

MEMORANDUM

November 8, 2017

TO: MEMBERS, Capital Planning Committee

FROM: Brad Benson, Director of Special Projects
Meghan Wallace, Finance and Procurement Manager

SUBJECT: Approval of legislation forming the Pier 70 Infrastructure Financing District, Sub-Project Areas G-2, G-3 & G-4 (Action Item):

- Ordinance establishing Sub-Project Area G-2, Sub-Project Area G-3 and Sub-Project Area G-4 of City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)
- Resolution Authorizing Issuance of Bonds - Not to Exceed \$273,900,000, \$196,100,000 and \$323,300,000 for Sub-Project Area G-2, Sub-Project Area G-3 and Sub-Project Area G-4, respectively, of City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)

Approval of legislation to form Infrastructure and Revitalization Financing District No. 2 (IRFD) on land within the City commonly known as the Hoedown Yard and authorizing the issuance of bonds for the IRFD (Action Item):

- Resolution calling special election for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard)
- Resolution proposing adoption of infrastructure financing plan and formation of City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard); and providing for future annexation
- Resolution approving infrastructure financing plan for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard)
- Resolution declaring results of special elections for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard)
- Ordinance creating City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) and adopting an infrastructure financing plan for such district
- Resolution authorizing issuance of bonds for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) therein in an aggregate principal amount not to exceed \$91.9 million

Executive Summary

In the general election held in the City and County of San Francisco (the “City”) on November 4, 2014, an initiative entitled, the “Union Iron Works Historic District Housing, Waterfront Parks, Jobs and Preservation Initiative” (“Proposition F”), was approved by the voters in the City. Pursuant to Proposition F, the voters in the City approved a policy of the City, that the City encourages the timely development of the 28-Acre Site with a development project that includes market-rate and affordable residential uses, commercial-office, retail, light industrial-arts use, parking, and infrastructure development including street improvements, and public open space.

On September 26, 2017, the Port Commission approved the transaction documents for the Pier 70 Special Use District and on October 24, 2017, the Board of Supervisors approved the transaction documents and zoning for the Pier 70 Special Use District. These approvals govern the financial terms and land uses for future development of 35 acres of Pier 70, including the 28-Acre Site which will be developed by FC Pier 70 LLC (“Forest City”), an affiliate of Forest City Realty Trust, and the Illinois Parcels, which will be developed by Forest City, its affiliate(s), or unrelated third parties. The Disposition and Development Agreement (“DDA”) between the City (acting through the Port) and Forest City includes a Financing Plan which anticipates the use of tax increment captured through an Infrastructure Financing District (“IFD”) and an Infrastructure Revitalization and Financing District (“IRFD”) to finance public facilities and affordable housing, respectively.

State law authorizes the City to form an IFD over Pier 70 to pay for public improvements and historic rehabilitation funded by both the City’s share and the State’s share of property tax revenue growth (“Tax Increment”). In 2016, the Board of Supervisors formed an IFD project area covering all Port property and approved a portwide infrastructure financing plan. Project Area G was identified in the Port IFP for the Pier 70 district, which included Sub-Project Area G-1 for the Pier 70 Historic Core and the remaining footprint for the currently proposed Sub-Project Areas G-2, G-3 and G-4 that collectively encompass the Pier 70 Special Use District (“SUD”).

On September 11, 2017, the City’s Capital Planning Committee recommended that the Board of Supervisors adopt resolutions of intent to:

- 1) Establish Sub-Project Areas G-2, G-3 and G-4 of City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) (“the Port IFD”), and Issue Bonds for Sub-Project Areas G-2, G-3 and G-4 (which collectively encompass the Pier 70 Special Use District); and
- 2) Establish City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (“the IRFD”) on land within the City commonly known as the Hoedown Yard, and Issue Bonds for the IRFD.

As further described in this memorandum, the formation process for the Port IFD and the IRFD requires Board of Supervisors action to adopt additional legislation, including adoption of infrastructure financing plans (“IFPs”). This memorandum describes these additional steps and summarizes the proposed IFPs that the Port has prepared to implement the Pier 70 SUD.

