project approvals after completion of environmental review under CEQA. The TIHDI Term Sheet is consistent with the current development program, economic assumptions included in the Development Plan Update and TIHDI's current interim use of and activities on the property.

1. Housing Component

Over the past year, TIHDI has convened a housing advisory committee that included representatives from TIHDI and its member organizations, the Mayor's Office of Housing, the San Francisco Redevelopment Agency and the Department of Health and Human Services. Staff from OEWD also participated where appropriate. The advisory committee provided recommendations to TIHDI regarding potential program structures for delivering its new units as part of the overall redevelopment project. These recommendations have informed the discussions between TIDA and TIHDI staff resulting in the attached TIHDI Term Sheet. The Housing Component section of the proposed TIHDI Term Sheet includes the following key terms:

New TIHDI Units. TIHDI and its member organizations have the right to construct 435 new units of supportive homeless housing. This includes 250 units for which the project will provide free land and a subsidy for the construction of the vertical buildings and 185 pad units for which free land will be provided.

Replacement of Existing TIHDI Units. TIHDI will not be required to permanently vacate the 250 existing TIHDI units until the 250 replacement units have been constructed on Treasure Island to ensure there is no displacement of existing TIHDI households. The redevelopment project phasing plan is consistent with this concept.

Subsidy for Construction of TIHDI Units. TIDA will provide vertical construction subsidy equal to a minimum of \$12,750,000. This is calculated by multiplying the 250 replacement units times \$51,000, which is the vertical construction subsidy that TICD will be required to pay TIDA for each TIHDI replacement unit under the terms of the TICD DDA. TIDA will also provide additional tax increment and other project-generated gap funding, to the extent necessary and available, to enable construction of the TIHDI replacement units consistent with the program for delivery of the new units as agreed to by TIDA and TIHDI.

Program Delivery and Phasing. Neither TIDA nor TIHDI know at the current time, nor is it anticipated that it will be known at the time the Amended and Restated TIHDI Agreement is finalized, in what form the replacement units will ultimately be delivered. Variables in this equation include the specific supportive housing program (i.e. permanent versus transitional), provider, unit types and sizes, configuration of buildings and the potential for mixing TIHDI units in TIDA affordable buildings, among others. Consequently, the TIHDI Term Sheet envisions a process in which TIDA and TIHDI meet and confer at the time TICD submits a major phase application to agree on key terms, including:

- The locations and sizes of the land pads for the new TIHDI units.
- The program for delivery of the TIHDI units based on:
 - The then current programs and TIHDI's current preference to retain those programs.
 - TIDA and City policy priorities regarding affordable, supportive housing and supportive homeless housing.
 - Available capital funding programs that are not project generated (i.e. state and federal affordable housing funding programs).
 - Operating issues, including available operating subsidies and operating efficiencies associated with certain building sizes.
- The schedule of delivery of developable pads by TIDA to TIHDI and subsidy for the construction of the units.
- Whether it is feasible and appropriate for TIDA to include any additional homeless housing units above the 435 available for TIHDI.

2. Jobs and Equal Opportunity Program

The 2006 Development Plan included a Jobs and Equal Opportunity Program ("EOP") that was a term sheet level vision for the implementation of the relevant concepts in the 1996 TIHDI Agreement as part of the overall redevelopment project. That exhibit, in its entirety and without modification, is attached in to the TIHDI Term Sheet as Exhibit D to reflect the agreements to date on the economic development and support components. These elements will be further detailed in both the future Amended and Restated TIHDI Agreement and the TICD DDA. Key elements of the term sheet that are related to TIHDI's economic development opportunities include:

Employment and Contracting Opportunities and Goals. Outlines participation goals for construction and permanent employment created as part of the redevelopment, specifically that 25% of jobs be filled by homeless or economically disadvantaged persons (defined as San Francisco residents at or below 50% of area median income) and 50% by qualified San Francisco residents consistent with the specialized construction needs to be undertaken by San Francisco's building construction trades unions.

Job Broker Placement System. The EOP program envisions a job broker system in which TIHDI ensures that screened, eligible, qualified and economically disadvantaged persons are timely referred to the appropriate developer, contractor or businesses which are hiring under the employment goals. The program also envisions collaborative relationships with existing City and non-profit entities providing workforce development services including, but not limited to, CityBuild and the City's Building and Trades Council.

