PORT OF SAN FRANCISCO

MEMORANDUM

TO: Honorable Members, Capital Planning Committee

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

SUBJECT: **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; 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 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.

DATE: April 14, 2021

Recommended Action

We respectfully request that the Capital Planning Committee reviews and considers for recommendation to the Board of Supervisors ("The Board") the resolution authorizing the issuance of not to exceed $64,900,000 aggregate principal amount of Development Special Tax Bonds for City and County of San Francisco Community Special Tax District No. 2020-1 (Mission Rock Facilities and Services) ("Mission Rock CFD") ("Bond Resolution") and the resolution 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).

Executive Summary

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

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

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

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

After more than a decade of planning, the Project has broken ground on horizontal infrastructure construction and vertical development. The City will issue bonds using tax increment financing and special taxes to finance horizontal infrastructure at the Project. On October 27, 2020, the Port Commission approved a resolution recommending the issuance of Development Special Tax Bonds. The Board of Supervisors then authorized the issuance of up to $43,300,000 of Development Special Tax Bonds in December 2020.

The City's Office of Public Finance (OPF) and the City's Underwriter, Stifel, Nicolaus & Company, Incorporated ("Stifel") are finalizing a negotiated sale of the previously authorized Development Special Tax Bonds and expect to close on the sale and deliver funds in May 2021. The not to exceed par amount of $43,300,000 that was approved by the Board of Supervisors for the first round of Development Special Tax Bonds reflects a 3-to-1 value-to-lien ratio, based on an appraised value of the taxable leasehold interests in the Mission Rock community facilities district ("Mission Rock CFD" or "CFD") of $130,000,000 as of an October 28, 2020 valuation date.

In the months since the Board of Supervisors approved the initial Development Special Tax Bonds, the Developer and its vertical developer affiliates have undertaken substantial horizontal and vertical improvements in the Project area and paid substantial development impact fees. These improvements and the payment of these impact fees have greatly increased the value of the leasehold interest in the Mission Rock CFD. The latest draft appraisal of the CFD estimates that the market value of the taxable leasehold interests in the Mission Rock CFD as of February 1, 2021 is $ 324,890,000. Because the Project's bond amounts are limited primarily by the value of the taxable leasehold interest in the CFD and the 3-to-1 value-to lien requirement, the Port and City see an opportunity to enhance the Project's economics by quickly issuing a second round of Development Special Tax Bonds supported by the increased leasehold value.

The Port respectfully requests Capital Planning Committee consideration for recommendation to the Board of the attached resolution, which authorizes an additional bond in an amount not to exceed $64,900,000. If the initial series of Development Special Tax Bonds is issued in the principal amount of $43,300,000 and the second (proposed) series of Bonds is issued in the principal amount of $ 64,900,000, the total outstanding principal amount of Development Special Tax Bonds will be $108,200,000, which would comply with the 3-to-1 value-to-lien requirement based on the $324,890,000 appraised value.

STRATEGIC PLAN

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

The item specifically supports the Port's Strategic Plan strategies of Productivity, and Stability:

Productivity. Redevelopment of a surface parking lot into the Mission Rock neighborhood supports the goal of enhancing the economic vitality of the Port. The Port aims to work with City Controller's Office and Board of Supervisors to establish public financing bonds to fund infrastructure development

Stability. Establishment of IFD and CFD financing districts are projected to have capacity to fund a variety of Port capital projects.

PROJECT BACKGROUND

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

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

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

The Project broke ground in December 2020 and the Developer and its vertical developer affiliates are currently constructing horizontal infrastructure and two vertical parcels. This achievement is the result of 11 years of effort, led by the Port Commission, Port and City staff, and the Developer. These efforts include state legislation; neighborhood planning and neighborhood outreach; infrastructure planning and design; shoreline and sea level rise resiliency planning; development of a Special Use District; formation of an infrastructure financing district and community facilities district; and successful collaborations with regulators and partner agencies related to topics like workforce development, affordable housing, transportation, public access, and parks and open space development.

FINANCING BACKGROUND

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

- **Project Costs.** Projected hard costs, soft costs, and return on Developer equity for the Phase 1 Horizontal Infrastructure improvements.
- **Projected Revenues.** Sources include:
    - o The four Phase 1 prepaid ground leases for the vertical parcels
    - o Public financing sources including Community Facilities District (CFD) bond proceeds, CFD pay-as-you-go ("pay-go") taxes (those not dedicated to bond debt service), and Infrastructure Financing District (IFD) pay-go taxes

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

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

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

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

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

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

On April 14, 2020, the Board passed a resolution approving the formation of the Mission Rock CFD. The Mayor signed this resolution on April 24, 2020. On May 5, 2020, after a public hearing and landowner vote, the Board approved a resolution determining a not to exceed limit on bonded indebtedness and other debt of $3,700,000,000 for the Mission Rock CFD, which the Mayor signed on May 15, 2020. Finally, the Board passed an ordinance levying special taxes within the Mission Rock CFD on May 12, 2020, which was signed by the Mayor on May 22, 2020 ("Ordinance 79-20"). Finally, On December 8, 2020, the Board of Supervisors approved a resolution authorizing (i) the City to issue Development Special Tax Bonds in an amount not to exceed $43,300,000, (ii) the execution and delivery of related financing documents, and (iii) a Pledge Agreement to specify repayment of the authorized bonds.

