



Mission Rock Community Facilities District CFD Public Financing, Second Issuance

May 5, 2021

Items 6 and 7

Actions for Consideration by Committee

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

Resolution Approving CFD Special Tax Bonds

Resolution Supplementing Resolution No. 196-20 authorizing the issuance and sale of one or more series of Development Special Tax Bonds for City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services) in the aggregate principal amount not to exceed \$64,900,000; and approving related documents, including an Official Statement, a First Supplement to Fiscal Agent Agreement, Bond Purchase Agreement, and Continuing Disclosure Certificate; and determining other matters in connection therewith, as defined herein.

Resolution approving an IFD Pledge Agreement

Resolution approving certain documents and actions related to a Pledge Agreement by City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) and special tax bonds for City and County of San Francisco Special Tax District No. 2020-1 (Mission Rock Facilities and Services); and determining other matters in connection therewith, as defined herein.

Overview

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



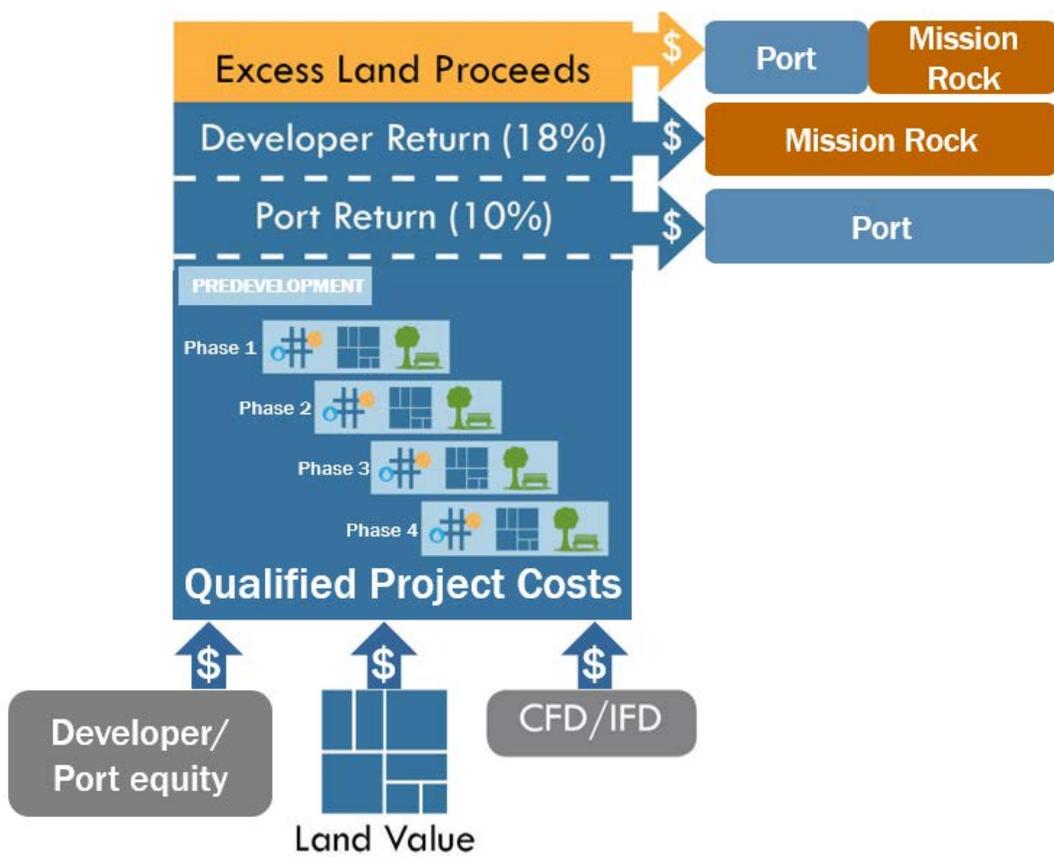
Mission Rock Overall Summary

At full build out:

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



Project Funding Structure



Strategies to limit Developer Capital and Return:

