

File No. 121045

Committee Item No. 7

Board Item No. 23

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date 11/28/2012

Board of Supervisors Meeting

Date 12/4/12

#### Cmte Board

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Term Sheet</u> |
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Completed by: Victor Young

Date November 21, 2012

Completed by: Victor Young

Date VTZ 11-29-12

1 [Term Sheet - Orton Development, Inc. - Rehabilitation of the 20<sup>th</sup> Street Historic Buildings  
2 and Finding of Fiscal Feasibility]

3 **Resolution finding the proposed rehabilitation of the 20<sup>th</sup> Street Historic Buildings on**  
4 **or near 20<sup>th</sup> Street, east of Illinois Street, fiscally feasible pursuant to Administrative**  
5 **Code, Chapter 29 and endorsing the Term Sheet between Orton Development, Inc. and**  
6 **the San Francisco Port Commission.**

7  
8 WHEREAS, The San Francisco Port Commission ("Port" or "Port Commission") owns,  
9 in trust, a cluster of several historic buildings in need of substantial rehabilitation (the "20<sup>th</sup>  
10 Street Historic Buildings"), located on or near 20th Street, east of Illinois Street which  
11 buildings form a part of the area generally referred to as Pier 70; and

12 WHEREAS, Pier 70 is the most intact 19th century industrial complex west of the  
13 Mississippi River, containing a rich collection of resources, and provides a physical record  
14 expressing continuity with past trends in industrial architecture and design; and

15 WHEREAS, The State Office of Historic Preservation has determined that Pier 70's  
16 approximately 40 historic structures and features are eligible for listing on the National  
17 Register of Historic Places and the 20<sup>th</sup> Street Historic Buildings represent some of the most  
18 important buildings at Pier 70; and

19 WHEREAS, The Pier 70 site is eligible for listing in the National Register as a Historic  
20 District for its national significance in the area of maritime industry for the period 1884 to 1945,  
21 beginning with the initial construction of the Union Iron Works Machine Shop and closing at  
22 the end of World War II; the Pier 70 site is significant for its association with pioneering  
23 technological developments in shipbuilding, labor relations, and government and private  
24 industry relationships, as well as for the production of significant wartime vessels; and the  
25

1 Pier 70 site is also significant for architectural design and engineering because it includes  
2 important works of master architects; and

3 WHEREAS, Two of the 20<sup>th</sup> Street Historic Buildings, the Bethlehem Steel Main Office  
4 Building (Building 101) and Powerhouse (Building 102), both designed by two renowned San  
5 Francisco architects, Frederick H. Meyer and Charles Peter Weeks during World War I, create  
6 a grand formal entrance to the shipyard at the corner of 20<sup>th</sup> and Illinois Streets; and these two  
7 buildings, along with the Union Iron Works Administration (Building 104) and the Union Iron  
8 Works Machine Shop and Foundry (Buildings 113/114) along 20<sup>th</sup> Street form the core of the  
9 proposed Pier 70 Historic District, and

10 WHEREAS, The 20<sup>th</sup> Street Historic Buildings are condemned, are deteriorating, and  
11 will be lost if they are not rehabilitated; and

12 WHEREAS, On February 28, 2012, by Resolution 12-18, the Port Commission  
13 awarded Orton Development, Inc. ("Orton") an exclusive right to negotiate with Port for the  
14 development, rehabilitation, and lease of the 20<sup>th</sup> Street Historic Buildings (the "Project"); and

15 WHEREAS, On April 24, 2012, by Resolution 12-36, the Port Commission authorized  
16 the Port's Executive Director or her designee to execute an Exclusive Negotiating Agreement  
17 ("ENA") between Port and Orton for the Project and such parties entered into the ENA  
18 effective May 17, 2012, which ENA required, among other things, for Port and Orton to  
19 negotiate a term sheet to describe the fundamental deal terms for the Project; and

20 WHEREAS, On October 9, 2012, by Resolution No. 12-78, the Port Commission  
21 endorsed the term sheet for the Project ("Term Sheet") and directed Port staff to present the  
22 Term Sheet to the Board of Supervisors for endorsement and for consideration of a finding  
23 that the Project is fiscally feasible and responsible under San Francisco Administrative Code  
24 Chapter 29; and

1           WHEREAS, The Term Sheet is on file with the Clerk of the Board of Supervisors in File  
2 No. 121045, which is hereby declared to be a part of this motion as if set forth fully herein; and

3           WHEREAS, The construction cost of the Project will exceed \$25 million and Port will  
4 contribute more than \$1 million towards construction of the Project, thus triggering review by  
5 the Board of Supervisors to determine the fiscal feasibility of the Project under Administrative  
6 Code Section 29.1; and

7           WHEREAS, Pursuant to Administrative Code Section 29.3, Port and Orton have  
8 submitted to the Board of Supervisors a general description of the Project, the general  
9 purpose of the Project, and a fiscal plan; and

10           WHEREAS, Pursuant to Administrative Code Section 29.2, prior to submittal to the  
11 Planning Department of an environmental evaluation application ("Environmental Application")  
12 required under Administrative Code Chapter 31 and the California Environmental Quality Act  
13 ("CEQA") related to the Project, it is necessary to procure from the Board of Supervisors a  
14 determination that the plan to undertake and implement the Project is fiscally feasible and  
15 responsible; and

16           WHEREAS, The Board of Supervisors has reviewed and considered the general  
17 description of the Project, the general purpose of the Project, the fiscal plan and other  
18 information submitted to it and has considered the direct and indirect financial benefits of the  
19 Project to the City of San Francisco, the cost of construction, the available funding for the  
20 Project, the long-term operating and maintenance costs of the Project, and the debt load to be  
21 carried by Port; and

22           WHEREAS, The Board of Supervisors has reviewed and considered the terms for a  
23 possible lease by Port to Orton of the 20<sup>th</sup> Street Historic Buildings as set forth in the Term  
24 Sheet; and  
25

1           WHEREAS, The Term Sheet is not itself a binding agreement that commits the City or  
2 Orton to proceed with the approval or implementation of the Project, and that the Project will  
3 first undergo environmental review under CEQA and will be subject to public review in  
4 accordance with the processes of the City and other government agencies with approval  
5 rights over the Project before any entitlements and other regulatory approvals required for the  
6 Project will be considered; now, therefore, be it

7           RESOLVED, That the Board of Supervisors finds that the plan to undertake and  
8 implement the Project is fiscally feasible and responsible under San Francisco Administrative  
9 Code Chapter 29 ("Fiscal Feasibility Finding"); and, be it

10          FURTHER RESOLVED, That pursuant to San Francisco Administrative Code  
11 Chapter 29, the Environmental Application may now be filed with the Planning Department  
12 and the Planning Department may now undertake environmental review of the Project as  
13 required by Administrative Code Chapter 31 and CEQA; and, be it

14          FURTHER RESOLVED, That the Board of Supervisors endorses the Term Sheet; and,  
15 be it

16          FURTHER RESOLVED, That any ground lease negotiated between Port and Orton for  
17 the 20<sup>th</sup> Street Historic Buildings require that Orton comply with the Secretary of the Interior's  
18 Standards for the Treatment of Historic Properties in connection with any rehabilitation of the  
19 20<sup>th</sup> Street Historic Buildings; and, be it

20          FURTHER RESOLVED, That at the time the Board of Supervisors considers whether  
21 to approve a ground lease for the Project pursuant to Charter Section 9.118(c), Port report  
22 back to the Board of Supervisors on the Project's (1) revised cost estimates, project financing,  
23 and pro forma financial analysis; and (2) Port's procedures to control and verify project costs;  
24 and, be it

1            FURTHER RESOLVED, That if the Board of Supervisors approves a ground lease for  
2 the Project, any change to the financial terms of such ground lease after such approval that  
3 materially decrease the benefits or otherwise materially increase the obligations or liabilities of  
4 the City or Port is subject to the prior approval of the Board of Supervisors; and, be it

5            FURTHER RESOLVED, That endorsement of the Term Sheet and the Fiscal  
6 Feasibility Finding does not commit the Board of Supervisors to approval of the terms of a  
7 final lease or grant any entitlements to Orton, nor does the Term Sheet endorsement or Fiscal  
8 Feasibility Finding foreclose the possibility of considering alternatives to the Project or  
9 mitigation measures to reduce or avoid significant environmental impacts or preclude the City,  
10 after conducting appropriate environmental review under CEQA, from deciding not to grant  
11 entitlements or approve or implement the Project, and while the Term Sheet identifies certain  
12 essential terms of a proposed transaction with the City through the Port Commission, it does  
13 not set forth all of the final, material terms and conditions of a lease or other transaction  
14 documents.



<b>Item 7</b> <b>File 12-1045</b>	<b>Departments:</b> Port of San Francisco
<b>EXECUTIVE SUMMARY</b>	

### Legislative Objective

Approval of the proposed resolution would find that (1) the proposed 20th Street Historic Buildings project in the Pier 70 area is fiscally feasible; and (2) endorse the proposed Term Sheet between the Port and Orton.

### Key Points

- Administrative Code Chapter 29 requires that certain development projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review. Additionally, the Budget and Legislative Analyst recommended in the 2004 Management Audit of the Port that the Port should submit term sheets for projects with development costs greater than \$10 million to the Board of Supervisors for endorsement. The finding that the proposed 20th Street Historic Buildings project is fiscally feasible and endorsement of the proposed Term Sheet between the Port and Orton does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA) or approval of the final lease between the Port and Orton.
- The 20<sup>th</sup> Street Historic Buildings rehabilitation project consists of six office and industrial buildings on Port property in the area of Pier 70. None of the six buildings are currently occupied and all need extensive rehabilitation. The Port is currently applying for historic district designation from the National Register of Historic Places for the Pier 70 area.
- The Port Commission selected Orton in February 2012 to develop the six buildings as a mixed use office, restaurant and light industrial complex based on a competitive Request for Proposal (RFP) process; and authorized Port staff to enter into an Exclusive Negotiation Agreement with Orton in April 2012. The Port and Orton are currently negotiating the terms of a ground lease and lease disposition and development agreement, for which the basic terms are contained in the proposed Term Sheet, attached to this report.

### Term Sheet

- Under the proposed Term Sheet, the Port and Orton would enter into a 66-year ground lease. Orton would rehabilitate the 20<sup>th</sup> Street Historic Buildings at an estimated project cost of \$58.5 million. In response to the RFP, Orton proposed that they invest up to \$14 million in equity in the 20<sup>th</sup> Street Historic Buildings project with a 14% per year return on their equity investment. The balance of funding is to be funded from federal Historic Preservation Tax Credits and loans to be obtained by Orton, and by a \$1.5 million contribution from Port capital revenues.
- The Port would receive participation rent from the 20<sup>th</sup> Street Historic Buildings once Orton's equity investment of up to \$14 million has been fully paid. However, the Port would receive annual base rent of approximately \$415,000 in year 21 of the 66-year ground lease, even if Orton's equity investment has not yet been fully paid. The Port would receive 50%

participation rent in the 20<sup>th</sup> Street Historic Buildings annual net revenues beginning in year 27 of the project, based on current estimates of project costs and revenues. The Budget and Legislative Analyst estimates that the net present value of rent to the Port over 66 years is \$15.7 million.

- Orton is currently conducting a detailed evaluation of the 20<sup>th</sup> Street Historic Buildings site and developing a more refined design plan and cost estimate for the project. To ensure that the future ground lease and associated development and disposition agreement are consistent with the proposed Term Sheet and the Board of Supervisors finding of fiscal feasibility, the Port should report to the Board of Supervisors, when the Board of Supervisors considers the project's ground lease, on the (1) revised cost estimates, project financing and pro forma financial analysis; and (2) Port's procedures to control and verify project costs.
- In order to ensure that the proposed 20<sup>th</sup> Street Historic Buildings project qualifies for Historic Preservation Tax Credits, which are intended to fund up to 20% of project costs, the proposed resolution should be amended to require that the 20<sup>th</sup> Street Historic Buildings project meet the Secretary of the Interior's Standards for the Treatment of Historic Properties.

### **Fiscal Feasibility**

The proposed 20<sup>th</sup> Street Historic Buildings project would (1) yield annual estimated tax revenue to the City of \$919,000; (2) generate an estimated 500 new permanent jobs; (3) provide an estimated \$58.5 million in construction expenditures; (4) be financed by \$14 million in available developer equity, \$1.5 million in available Port funds, and \$43.0 million in federal Historic Preservation Tax Credits and loans to be obtained by the developer; (5) incur no ongoing maintenance and operating costs to the Port or the City; and (6) incur no debt load by the Port or the City.

Based on these criteria, the Budget and Legislative Analyst finds the proposed development to be fiscally feasible under Chapter 29 of the City's Administrative Code. As noted above, in accordance with Administrative Code Chapter 29, the finding of "fiscal feasibility" means only that the project merits further evaluation and environmental review. If the proposed resolution is approved by the Board of Supervisors, the City will be authorized to commence environmental review of the project under CEQA.

### **Recommendations**

- Amend the proposed resolution to require that the 20<sup>th</sup> Street Historic Buildings project meet the Secretary of the Interior's Standards for the Treatment of Historic Properties.
- Amend the proposed resolution to require the Port to report back to the Board of Supervisors, when the Board considers the project's ground lease, on the (1) revised cost estimates, project financing and pro forma financial analysis; and (2) Port's procedures to control and verify project costs.
- Amend the proposed resolution to require that any reopener to the proposed ground that materially changes the financial terms of the agreement is subject to Board of Supervisors approval
- Approve the proposed resolution as amended.

## MANDATE STATEMENT

Chapter 29 of the City's Administrative Code requires Board of Supervisors' approval of certain projects to determine the project's fiscal feasibility<sup>1</sup> prior to submitting the project to the Planning Department for environmental review if (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA), (b) total project costs are estimated to exceed \$25,000,000, and (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including the (1) direct and indirect financial benefits to the City, (2) construction costs, (3) available funding, (4) long term operating and maintenance costs, and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review and does not include a determination that the project should be approved.

## BACKGROUND

### Pier 70

Pier 70 encompasses approximately 69 acres on the Port's Central and Southern Waterfront, bounded by Mariposa, Illinois and 22<sup>nd</sup> Streets. The Pier 70 Master Plan, approved by the Port Commission in April 2010, sets as goals:

- Creation of a Pier 70 National Register Historic District, which includes restoration of historic buildings on 20<sup>th</sup> Street;
- Preservation of the ship repair industry;
- Creation of new shoreline open space and enhanced public access to the Central Waterfront;
- Promotion of mixed-use infill development and economic activity;
- Development of sites office, research, emerging technology, light industrial, cultural and recreational uses;
- Creation of pedestrian-oriented and alternative transportation practices; and
- Remediation of environmental contamination.