Financing Districts

The IFD Law (codified at Government Code Section 53395 et seq.) and the IRFD Law (codified at Chapter 2.6 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing

with Section 53369) operate in much the same way as former redevelopment law: when approved by the Board of Supervisors, each district may be formed and a base year established, after which growth in property or possessory interest¹ taxes may be captured, either annually (“pay-go”) or through the issuance of bonds with debt service paid by Tax Increment, to fund facilities of “communitywide significance” as part of an approved Infrastructure Financing Plan.

Legislative Process

On July 25, 2017, Mayor Edwin M. Lee and Supervisor Malia Cohen co-sponsored two resolutions to initiate the process to form Sub-Project Areas G-2, G-3, and G-4 within the existing Port IFD and three proposed resolutions to initiate the process to form a new IRFD over the Hoedown Yard. These resolutions included:

1. Resolution of Intention to establish Sub-Project Area G-2, Sub-Project Area G-3 and Sub-Project Area G-4 of City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) (File No. 170878).
2. Resolution of Intention to Issue Bonds in an Amount Not to Exceed \$273,900,000, \$196,100,000 and \$323,300,000 for Sub-Project Area G-2, Sub-Project Area G-3 and Sub-Project Area G-4, respectively, City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco) (File No. 170879).
3. Resolution of Intention to establish City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) on land within the City and County of San Francisco commonly known as the Hoedown Yard to finance the construction of affordable housing within Pier 70 and Parcel K South; to call a public hearing on October 24, 2017 on the formation of the district and to provide public notice thereof; and determining other matters in connection therewith (File No. 170880).
4. Resolution authorizing and directing the Executive Director of the Port of San Francisco, or designee of the Executive Director of the Port of San Francisco to prepare an infrastructure financing plan for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) and determining other matters in connection therewith (File No. 170881).
5. Resolution of intention to issue bonds for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) and determining other matters in connection therewith (File No. 170882).

On September 11, 2017, the Capital Planning Committee recommended approval of this legislation to the Board of Supervisors. This legislation will be considered by the Budget and Finance Committee on November 9, 2017. If adopted, the legislation will provide the public with notice of the City’s intent to: (1) form Sub-Project Areas G-2, G-3, and G-4 within the existing Port IFD, (2) establish a new infrastructure and revitalization financing district, the IRFD, on private property at the Hoedown Yard, and (3) issue bonds repaid with tax increment from the Sub-Project Areas G-2, G-3, and G-4 and the IRFD, respectively. Additionally, the legislation

¹ Possessory interest taxes are property tax levied against leasehold interests. Port tenants are responsible for paying possessory interest taxes to the City.

directs City staff to prepare infrastructure financing plans for Sub-Project Areas G-2, G-3, and G-4 and the IRFD, including a detailed expenditure plan for available tax increment.

Infrastructure Financing Plans for Sub-Project Areas G-2, G-3, and G-4 and the IRFD

In anticipation of this approval, Port staff has prepared infrastructure financing plans for Sub-Project Areas G-2, G-3, and G-4 (as an appendix to the Port IFP) and the IRFD in accordance with the Port IFD Law and the IRFD Law, which are attached to this memo as Attachments 1 and 2. Port staff now seeks the recommendation of the Capital Planning Committee to the Board of Supervisors for subsequent legislation that will approve the infrastructure financing plans for Sub-Project Areas G-2, G-3, and G-4 and the IRFD and authorize the issuance of bonds as contemplated under these IFPs.