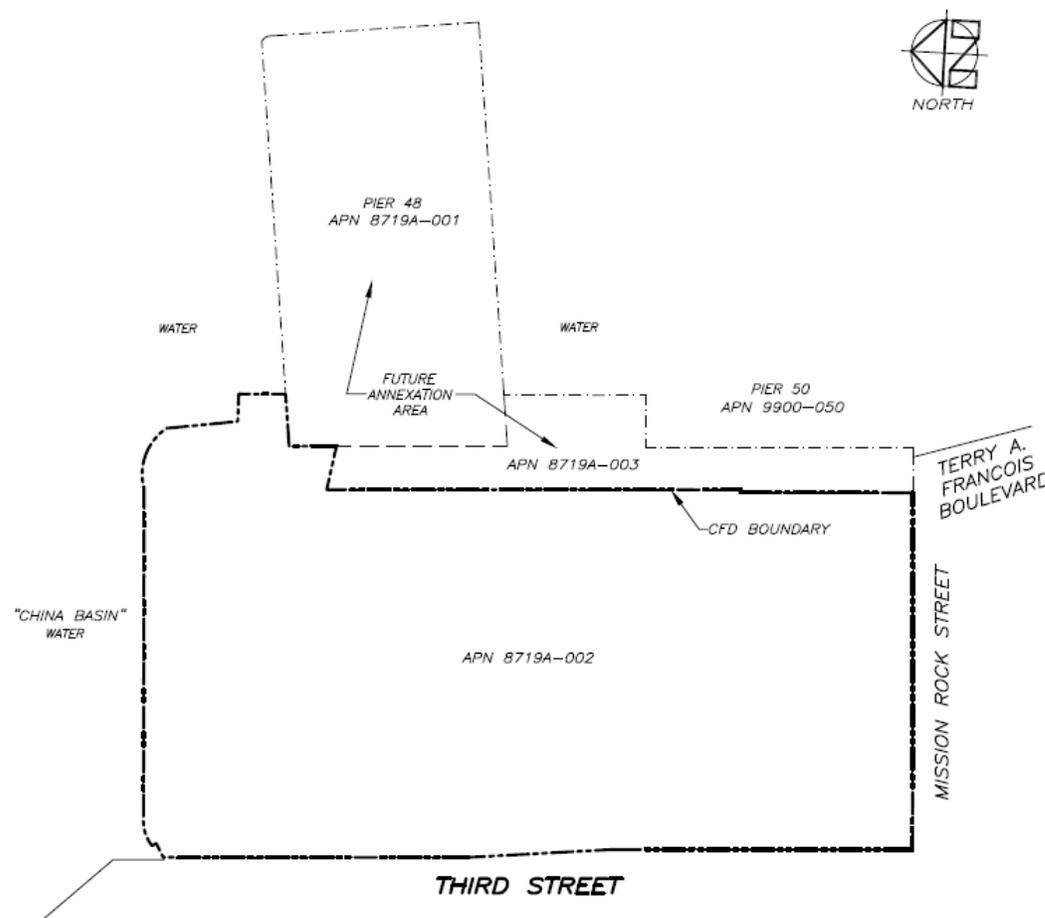
- Use CFD/IFD sources when possible
- Maximize public financing
- Use tax-exempt debt
- Use Port Capital

Overview of Phase 1 Sources and Uses

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

Public Financing Actions to Date

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



CFD Taxes and Uses

Development Tax

- Funds infrastructure and parks
- 40 years bonding authority

Office Tax

- Funds infrastructure and parks
- More flexible than development tax
- Exists for 120 years

Shoreline Tax

- Funds shoreline protection studies and facilities
- Exists for 120 years

Services Tax

- Funds ongoing operations and maintenance for site
- Exists in perpetuity



Bond Issuance Parameters

- Amount of bonds sold limited by two factors:
 1. Appraised value of the CFD
 - The City has a policy of only issuing CFD debt with a 3:1 value-to-lien ratio
 - Prior appraisal valuation of \$130 million, resulting in \$43.3 million in bonds
 2. Ongoing Tax Revenues
 - Requires 110% debt service coverage
 - Expect far in excess of this in ongoing revenues from Phase I
 - Additional taxes will fund future bond issuances

Opportunity for a Second Issuance

- Since date of prior appraisal (October 2020) there have been significant investments in both horizontal and vertical improvements at the site, increasing the appraised value of the land securing the CFD
- Final appraisal has a valuation of \$324.9 million, which results in a maximum of \$108.2 million in land-based Phase 1 bonds.
 - Presents opportunity for a second issuance of up to ~\$64.9 Million
- An additional \$64.9 million in special tax bond proceeds would have significant benefits to the project's economics
 - Note however, that delays in permitting and first bond issuance have had significant detrimental impacts to Phase 1

Estimated Financing Terms

- Final Maturity of September 1, 2051
- Estimated True Interest Cost: 4.17%
- Estimated Bond Proceeds: \$64.8M
- Estimated Cost of Issuance: \$1.5M
- Average Annual Debt Service: 3.97M
- Estimated Total Debt Service: \$119.42M

Source: PFM



Bond Sources and Uses

- Sale of bonds in amount of \$64.9M results in potential total sources of \$64.8M with premium
- Sources and uses shown in table to right; proceeds used to repay eligible Phase I Infrastructure Improvements

Sources	Amount
Bond Proceeds	
Par Amount	\$ 64,900,000
Premium	\$ (70,986)
Total Sources	\$ 64,829,013

Uses	Amount
Improvement Fund	\$ 58,348,064
Debt Service Reserve Fund	\$ 5,005,948
Delivery Date Expenses:	
Cost of Issuance	\$826,000
Underwriter's Discount	\$649,000
Total Uses	\$ 64,829,013

Bond Overview & Risks

- The proposed Bonds will be sold without a rating (“Non-Rated”). The transaction is for new real estate development still underway and would not receive an investment grade rating.
 - Non-Rated special tax bonds have unique credit considerations and risk factors for investors which are discussed in the Official Statement, including:
 - Until fully built-out, all land-secured special tax bonds bear some degree of development risk. In challenging real estate markets, projects may not reach lease-up or sales targets which could lead to inability or refusal to pay special taxes by developers when due.
 - The Bonds are secured by only 1 taxpayer and its affiliates at this time. Staff has attempted to mitigate this concentration of ownership risk by limiting sales of the Bonds to qualified institutional buyers (which are sophisticated investors who can bear the risk of loss associated with defaults on non-rated securities).
- The Bonds are limited obligations of the City, secured by and payable solely from a pledge of the special taxes levied in in the Mission Rock CFD and tax increment generated in IFD Project Area I.
- While the General Fund of the City is not liable for the payment of principal or interest on the Bonds, and the credit of the City is not pledged to the payment of the Bonds, they still carry the “City and County of San Francisco” issuer name and market recognition and thus carry reputational risk for the City.
- The City, on behalf of the District, has covenanted for the benefit of the owners of the Bonds that, under certain circumstances, the City will commence judicial foreclosure proceedings with respect to delinquent special taxes on property within the CFD and will diligently pursue such proceedings to completion.

The Preliminary Official Statement

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



QUESTIONS?