As shown in Figure 1 below, Pier 70 consists of:

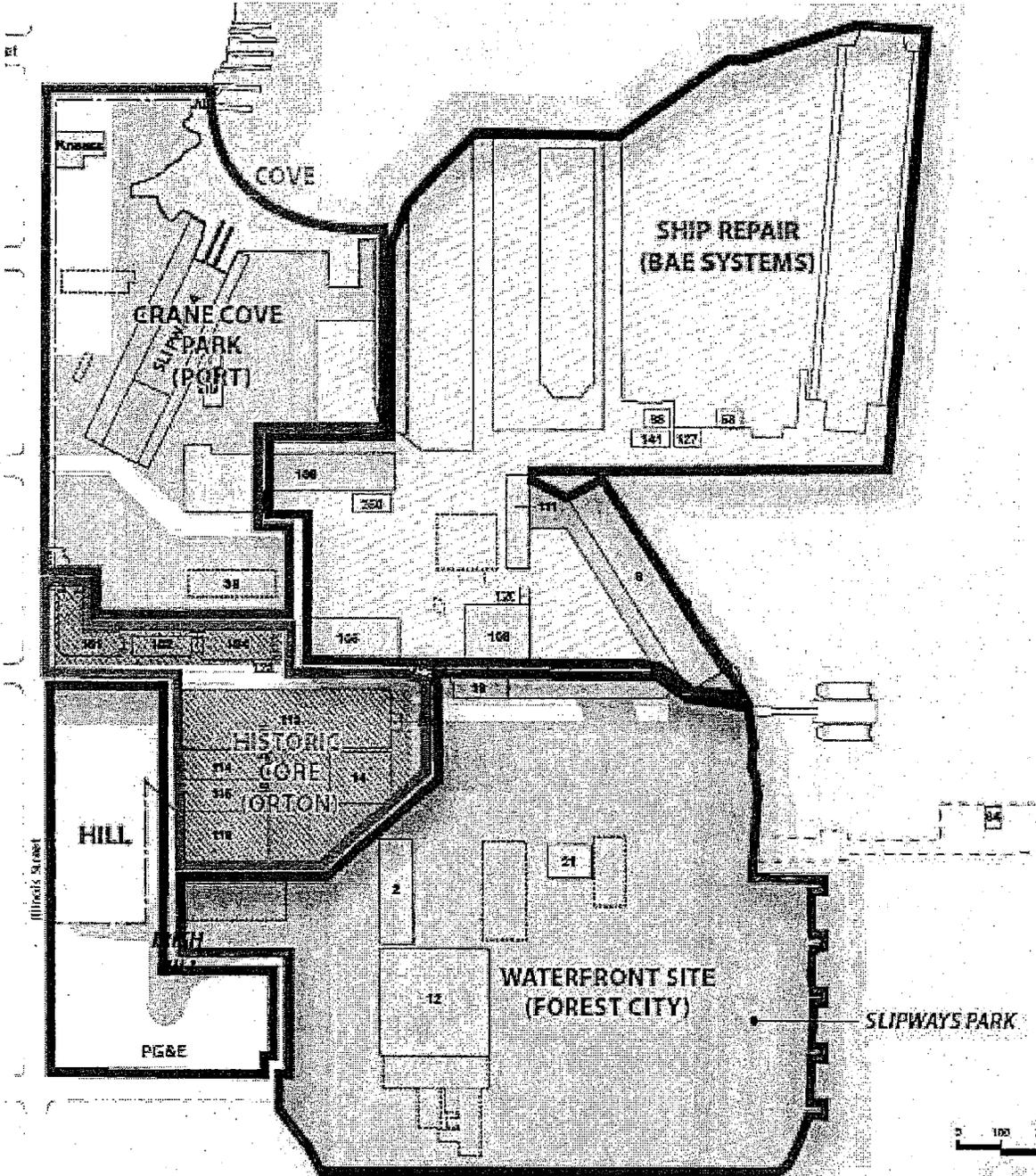
- A ship repair facility currently operated by BAE San Francisco Ship Repair, Inc., under a lease with the Port from 1987 to 2017;
- Existing or planned open space projects, including Crane Cove Park, Slipways Park and the Irish Hill;
- Planned new mixed-use development on the Pier 70 Waterfront Site, for which approval of the fiscal feasibility of development of the project and endorsement of the term sheet will be submitted to the Board of Supervisors in early 2013;<sup>2</sup> and

<sup>1</sup> Chapter 29 excludes various types of projects from the fiscal feasibility requirement, including (a) any utilities improvement project by the Public Utilities Commission, (b) projects with more than 75 percent of funding from the San Francisco Transportation Authority, and (c) projects approved by the voters of San Francisco.

<sup>2</sup> The Port Commission approved an Exclusive Negotiation Agreement with Forest City Development California, Inc. in July 2011, following a competitive solicitation process.

- Planned rehabilitation of the 20<sup>th</sup> Street Historic Buildings (Historic Core) by Orton Development, Inc. (Orton), which is the subject of this resolution.

Figure 1: Existing and Proposed Pier 70 Projects



**Proposed 20<sup>th</sup> Street Historic Buildings Project**

The Port's Waterfront Land Use Plan ("Plan") identifies the area between 18<sup>th</sup> Street and 21<sup>st</sup> Street, adjacent to Pier 70, as a "mixed-use opportunity area", permitting non-maritime land uses that result in the preservation and adaptive use of the three historic Union Iron Works buildings (buildings #101, 102, and 104).

The Port's Pier 70 Design and Access Element (1) established 20<sup>th</sup> Street as the main street of the Pier 70 area, and (2) called for protecting the historic character of the three historic Union Iron Works buildings and the Union Iron Works Machine Shop (buildings #113 and 114).

As shown in Figure 2 below, the proposed 20<sup>th</sup> Street Historic Buildings project includes six buildings: buildings #101, 102, 104, 113/114, 115/116, and 14, and the proposed Machine Shop Courtyard.



## **Prior Actions Supporting 20th Street Historic Buildings Project**

### Proposed Use of Properties under the Public Trust

The six buildings which comprise the proposed 20th Street Historic Buildings project are part of the public trust, in which the State granted title to the Port of tidelands and formerly tidelands properties. Public trust uses are restricted to promoting maritime commerce, navigation, fisheries, environmental and public recreation. The State Lands Commission, consisting of the Lieutenant Governor, State Controller and State Director of Finance, has oversight over the public trust.

Several of the proposed uses of the 20th Street Historic Buildings project, such as office, light industrial, commercial, and emerging technology uses, are not consistent with the public trust. Assembly Bill (AB) 418, signed by the Governor in October 2011, delegates to the State Lands Commission the authority to reorient these properties to benefit the trust, including non-public trust uses of historic buildings to finance rehabilitation of the buildings consistent with federal standards.

### Proposed Listing of Pier 70 on the National Register of Historic Places

The Port proposes to request listing of Pier 70 as an historic district on the National Register of Historic Places in order to be eligible for federal Historic Rehabilitation Tax Credits. In order to qualify for federal Historic Rehabilitation Tax Credits, the 20th Street Historic Buildings project will require design review by both the California State Office of Historic Preservation and the U.S. National Park Service.

### **Selection of Orton to Develop the 20th Street Historic Buildings**

The Port issued a Request for Proposals (RFP) in October 2011 to ten developers for development of the 20th Street Historic Buildings, and received four responses in January 2012<sup>3</sup>. Subsequently, two proposers voluntarily withdrew their proposals. The Port evaluated the proposals of the two remaining proposers – Equity Community Builders and Orton – based on (a) the concept of the development, (b) developer qualifications, financial projects, and sources of funds, and (c) confidential financial statements. The RFP did not require the proposals to provide detailed rehabilitation plans or a binding economic proposal.

The evaluation team included:

- Mike Buhler, Executive Director of San Francisco Architectural Heritage;
- Toby Levine, Chair of the Central Waterfront Advisory Group;

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<sup>3</sup> Respondents included (1) CultureStructures Partners, LLC, consisting of Development Advisory Services and NCA Real Estate; (2) Equity Community Builders, LLC, in conjunctions with Build Inc., and the nonprofit organization established by Build Inc, UP; (3) Orton, Development, Inc.; and (4) Placeworks LLC, which submitted a proposal specifically for rehabilitation of Building 14.

- Terezia Nemeth, Vice President for Asset Services and Development, Alexandria Real Estate Equities, Inc.; and
- Jennifer Sobol, former Port Senior Development Project Manager.

Additionally, an outside consultant, Conley Consulting Group, reviewed the confidential financial statements and provided an analysis of how well each proposal met the RFP criteria. As shown in Table 1 below, Orton received the highest score and was selected as the project developer.

**Table 1: Scoring of Project Proposals**

	<b>Maximum Score</b>	<b>Equity Community Builders</b>	<b>Orton</b>
Developer Qualifications	30	27.25	28.25
Rehabilitation Concept	20	16.75	16.50
Feasibility	25	15.25	21.75
Financial Capacity	25	14.0	23.00
<b>Total</b>	<b>100</b>	<b>73.25</b>	<b>89.50</b>

The Port Commission authorized Port staff to negotiate an Exclusive Negotiation Agreement with Orton on February 28, 2012. The Exclusive Negotiation Agreement committed the Port to negotiate exclusively with Orton on the proposed 20th Street Historic Buildings project and set conditions for negotiating future agreements, including time frames and milestones for the Port Commission's and Board of Supervisors' required reviews and approvals.

## **DETAILS OF PROPOSED LEGISLATION**

Approval of the proposed resolution would (1) find that the proposed 20th Street Historic Buildings project is fiscally feasible; and (2) endorse the proposed Term Sheet between the Port and Orton. As noted above, under the Administrative Code, the Board of Supervisors must find the development to be fiscally feasible prior to the Port submitting the project to the Planning Department for environmental review. Additionally, the Budget and Legislative Analyst recommended in the 2004 Management Audit of the Port that the Port should submit term sheets for projects with development costs greater than \$10 million to the Board of Supervisors for endorsement. The finding that the proposed 20th Street Historic Buildings project is fiscally feasible and endorsement of the proposed Term Sheet between the Port and Orton does not commit the Board of Supervisors to future approval of environmental findings under the California Environmental Quality Act (CEQA) or approval of the final lease between the Port and Orton.

**TERM SHEET**

Under the proposed 20th Street Historic Buildings project, Orton would rehabilitate six Port buildings, including two buildings that made up the former Bethlehem Steel and Union Ironworks office buildings (buildings #101, 104), the former Power House (building #102), the former Union Ironworks Machine Shop (buildings #113/ 114) and surrounding warehouses (buildings #115/116, and 14). New uses of these buildings would be office, restaurant, and light industrial, as shown in Table 2 below.

**Table 2: Proposed 20th Street Historic Buildings Project**

<b>Building</b>	<b>Square Feet</b>	<b>Proposed Use</b>
101	56,268	Office
102	8,428	Restaurant
104	42,846	Office
113/114	149,964	Light Industrial
115/116	42,486	Light Industrial
14	16,315	Light Industrial
<b>Total</b>	<b>316,307</b>	

The Port and Orton are currently negotiating the terms of a ground lease and lease disposition and development agreement. The basic terms and conditions for the future ground lease and lease disposition and development agreement, on which the parties agree to further negotiations, are contained in the proposed Term Sheet as summarized in Table 3, which is subject to Board of Supervisors' endorsement under the proposed resolution. The Term Sheet is not contractually binding. The proposed 66-year ground lease is subject to Board of Supervisors approval.

**Table 3: Summary of Proposed Term Sheet**

<b>Lease Provision</b>	<b>Proposed Terms</b>
Term of Lease	66 years
Total Project Cost	\$58,500,000
Port Capital Contribution	- \$1,500,000 in Port funds - \$250,000 in California Cultural Equity Endowment grant funds (if available)
Project Debt	- Parties agree to cooperate to secure the greatest amount of debt and the lowest cost of third-party capital and debt as reasonably possible - Orton will pay down remaining equity and equity interest in project through additional debt - Orton may obtain additional debt or assign the lease as security for project financing, with Port approval
Orton Equity	- Orton's equity contribution equals total project cost, less tax credits, debt proceeds, and Port's capital contribution - Orton's return on the project is 14% per year (a maximum of \$1,960,000 per year based on \$14 million in equity) - Orton equity shall equal no more than the lesser of 20% of total project costs (\$11.7 million, based on estimated total project costs of \$58.5 million) or \$14 million, once permanent debt is in place - Once debt financing is secured, Orton's equity shall not exceed \$14 million
Orton Equity Repayment/ Participation Rent	- Port would participate in 50% of annual net revenues - Under the base case scenario (development costs of \$58.5 million), the Port would begin to receive participation rent of \$618,000 in year 10 - Under the high cost scenario (development costs of \$75 million), the Port would begin to receive participation rent of \$4.6 million in year 35
Initial Base Rent	- \$200,000 per year. - Base rent is counted toward the Port's 50% participation rent, and will begin after Orton's equity is paid in approximately year 10. - Base rent is due in Year 20 even if Orton equity is not repaid
Base Rent Escalation	- Escalated every 5 years based on the Consumer Price Index (CPI) but no more than 20%
Base Rent Re- Sets	- Adjusted every 10 years to the higher of (1) base rent as escalated by the CPI; or (2) every 10 years after the commencement of Base Rent Payments, 60% of the average Port participation rent over the previous 5 years
Participation in refinancing proceeds	- If Orton refinances, excess proceeds will be used to pay down Orton's equity and interest - Net proceeds after repaying debt and Orton's equity will be shared equally between the Port and Orton
Participation in sale or assignment	- Port receives 10% of any net sales proceeds

The Attachment to this report contains further details of the proposed Term Sheet.

### Project's Sources and Uses of Funds

The estimated sources of funds and total project costs for the 20<sup>th</sup> Street Historic Buildings are shown in Table 4 below.

**Table 4: Estimated Project Sources and Uses of Funds**

<b>Sources of Funds</b>	
Port Capital Funds (2.6%)	\$1,500,000
Federal Historic Preservation Tax Credits (18%)	10,530,000
Debt Financing (60%)	35,100,000
Developer Equity (19.4%)	11,370,000
<b>Total Sources</b>	<b>\$58,500,000</b>
<b>Uses of Funds</b>	
Architect (10% Construction Costs)	\$3,946,140
Developer (4% Construction Costs)	1,578,456
Financing (4% Construction Costs)	1,578,456
Permits (3% Construction Costs)1	,104,919
Environmental (2% Construction Costs)	789,228
Legal (2% Construction Costs)	789,228
Tenant Improvements (\$5 per square foot)	1,582,035
Contingency (5% Construction Costs)	<u>1,973,070</u>
Subtotal, Soft Costs	13,341,532
Construction Costs <sup>4</sup>	39,461,402
Initial Operating and Leasing Expenses	2,708,371
Construction Period Interest (Approximately 5%)	2,970,165
<b>Total Uses</b>	<b>\$58,481,470</b>
<b>Total Uses (Rounded)</b>	<b>\$58,500,000</b>

#### Sources of Funds

##### Port Capital Funds

The Port included \$1.5 million in the FY 2011-12 capital budget, as previously appropriated by the Board of Supervisors, to pay for the costs of temporarily shoring up Building 113 to reduce safety risks. Under the proposed project, the Port's \$1.5 million contribution will pay a share of costs to seismically rehabilitate Building 113.