IFP for Sub-Project Areas G-2, G-3, and G-4

Tax Increment from Sub-Project Areas G-2, G-3 and G-4 will pay for eligible improvements in and serving the Pier 70 Special Use District, including site grading and sea level rise improvements, streets, utility infrastructure, parks, and historic building rehabilitation over three phases of development. Attachment 1 includes detailed projections for expenditures of Tax Increment on these uses, including the projected timing of these expenditures, based on current estimated costs, subject to change depending on actual costs at the time of construction. Table 1 below (Exhibit G-2a from Attachment 1) summarizes projected expenditures on these Pier 70 improvements:

Table 1

Facilities Costs to be Funded by IFD	Target Completion Timing	Estimated Cost (2017 \$)
Entitlement Costs	2011-2017	\$33,441,000
Sub-Project Area G-2		
Direct Construction Costs	2018 - 2021	\$84,729,000
Construction Contingency	2018 - 2021	\$12,658,000
Design Contingency	2018 - 2021	\$4,219,000
Indirect Costs	2018 - 2021	\$37,509,000
Indirect Cost Contingency	2018 - 2021	\$2,185,000
Subtotal - Sub-Project Area G-2		\$141,300,000
Sub-Project Area G-3		
Direct Construction Costs	2022 - 2024	\$40,811,000
Construction Contingency	2022 - 2024	\$6,126,000
Design Contingency	2022 - 2024	\$2,042,000
Indirect Costs	2022 - 2024	\$22,655,000
Indirect Cost Contingency	2022 - 2024	\$1,338,000
Subtotal - Sub-Project Area G-3		\$72,972,000
Sub-Project Area G-4		
Direct Construction Costs	2025 - 2028	\$20,393,000
Construction Contingency	2025 - 2028	\$3,106,000
Design Contingency	2025 - 2028	\$1,035,000
Indirect Costs	2025 - 2028	\$20,668,000
Indirect Cost Contingency	2025 - 2028	\$1,061,000
Subtotal - Sub-Project Area G-4		\$46,263,000
Pier 70 Wide (Subject to Port Commission and Board of Supervisors Approval)		
Irish Hill Park	2019 - 2030	\$10,000,000
Building 106 Rehabilitation	2019 - 2040	\$30,000,000
Building 111 Rehabilitation	2019 - 2040	\$20,000,000
Shipyard Electrical Service	2019 - 2030	\$3,000,000
Crane Cove Park	2019 - 2040	\$30,000,000
Shipyard Improvements	2019 - 2040	\$20,000,000
Site Interpretation and Public Realm Improvements	2019 - 2040	\$500,000
Subtotal - Pier 70 Wide		\$113,500,000
Total Estimated Costs		\$407,476,000

The Financing Plan attached to the DDA between the Port and Forest City includes the following sources to pay for improvements:

- Developer Capital
- IFD Tax Increment, including the City and State (“ERAF”) share of tax increment

- Community Facilities District (“CFD”) special taxes²
- Advances of Port land proceeds³ or Port Capital

This proposed IFP authorizes the IFD to issue IFD bonds; however, the Financing Plan allows for the issuance of either IFD bonds or CFD bonds. In both cases, Tax Increment will be used to pay debt service. The type of bond to be issued will be determined based on market conditions approaching the time of issuance. Additionally, the Port may potentially advance its own sources of funding to finance facilities (“Port Capital”) to be repaid by the IFD with tax increment from the Sub-Project Areas) as well. (The amounts listed below do not assume any advances of Port Capital.) Table 2 (Exhibit G-2b of Attachment 1) shows proposed sources and uses of funds.

Staff projects that Sub-Project Areas G-2, G-3, and G-4 will generate significantly more Tax Increment than required for the 28-Acre Site and the Pier 70 Wide Facilities. Consistent with *Guidelines for the Establishment and Use of an Infrastructure Financing District with Project Areas on Land Under the Jurisdiction of the San Francisco Port Commission*, Port and City staff recommend authorizing the use of these proceeds in the IFP for future improvements to San Francisco’s shoreline to fund 1) sea level rise adaptations, and 2) future phases of the Seawall Resiliency Project, subject to future approvals by the Port Commission and the Board of Supervisors.

Based on current projections, staff expects nominal Tax Increment proceeds of \$499 million to be available for future Seawall phases and shoreline adaptation projects starting in approximately 2050, as shown in Table 2.