Additional Economic Development Opportunities. Consistent with the 1996 TIHDI Agreement, the EOP program outlines TIHDI's right to negotiate market-rate contracts for its member organizations for certain services such as deconstruction activities, grounds maintenance, janitorial/building maintenance and

recycling. In addition, the program provides TIHDI and its member organizations the right to propose at least three economic development opportunities that facilitate job training and employment, and TIDA and TICD will negotiate in good faith spaces for these opportunities.

V. OVERVIEW OF TERMS OF EDC MOA WITH NAVY

A. Base Closure Process

In 1993, the Defense Base Closure and Realignment Commission (BRAC) recommended closure of NSTI. Responsibility for disposal of the surplus property was delegated to the Navy. In 1997, the Navy officially ceased operations at NSTI. Under the BRAC process, the Navy conveyed portions of former NSTI to three separate federal agencies. Approximately 39 acres of land on Yerba Buena Island were conveyed to the United States Coast Guard for their facility on Yerba Buena Island. Approximately 18 acres on YBI were conveyed to the Federal Highways Administration, which was subsequently conveyed to the California Department of Transportation for construction of the new East Span of the San Francisco-Oakland Bay Bridge. And approximately 37 acres on Treasure Island were transferred to the U.S. Department of Labor for the creation of the Treasure Island Job Corps campus, which continues to operate today. The remaining land acres of former NSTI that will be conveyed to TIDA include approximately 368 acres on Treasure Island and 93 acres on Yerba Buena Island, as well as 540 acres of submerged lands (water surrounding both islands).

B. Transfer Discussions Between TIDA and the Navy

In 2000, TIDA submitted an application to the Navy for an Economic Development Conveyance ("EDC") requesting the 1,001 acres of former NSTI. The 2000 application was based on the land use program and plan in the City's 1996 Draft Reuse Plan approved by the U.S. Department of Housing and Urban Development. The EDC transfer mechanism enables the Navy to convey property directly to the LRA (TIDA) in a flexible manner that supports economic development and job creation for reuse of the former military property. In 2007 TIDA submitted an Amended EDC Application based on the 2006 Development Plan. In the Amended EDC Application, TIDA offered compensation to the Navy valued at \$40 million as well as a profit participation component that provided the Navy 25% of net project revenues consistent with the transaction structure in the 2006 Development Plan. Subsequently, the Navy prepared an appraisal valuation of the property based generally on TIDA's endorsed 2006 Development Plan that estimated the value of NSTI at \$250 million. TIDA prepared a countervailing appraisal valuation using the same appraisal instructions utilized by the Navy, which estimated the value of the property at approximately \$22 million.

Consistent with TIDA's offer in the Amended EDC Application, TIDA urged the Navy to utilize a financial transaction structure for conveyance of the property that would compensate the Navy consistent with a profit participation component based on the actual performance of the redevelopment project (actual costs, revenues and timing). This is a common real estate transaction structure and the fairest way to bridge the gap between estimations of land value based on projections of costs and revenues over a 15-20 year time period, an inevitably difficult and somewhat arbitrary task. In October 2009, the President signed the 2009 National Defense Authorization Act, which included a provision specifically authorizing the Department of Defense ("DOD") to accept as consideration for the transfer of BRAC properties under an Economic Development Conveyance a profit participation component that would compensate the federal government based on the actual financial performance of the project. With this minor but extremely important change to the statutory authority of the Navy, TIDA and the Navy were able to agree to basic financial terms for the conveyance of Treasure Island, memorialized by a meeting in December 2009 between the Mayor and the Secretary of the Navy.

C. EDC MOA Terms

One very important concept that merits highlighting is the fact that these EDC MOA Terms are structured such that TICD will make all payments to the Navy on behalf of TIDA. That fundamental structure is also incorporated into the Development Plan Update and will be included in the TICD DDA. Furthermore, the City will not be required to fund any of the consideration to the Navy and the City's General Fund is insulated from any obligation to pay on behalf of TIDA.

Economic Development Conveyance. Specifies that the transfer will be effectuated via a fair market value Economic Development Conveyance.