##### Federal Historic Preservation Tax Credits

The 20<sup>th</sup> Street Historic Building development may be eligible for federal Historic Preservation Tax Credits, up to 20% of qualified historic rehabilitation expenses. To qualify, the historic buildings must (a) be listed in the National Register of Historic Places; (b) meet the substantial rehabilitation test in which the cost of the rehabilitation exceeds the pre-rehabilitation cost of the building; (c) meet the Secretary of the Interior's Standards for Rehabilitation; and (d) after rehabilitation, used for income-producing purposes for at least 5 years. Based on information provided by the Port, the 20<sup>th</sup> Street Historic Buildings meet the minimum eligibility requirements. According to Ms. Kathleen Diohep, Port Project Manager, the Port is requiring the

project to meet the Secretary of the Interior's Standards for the Treatment of Historic Properties, which is required to secure the tax credits. Because the proposed Term Sheet does not include the Port's requirement that the 20<sup>th</sup> Street Historic Buildings project meet the Secretary of the Interior's Standards for the Treatment of Historic Properties, the proposed resolution should be amended to specify this requirement.

### Debt Financing

Under the proposed Term Sheet, Orton is to borrow the largest amount of possible debt in order to reduce Orton's equity contribution and the associated impact on rent revenues to the Port stemming from the proposed 14% annual return on Orton's equity investment. According to the proposed Term Sheet, as soon as additional financing is reasonably supported by the project, Orton agrees to pay down its remaining equity investment through additional debt.

Although Orton estimates that they will be able to secure debt financing up to 80% of the project costs, Orton has not yet secured loan commitments from lenders. According to the February 21, 2012 memorandum from Conley Consulting Group, a consultant retained by the Port to evaluate the financial terms of Orton's proposal to rehabilitate the 20<sup>th</sup> Street Historic Buildings, Orton has current relationships with 18 commercial banks and other institutional lenders. According to Ms. Diohep, Orton will be more likely to secure debt financing once the Board of Supervisors endorses the proposed Term Sheet and environmental review under the California Environmental Quality Act (CEQA) is completed. Further, according to Ms. Diohep, the proposed Term Sheet facilitates Orton obtaining financing on favorable terms because lenders will receive repayment on the debt before Orton begins to pay rent to the Port.<sup>4</sup>

### Orton's Equity Investment

In response to the RFP, Orton proposed that they invest up to \$14 million in equity in the 20<sup>th</sup> Street Historic Buildings project with a 14% per year return on their equity investment. A review by the Port's consultant, Conley Consulting Group, determined that Orton had sufficient cash assets to fund the proposed \$14 million in equity.

Under the proposed Term Sheet, Orton will earn 14% per year return on their equity on a simple interest basis (i.e., does not compound from year to year) up to \$14 million. According to an internal Port memorandum, dated October 24, 2012, the 14% return on investor equity in a real estate development project is on the low side of returns demanded by investors for at-risk developments.

### **Uses of Funds (Project Costs)**

Currently, Orton estimates total project costs to be \$58,500,000. According to a February 2010 evaluation by Economic & Planning Systems, Inc., the estimated cost to rehabilitate the 20<sup>th</sup> Street Historic Buildings was \$456 per square foot, or an estimated \$144,235,992 for 316,307 square feet. Subsequently, the Port reduced the estimated costs to \$106,000,000 by revising the concepts for rehabilitating the 20<sup>th</sup> Street Historic Buildings. According to the Port's October 24, 2012 memorandum, Orton was able to propose project costs of \$58,500,000, or \$47,500,000.

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<sup>4</sup> Under the proposed Term Sheet, Orton will begin to pay base rent in year 21 of the ground lease, even if Orton's debt and equity investment has not been fully repaid.

(44.8%) less than the Port's estimates of \$106,000,000, by proposing less extensive rehabilitation, including maintaining the buildings in their existing form.

Project costs of \$58,500,000 are preliminary estimates. Under the proposed Term Sheet, Orton is to submit to the Port a complete underwriting package that provides a detailed estimate of total projects costs, financing costs, expected lease rates, and pro forma financial analysis. The complete underwriting package will be used by the Port and Orton to negotiate the terms of the lease disposition and development agreement.

As shown in the Attachment detailing the proposed Term Sheet, if project costs are higher than estimated due to unforeseen conditions prior to the start of construction, Orton can:

- (1) remove buildings other than buildings #113 and 114 from the project;
- (2) increase the equity investment to more than \$14 million with the Port's approval;
- (3) renegotiate the agreement; or
- (4) terminate the agreement.

If project costs are higher than estimated due to unforeseen conditions after the start of the construction, Orton can:

- (1) increase the equity investment to more than \$14 million with the Port's approval; and
- (2) delay the start date of base rent payments to the Port.

#### **Fiscal Impact to the City**

Currently, the Port does not receive rent from the six buildings that comprise the 20<sup>th</sup> Street Historic Buildings project, which require significant rehabilitation. In order to finance rehabilitation of the 20<sup>th</sup> Street Historic Buildings and other Pier 70 properties that the Port cannot finance by itself, the 2010 Pier 70 Master Plan proposes private developer rehabilitation of Pier 70 properties.

Under the proposed Term Sheet, the Port would be required to pay \$1.5 million in capital funds toward the costs to seismically rehabilitate building #113. The Term Sheet does not require other Port or City expenditures.

Orton would enter into a 66-year ground lease, subject to Board of Supervisors approval, and lease disposition and development agreement with the Port, which would set the terms of development and ongoing operation of the 20<sup>th</sup> Street Historic Buildings. Orton would pay the costs of rehabilitating the 20<sup>th</sup> Street Historic Buildings; market the completed office, restaurant and light industrial properties to tenants; and operate and maintain the properties as the master tenant. Orton would receive all rental and other operating revenues from the 20<sup>th</sup> Street Historic Buildings.

#### **Estimated Rent to the Port**

Under the proposed Term Sheet, the Port would receive rent from Orton only after Orton's investment in the project is repaid.

- The Port would receive base annual rent of \$200,000, which is the amount negotiated by the Port and Orton, escalated every five years by the CPI up to 20%. Base rent of approximately

\$415,000 (\$200,000 in year 1 escalated by 20% every five years) would begin in year 21 of the ground lease even if Orton's investment has not been fully repaid. In addition, after Orton has begun base rent payments, base rent would be adjusted every 10 years to the higher of (a) base rent as escalated by the CPI, or (b) 60% of the average Port participation rent over the previous 5 years.

- The Port would receive 50% participation rent of annual net revenues<sup>5</sup> after Orton has been fully repaid on their equity investment. The Port would receive rent equal to the greater of the base rent or the 50% participation rent.

The Port staff and Orton developed a preliminary pro-forma analysis to evaluate the financial performance and cash flow of the proposed 20<sup>th</sup> Street Historic Building project, based on expected rents and other operating revenues, financing costs, and financial provisions in the proposed Term Sheet. As noted above, this preliminary pro-forma analysis will be revised based on more detailed evaluation of project costs, financing, and tenant rents by Orton.

According to the preliminary pro-forma analysis, under the base case scenario (see Table 5), the Budget and Legislative Analyst estimates that the Port would receive annual rent of \$415,000 for the first time in Year 21 of the ground lease, and total rent over the 66 year term of the ground lease with a net-present-value of \$15,670,000<sup>6</sup>.

**Table 5: Estimated Rent to Port Over 66 Year Term of Proposed Ground Lease**

	Base Case Scenario	High Project Costs Scenario	Low Rent Scenario
Rents	Average \$12.96 per square foot	Average \$12.96 per square foot	Average \$9.07 per square foot
Project Costs	\$58,500,000	\$75,000,000	\$58,500,000
Financing			
Tax Credits (up to 20% of costs)	\$10,530,000	\$13,500,000	\$10,530,000
Port Funds	1,500,000	1,500,000	1,500,000
Loans (approximately 53% to 62% of costs)	35,100,000	46,125,000	31,260,000
Orton's Equity Investment (up to 20% of costs)	<u>11,370,000</u>	<u>13,875,000</u>	<u>15,210,000</u>
Total Financing	\$58,500,000	\$75,000,000	\$58,500,000
Orton's Equity Investment Fully Repaid	Year 27	Year 31	Year 39
First Year of Base Rent to Port	Year 21	Year 21	Year 21
Amount of Base Rent in First Year	\$415,000	\$415,000	\$415,000
<b>Net Present Value of Rent to Port Over 66 Years</b>	<b>\$15,670,000</b>	<b>\$14,378,000</b>	<b>\$7,567,000</b>

Source: Port, Orton, Keyser Marston Associates, Inc., Budget & Legislative Analyst (some revisions in Base Case Scenario)

<sup>5</sup> Annual net revenues include rental and other income, less operating expenses.

<sup>6</sup> Keyser Marston estimated rent to the Port of net present value of \$23 million in the base case scenario, based on Orton obtaining loans of \$44.4 million (or approximately 76% of project costs) and Orton's equity investment of \$2 million (or approximately 3.4% of project costs). The Budget and Legislative Analyst's estimated rent to the Port of net present value of \$15.7 million in the base case scenario is based on Orton obtaining loans of \$35.1 million (or approximately 60% of project costs) and Orton's equity investment of \$11.4 million (or approximately 19.4% of project costs).

If rents from 20<sup>th</sup> Street Historic Buildings tenants are less than projected by Orton or construction costs are higher, the Port's rent from the proposed ground lease will be less than \$15,670,000, as shown in Table 5. Orton is currently conducting a detailed evaluation of the 20<sup>th</sup> Street Historic Buildings site and developing a more refined design plan and cost estimate for the project. According to Ms. Diohep, prior to approval of the proposed 66-year ground lease, the Port will obtain a third party evaluation of the revised cost estimates, project financing, and pro forma financial analysis. The more detailed pro forma analysis (or complete underwriting package) will form the basis of negotiations between the Port and Orton on the terms of the ground lease, subject to Board of Supervisors approval, and lease disposition and development agreement.

#### 20<sup>th</sup> Street Historic Buildings Rents

The Port's projections for the 20<sup>th</sup> Street Historic Buildings rents are \$30 per square foot per year for office space and \$12 per square foot per industrial space. These projections are consistent with current Port rents for comparable space, contained in the Port's FY 2012-13 Minimum Monthly Rate Schedule.

According to Ms. Diohep, demand for office and industrial space such as the space proposed for the 20<sup>th</sup> Street Historic Buildings is strong. According to Ms. Diohep, Orton has received interest from prospective tenants for the 20<sup>th</sup> Street Historic Buildings space, and the nearby American Industrial Complex, consisting of 800,000 square feet of light industrial, commercial and office space, is fully occupied.

#### Orton's Project Costs

Orton's estimated project costs of \$58.5 million are based on (1) construction cost estimates of \$125 per square foot<sup>7</sup> by Orton's contractor, Nibbi Brothers General Contractors; (2) planning, design, permitting, legal and other costs equal to 33.8% of construction costs; (3) initial operating and leasing expenses; and (4) loan interest payments during the construction period.

As noted above, Orton is currently conducting a detailed evaluation of the 20<sup>th</sup> Street Historic Buildings site and developing a more refined design plan and cost estimate for the project. To ensure that the future ground lease and associated lease disposition and development agreement are consistent with the proposed Term Sheet and the Board's finding of fiscal feasibility, the Port should report to the Board of Supervisors, when the Board considers the project's ground lease, on the (1) revised cost estimates, project financing and pro forma financial analysis; and (2) Port's procedures to control and verify costs.

#### **Re-Opener**

As noted in the Attachment, the Port and Orton may re-open the proposed ground lease, which could include (1) increasing the cap on Orton's equity investment to more than \$14 million; (2) delay the start date of the base rent; (3) removing buildings from the project; or (4) other business terms of the proposed lease and disposition agreement. The Budget and Legislative Analyst recommends that any reopener to the proposed lease disposition and development

<sup>7</sup> This estimate is consistent with average construction costs per square foot for office and industrial space in San Francisco contained in the 2010 Construction Cost Survey by Real Estate Investment Center.

agreement that materially changes the financial terms of the agreement should be subject to Board of Supervisors approval.

## FISCAL FEASIBILITY ANALYSIS

As discussed in the Mandate Statement Section above, Chapter 29 of the City's Administrative Code requires that certain projects be submitted to the Board of Supervisors for approval of the project's fiscal feasibility prior to submitting the project to the Planning Department for environmental review if: (a) the project is subject to environmental review under the California Environmental Quality Act (CEQA); (b) total project costs are estimated to exceed \$25,000,000; and, (c) construction costs are estimated to exceed \$1,000,000.

Chapter 29 of the City's Administrative Code specifies five areas for the Board of Supervisors to consider when reviewing the fiscal feasibility of a project, including: (1) direct and indirect financial benefits to the City; (2) construction costs; (3) available funding; (4) long term operating and maintenance costs; and (5) debt load carried by the relevant City Department. Chapter 29 also limits the definition of "fiscal feasibility" to mean only that the project merits further evaluation and environmental review.

### 1) Direct and Indirect Financial Benefits to the City

The proposed 20<sup>th</sup> Street Historic Buildings project, would provide: (1) direct financial benefits to the City through increased tax and fee revenues; and (b) indirect financial benefits from creation of an estimated 500 new jobs.

#### Direct Benefits

The Port's consultant, Keyser Marston Inc., provided estimates of tax revenues to the City, which the Budget and Legislative Analyst finds to be reasonable. As shown in Table 6 below, the estimated annual revenues to the City resulting from increased taxes and fees are approximately \$919,000.

**Table 6: Estimated Annual Tax and Fee Revenues to the City**

<b>Annual Revenues to General Fund</b>	
Property Taxes	\$340,000
Payroll Tax <sup>1</sup>	238,000
Property Tax In-Lieu of Motor Vehicle License Fee	64,000
Utility Users Tax	58,000
Sales Tax	47,000
Parking Tax	12,000
Business Registration Fee	12,000
Other	5,000
<b>Total General Fund</b>	<b>\$776,000</b>
<b>Annual Revenues to Other Funds</b>	
Library, Open Space, Children's Fund	\$48,000
Transportation Authority	71,000
Public Safety Fund	24,000
<b>Total Other Funds</b>	<b>\$143,000</b>
<b>Total Revenues</b>	<b>\$919,000</b>

Source: Keyser Marston Associates, Inc.

<sup>1</sup> Estimates of payroll tax revenues will change due to the approval on November 6, 2012 of the City's gross receipts tax (Proposition E), which will replace the payroll tax over the four-year period from 2014 through 2018.