² As provided in the DDA Financing Plan, the Port will seek authorization to form CFDs over the Pier 70 SUD to levy special taxes under the Mello-Roos Act. These special taxes will fund construction of public facilities of “community-wide significance”. Port staff will also propose an amendment to the City’s Local Financing Law, which implements the Mello Roos Act, to expand the range of uses of special taxes to include uses such as an Arts Building, shoreline improvement to address sea level rise, historic rehabilitation, etc. The proposed Pier 70 CFDs will also include special taxes to fund annual maintenance of all public facilities that the City will accept for ownership, including maintenance and liability, under the City’s subdivision code and under the DDA.

The proposed amendments to the City’s Local Financing Law, and the proposed Pier 70 CFDs, will be the subject of a later Capital Planning Committee agenda, planned in early 2018, after the Port and Forest City create separate, taxable parcels in the Pier 70 SUD that will serve as the foundation for forming the CFDs.

³ Advances of land proceeds are loans of Port land value to pay for public facilities in advance of the availability of public financing proceeds generated by the IFD and CFD, which are the ultimate source of funding to pay for these public improvements.

Table 2

Anticipated Sources and Uses of Funds		
	2017/18 Dollars	Nominal Dollars
Anticipated Sources of Funds		
Annual Tax Increment	\$596,720,000	\$1,578,818,000
Bond Proceeds	\$137,429,000	\$169,593,000
Developer Capital	\$133,832,000	\$150,273,000
Advances of Land Proceeds	\$164,931,000	\$192,200,000
Total Sources	\$1,032,912,000	\$2,090,884,000
Anticipated Uses of Funds		
Bond Debt Service	\$253,893,000	\$522,328,000
Interest on Advanced Funds	\$22,975,000	\$27,042,000
Repay Developer Capital	\$121,166,000	\$150,274,000
Repay Advances of Land Proceeds	\$101,663,000	\$192,200,000
Pier 70 Sub-Project Areas G-2, G-3, and G-4 Facilities	\$287,909,000	\$329,382,000
Pier 70 Wide Facilities	\$53,041,000	\$140,339,000
Sea Level Rise Protection	\$130,379,000	\$498,964,000
ERAF	\$61,886,000	\$230,355,000
Total Uses	\$1,032,912,000	\$2,090,884,000

Notes

ERAF means the Educational Revenue Augmentation Fund. This is also the State's share of property tax increment. Table 2 indicates that after the State's share of Tax Increment is no longer projected to be needed to pay ERAF-secured debt, the amount of this Tax Increment to be allocated to the State is estimated at \$230 million in nominal dollars.

Attachment 4 to this memo is a proposed resolution authorizing the sale of bonds under the IFP not to exceed \$273,900,000, \$196,100,000 and \$323,300,000 for Sub-Project Area G-2, Sub-Project Area G-3 and Sub-Project Area G-4, respectively, subject to the following conditions:

- The Director of Public Finance will (1) approve the maturity date of the bonds, (2) identify the trustee or fiscal agent for the bonds, and (3) approve premiums for early redemption;
- the bonds will be executed by the Mayor or his designee;
- the bonds will not be issued until such time as (i) the Board of Supervisors has approved the terms of the sale to the investor(s) and (ii) an Authorized Officer has caused the legal documents relating to the bonds and any related disclosure document describing the bonds and the security for the bonds to be prepared and caused such documents to be submitted to the Board of Supervisors for its approval.

Infrastructure Financing Plan for the IRFD (Hoedown Yard)

Overall, the 28-Acre Site will result in 30% onsite affordable housing, with the following components:

- Up to 150 or more units of onsite rental inclusionary housing, representing 20% of the units in all onsite rental buildings.
- 320 or more units of permanently affordable family and formerly homeless housing, in three buildings developed by local nonprofits selected by the Mayor's Office of Housing and Community Development.

