

MEMORANDUM

March 18, 2009

TO: MEMBERS, PORT COMMISSION
Hon. Rodney Fong, President
Hon. Stephanie Shakofsky, Vice President
Hon. Kimberly Brandon
Hon. Michael Hardeman
Hon. Ann Lazarus

FROM: Jonathan Stern, Assistant Deputy Director Waterfront Development

SUBJECT: Summary of Seawall Lot 337 Financial Submittals

In its February 3, 2009 memo Port staff performed an initial review of the developer's submittal to the Seawall Lot 337 (SWL 337) Request for Proposals (RFP) and extracted the physical aspects of the proposal. After further review and clarifications from the development team Port staff has revised the attached summary of the RFP submittal to include the financial terms of the proposal.

The submittal proposes a master development framework with 11 subparcels built out between 2013 and 2027. Parking and other interim uses would continue on site, and as each subparcel is built out, the Port would receive base rent from developed parcels. Base Rent would increase to \$6 million annually at build out of the project. The submittal indicates that base rent increases and participation rent are to be negotiated. The developer has proposed that public infrastructure to support SWL 337 development would be financed through Port revenue bonds backed by developer's funds and SWL 337 tax increment. In their proposal, the remainder of the SWL 337 tax increment would be available for other Port purposes. These financial terms differ from the key financial terms outlined in the RFP, especially in regard to base rent (which is set in the RFP at \$8 million annually) and public finance bonding mechanisms. The submittal's proposed public financing mechanism is discussed further below.

Public Finance

The Port's 2009-10 Capital Plan identifies \$2 billion in capital needs to complete the deferred maintenance and historic preservation of Port facilities. Of the \$2 billion in total need, the Capital Plan identified a total of \$650 million in funding including: Port tenant obligations, the Port's operating budget, revenue bonds, development projects, Infrastructure Financing District bonds, General Obligation bonds, and the mechanisms available to Pier 70 under 2008's Proposition D. Petitioning the Board of Supervisors to create an Infrastructure Financing District (IFD) at SWL 337 as well as SWL 337's rental income stream, were anticipated

to be major sources of the \$650 million in funding for Capital Plan projects with SWL 337 proceeds targeted to fund portions of Pier 70 and the Blue Greenway.

After studying the public infrastructure needs of the SWL337 project and the realities of development in an uncertain financial climate, the developer's submittal proposes that the Port issue revenue bonds early in the project to fund public infrastructure supporting the project. The revenue bonds would be repaid from the SWL 337 project, initially backed by: 1) a reimbursement agreement from the developer; 2) Community Finance District (Mello Roos) special taxes on the SWL 337 parcel leasehold; with 3) long term debt service paid from the tax increment proceeds from SWL 337 development. The developer's preliminary pro forma indicates that the Port would issue revenue bonds from 2013 through 2026 equivalent to \$120 million of bonding capacity in 2013 (discounted to 2013 dollars at 6%) for use within the SWL 337 development. In 2028, a portion of the tax increment (equivalent to \$50 million in bonding capacity in 2028 dollars) would be available for Port capital projects. The Port will also be able to bond against the proposed \$6 million base rent yielding \$45 to \$60 million for use in Port Capital Plan projects.

This proposed structure would use most of the SWL 337 IFD tax increment to support SWL 337 project development. This structure results in less of tax increment available for Capital Plan projects than anticipated in the Port's Capital Plan in particular Pier 70 and the Blue Greenway. The project's effect on the Port's Capital Plan will be analyzed further when Port staff brings its full analysis of the project and the SWL 337 Advisory Panel recommendations to the Port Commission for action.

Additionally, as indicated in the RFP, the Port is pursuing legislation to allow the Port to use the ERAF¹ share of tax increment at Pier 70. The development proposal indicates that this portion of SWL 337 tax increment (estimated by the developer to have a net present value of \$40 million), if the Port is able to secure the ERAF share for SWL 337 development as well, would be solely for the benefit of Port capital projects.

Next Steps

The development proposal is under review by the SWL 337 Advisory Panel with assistance from Port staff, City support staff and independent consultants. The results of the Advisory Panel evaluation and a summary of the public comment received will be presented to the Port Commission for its consideration prior to making a decision on the developer selection.

Attachment: Summary of Seawall Lot 337 RFP Submittal

¹ As a source for the State's Proposition 98 obligation to fund public schools, the state shifts local property tax revenues from local governments to Educational Revenue Augmentation Fund (ERAFs).