### Indirect Benefits

Keyser Marston estimated an additional 500 new permanent jobs to be created by the 20<sup>th</sup> Street Historic Buildings project, based on two employees per 1,000 square feet of 274,000 square feet of rentable space. According to Keyser Marston, because of the relatively small scale of the project, the impact of short-term construction jobs and new permanent jobs has not been quantified.

### **2) Construction Costs**

Project costs, estimated to be \$58.5 million, include \$1.5 million in Port capital funds (2.6%). The balance of \$57.0 million (97.4%) will be borne by Orton, through Historic Preservation Tax Credits, loans, and equity investment.

### **3) Available Funding**

\$15.5 million (26.5%) of the estimated \$58.5 million project costs are available funds, including \$14 million in Orton's equity and \$1.5 million in Port capital funds. The balance of \$43 million is to be funded by Historic Preservation Tax Credits and loans, which have not yet been obtained by Orton (see "Sources of Funds" above).

### **4) Ongoing Maintenance and Operating Costs**

The Port will have no ongoing maintenance or operating costs, which will be borne solely by Orton.

### **5) Debt Load**

Neither the Port nor the City will carry any debt for the project.

## CONCLUSION

### Term Sheet Endorsement

The Budget and Legislative Analyst's 2004 Management Audit of the Port recommended that the Port submit development project negotiation term sheets to the Board of Supervisors for endorsement, allowing the Board of Supervisors to consider the financial goals of the project prior to approval of the lease. However, with endorsement of the proposed Term Sheet, the final 66-year ground lease between the Port and Orton will still be subject to future Board of Supervisors approval.

The proposed Term Sheet provides for Orton to finance the rehabilitation of the 20<sup>th</sup> Street Historic Buildings, for which the Port does not have sufficient funds to rehabilitate itself. The Port's contribution to the project would be limited to \$1.5 million in previously appropriated capital funds.

The Port does not currently receive rent for the 20<sup>th</sup> Street Historic Buildings. Based on the preliminary pro forma financial analysis prepared by the Port and Orton and provisions in the proposed Term Sheet, the Budget and Legislative Analyst estimates that the Port would receive rent revenues over the 66-year term of the future ground lease with an estimated net present value of \$15.7 million.

However, the estimated net present value of rent revenues to the Port will be less than \$15.7 million if project costs are higher or tenant rents are lower than estimated in the preliminary pro forma financial analysis. Orton is currently conducting a detailed evaluation of the 20<sup>th</sup> Street Historic Building site and developing a more refined design plan and cost estimate of the project. The proposed Term Sheet requires Orton to submit a complete underwriting package with detailed estimates of the total project costs, financing costs, and expected lease rates to the Port to be used to negotiate the lease disposition and development agreement. To ensure that the future ground lease and associated lease disposition and development agreement are consistent with the proposed Term Sheet, the Port should report to the Board of Supervisors when the Board considers the proposed ground lease on the (1) revised cost estimates, project financing, and pro forma financial analysis; and (2) Port's procedures to control and verify project costs.

### Finding of Fiscal Feasibility

The proposed 20<sup>th</sup> Street Historic Buildings project would (1) yield annual estimated tax and fee revenues to the City of \$919,000; (2) generate an estimated 500 new permanent jobs; (3) provide an estimated \$58.5 million in construction expenditures; (4) be financed by \$14 million in available developer equity by Orton, \$1.5 million in available Port funds, and \$43.0 million in federal Historic Preservation Tax Credits and loans to be obtained by the developer; (5) incur no ongoing maintenance and operating costs to the Port or the City; and (6) incur no debt load by the Port or the City.

Based on these criteria, the Budget and Legislative Analyst finds the proposed development fiscally feasible under Chapter 29 of the City's Administrative Code. As noted above, in accordance with Administrative Code Chapter 29, the finding of "fiscal feasibility" means only that the project merits further evaluation and environmental review. If the proposed resolution is

approved by the Board of Supervisors, the City will be authorized to commence environmental review of the project under CEQA.

## RECOMMENDATIONS

1. Amend the proposed resolution to require that the 20<sup>th</sup> Street Historic Buildings project meet the Secretary of the Interior's Standards for the Treatment of Historic Properties.
2. Amend the proposed resolution to require the Port to report to the Board of Supervisors, when the Board considers the project's ground lease, on the (1) revised cost estimates, project financing and pro forma financial analysis; and (2) Port's procedures control and verify costs.
3. Amend the proposed resolution to require that any reopener to the proposed ground lease that materially changes the financial terms of the agreement is subject to Board of Supervisors approval.
4. Approve the proposed resolution as amended.

Proposed Term Sheet between the Port and Orton Development, Inc.  
 Rehabilitation of the 20th Street Historic Buildings

Lessor	Port of San Francisco
Lessee/ Key Man	<ul style="list-style-type: none"> <li>• Orton Development, Inc. or an affiliated entity controlled by J.R. Orton III.</li> <li>• J.R. Orton III to remain actively involved in the project until at least project completion.</li> </ul>
Premises	<ul style="list-style-type: none"> <li>• Historic buildings 14, 101, 102, 104, 113, 114, 115, 116, 122, and 123, at Pier 70. See Exhibit A. ODI and the Port will negotiate a precise premises boundary to address needed ingress and egress with the current, and the future street grid.</li> <li>• Parties anticipate entering into a license for adjacent areas.</li> </ul>
Term of Lease	<ul style="list-style-type: none"> <li>• 66 years.</li> </ul>
Uses	<ul style="list-style-type: none"> <li>• Buildings 101, 104: Office and ancillary uses;</li> <li>• Building 102: restaurant and commercial;</li> <li>• Buildings 113/114, 115/116, and 14: Light industrial, arts production, education, recreation, ancillary retail, and ancillary office uses.</li> </ul>
As-Is Conditions	<ul style="list-style-type: none"> <li>• For all buildings and site areas, Developer takes in "as-is" conditions.</li> </ul>
Hazardous Materials	<ul style="list-style-type: none"> <li>• Developer is responsible for implementing the Risk Management Plan, including any and all costs, regulatory, and operational responsibilities specified therein for aboveground environmental conditions. If Developer disturbs belowground soils, Developer will follow the Risk Management Plan for those areas.</li> <li>• If previously unidentified below ground environmental conditions unrelated to the Developer's activities require additional investigation or remediation, the Port will be responsible for those costs including regulatory costs.</li> <li>• Prior to issuance of the Risk Management Plan, Developer will be responsible for compliance with existing regulatory requirements and conducting activities in manner consistent with the Remedial Action Plan (Treadwell and Rollo, May 2012).</li> <li>• PCB transformer removal and abatement in Building 102 remains responsibility of the Port.</li> <li>• Removal of existing PCB transformer in the northwest corner of Building 113 and abatement of all above ground hazardous materials are the responsibility of ODI.</li> </ul>
"Early Work"	<ul style="list-style-type: none"> <li>• ODI can propose to undertake at its cost weatherizing, cleanup or security improvements ("Early Work") under the existing access agreement terms, which include Port approval of the work scope.</li> <li>• Approval of any scope of Early Work would include agreement on a budget for that work.</li> <li>• Under the ENA, ODI has paid a \$75,000 negotiation fee that is non-refundable if the ENA is terminated. If ODI terminates the ENA and does not execute a Lease for the project, the Port will return to ODI the documented expenditures not to exceed the agreed-to cost of any Early Work performed but no more than \$75,000.</li> <li>• If the project moves forward, Early Work costs will be included in Total Project Costs and the \$75,000 negotiation fee will be applied to the lease deposit as agreed in the ENA.</li> </ul>

<p>Building 102</p>	<ul style="list-style-type: none"> <li>• Building 102 is an active part of the electrical systems serving the BAE ship repair facility. Developer will assess existing conditions, meet with BAE to understand their needs, and recommend a solution for:                             <ol style="list-style-type: none"> <li>1. Removing electrical equipment</li> <li>2. Establishing separate service to BAE</li> <li>3. Establishing service to other electric uses now served from building 102 including ODI's project</li> </ol> </li> <li>• Developer to recommend options and provide conceptual cost estimates for the options to meet objectives (1), (2), and (3) above.</li> <li>• Port and Developer to negotiate in the Development Agreement how to undertake and fund the work needed to re-use Building 102 for new uses and sustain electrical service to the shipyard.</li> <li>• Cost of BAE equipment and service remains a Port or BAE responsibility. To the extent designing a new BAE service incurs third party fees, such fees shall be reimbursed by Port or BAE.</li> </ul>
<p>Total Project Cost</p>	<ul style="list-style-type: none"> <li>• "Total Project Cost" shall include Lessee's hard and soft costs such as permit, development, and impact fees, if any, construction and materials costs, subcontractor and design fees, legal and other professional fees, financing costs that are capitalized, and all project-related expenses of Lessee or Orton Development Inc. (ODI), including a proportionate share of ODI's overhead such as salaries paid by ODI for employees (other than J.R. Orton III).</li> <li>• ODI will not charge a developer fee.</li> <li>• Parties to negotiate the level of performance or surety bond or completion guaranties in the LDDA.</li> </ul>
<p>Port Capital Contribution</p>	<ul style="list-style-type: none"> <li>• \$1.5 million with an additional \$250,000 grant funding from the California Cultural Equity Endowment, if available.</li> <li>• The Port has the option to, but is not bound to, secure additional capital above \$1.5 million in seismic funding to pay down the amount of Orton Equity at any time before the Orton Equity is fully repaid, subject to any finance conditions.</li> </ul>
<p>Project Debt</p>	<ul style="list-style-type: none"> <li>• Port and ODI agree to cooperate to secure the greatest amount of debt and the lowest cost third-party capital and debt as reasonably possible for the project.</li> <li>• As soon as additional financing is reasonably supported by the project, ODI agrees to pay down its remaining equity interest and remaining equity through additional debt.</li> <li>• ODI may propose that, once Orton Equity is re-paid, additional debt be placed on the site to the advantage of both the parties. The Port's approval of additional debt will not be unreasonably withheld.</li> <li>• Port consent shall not be unreasonably withheld for any assignment of the lease as security for project financing or refinancing. The lease will contain mortgagee protection and related provisions reasonably satisfactory to Lessee's lender(s) and investor(s), including future amendments as may be reasonably required for such purpose.</li> </ul>
<p>Orton Equity</p>	<ul style="list-style-type: none"> <li>• Orton Equity is defined as Total Project Cost through project completion less tax credit equity, permanent debt proceeds, and Port capital contribution.</li> <li>• Orton Equity will accrue a simple return of 14% per year. Orton Equity shall be no more than the lesser of 20% of Total Project Cost or \$14 million, once permanent debt is in place to achieve the shared goal of the lowest overall cost of capital for the project.</li> <li>• Unpaid return accumulates until paid without compounding.</li> <li>• Re-Opener process may increase cap on Orton Equity above \$14 million.</li> </ul>

Orton Equity Repayment/ Participation Rent	<ul style="list-style-type: none"> <li>Participation Net Revenue is defined as project revenue (on a triple net basis or its equivalent) less reasonable unrecovered operating expenses on vacant space, appropriate reserves using standard accounting, tax credit equity payments, and debt service and related fees (on the Total Project Cost).</li> <li>Participation Net Revenue shall be distributed as:                             <ol style="list-style-type: none"> <li>To Lessee until the accumulated 14% return on Orton Equity is paid;</li> <li>To Lessee to pay down outstanding Orton Equity until paid;</li> <li>Split equally between Lessee and Lessor</li> </ol> </li> </ul>
Right to Pre-pay	<ul style="list-style-type: none"> <li>Port has right to pre-pay accumulated interest on Orton Equity and Orton Equity at any time, at no charge or payment of any penalty.</li> </ul>
Complete Underwriting Package	<ul style="list-style-type: none"> <li>ODI will submit a Complete Project Underwriting Package ("Project Underwriting") with a detailed estimate of total project costs including hard and soft costs, finance costs, and expected lease rates, with a pro forma projecting ODI and Port income.</li> <li>Port and ODI will use this package to negotiate the LDDA.</li> </ul>
Unknown Base Building Costs Found Prior to Lease Execution	<p>After approval of the Transaction and/or execution of the development agreement, ODI can request re-opening of business terms, if it can demonstrate that due to costs of unforeseen base building conditions, the required Orton Equity for the entire project exceeds \$14 million or that the project returns significantly differ from the Project Underwriting projected returns.</p> <p>At this stage, ODI will have the right to:</p> <ol style="list-style-type: none"> <li>Remove buildings – except Building 113/114 – from the Project</li> <li>Invest additional equity into the transaction and, if so, the Base Rent will not be applicable until all Orton Equity plus the 14% return is repaid,</li> <li>Renegotiate the deal – subject to returning to the Port Commission and the Board of Supervisors for approval, or</li> <li>Terminate its Development Agreement without incurring a termination fee</li> </ol>
Unknown Base Building Costs After Lease Execution	<ul style="list-style-type: none"> <li>Lease to include a provision to address unknown base building costs discovered during construction, including that ODI may (i) invest additional equity, in the project to address the unforeseen costs at a market rate of return to be negotiated based on the investment returns expected by real estate equity investors, but in no event more than 14% per annum, into the transaction to address the unforeseen costs and (ii) delay the start of the Base Rent.</li> </ul>
Initial Base Rent	<ul style="list-style-type: none"> <li>Beginning in Year 20 after lease execution, a base rent of \$200,000 (expressed in 2012\$) per year will be paid even if all Orton Equity has not been repaid.</li> <li>If Orton Equity is repaid before year 10, Base Rent shall commence 10 years after Orton Equity is repaid.</li> <li>Re-opener provisions can delay the start of Base Rent.</li> </ul>
Base Rent Escalation	<ul style="list-style-type: none"> <li>Base Rent shall be adjusted every 5 years but in no event decrease, based on CPI, limited to a 20% increase.</li> </ul>
Base Rent Re-Sets	<ul style="list-style-type: none"> <li>Every 10 years after commencing payment of Base Rent, the Base Rent amount will be adjusted to equal the higher of (i) the then payable Base Rent or (ii) 60% of the average of the previous 5 years of participation rent paid to the Port.</li> <li>Any participation in refinancing or sales proceeds is not included in the five year average calculation.</li> </ul>
Participation in refinancing proceeds	<ul style="list-style-type: none"> <li>If Lessee refinances, excess funds shall be applied first to Orton Equity interest and second to Orton Equity.</li> <li>Net proceeds after repaying debt and Orton Equity shall be split equally between Port and Orton and paid to each party at close of escrow</li> </ul>
Participation in sale or assignment	<ul style="list-style-type: none"> <li>Port receives 10% of any net sales proceeds (remaining after repayment of debt, return on outstanding Orton Equity, return of Orton Equity, and Lessee's standard sales costs such as brokerage commissions and legal fees)</li> </ul>

**Proposed Term Sheet between the Port and Orton Development, Inc.  
Rehabilitation of the 20th Street Historic Buildings**