The primary sources of funding for the construction of the three 100% affordable housing buildings described above will be in-lieu affordable housing fees and Jobs-Housing Linkage Fees from residential and commercial development of the 28-Acre Site. The Port will provide 99 year leases for these developments at no cost (\$1). These sources, in combination with other available state and federal sources that are typically available for affordable housing projects, results in a small, but manageable, funding gap for the 30% affordable housing requirement endorsed by voters in Proposition F. Therefore, City staff proposes the adoption of the IFP for the IRFD to pay remaining affordable housing costs in the 28-Acre Site and on Parcel K South. Table 3 below (Exhibit A to Attachment 2) shows projected sources and uses of Tax Increment from the IRFD.

Table 3

Anticipated Sources and Uses of Funds		
	2017/18 Dollars	Nominal Dollars
Anticipated Sources of Funds		
Annual Tax Increment	\$70,170,000	\$157,922,000
Bond Proceeds	\$18,263,000	\$22,210,000
Total Sources	\$88,433,000	\$180,132,000
Anticipated Uses of Funds		
Bond Debt Service	\$33,158,000	\$61,718,000
Affordable Housing	\$18,969,000	\$23,091,000
General Fund [1]	\$36,306,000	\$95,323,000
Total Uses	\$88,433,000	\$180,132,000

Notes

[1] Excess tax increment is allocated to the General Fund.

Under the IRFD, the City is not able to capture the State’s share of Tax Increment. However, unlike the Port IFD, affordable housing is an allowed use of Tax Increment under state law. As shown in Table 3, City staff proposes to capture only enough Tax Increment as will be required to fully fund the three 100% affordable housing developments in the 28-Acre Site and Parcel K South. Any remaining Tax Increment will flow to the General Fund.

Attachment 10 to this memo is a proposed resolution authorizing the sale of bonds under the IRFD in an amount not to exceed \$91.9 million, subject to the following conditions:

- The Director of Public Finance will (1) approve the maturity date of the bonds, (2) identify the trustee or fiscal agent for the bonds, and (3) approve premiums for early redemption;
- the bonds will be executed by the Mayor or his designee;
- the bonds will not be issued until such time as (i) the Board of Supervisors has approved the terms of the sale to the investor(s) and (ii) an Authorized Officer has caused the legal documents relating to the bonds and any related disclosure document describing the bonds and the security for the bonds to be prepared and caused such documents to be submitted to the Board of Supervisors for its approval.

Conclusion

Staff appreciates the opportunity to present the proposed IFPs to implement the Pier 70 SUD to the Capital Planning Committee and seeks the Committee's recommendation to the Board of Supervisors to approve the legislation necessary to form these districts. With the Committee's recommendation, City staff will seek introduction of the proposed legislation attached to this memorandum to the Board of Supervisors.

Attachments:

- Attachment 1: Infrastructure Financing Plan for City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco), Appendix G-2 Sub-Project Areas G-2, G-3, and G-4
- Attachment 2: Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) Infrastructure Financing Plan
- Attachment 3: Ordinance establishing Sub-Project Area G-2, Sub-Project Area G-3 and Sub-Project Area G-4 of City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)
- Attachment 4: Resolution Authorizing Issuance of Bonds - Not to Exceed \$273,900,000, \$196,100,000 and \$323,300,000 for Sub-Project Area G-2, Sub-Project Area G-3 and Sub-Project Area G-4, respectively, of City and County of San Francisco Infrastructure Financing District No. 2 (Port of San Francisco)
- Attachment 5: Resolution calling special election for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard)
- Attachment 6: Resolution proposing adoption of infrastructure financing plan and formation of City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard); and providing for future annexation
- Attachment 7: Resolution approving infrastructure financing plan for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard)
- Attachment 8: Resolution declaring results of special elections for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard)
- Attachment 9: Ordinance creating City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) and adopting an Infrastructure Financing Plan for such district
- Attachment 10: Resolution authorizing issuance of bonds for City and County of San Francisco Infrastructure and Revitalization Financing District No. 2 (Hoedown Yard) therein in an aggregate principal amount not to exceed \$91.9 million