Schedule and Transfers. The Navy will convey to TIDA the real property consisting of (i) 1,001 acres of upland and submerged lands, (ii) all buildings, facilities, roadways and infrastructure, (iii) all utility infrastructure on and off the island (not including utility lines on the property of other state or federal entities), and (iv) all personal property owned by the Navy. The property is anticipated to be conveyed via a Finding of Suitability to Transfer (FOST) after the Navy has remediated the parcels. It is anticipated that the initial closing via the EDC MOA will include approximately 60-65% of the land to be conveyed to TIDA. The EDC MOA will include a schedule that anticipates transfer of the property by "no later than" dates based on the Navy's anticipated environmental remediation schedule. The Navy and TIDA will meet annually, at a minimum, to discuss the status of the property conveyance schedule and the Navy's environmental remediation schedule to determine whether, in each party's sole discretion, to amend the conveyance schedule or remediation milestones. TIDA will be required to accept title to the property tendered by the Navy as long as all closing conditions described in the EDC MOA have been satisfied. If the closing conditions have not been satisfied, TIDA may waive the closing condition or extend the closing for the parcel for a reasonable period of time, but will not be required to accept the property.

In order to synchronize the improvements of new ramps connected to the new East Span of the Bay Bridge, Caltrans and FHWA have indicated that TIDA must obtain fee title ownership of the land where the new ramps will be located and the existing viaduct structures are located by early 2011. Consequently, TIDA and Navy staff will work on a separate and expedited conveyance mechanism for these small pieces of property, which will also require separate environmental approvals under CEQA and NEPA.

Consideration. The consideration for the property is based on a guaranteed, fixed initial payment plus additional consideration based on the project achieving certain financial benchmarks.

Initial Consideration. The initial consideration equals \$55 million paid over 10 years in 10 equal annual installments of \$5.5 million, plus a fixed interest rate. The initial payment is made upon the closing of the initial FOSTed parcel of land. The annual payments of \$5.5 million plus accrued interest will be made unless and until the Navy fails to transfer a subsequent parcel on the timeframe of the conveyance schedule included in the EDC MOA. In this case, the payments to the Navy will be tolled until the parcel is transferred. Upon the parcel being transferred, the fixed annual payments continue on an annual basis adjusted for the amount of time that the payment was tolled. For example, if the Navy conveyed the second parcel of land six months late, the subsequent payment would be made upon the transfer of the second parcel and subsequent annual payments would be made 12 months from that new date, with the ultimate result being that the payment of the full \$55 million would be made over 10 years and six months.

The TICD DDA will require that TICD make the initial consideration payments to the Navy on behalf of TIDA. TIDA will also provide a promissory note to the Navy in the principal amount of the initial consideration. The promissory note will be secured by (i) an assignment of rents from all leasing activity on the Islands, and (ii) to the extent the assigned rent revenues are not sufficient, a pledge of net available tax increment that is subordinate to bonded indebtedness secured by tax increment revenues.

Additional Consideration. In addition to the initial consideration, the Navy will receive a profit participation if the project achieves certain financial benchmarks. Specifically, TICD will be required to pay to the Navy (i) all net cash flow after TICD has achieved an 18% cumulative unleveraged internal rate of return (IRR) up to a maximum of \$50 million and (ii) 35% of all net cash flow after TICD has achieved a cumulative unleveraged 22.5% return. If TICD does not achieve these financial return hurdles, the Navy will not receive the additional consideration.

Controls. The 2006 Development Plan outlined a process for TICD to prepare and sell residential and commercial land by either auction to a third party or via appraisal to a TICD affiliate. Specifically, land for 20% of all market rate residential units was required to be sold by auction, land for 20% of the market rate units was required to be sold to a joint venture in which TICD could be no more than 50% of the partnership and the remaining land representing 60% of the market rate units could be transferred to TICD affiliates at a price established by appraisal. The EDC MOA Terms provide more detail on this structure to ensure to the Navy and TIDA that land is appropriately benchmarked and transferred by TICD at fair market values. The controls outlined in the EDC MOA Terms, ultimately to be included in the EDC MOA, are consistent with the Development Plan Update.

The Controls section also establishes certain objective standards, to be defined in and attached to the EDC MOA, under which the redevelopment and land sales process must be carried out. These include guidelines for selecting auction parcels, appraisal instructions and a pool of qualified appraisers. In addition, at each major phase of the redevelopment, TIDA and TICD will determine the location of the auction pads, the qualifications of auction pad bidders, the minimum bid prices for the auction parcels and whether it is appropriate to include a vertical profit participation in the transfer of land to third party builders. The Navy will have the right to object to these major phase decisions if the Navy believes the decisions were not consistent with the objective standards defined in the EDC MOA. This is designed to give the Navy comfort that a fair, arms length transaction process is being conducted through the redevelopment, and provides TICD with a comfort level that as long as it follows the rules and criteria established in the EDC MOA and the TICD DDA that it may move forward with redevelopment without undue delay. In addition, the EDC MOA Terms provide for the Navy receiving regular reports of revenues and expenses, project budgets and audited financial statements.