Parking:	<ul style="list-style-type: none"> <li>• Port shall manage parking, as part of a Pier 70 wide parking plan, for the proposed project. Parking rates will be set through the Port parameter rate setting process. Consistent with the Pier 70 Master Plan, parking of one space per 1,000 square feet of building area will be provided.</li> </ul>
Subleasing and Assignment	<ul style="list-style-type: none"> <li>• Lessee shall have the right to sublease the premises for all uses allowed under the lease.</li> <li>• Port shall have rights at its sole discretion over any lease assignment or change in control of ODI prior to project completion.</li> <li>• After project completion, the lease may be assigned to any qualified purchaser, subject to Port's reasonable approval.</li> </ul>
Property Management	<ul style="list-style-type: none"> <li>• ODI may manage the property or use third-party management. In either case, the records and financials shall be completely transparent.</li> <li>• In the event ODI is managing the project and the Port objects reasonably to the quality of property management, it shall put such objections in writing. ODI shall have a reasonable time to cure, no less than 30 days. In the event ODI is unable to reasonably cure in the time period, Port may request that the project be managed by a third party management and ODI shall select a reasonable established third party management company for the project. All asset and management fees will be consistent with those prevailing in the marketplace.</li> </ul>
Utility and Impact fees	<ul style="list-style-type: none"> <li>• To the extent due for this project, utility connection and impact fees are Lessee's responsibility. Port to reasonably cooperate with Lessee in the investigation and applicability of impact fees.</li> </ul>
Infrastructure Costs	<ul style="list-style-type: none"> <li>• In the future, a Master or Sub Developer(s) may replace the infrastructure in 20th Street. Lessee will bear its equitable share of costs with respect to repair of infrastructure including roadway and sidewalks.</li> </ul>
Condition of Premises at the end of the lease; Capital Reserves	<ul style="list-style-type: none"> <li>• The condition of the property at the end of the lease shall be as constructed, well-maintained, minus reasonable wear and tear.</li> <li>• Mutually agreed upon reasonable reserves to meet this standard are project expenses and will be included in the operating budget.</li> </ul>
Development over the course of the lease	<ul style="list-style-type: none"> <li>• Lessor and Lessee are aware that a Preferred Master Plan for Pier 70 was published in 2010 addressing the complete redevelopment of Pier 70. During the course of the lease, a complete redevelopment of Pier 70 may occur.</li> <li>• Lessor and Lessee agree to reasonably cooperate on any future master plan, agreements with other Pier 70 developers and tenants, and their implementation.</li> </ul>
Standard Lease Terms	<p>The development agreement and lease, except as negotiated above or in the Exclusive Negotiating Agreement between the Port and ODI, will address the terms and conditions of the Port's October 4, 2011, Request for Proposals for the 20th Street Historic Buildings.</p>

**Assessment of Fiscal Responsibility and Feasibility  
Rehabilitation of 20<sup>th</sup> Street Historic Buildings, Pier 70**

*Prepared for:*  
The Port of San Francisco

*Prepared by:*  
Keyser Marston Associates, Inc.

November 2, 2012

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## EXECUTIVE SUMMARY

This report has been prepared pursuant to the requirements of Chapter 29 of the City of San Francisco's Administrative Code, which requires that the Board of Supervisors approve the fiscal feasibility of certain development projects before the project can be submitted to the City's Planning Department for environmental review. Under the provisions of Section 29.2 there are five criteria on which to evaluate a project's fiscal feasibility: 1) Direct and indirect financial benefits of the project to the City, including to the extent applicable cost savings or new revenues, including tax revenues generated by the proposed project; 2) The cost of construction; 3) Available funding for the project; 4) The long-term operating and maintenance cost of the project; and 5) Debt load to be carried by the City department or agency.

The subject Project is the rehabilitation of the 20<sup>th</sup> Street historic buildings on Pier 70 to be undertaken by Orton Development, Inc. (ODI). A more detailed description of the Project is provided in Section 1. The Port and ODI are currently in the process of negotiating the business terms of agreements that will govern the conveyance of the properties to ODI and the rehabilitation/occupancy of the historic buildings. This analysis reflects the preliminary terms as contained in the October 3, 2012 Term Sheet, which is provided as Appendix A. While some of the terms may change before the transaction agreements are executed, it is believed the preliminary projections and terms are refined sufficiently for purposes of this analysis to assist the Board of Supervisor's in its determination of fiscal feasibility.

### A. Financial Benefits

1. ***Fiscal Benefits to the City of San Francisco.*** The rehabilitated buildings are anticipated to generate a significant annual revenue stream to the City. On-going revenues to the City directly generated by the Project include new property/possessory interest taxes, payroll taxes, utility user taxes, and sales taxes. It is estimated that on-going revenues to all City funds will total approximately \$920,000 per year. Of this total, \$780,000 will accrue to the City's General Fund, while \$140,000 will accrue to other City Funds. General Fund property taxes account for \$340,000. If it is ultimately decided to deposit property tax increment into an Infrastructure Financing District (IFD) for the broader Pier 70 improvements, annual revenues to the General Fund would total at least \$440,000, with the amount of additional revenues depending on the portion of property tax increment pledged to an IFD. Creation of an IFD for Pier 70 would be subject to future Board of Supervisors action.
2. ***Financial Benefits to the Port.*** The primary financial benefit to the Port is securing a developer to rehabilitate the buildings using private funds. Since 1997 the Port has not been successful in repeated efforts to attract private investment. The Port's 10 year Capital Plan estimates that returning these buildings to their current use would cost \$109 million. Without the Project, the Port would either need to use its own resources or let the buildings continue to deteriorate. Transferring this obligation to ODI and bringing these buildings back to productive use is the primary public, financial, and fiscal benefit of this project.

Additionally, the Port will receive lease revenue and parking revenue from the Project. Annual lease payments will be the greater of a minimum base rent payment or a participation rent payment driven by the performance of the Project. The minimum base rent payment obligations do not start until the 21<sup>st</sup> year of the lease (year 2033) and the preliminary performance projections indicate that participation rent will not likely commence until the year 2021. It is anticipated that lease payments to the Port will total \$291 million in nominal dollars over the 66-year lease term, which amounts to an average annual payment of \$400,000 in current 2012 dollars. While the lease payments are significant over the entire lease term, in the near-term the Port will not receive any lease revenue.

The Project will also generate parking revenue to the Port. For purposes of this analysis, it has been conservatively assumed that the Port will not receive any net parking revenue, after debt service on the parking construction costs and operating expenses are deducted from gross parking revenues.

3. ***Economic and Indirect Financial Benefits to the City.*** It is estimated that the Project will create approximately 500 full-time jobs, with an average annual payroll of \$32 million. In addition to the direct tax benefits to be generated by the Project, the new businesses and the employees will support other businesses in San Francisco and the region through expenditures on materials, retail goods, and services. Given the relatively small scale of the Project, this analysis has not quantified the magnitude of indirect economic benefits.

The analysis of financial benefits is presented in Section 2 of this report.

- B. **Cost of Construction.** The Project's development costs are anticipated to total \$58.5 million, comprised of \$39.5 million of direct construction costs and \$19.0 million of indirect/soft costs. The costs are detailed in Section 3 of this report.
- C. **Available Funding for the Project.** It is anticipated that the \$58.5 million dollar project will be funded with \$57 million of private funds and \$1.5 million from the Port of San Francisco's capital budget. The financing plan relies on debt secured by the Project's revenues, federal historic tax credits, and equity investment by ODI. A breakdown of the private funding sources is provided in Section 3 of this report.
- D. **Long-Term Project Operating and Maintenance Costs.** It is not anticipated that the City will bear the cost of any operating or maintenance costs for this Project. The Port is currently responsible for funding street maintenance services and any additional services will be funded either privately or through a portion of parking revenues to be received by the Port.
- E. **Debt Load to be Carried by the City or the Port.** The public investment is limited to \$1.5 million to be provided by the Port. The Port's contribution will be funded from available cash resources, which have already been approved for expenditure and are in the Port's 2010/11 Capital Budget. Therefore, the Project will not require the Port or the City to incur any debt.

## I. INTRODUCTION

This Report has been prepared pursuant to the requirements of Chapter 29 of the City's Administrative Code, which requires that the Board of Supervisors approve the fiscal feasibility of certain development projects before the project can be submitted to the City's Planning Department for environmental review. A project is subject to this requirement if : 1) the project is subject to environmental review under the California Environmental Quality Act (CEQA); and b) total project costs are estimated to exceed \$25,000,000; and c) construction costs are estimated to exceed \$1,000,000. Under the provisions of Section 29.2 there are five criteria to evaluate the project's fiscal feasibility, as follows:

- 1) Direct and indirect financial benefits of the project to the City, including to the extent applicable cost savings or new revenues, including tax revenues generated by the proposed project;
- 2) The cost of construction;
- 3) Available funding for the project;
- 4) The long-term operating and maintenance cost of the project; and
- 5) Debt load to be carried by the City department or agency.

This report evaluates the anticipated performance of the proposed rehabilitation project of the 20<sup>th</sup> Street historic buildings on Pier 70 to be undertaken by Orton Development, Inc. (ODI) relative to these five criteria. It should be noted that a conservative approach<sup>1</sup> has been taken in estimating the financial benefits to the City that will be generated by this Project for two reasons: 1) the performance projections will continue to be refined over the coming months; and 2) the Port's goal in pursuing this Project is to preserve the historic buildings, not to generate revenue.

The Port and ODI are currently in the process of negotiating the business terms of agreements that will govern the conveyance of the properties to ODI and the rehabilitation/occupancy of the historic buildings. This analysis reflects the preliminary terms as contained in the October 3, 2012 Term Sheet, which is provided as Appendix A. While some of the terms may change before the transaction agreements are executed, it is believed the preliminary projections and terms are refined sufficiently for purposes of this analysis to assist the Board of Supervisor's in its determination of fiscal feasibility.

### A. Project Description

The Project focuses on the rehabilitation and tenanting of nine historic structures on Pier 70. These buildings are in need of substantial investment. Several are "red-tagged" due to structural

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<sup>1</sup> For example, the estimate of the property's assessed value reflects the inclusion of the developer's minimal tenant improvement allowance of \$5 per square foot of building area, but does not include the total value of improvements to be funded by the future tenants.

problems and unusable in their current state. Two are unreinforced masonry buildings. All need full system replacements to provide new electrical, fire safety, phone, data, water, sewer and gas utilities. The buildings need to be modernized to address current code requirements for structural stability, exiting, accessibility, and life safety. New roofs are required in most cases as well as remediation of asbestos, lead paint and other hazardous building conditions. The Port's 10 year Capital Plan estimates that returning these buildings to their current use would cost \$109 million. Transferring this obligation to ODI and bringing these buildings back to productive use is the primary public, financial, and fiscal benefit of this project.

As detailed below, the buildings to be rehabilitated by ODI total 315,000 square feet. The Developer will return the buildings to profitable use while maintaining their historic fabric. T As proposed, the Project will be occupied by a mix of light industrial, office, and restaurant uses. Building 101 and 104, as former Bethlehem steel and Union Ironworks office buildings will return to office use with the technological capabilities required for modern businesses. The former Bethlehem steel cafeteria (in Building 101) will remain food production, while the former powerhouse (Building 102) will become a restaurant. The Union Ironworks Machine shop (building 113) and surrounding warehouses (Buildings 114/115/116 and Building 14) will return to industrial and educational use as food technology and arts production centers, mirroring the high-quality "maker" type businesses currently thriving in the Dogpatch neighborhood, with ancillary office and retail. It is anticipated that the tenant mix will be similar in nature to that occupying the American Industrial Center.

**Table 1**

<b>Proposed Development Program Rehabilitation of 20<sup>th</sup> Street Historic Buildings at Pier 70</b>		
<b>Building</b>	<b>Gross SF</b>	<b>Target Use</b>
101	56,268	Office
102	8,428	Restaurant
104/5	42,846	Office
113	138,242	Light Industrial
114	11,722	Light Industrial
115	16,078	Light Industrial
116	26,408	Light Industrial
14	16,315	Light Industrial
<b>Total</b>	<b>316,307</b>	

**B. Financial Terms of the Lease and Lease Disposition and Development Agreement**

The Port of San Francisco and Orton Development, Inc. (ODI) are currently negotiating the terms of a Lease and Lease Disposition and Development Agreement, which will identify each party's rights and responsibilities relative to the development of the Project. The Port and ODI have negotiated a Term Sheet that presents a conceptual agreement by the parties of the

terms to achieve the objectives specified in the Port's October 4, 2011 Request for Proposals for this site. The Term Sheet is provided as Appendix A.

In summary, under the terms of the transaction, the Port's responsibilities consist of: 1) leasing the properties to ODI for a 66-year term, commencing in 2013; 2) contributing \$1.5 million to the Project's capital costs; 3) providing public parking that will be available for the Project, but not on an exclusive basis; 4) participating in the effort to develop a plan to both reuse building 102 and meet the electrical needs of the BAE ship repair facility; and 5) funding, to the extent necessary, the removal of hazardous materials in Building 102.

ODI's responsibilities consist of: 1) leasing the property from the Port; 2) rehabilitating the buildings and securing new tenants consistent with the Project Concept; 3) securing funding for all Project development costs, with the exception of the Port's \$1.5 million capital contribution; 4) securing Historic Tax Credit Equity for the Project; and 5) implementing the Risk Management Plan for above ground environmental conditions.

The 66-year lease provides for the payment of either "base rent" or "participation rent", whichever is greater. The initial base rent is set at \$200,000 per year and is to commence no later than the 21<sup>st</sup> year of the lease (year 2033). The base rent will be adjusted for inflation every five years and reset every 10 years. The Port will be eligible to receive Participation Rent equal to 50% of the Project's annual net cash flow after debt service once: 1) ODI's initial capital equity investment has been repaid from cash flow; and 2) ODI has received a 14% return on its initial equity investment. The Term Sheet also provides for Port participation in the net proceeds of any re-financing (50%) or sale of the leasehold (10%). This analysis did not attempt to project Port revenue from these future events.

## II. FINANCIAL BENEFITS

### A. Ongoing Fiscal Benefits to the City of San Francisco

#### 1. Ongoing General Fund Revenues

While the primary objective of the Project is to rehabilitate the historic buildings and make them a vibrant part of the surrounding community, the Project is also anticipated to generate a significant amount of annual net revenue to the General Fund of the City and County of San Francisco. As summarized below, it is estimated that upon stabilization, the Project will generate approximately \$780,000 of annual tax/fee revenue to the General Fund. Excluding property tax revenues, General Fund revenues are anticipated to total \$440,000. Property tax revenues, followed by payroll tax revenues and property tax in-lieu of motor vehicle license fees, are expected to be the leading categories of General Fund revenue to be generated by the Project. The calculation of General Fund revenues is presented in Appendix Tables B-1 through B-6.