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

The Mission Rock CFD includes four separate special taxes:

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

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

Mission Rock CFD Special Tax Bonds

The proposed Bond Resolution would authorize a second sale of special tax bonds for the Mission Rock CFD, in an amount not to exceed $64,900,000. As with the first Mission Rock CFD bond issuance, the proposed Bonds will be secured by a pledge of the Development Special Tax levied on taxable leasehold interests in the Mission Rock CFD in accordance with Ordinance 79-20 and the Rate and Method of Apportionment of Special Taxes for the Mission Rock CFD ("RMA") adopted at formation.

Bond Sizing and Value-to-Lien Ratio

Two factors limit the amount of CFD special tax bonds sold: 1) the ongoing tax revenue capacity; and 2) an appraisal of the value of the leasehold interests within the CFD. Ongoing tax capacity must be 110 percent of the debt service requirement on any CFD special tax bonds. For example, if the annual debt service payments are $1.0 million, the annual CFD special tax revenue must be at least $1.1 million. For the first bond sale at Mission Rock, the Development Special Tax capacity on the first four parcels will far exceed the coverage required for the initial Bonds, with a not-to-exceed amount of $43.3 million. The expected taxes total $14.0 million per year while the debt service to support the initial $43.3 million bond is $1.8 million for the first year. Therefore, the key constraint leading to the $43.3 million size of the first issuance was the appraised value of the leasehold interests within the CFD.

Because the City will foreclose on the taxable leasehold interests in the Mission Rock CFD if lessees are delinquent in the payment of the Development Special Tax, the value of the leasehold interests – determined by an appraisal – is an important credit consideration for purchasers of the Bonds. Under the City's Amended and Restated Local Goals and Policies for Community Facilities Districts and Special Tax Districts, the City must sell the Bonds to achieve at least a 3-to-1 value-to-lien ratio based on 1) the appraised value or the assessed value of the leasehold interests in the taxable parcels in the Mission

Rock CFD and 2) special tax and assessment debt encumbering such leasehold interests (including the Bonds). This policy means that the value of the leasehold interests in the Mission Rock CFD must be three times the outstanding amount of the Bonds and any other special tax and assessment debt.

Integra Realty Resources, Inc. ("Appraiser") prepared an Appraisal Report dated November 9, 2020, with a valuation date of October 28, 2020, estimating the market value of the leasehold interests within the Mission Rock CFD to be $130,000,000. This appraised value led to the not to exceed par amount of $43,300,000 for the first issuance of Bonds, based on a 3-to-1 value-to-lien ratio.

Since that date, the Developer has spent significant funds on both horizontal and vertical improvements in the Mission Rock CFD and paid substantial development impact fees. On March 31, 2021, the Appraiser prepared an Updated Appraisal Report, estimating the revised market value of the taxable leasehold interests in the CFD to be $324,890,000 as of February 1, 2021.

Using a 3-to-1 value to lien ratio on the latest appraised value yields roughly $108,296,000 in total bond proceeds. After the first issuance of $43,300,000, the remaining not to exceed amount for the Bonds is the principal amount of $64,900,000.

These updated valuations therefore enable a second issuance of Mission Rock Special Tax bonds. Based on the current projected valuation, the Port requests the Board of Supervisors approve a resolution authorizing the approval of a second sale of Special Tax Bonds in a par amount not to exceed $64,900,000.

CFD Bonds, backed by CFD Taxes and Tax Increment

The proposed Bonds will be secured by a pledge of the Development Special Tax levied on taxable property in the Mission Rock CFD in accordance with Ordinance 79-20 and the Rate and Method of Apportionment of Special Taxes for the Mission Rock CFD ("RMA") adopted at formation.

As with the first authorized financing, the proposed second Mission Rock financing will utilize both CFD and IFD sources. The proposed Bonds will be secured by a pledge of CFD Development Special Taxes, but not any of the other three CFD taxes. The CFD structure allows tax increment generated in the IFD to "offset" the CFD Development Special Taxes. The offset increases the value of the Port's land by reducing the long-term tax burden on the site. Under this offset structure, tax increment from one year acts as a credit for the next year's CFD Development Special Tax obligation. Tax increment is expected to be available to offset the CFD Development Special Taxes once the developed property is assessed.

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

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

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

Use of Proceeds

The CFD bond proceeds from this proposed second issuance will finance or reimburse 1) horizontal improvements for the Project, 2) debt service reserve fund, 3) capitalized interest on the CFD bonds, if any, 4) administrative expenses, and 5) costs of issuance.

Table 2 below summarizes the estimated sources and uses for the Bonds, based on current market conditions and the current appraised value.