The EDC MOA will include a provision that limits the fees and exactions as set forth in the TICD DDA to protect the Navy's profit participation potential. In addition, the EDC MOA Terms outlines that proceeds from the sale, lease or equivalent use of the property must be used either to pay the Navy its consideration or for economic development purposes. The document provides a list of what qualifies as economic development purposes and broadly describes the standard capital improvements and planning activities associated with redevelopment and consistent with the infrastructure budget that will be included in the TICD DDA. Proceeds from redevelopment not used for the defined economic development purposes may be recouped by the Navy.

Additional Provisions. Additional provisions included in the EDC MOA Terms include the concept of a dispute resolution procedure that will be more fully defined in the EDC MOA. The EDC MOA Terms anticipate an expedited dispute resolution procedure for issues related to the controls outlined in the EDC

MOA and a general dispute resolution procedure that will govern other significant potential dispute items. The EDC MOA will also include remedies for nonperformance by both parties, as well as specific remedies available to TIDA if the Navy does not convey property within the agreed upon schedule of land transfer included in the EDC MOA.

VI. NEXT STEPS

Endorsement of the package of documents including the (i) EDC MOA Terms, (ii) Development Plan Update and (iii) TIHDI Term Sheet is a key step in establishing the vision for the redevelopment of Treasure Island. These documents provide the basis for completing over the next 9 to 12 months project specific environmental review under CEQA and to convert the terms into detailed final agreements and plans. During that time, many actions need to be completed to commence the redevelopment of Treasure Island, including the following:

Property Conveyance from Navy. TIDA must prepare a final EDC MOA with the Navy for approval by TIDA and the Board of Supervisors.

Redevelopment of the Property. TIDA expects to complete all of the steps necessary to begin implementation of the Development Plan within 9 to 12 months after the Board of Supervisors' endorsement of these documents, including the following:

- ***Disposition and Development Agreement.*** The final transaction documents between TIDA and TICD will include the TICD DDA. The TICD DDA acts like an umbrella agreement that cross-references and incorporates the various agreements and plans that govern both the horizontal and vertical development of Treasure Island, including the form of the vertical DDAs that will govern vertical development, the forms of leases of certain lands on Tidelands Trust property like many of the hotel and retail sites, an Interagency Cooperation Agreement, financing agreements, utility agreements, and environmental implementation agreements with State agencies. The TICD DDA will require approval by TIDA and the Board of Supervisors.
- ***Redevelopment Plan Adoption.*** A redevelopment plan for Treasure Island will be adopted that enable the use of Tax Increment Financing to facilitate infrastructure construction, economic development and the development of affordable housing: the Redevelopment Plan will authorize a Design for Development, to be implemented by TIDA through Design Review and Development Application Procedures. The Redevelopment Plan will require corresponding amendments to the General Plan, Planning Code and Zoning Map. Redevelopment Plan adoption will require approval by TIDA, the Planning Commission and the Board of Supervisors, and the corresponding amendments to the General Plan, Planning Code and Zoning Map will require approval by the Planning Commission and the Board of Supervisors..
- ***Environmental Review under the California Environmental Quality Act (CEQA).*** Project-specific environmental review under CEQA is required for all discretionary approvals related to adoption of the Redevelopment Plan and General Plan Amendment and approval of the EDC MOA, the TICD DDA, the Amended and Restated TIHDI Agreement and other transaction documents. CEQA review will include certification of the EIR by the Planning Commission and TIDA and adoption of CEQA Findings and a Mitigation Monitoring Program by the Planning Commission, TIDA and the Board of Supervisors.
- ***Tidelands Trust Exchange.*** TIDA will execute a Tidelands Trust Exchange agreement implementing the exchange authorized by the State Legislature in 2004 and as updated in 2007 and 2009. The final Exchange Agreement will require approval by TIDA, the Board of Supervisors and the California State Lands Commission.
- ***Amended and Restated TIHDI Agreement.*** TIDA and TIHDI will negotiate the final Amended and Restated TIHDI Agreement, which will require approval by TIDA and the Board of Supervisors.