Table 2

Estimated Annual General Fund Revenue Upon Stabilization	Amount	% of Total Project-Generated General Fund Revenue
Property Tax	\$340,000	44%
Payroll Tax	\$238,000	31%
Property Tax in-lieu of MVLF	\$64,000	8%
Utility Users Tax	\$58,000	8%
Sales Tax	\$47,000	6%
Parking Tax	\$12,000	2%
Other*	\$17,000	2%
<b>Total, Excluding Property Taxes</b>	<b>\$440,000</b>	
<b>Total, Including Property Taxes</b>	<b>\$780,000</b>	<b>100%</b>

*Business registration fees; license, permit, and franchise fees; and fines, forfeitures, and penalties.*

- Property/Possessory Interest Tax Revenues** – It is estimated that property/possessory interest taxes will represent the largest single source of General Fund revenue to be generated by the Project, totaling an estimated \$340,000 per year. Per the City and County of San Francisco's Controller's Office, the San Francisco General Fund receives 56.59% of the 1% property/possessory interest taxes levied on the Property. Property/possessory interest taxes are based on the incremental assessed value of development. The property's current assessed value is zero. General Fund property taxes account for \$340,000. If it is ultimately decided to deposit property tax increment into an Infrastructure Financing District (IFD) for the broader Pier 70 improvements, annual revenues to the General Fund would total at least \$440,000, with the amount of additional revenue depending on the portion of property tax increment pledged to an IFD. Creation of an IFD for Pier 70 would be subject to future Board of Supervisors action.

The Project's assessed value has been estimated using both a cost approach and an income approach. Under the cost approach, assessed value is conservatively based on the sum of hard/direct construction costs and the discounted value of property lease payments. Under this approach, the project's assessed value is estimated at \$57.3 million. Under the income approach, assessed value is based on the capitalized value of the Project's income stream. Based on the Project's projected net operating income of \$4.1 million per year, its assessed value is estimated at \$63 million. The average of these two approaches is \$60 million, which has been assumed for purposes of this analysis. The 1% base property tax levy is estimated to generate \$600,000 per year, of which the City's General Fund is anticipated to receive \$340,000.

The balance of the base 1% property tax levy (\$260,000) is distributed to other special funds of the City and to other taxing agencies. The allocation to these other funds is described in a following section of this Report.

Please refer to Appendix Tables B-1 through B-4 for the calculation of net new property tax revenues.

- **Payroll Tax Revenues** – The second largest source of General Fund revenue to be generated by the Project will be payroll tax revenues. The City and County of San Francisco currently imposes a 1.5% payroll expense tax on employee salaries earned while working within the City and County. Payroll taxes have been estimated based on employment and average salary estimates for the Project. The number of employees has been calculated using the employee density per square foot of building area at the comparable American Industrial Center. The American Industrial Center is adjacent to the Project and includes 800,000 square feet of a mix of office and light industrial uses. Recent Dun and Bradstreet data indicate that this complex houses approximately 200 businesses with 1,200 employees. ODI's proposed tenant mix is similar to that at the AIC so this data was used to project revenues. An average salary estimate of \$64,000 reflects occupational wage data published in the California Economic Development Department's 2012 Occupational Employment Survey applied to the occupational mix anticipated by ODI. The annual revenue estimate of \$238,000 is believed to be conservative as it reflects an assumed 50% exemption factor to account for businesses that are excluded for a variety of reasons, such as non-profit status, and for employee working time logged outside of San Francisco. Please refer to Appendix Tables B-1, B-3 and B-5 for the calculation of the payroll tax estimates contained in this report.

A measure is on the November 2012 ballot to change the foundation of the payroll tax from payroll to gross receipts. If this measure passes, the payroll tax estimates contained in this Report can be recalculated to reflect the terms of the new ordinance but the difference in fiscal benefits of the Project from this change in taxation would not change the overall conclusions of this analysis.

- **Property Tax In-Lieu of Motor Vehicle License Fees** – The Project is estimated to annually generate approximately \$64,000 of property taxes in-lieu of motor vehicle license fees, which is allocated to the City's General Fund. In accordance with SB 1096 and data from the California State Controller's Office, revenue from the Project is based on the marginal growth of assessed value. Please refer to Appendix Tables B-1, B-3 and B-5 for the calculation of the property tax in-lieu of motor vehicle license fee revenues.
- **Utility Users Tax Revenues** – The City and County of San Francisco imposes a 7.5% tax on charges for certain utilities services. These include non-residential telephone, electricity, natural gas, steam, and water services, and both residential and non-residential cellular telephone services. For purposes of this analysis, the utility user's tax has been estimated based on City and County of San Francisco budget factors for FY 2011/12. The budget factors have been calculated on a per employee basis for electricity, natural gas, steam, and water taxes, and on a per service population basis for telephone services. Please refer to Appendix Tables B-1, B-3 and B-5 for the calculation of utility user tax revenues.
- **Sales Tax Revenues** – Sales tax revenues will be generated from Project employee expenditures and restaurant sales. Employee expenditures have been estimated based on weekly urban worker spending in the vicinity of office employment centers as reported in ICSC's 2012 report, "Office-Worker Retail Spending in a Digital Age." Restaurant sales have been estimated using an assumed sales productivity level of \$500 per square foot of rentable area. A portion of employee food spending has been deducted from the projection of gross restaurant sales. The City General Fund portion of sales tax is 1% of taxable sales, which is estimated to total \$47,000 per year from the Project. Please refer to Appendix Tables B-1, B-3 and B-5 for the calculation of sales tax revenues to be generated by the Project.
- **Parking Tax Revenues** – San Francisco's parking tax is 25% of the parking fee paid by the patron to the parking operator. Generally, the parking tax is already included in the posted parking rate and thus results in 20% of the patron's total parking fee being attributed to the parking tax. Of the total parking tax collected, 20% is allocated to the General Fund, and 80% to the San Francisco County Transportation Authority, as discussed below. Under the Term Sheet, the Port will be required to provide one parking space per thousand square feet of building area, or 274 parking spaces in total. For purposes of his analysis, it has been assumed that the spaces generate an average of \$100 of monthly rental income, per space. Please refer to Appendix Tables B-1, B-3 and B-5 for the calculation of parking tax revenues to be generated by the Project.
- **Other Tax Revenues** – The business registration tax is charged based on the tier of payroll taxes paid by a business. It is estimated that Project businesses will fall in the payroll tax tier requiring payment of \$150 per business per year, based on the average business size at the comparable American Industrial Center, and average employee salaries discussed under

payroll taxes, above. The total number of businesses is also based on AIC employee densities and average square feet per business. Licenses, permits, and franchise fees, and fines, forfeitures, and penalties were estimated based on an extrapolation of the current per service population amount generated by San Francisco's residents and employment base. Please refer to Appendix Tables B-1, B-3 and B-5 for the calculation of other tax revenues to be generated by the Project.

## 2. On-Going Non-General Fund Revenues

The Project is anticipated to generate revenues to several City and County of San Francisco funds in addition to the General Fund. These include special children's, library, and open space funds; public safety funds; and County Transportation Authority funds. The total amount of revenue expected to accrue annually to non-general funds in San Francisco is approximately \$143,000. Of this, \$71,000, or about half, will be allocated to the County Transportation Authority, via both sales and parking taxes. Special funds will receive \$48,000, and public safety the remaining \$24,000.

Table 3

Estimated Annual Other City/County Fund Revenue Upon Stabilization	Amount	% of Total Project-Generated Other Fund Revenue
SF County Transportation Authority		
Parking Tax	\$47,000	33%
Sales Tax	\$24,000	17%
Subtotal Transportation Authority	\$71,000	50%
Special Funds - Children's, Library, Open Space	\$48,000	34%
Public Safety Fund	\$24,000	17%
<b>Total</b>	<b>\$143,000</b>	<b>100%</b>

The following describes the assumptions used in generating non-General Fund revenue estimates:

- **SF County Transportation Authority** – This entity is expected to receive both parking tax revenue and sales tax revenue from the Project. As described above, total parking tax revenues were estimated based on a gross fee of \$100 per parking space per month, 274 parking spaces, and a 20% tax on gross parking fees. The Transportation Authority receives 80% of the total parking tax.

Transportation Authority sales taxes are based on employee spending and restaurant sales expected at the Project, and a ½ cent sales tax imposed on spending within San Francisco.

- **Special Funds Revenue** – Of the 1% local property tax revenue collected from the Project, 8% will be allocated to special children's, library, and open space funds, per the City and County of San Francisco's Controller's Office. The Project's assessed value was estimated using both cost and income approaches, described above.
- **Public Safety Revenue** – As for the Transportation Authority, a ½ cent sales tax is levied on San Francisco spending that accrues for Public Safety purposes.

## **B. Financial Benefits to the Port of San Francisco**

The key financial benefit to the Port is securing a developer to rehabilitate the buildings using private funds. Since 1997 the Port has not been successful in repeated efforts to attract private investment. The Port's 10 year Capital Plan estimates that returning these buildings to their current use would cost \$109 million. Without the Project, the Port would either need to use its own resources or let the buildings continue to deteriorate. Transferring this obligation to ODI and bringing these buildings back to productive use is the primary public, financial, and fiscal benefit of this project.

Direct ongoing revenues from the Project to the Port will consist of lease and parking revenues.

### **1. Lease Revenues**

The 66-year lease provides for the payment of either "base rent" or "participation rent", whichever is greater. The initial base rent is set at \$200,000 per year and is to commence no later than the 21<sup>st</sup> year of the lease (year 2033). The base rent will be adjusted for inflation every five years and reset every 10 years. The Port will be eligible to receive Participation Rent equal to 50% of the Project's annual net cash flow after debt service once: 1) ODI's initial capital equity investment has been repaid from cash flow; and 2) ODI has received a 14% return on its initial equity investment.

Port Staff has evaluated the economics of the Project under three performance scenarios and estimated the lease revenues that would be generated under each of the three scenarios. The three scenarios consist of: 1) a "Base Case" scenario which models the anticipated development cost and income projections; 2) a "Low Rents" scenario which reflects a 30% reduction in rental income; and 3) a "High Cost" scenario, which reflects a 28% increase in development costs.

As presented in Appendix Table B-6 under the Base Case scenario, participation lease payments are anticipated to be triggered in 2021, which is the 9<sup>th</sup> year of the lease. Under both the "Low Rents" and "High Costs" scenarios, lease payments are not anticipated to be triggered until 2033 (the 21<sup>st</sup> year of the lease) with the imposition of the minimum annual rent. Over the 66-year lease term, the Project is anticipated to generate a total of \$291 million of lease payments to the Port in nominal dollars, representing a current value of \$24 million. In comparison, under the High Costs scenario, lease payments are estimated to yield a current value of \$16 million, which the Low Rent scenario is estimated to yield a current value of \$9 million.

Given that the Port is not anticipated to receive lease revenues for several years and may not receive any lease revenues for over 20 years, lease revenues have not been included as a quantified revenue source to the Port.

## **2. Parking Revenues**

As part of the Pier 70-wide parking plan, the Port is obligated to provide approximately 274 parking spaces for the ODI project. The spaces, however, will be available to the public and not dedicated to ODI tenants. The Port anticipates entering into an agreement with a parking operator to establish surface parking lots adjacent to the Project with costs of paving and ongoing operations funded from parking revenue. While there will be a tiered pricing structure for the spaces, it is conservatively estimated that, on average, each space will generate \$100 of revenue per month, resulting in approximately \$296,000 of annual gross parking revenue. While the actual net revenue to the Port is likely to be positive, for purposes of this analysis, it has been conservatively assumed that 100% of the parking revenue will be used to fund parking operating costs, street maintenance, and other city service costs generated by the Project. Therefore, net parking revenue to the Port is assumed to be nominal.

### **C. Indirect Economic and Fiscal Benefits to the City of San Francisco**

It is estimated that the Project will create approximately 500 full-time jobs, with an average annual payroll of \$32 million. In addition to the direct tax benefits to be generated by the Project, the new businesses and the employees will support other businesses in San Francisco and the region through expenditures on materials, retail goods, and services. Given the relatively small scale of the Project, this analysis has not quantified the magnitude of indirect economic benefits.

### **D. One-Time Construction Revenues to the City of San Francisco.**

The construction of the Project will also generate additional, one-time revenues. A significant portion of these revenues will be impact fees, which will be used to off-set impacts on infrastructure, affordable housing, and child-care needs generated by the Project.

Additionally, the Project will generate construction payroll taxes and may generate use tax revenue from the purchase of construction materials. Given the relatively small scale of the Project, this analysis has not quantified the magnitude of construction revenues.

### **E. Fiscal Benefits to Other Taxing Agencies**

Other taxing agencies will receive a direct financial benefit from a portion of the Project's annual property taxes, as follows:

**Table 4**

<b>Non-City Taxing Agency</b>	<b>Percent of Base 1% Property Tax Levy</b>	<b>Estimated Annual Property Tax Revenues</b>
San Francisco Community College District	1.44%	\$9,000
San Francisco Unified School District	7.70%	\$46,000
County Superintendent of Schools	0.10%	\$0
Bay Area Air Quality Management District	0.21%	\$1,000
Bay Area Rapid Transit District	0.63%	\$4,000
Educational Revenue Augmentation Fund (ERAF)	25.33%	\$152,000
Total Property Tax Revenues to Non-City Agencies	35.41%	\$212,000

As noted above, the Project is anticipated to generate approximately \$152,000 of annual revenue to the ERAF, which is administered by the County. Pursuant to the IFD legislation specific to Pier 70, these revenues could potentially be deposited into an IFD for the broader Pier-70 improvements.

### III. COST OF CONSTRUCTION AND AVAILABLE FUNDING

#### A. Cost of Construction

Under the "Base Case" scenario, the Project's development costs are anticipated to total \$58.5 million, comprised of \$39.5 million of direct construction costs and \$19.0 million of indirect/soft costs. The anticipated development costs are detailed in Appendix Table B-2. The Port has also developed an estimate of development costs under a "high cost" scenario. Under that scenario, it is estimated that development costs will total \$75.0 million.

#### B. Available Funding for the Project

It is anticipated that the \$58.5 million dollar project will be funded with \$57 million of private funds and \$1.5 million from the Port of San Francisco. Under the "high cost" scenario, the Project is anticipated to cost \$75 million, with \$73.5 million to be funded privately, and \$1.5 million from the Port. In all cases, the Port's obligation relative to capital requirements is capped at \$1.5 million. The Project will not require any capital contribution from the City of San Francisco beyond the Port's \$1.5 million contribution.

**Table 5 Sources of Financing**

	<b>Base Case Scenario</b>	<b>High Cost Scenario</b>
Private Debt	\$44.5 million	\$46.1 million
Historic Tax Credit Equity	\$10.5 million	\$13.5 million
ODI Equity	\$2.0 million	\$13.9 million
Port of San Francisco	\$1.5 million	\$1.5 million
Total Sources	\$58.5 million	\$75 million

The Port's \$1.5 million contribution will be funded from cash resources. The funds were in the Port's FY 2010/11 Capital Budget as approved by the Port Commission and the Board of Supervisors. No public debt will be required to fund the Project's development costs.