**Summary of Seawall Lot 337 RFP Submittal
Updated: March 18, 2009**

Development Entity:	
San Francisco Giants Wilson Meany Sullivan Kenwood Investments The Cordish Company Stockbridge Capital Farallon Capital Management, L.L.C.	
Project Team:	
Land Use/Urban Designer	SMWM/Perkins & Will Beyer Blinder Belle
Architecture	SMWM/Perkins & Will Beyer Blinder Belle
Landscape Architect	Hargreaves Associates
Civil Engineers	BKF Civil Engineers
Transportation and Parking	Robert L. Harrison Transportation Planning Adavant Consulting Douglas Wright Consulting Messagesmith Strategic Communications Imperial Parking
Legal Counsel	Coblentz, Patch, Duffy & Bass Sheppard Mullin Hampton & Richter
Geotechnical Engineers	Treadwell & Rollo ENGEO
Sustainability Advisors	Atelier Ten
Hazardous Materials Remediation/Environmental	Ash Creek Associates, Inc. Eler Kalinowski
Construction	Hathaway Dinwiddie Nibbi Brothers
Community Relations	San Francisco Giants Wilson Meany Sullivan Kenwood Investments The Cordish Company
Lead Negotiator	Seawall Lot 337 Associates, LLC
Comparable development & construction projects of development entity principals	SF Giants: AT&T Park; China Basin Park Cordish: Ballpark Village, St. Louis, MO; Kansas City Power & Light District Farallon: Mission Bay WMS: The Ferry Building Kenwood: Treasure Island

Project Concept:	
<ul style="list-style-type: none"> Overview 	SWL 337 will feature a major waterfront open space sweeping up from the Bay into a lively mixed-use neighborhood with office, residential, retail and recreational uses. Linking to the streets of Mission Bay, the proposed block pattern of SWL 337 is broken into ten small city blocks to create a pedestrian friendly environment and provide views and paths to the park and water from all directions within and outside the district.
<ul style="list-style-type: none"> Open Space 	8.7 acres of public open space including a 1.5 acre neighborhood square within the core of the development, a 1 acre plaza at the entrance to Pier 48 and a 5.1 acre park directly on the Bay bringing people close to the water through a promenade that extends over the rip-rap and steps leading down to the water and to a kayak launch. Park to be activated by programs for family recreation, gatherings, performances and enjoyment of Bay and China Basin views. Rooftop gardens and playfields, primary streets and sidewalks <u>are in addition</u> to the 8.7 acres.
<ul style="list-style-type: none"> Total Commercial Space 	Retail space: 242,375 sq. ft. Event/Flex space: 181,200 sq. ft. Office: 1,037,400 sq. ft. Residential: 875 units Parking: 2,650 spaces
<ul style="list-style-type: none"> Pier 48 	Front portion of 48A: Restaurant; Front portion of 48B: Retail Central portion of both sheds: Flexible space for events, trade shows, exhibits, festivals with some game day parking. Rear portion of both sheds and connector building: major event and conference center with small café. Renovated pier apron: Maritime operations and vessel berthing, public access, fishing, Bayside History Walk.
Key Financial Terms	
Term	75 Years at SWL 337 A master lease converting to a parcel-by-parcel lease upon commencement of construction on each parcel.
Base Rent – SWL 337	\$6M/Yr. Allocated at commencement of construction for each development parcel.
Base Rent – Pier 48	\$558,868
SWL 337 Construction/Interim Rent	Continued parking revenues (~\$2.8M/Yr.)

Rent Escalations	To be negotiated
Participation Rent	To be negotiated
Public Financing	
Infrastructure Finance District (IFD)/Revenue Bonds	Developer proposed Port issue revenue bonds be backed by a Reimbursement Agreement from the Developer (Paid by CFD taxes on leasehold and IFD) to fund public infrastructure supporting the project.
IFD tax increment to project	Tax increment totaling \$452 million Supporting \$194 million of Port revenue bonds issued from 2013 through 2026 Estimated bonding capacity of \$120 million in 2013
IFD tax increment to Port	Tax increment totaling \$198 million from 2028 to 2053 Estimated bonding capacity of \$50 million in 2028
Bonding capacity of Base Rent	Estimated bonding capacity of \$45 to \$60 million
Debt Service Coverage	Reimbursement Agreement includes 1.05x coverage
ERAF (state) share of property tax	To Port if State law changes Total increment \$154 million Estimated Port bonding capacity of \$40 million