Table 2. Estimated Sources and Uses of the Special Tax Bonds, Series B 2021

Sources	**Amount**
Bond Proceeds	
Par Amount	$ 64,900,000.00
Premium	$ (70,986.25)
Total Sources	**$ 64,829,013.75**

Uses	**Amount**
Improvement Fund	$ 58,348,064.95
Debt Service Reserve Fund	$ 5,005,948.80
Delivery Date Expenses:	
Cost of Issuance	$826,000.00
Underwriter's Discount	$649,000.00
Total Uses	**$ 64,829,013.75**

Interest Rate and Projected Debt Service

Based upon current market conditions, a 30-year term, and a true interest cost of 4.00 percent, which assumes the issuance of Bonds on a tax-exempt basis, staff estimates an average annual debt service of approximately $4.0 million. The anticipated total par amount of $64.9 million is estimated to result in approximately $54.5 million in interest payments over the life of the Bonds. The total debt service over the life of the Bonds is estimated at approximately $119.4 million.

Benefits to the Port and the Project

CFD Bonds, anticipated to be priced with interest rates between 3.25 and 4.0 percent, will repay developer equity earning the higher of an 18 percent return or 1.5 times peak equity for the phase. The Port determined that the 18 percent return was a market-based rate of return. This replacement of higher-interest developer equity with low-interest public financing is the key financial structure of the deal which preserves Port's land value in later phases. An additional $64,900,000 in special tax bond proceeds would have significant benefits to the project's economics.

The developer contributed $29.3 million in equity for entitlement costs, which, combined with the return on equity, led to an entitlement sum developer balance of $46,429,304. This was largely offset by the development rights proceeds from the four phase 1 parcels, which totaled $43,000,000, leaving a new Developer balance of $3,429,304 (this Entitlement amount no longer accrues additional return). In addition to the entitlement sum, the Phase 1 budget assumes a Developer equity contribution of $145,400,000, which will accrue the 18 percent return. Increasing the amount of early special tax bond proceeds allows the City to more quickly repay the Developer's equity contribution and replace the 18 percent per year debt with lower interest, bond debt service.

Method of Sale and Bond Purchase Agreement

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

The Capital Plan

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

ADDITIONAL INFORMATION

The proposed Bond financing requires that the Board of Supervisors, as legislative body of the CFD, adopt a resolution approving the issuance of the Bonds and related documents and actions. The forms of the financing documents related to the Special Tax Bonds—including the Bond Purchase Agreement, First Supplement to Fiscal Agent Agreement, Preliminary Official Statement, the Continuing Disclosure Certificate — are also submitted for Board approval.

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

First Supplement to Fiscal Agent Agreement: The City will execute a Fiscal Agent Agreement in connection with the initial series of Development Special Tax Bonds. The Fiscal Agent Agreement governs the use of Development Special Taxes and tax increment from IFD Project Area I to pay debt service on the Development Special Tax Bonds. The Fiscal Agent Agreement will detail the terms of the initial series of Development Special Tax Bonds, and the First Supplement to Fiscal Agent Agreement will establish the terms of the Bonds, including principal amount, interest rate, redemption, and the conditions for issuance of additional parity bonds. The Fiscal Agent holds Bond proceeds and will disburse them as directed by authorized City representatives.

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

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

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

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

NEXT STEPS

The Port and OPF staff anticipate the Resolutions and related documents will be introduced to the Board of Supervisors on April 13, 2021. With Board approval and the Mayor's signature, OPF will lead the distribution of the POS and sale of the Bonds. Table 5 below shows an estimated timeline of key financing items.

Table 5. Anticipated Mission Rock CFD Financing Schedule

Item	Date
Introduction of Legislation to Board of Supervisors	April 13, 2021
Capital Planning Committee	April 19, 2021
Budget & Finance Committee Hearing	April 28, 2021
Board Approval of Legislation	May 4, 2021
Sale and Closing of Bonds	August/September 2021

Your consideration of this matter is greatly appreciated. Please contact Raven Anderson (raven.anderson@sfport.com) if you have any questions.

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

ATTACHMENT 1

Good Faith Estimates for the CFD Bonds

For purposes of compliance with Section 5852.1 of the California Government Code, the following information are good faith estimates provided by the Underwriter and Municipal Advisor for the CFD Bonds as of April 2021:

1. True interest cost of the Bonds: 4.00%

2. Finance charge for the Bonds, including all fees and charges for third parties (including underwriter's compensation, municipal advisory fees, co-bond counsel fees, disclosure counsel fees, trustee fees and other payments to third parties): $ 1,475,000

3. Amount of Bond proceeds expected to be received by the City, net of payments identified in 2 above and any reserve fund or capitalized interest funded with proceeds of the Bonds: $ 58,348,064.95

4. Total payment amount for the Bonds, being the sum of (a) debt service on the Bonds to final maturity, and (b) any financing costs not paid from proceeds of the Bonds: $ 119,426,348.89

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