**Appendix A: Term Sheet**

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**20<sup>th</sup> Street Historic Buildings  
Term Sheet  
October 3, 2012**

As required in the Exclusive Negotiating Agreement (ENA) executed, May 17, 2012, this Term Sheet sets forth the basic terms and conditions on which the parties agree to further negotiation regarding the development concept and uses described below (the "Project") and that will be refined and set forth in more detail in the lease (the "Lease"), the lease disposition and development agreement ("LDDA") and other transaction documents between Port and Orton Development, Inc. ("ODI").

This Term Sheet is not intended to be, and will not become, contractually binding unless and until environmental review has been completed in compliance with the California Environmental Quality Act and the parties are able and willing to execute and deliver a mutually acceptable LDDA, Lease and related transaction documents regarding the Project. In addition, under San Francisco Charter, no officer or employee of the City and County of San Francisco (the "City") has authority to commit the City to the transaction contemplated herein unless and until the San Francisco Port Commission has approved the transaction and the San Francisco Board of Supervisors has approved the Lease.

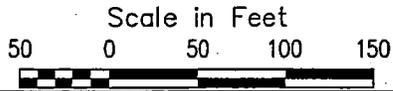
Lessor	Port of San Francisco
Lessee/ Key Man	<ul style="list-style-type: none"> <li>Orton Development, Inc. or an affiliated entity controlled by J.R. Orton III.</li> <li>J.R. Orton III to remain actively involved in the project until at least project completion.</li> </ul>
Premises	<ul style="list-style-type: none"> <li>Historic buildings 14, 101, 102, 104, 113, 114, 115, 116, 122, and 123, at Pier 70. See Exhibit A. ODI and the Port will negotiate a precise premises boundary to address needed ingress and egress with the current, and the future street grid.</li> <li>Parties anticipate entering into a license for adjacent areas.</li> </ul>
Term of Lease	<ul style="list-style-type: none"> <li>66 years.</li> </ul>
Uses	<ul style="list-style-type: none"> <li>Buildings 101, 104: Office and ancillary uses;</li> <li>Building 102: restaurant and commercial;</li> <li>Buildings 113/114, 115/116, and 14: Light industrial, arts production, education, recreation, ancillary retail, and ancillary office uses.</li> </ul>
As-Is Conditions	<ul style="list-style-type: none"> <li>For all buildings and site areas, Developer takes in "as-is" conditions.</li> </ul>
Hazardous Materials	<ul style="list-style-type: none"> <li>Developer is responsible for implementing the Risk Management Plan, including any and all costs, regulatory, and operational responsibilities specified therein for aboveground environmental conditions. If Developer disturbs belowground soils, Developer will follow the Risk Management Plan for those areas.</li> <li>If previously unidentified below ground environmental conditions unrelated to the Developer's activities require additional investigation or remediation, the Port will be responsible for those costs including regulatory costs.</li> </ul>

	<ul style="list-style-type: none"> <li>• Prior to issuance of the Risk Management Plan, Developer will be responsible for compliance with existing regulatory requirements and conducting activities in manner consistent with the Remedial Action Plan (Treadwell and Rollo, May 2012).</li> <li>• PCB transformer removal and abatement in Building 102 remains responsibility of the Port.</li> <li>• Removal of existing PCB transformer in the northwest corner of Building 113 and abatement of all above ground hazardous materials are the responsibility of ODI.</li> </ul>
"Early Work"	<ul style="list-style-type: none"> <li>• ODI can propose to undertake at its cost weatherizing, cleanup or security improvements ("Early Work") under the existing access agreement terms, which include Port approval of the work scope.</li> <li>• Approval of any scope of Early Work would include agreement on a budget for that work.</li> <li>• Under the ENA, ODI has paid a \$75,000 negotiation fee that is non-refundable if the ENA is terminated. If ODI terminates the ENA and does not execute a Lease for the project, the Port will return to ODI the documented expenditures not to exceed the agreed-to cost of any Early Work performed but no more than \$75,000.</li> <li>• If the project moves forward, Early Work costs will be included in Total Project Costs and the \$75,000 negotiation fee will be applied to the lease deposit as agreed in the ENA .</li> </ul>
Building 102	<ul style="list-style-type: none"> <li>• Building 102 is an active part of the electrical systems serving the BAE ship repair facility. Developer will assess existing conditions, meet with BAE to understand their needs, and recommend a solution for: <ol style="list-style-type: none"> <li>1. Removing electrical equipment</li> <li>2. Establishing separate service to BAE</li> <li>3. Establishing service to other electric uses now served from building 102 including ODI's project</li> </ol> </li> <li>• Developer to recommend options and provide conceptual cost estimates for the options to meet objectives (1), (2), and (3) above.</li> <li>• Port and Developer to negotiate in the Development Agreement how to undertake and fund the work needed to re-use Building 102 for new uses and sustain electrical service to the shipyard.</li> <li>• Cost of BAE equipment and service remains a Port or BAE responsibility. To the extent designing a new BAE service incurs third party fees, such fees shall be reimbursed by Port or BAE.</li> </ul>
Total Project Cost	<ul style="list-style-type: none"> <li>• "Total Project Cost" shall include Lessee's hard and soft costs such as permit, development, and impact fees, if any, construction and materials costs, subcontractor and design fees, legal and other professional fees, financing costs that are capitalized, and all project-related expenses of Lessee or Orton Development Inc. (ODI), including a proportionate share of ODI's overhead such as salaries paid by ODI for employees (other than J.R. Orton III).</li> </ul>

	<ul style="list-style-type: none"> <li>• ODI will not charge a developer fee.</li> <li>• Parties to negotiate the level of performance or surety bond or completion guaranties in the LDDA.</li> </ul>
Port Capital Contribution	<ul style="list-style-type: none"> <li>• \$1.5 million with an additional \$250,000 grant funding from the California Cultural Equity Endowment, if available.</li> <li>• The Port has the option to, but is not bound to, secure additional capital above \$1.5 million in seismic funding to pay down the amount of Orton Equity at any time before the Orton Equity is fully repaid, subject to any finance conditions.</li> </ul>
Project Debt	<ul style="list-style-type: none"> <li>• Port and ODI agree to cooperate to secure the greatest amount of debt and the lowest cost third-party capital and debt as reasonably possible for the project.</li> <li>• As soon as additional financing is reasonably supported by the project, ODI agrees to pay down its remaining equity interest and remaining equity through additional debt.</li> <li>• ODI may propose that, once Orton Equity is re-paid, additional debt be placed on the site to the advantage of both the parties. The Port's approval of additional debt will not be unreasonably withheld.</li> <li>• Port consent shall not be unreasonably withheld for any assignment of the lease as security for project financing or refinancing. The lease will contain mortgagee protection and related provisions reasonably satisfactory to Lessee's lender(s) and investor(s), including future amendments as may be reasonably required for such purpose.</li> </ul>
Orton Equity	<ul style="list-style-type: none"> <li>• Orton Equity is defined as Total Project Cost through project completion less tax credit equity, permanent debt proceeds, and Port capital contribution.</li> <li>• Orton Equity will accrue a simple return of 14% per year. Orton Equity shall be no more than the lesser of 20% of Total Project Cost or \$14 million, once permanent debt is in place to achieve the shared goal of the lowest overall cost of capital for the project.</li> <li>• Unpaid return accumulates until paid without compounding.</li> <li>• Re-Opener process may increase cap on Orton Equity above \$14 million.</li> </ul>
Orton Equity Repayment/ Participation Rent	<ul style="list-style-type: none"> <li>• Participation Net Revenue is defined as project revenue (on a triple net basis or its equivalent) less reasonable unrecovered operating expenses on vacant space, appropriate reserves using standard accounting, tax credit equity payments, and debt service and related fees (on the Total Project Cost).</li> <li>• Participation Net Revenue shall be distributed as: <ol style="list-style-type: none"> <li>1. To Lessee until the accumulated 14% return on Orton Equity is paid;</li> <li>2. To Lessee to pay down outstanding Orton Equity until paid;</li> <li>3. Split equally between Lessee and Lessor</li> </ol> </li> </ul>
Right to Pre-pay	<ul style="list-style-type: none"> <li>• Port has right to pre-pay accumulated interest on Orton Equity and Orton Equity at any time, at no charge or payment of any penalty.</li> </ul>
Complete	<ul style="list-style-type: none"> <li>• ODI will submit a Complete Project Underwriting Package ("Project</li> </ul>

Underwriting Package	<p>Underwriting”) with a detailed estimate of total project costs including hard and soft costs, finance costs, and expected lease rates, with a pro forma projecting ODI and Port income.</p> <ul style="list-style-type: none"> <li>• Port and ODI will use this package to negotiate the LDDA.</li> </ul>
Unknown Base Building Costs Found Prior to Lease Execution	<p>After approval of the Transaction and/or execution of the development agreement, ODI can request re-opening of business terms, if it can demonstrate that due to costs of unforeseen base building conditions, the required Orton Equity for the entire project exceeds \$14 million or that the project returns significantly differ from the Project Underwriting projected returns.</p> <p>At this stage, ODI will have the right to:</p> <ol style="list-style-type: none"> <li>1. Remove buildings – except Building 113/114 – from the Project</li> <li>2. Invest additional equity into the transaction and, if so, the Base Rent will not be applicable until all Orton Equity plus the 14% return is repaid,</li> <li>3. Renegotiate the deal – subject to returning to the Port Commission and the Board of Supervisors for approval, or</li> <li>4. Terminate its Development Agreement without incurring a termination fee</li> </ol>
Unknown Base Building Costs After Lease Execution	<ul style="list-style-type: none"> <li>• Lease to include a provision to address unknown base building costs discovered during construction, including that ODI may (i) invest additional equity, in the project to address the unforeseen costs at a market rate of return to be negotiated based on the investment returns expected by real estate equity investors, but in no event more than 14% per annum, into the transaction to address the unforeseen costs and (ii) delay the start of the Base Rent.</li> </ul>
Initial Base Rent	<ul style="list-style-type: none"> <li>• Beginning in Year 20 after lease execution, a base rent of \$200,000 (expressed in 2012\$) per year will be paid even if all Orton Equity has not been repaid.</li> <li>• If Orton Equity is repaid before year 10, Base Rent shall commence 10 years after Orton Equity is repaid.</li> <li>• Re-opener provisions can delay the start of Base Rent.</li> </ul>
Base Rent Escalation	<ul style="list-style-type: none"> <li>• Base Rent shall be adjusted every 5 years but in no event decrease, based on CPI, limited to a 20% increase.</li> </ul>
Base Rent Re-Sets	<ul style="list-style-type: none"> <li>• Every 10 years after commencing payment of Base Rent, the Base Rent amount will be adjusted to equal the higher of (i) the then payable Base Rent or (ii) 60% of the average of the previous 5 years of participation rent paid to the Port.</li> <li>• Any participation in refinancing or sales proceeds is not included in the five year average calculation.</li> </ul>
Participation in refinancing proceeds	<ul style="list-style-type: none"> <li>• If Lessee refinances, excess funds shall be applied first to Orton Equity interest and second to Orton Equity.</li> <li>• Net proceeds after repaying debt and Orton Equity shall be split equally between Port and Orton and paid to each party at close of escrow</li> </ul>
Participation in sale or assignment	<ul style="list-style-type: none"> <li>• Port receives 10% of any net sales proceeds (remaining after repayment of debt, return on outstanding Orton Equity, return of Orton Equity, and Lessee’s standard sales costs such as brokerage commissions and legal fees)</li> </ul>

Parking:	<ul style="list-style-type: none"> <li>Port shall manage parking, as part of a Pier 70 wide parking plan, for the proposed project. Parking rates will be set through the Port parameter rate setting process. Consistent with the Pier 70 Master Plan, parking of one space per 1,000 square feet of building area will be provided.</li> </ul>
Subleasing and Assignment	<ul style="list-style-type: none"> <li>Lessee shall have the right to sublease the premises for all uses allowed under the lease.</li> <li>Port shall have rights at its sole discretion over any lease assignment or change in control of ODI prior to project completion.</li> <li>After project completion, the lease may be assigned to any qualified purchaser, subject to Port's reasonable approval.</li> </ul>
Property Management	<ul style="list-style-type: none"> <li>ODI may manage the property or use third-party management. In either case, the records and financials shall be completely transparent.</li> <li>In the event ODI is managing the project and the Port objects reasonably to the quality of property management, it shall put such objections in writing. ODI shall have a reasonable time to cure, no less than 30 days. In the event ODI is unable to reasonably cure in the time period, Port may request that the project be managed by a third party management and ODI shall select a reasonable established third party management company for the project. All asset and management fees will be consistent with those prevailing in the marketplace.</li> </ul>
Utility and Impact fees	<ul style="list-style-type: none"> <li>To the extent due for this project, utility connection and impact fees are Lessee's responsibility. Port to reasonably cooperate with Lessee in the investigation and applicability of impact fees.</li> </ul>
Infrastructure Costs	<ul style="list-style-type: none"> <li>In the future, a Master or Sub Developer(s) may replace the infrastructure in 20<sup>th</sup> Street. Lessee will bear its equitable share of costs with respect to repair of infrastructure including roadway and sidewalks.</li> </ul>
Condition of Premises at the end of the lease; Capital Reserves	<ul style="list-style-type: none"> <li>The condition of the property at the end of the lease shall be as constructed, well-maintained, minus reasonable wear and tear.</li> <li>Mutually agreed upon reasonable reserves to meet this standard are project expenses and will be included in the operating budget.</li> </ul>
Development over the course of the lease	<ul style="list-style-type: none"> <li>Lessor and Lessee are aware that a Preferred Master Plan for Pier 70 was published in 2010 addressing the complete redevelopment of Pier 70. During the course of the lease, a complete redevelopment of Pier 70 may occur.</li> <li>Lessor and Lessee agree to reasonably cooperate on any future master plan, agreements with other Pier 70 developers and tenants, and their implementation.</li> </ul>
Standard Lease Terms	The development agreement and lease, except as negotiated above or in the Exclusive Negotiating Agreement between the Port and ODI, will address the terms and conditions of the Port's October 4, 2011, Request for Proposals for the 20 <sup>th</sup> Street Historic Buildings



ILLINOIS ST.

PORT JURISDICTION LINE

**NOTES:**

1. ODI and the Port will negotiate a precise premises boundary to address code requirements and needed ingress and egress with the current and the future street grid.
2. Parking for the project will be part of a Pier 70 wide district parking plan.

AGREEMENT BOUNDARY

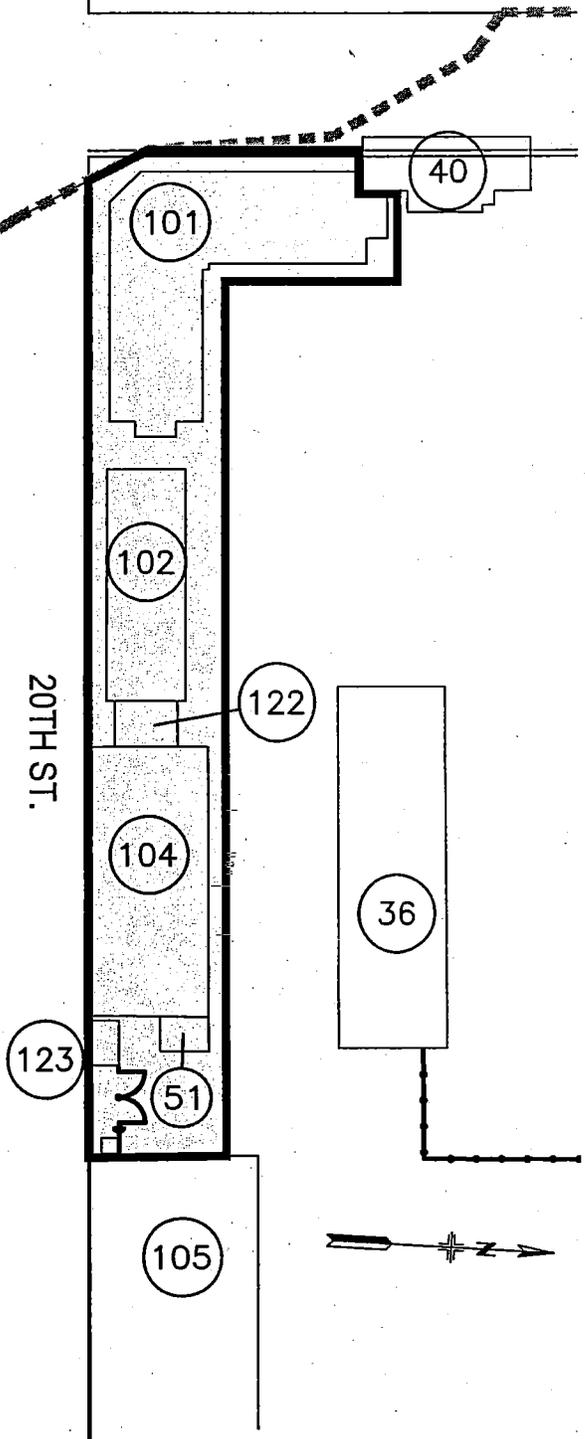
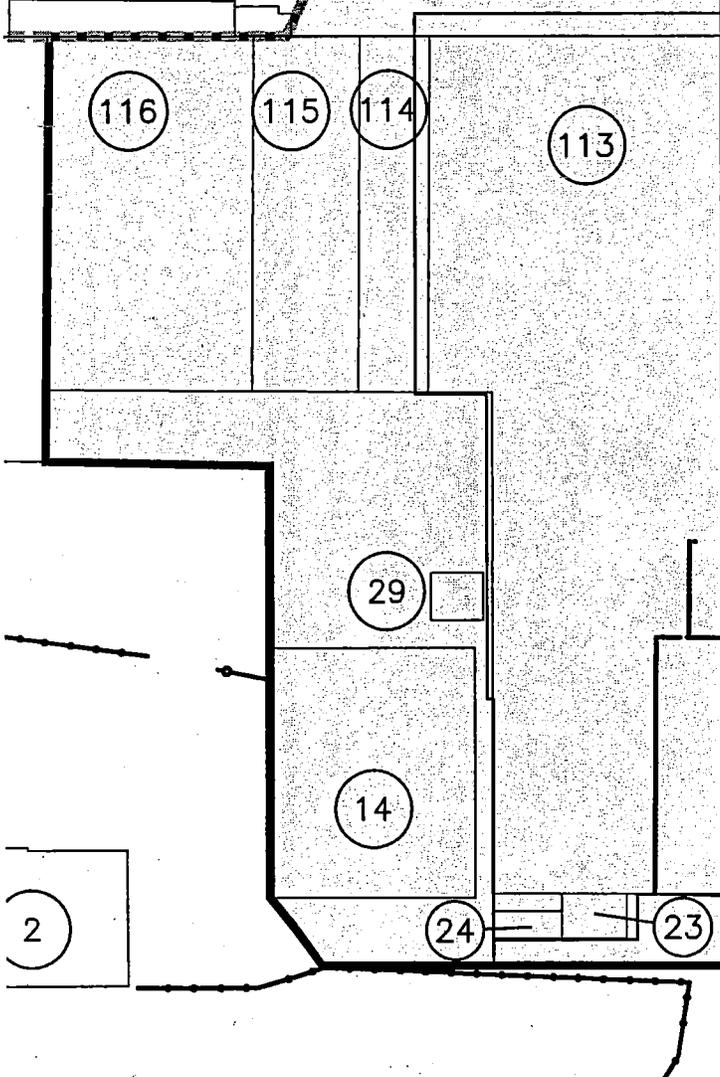


EXHIBIT A  
 Term Sheet for the 20th Street  
 Historic Buildings  
 Orton Development Inc.  
 REVISED OCT 9, 2012

**Appendix B: Supporting Tables**

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**TABLE B-1**  
**Annual Recurring Net Port and City and County General Fund Revenues at Buildout**  
**Fiscal Feasibility Analysis**  
**Pier 70 - 20th Street Historic Buildings**  
**Port of San Francisco**

*November 2, 2012*

<u>General Fund, City and County</u> <sup>1</sup>	<u>Amount</u>	<u>%</u>
Property Taxes	\$340,000	43.6%
Payroll Tax	\$238,000	30.5%
Property Tax In-Lieu of MVLFF	\$64,000	8.2%
Utility Users Tax	\$58,000	7.4%
Sales Tax	\$47,000	6.0%
Parking Tax	\$12,000	1.5%
Business Registration Fee	\$12,000	1.5%
License, Permit, Franchise Fees	\$4,000	0.5%
Fines, Forfeitures, Penalties	\$1,000	0.1%
Total Annual General Fund Revenues	\$780,000	100.0%
Annual General Fund Expenses <sup>2</sup>	\$0	
Net Annual General Fund Revenues	\$780,000	
<u>Other Funds, City and County</u> <sup>1</sup>		
Special Funds (Children's, Library, Open Space)	\$48,000	34.3%
SF County Transportation Authority - Parking	\$47,000	33.6%
Public Safety Fund	\$24,000	17.1%
SF County Transportation Authority - Sales	\$24,000	17.1%
Total Other Funds	\$140,000	102.1%
<u>Port of San Francisco</u>		
Lease Revenues <sup>3</sup>	\$0	
Net Parking Revenues <sup>4</sup>	\$0	
Total Net Revenues	\$0	

<sup>1</sup> See Table B-3.

<sup>2</sup> The Port is obligated to fund all maintenance costs that would traditionally be the City's responsibility.

<sup>3</sup> The Port is anticipated to receive lease revenue with an average annual net present value of \$400,000 per year under the "Base Case" revenue projections. Given that minimum base rental payments will not commence until the 20th year and participation rents are not anticipated to start until the 9th year, this "build-out" analysis of revenues does not include any lease revenues to the Port.

<sup>4</sup> For purposes of this analysis, it has been conservatively assumed that 100% of the \$296,000 of annual parking revenues that the Port is likely to receive will be used to fund operating costs, property maintenance costs, and City service costs.

**Table B-2**  
**Estimated Development Costs**  
**20th Street Historic Buildings**

November 2, 2012

	Building 101	Building 102	Building 104	Building 113/114	Building 115/116	Building 14	Total Project
Approximate gross SQFT	56,268	8,428	42,846	149,964	42,486	16,315	316,307
% of Project Gross SQFT	18%	3%	14%	47%	13%	5%	100%
Hard Costs Nibbi 9/21/2012	5,973,408	1,664,366	4,297,050	19,624,176	5,166,357	2,736,045	39,461,402
Cost per sq. ft.	106	197	100	131	122	168	125
<b>SOFT COST</b>							
10% Architect	597,341	166,437	429,705	1,962,418	516,636	273,605	3,946,140
4% Developer Costs	238,936	66,575	171,882	784,967	206,654	109,442	1,578,456
5% Contingency	298,670	83,218	214,853	981,209	258,318	136,802	1,973,070
4% Financing/points/appraisal, etc.	238,936	66,575	171,882	784,967	206,654	109,442	1,578,456
2% Legal	119,468	33,287	85,941	392,484	103,327	54,721	789,228
2.8% Permits	167,255	46,602	120,317	549,477	144,658	76,609	1,104,919
2% Environmental/Hazmat/Regulation	119,468	33,287	85,941	392,484	103,327	54,721	789,228
\$5 TI Allowance \$5 per sq. ft.	281,340	42,140	214,230	749,820	212,430	81,575	1,581,535
<b>Total Soft Cost</b>	<b>2,061,416</b>	<b>538,121</b>	<b>1,494,751</b>	<b>6,597,824</b>	<b>1,752,004</b>	<b>896,916</b>	<b>13,341,033</b>
<b>Total</b>	<b>8,034,824</b>	<b>2,202,487</b>	<b>5,791,801</b>	<b>26,222,000</b>	<b>6,918,361</b>	<b>3,632,961</b>	<b>52,802,435</b>
Cost per sq. ft.	143	261	135	175	163	223	167
<b>ADDITIONAL COSTS</b>							
Approximate Operating Expenses to Lease Up	124,523	18,651	94,820	331,876	94,023	36,106	700,000
Leasing Commissions	831,000	102,163	165,731	638,622	195,703	75,152	2,008,371
Construction Period Interest	451,959	123,890	325,789	1,474,988	389,158	204,354	2,970,137
<b>Total Development Costs</b>	<b>9,442,306</b>	<b>2,447,191</b>	<b>6,378,141</b>	<b>28,667,486</b>	<b>7,597,245</b>	<b>3,948,573</b>	<b>58,480,943</b>
<b>Total Development Costs psf</b>	<b>168</b>	<b>290</b>	<b>149</b>	<b>191</b>	<b>179</b>	<b>242</b>	<b>185</b>

**\*Construction Loan Assumptions**

% of total hard and A&E softs 75%  
 % out 50%  
 Years 3

Source: Port of San Francisco

Keyser Marston Associates, Inc.  
 Z:\191\9067011\Revised cash flow projection; 11/7/2012; B2 Development Cost

**TABLE B-3**  
**Estimated Annual City and County General Fund Revenue at Buildout**  
**Fiscal Feasibility Analysis**  
**Pier 70 - 20th Street Historic Buildings**  
**Port of San Francisco**

*November 2, 2012*

Revenue Source	Estimating Factor <sup>1</sup>			Buildout Revenue
<b>General Fund Revenues</b>				
Property Taxes	\$60,000,000 AV <sup>2</sup>	56.59% of 1% prop. tax		\$340,000
Property Tax In-Lieu of MVLF	\$60,000,000 AV <sup>2</sup>	\$1.07 per \$1,000 AV		\$64,000
<b>Sales Tax</b>				
Employee Spending				
Non-Restaurant Spending	495 empl <sup>3</sup>	\$2,277 per empl	1.00% tax	\$11,269
Restaurant Spending	495 empl <sup>3</sup>	\$1,315 per empl	1.00% tax	<u>\$6,507</u>
				\$17,775
Project Restaurant				
Total Restaurant Sales	7,695 sq ft	\$500 per sq ft	90% occpcy	\$3,462,750
Restaurant Sales Tax			1.00% tax	\$34,628
(Less) Empl. Rest. Spending Tax		80% rest. spending <sup>4</sup>		<u>(\$5,205)</u>
				\$29,422
Subtotal Sales Tax		\$4,719,753 taxable sales	1.00% tax	\$47,198
<b>Parking Tax</b>				
Parking Fees	274 spaces <sup>5</sup>	\$100 per sp per mo	90% occpcy	\$295,920
Parking Tax		20% tax	20% allcn.	\$11,837
<b>Payroll Tax</b>				
Payroll	495 empl <sup>3</sup>	\$64,000 avg salary	50% excl.	\$15,840,000
Payroll Tax			1.5% tax	\$237,600
Business Registration Fee	91 businesses	\$150 per business	90% occpcy	\$12,330
<b>Utility Users Tax</b>				
Water Users Tax	495 empl <sup>3</sup>	\$5.04 per empl		\$2,497
Gas Electric Steam Users Tax	495 empl <sup>3</sup>	\$82.35 per empl		\$40,761
Telephone Users Tax	165 empl <sup>3</sup>	\$50.53 per service population		\$8,338
Access Line Tax	165 empl <sup>3</sup>	\$41.63 per service population		<u>\$6,870</u>
				\$58,465
License, Permit, Franchise Fees	165 empl <sup>3</sup>	\$24.65 per service population		\$4,068
Fines, Forfeitures, Penalties	165 empl <sup>5</sup>	\$7.81 per service population		\$1,289
<b>Total General Fund Revenue</b>				<u><b>\$776,786</b></u>

<sup>1</sup> See Table B-5.

<sup>2</sup> See Table B-4.

<sup>3</sup> Based on a density of 2 employees per 1,000 square feet, per information for the comparable American Industrial Center; 274,000 square feet of rentable space per project developer; and a 90% occupancy assumption. Employees are counted as equivalent to 1/3 of a resident, for purposes of service population estimates.

<sup>4</sup> KMA assumption.

<sup>5</sup> See Table B-5.

**TABLE B-3**  
**Estimated Annual City and County General Fund Revenue at Buildout**  
**Fiscal Feasibility Analysis**  
**Pier 70 - 20th Street Historic Buildings**  
**Port of San Francisco**

*November 2, 2012*

Revenue Source	Estimating Factor <sup>1</sup>			Buildout Revenue
<b>Other Fund Revenues</b>				
Special Fund Property Taxes	\$60,000,000 AV <sup>2</sup>	8.00% of 1% prop. tax		\$48,000
<b>Sales Tax</b>				
Public Safety	\$4,719,753 taxed sales	0.50% taxable sales		\$23,599
SF County Transportation Authority	\$4,719,753 taxed sales	0.50% taxable sales		\$23,599
SF Transp. Authority Pkg. Tax	\$295,920 pkg fees	20% tax	80% allcn.	\$47,347
<b>Total Other Fund Revenue</b>				<b>\$142,545</b>

<sup>1</sup> See Table B-5.

<sup>2</sup> See Table B-4.

<sup>3</sup> Based on a density of 2 employees per 1,000 square feet, per information for the comparable American Industrial Center; 274,000 square feet of rentable space per project developer; and a 90% occupancy assumption. Employees are counted as equivalent to 1/3 of a resident, for purposes of service population estimates.

<sup>4</sup> KMA assumption.

<sup>5</sup> See Table B-5.

**TABLE B-4**  
**Estimated Assessed Property Value**  
**Fiscal Feasibility Analysis**  
**Pier 70 - 20th Street Historic Buildings**  
**Port of San Francisco**

*November 2, 2012*

**Cost Approach**

**Building Improvements<sup>1</sup>**

Direct Costs	\$39,460,000
TI Allowance	\$1,580,000
Adjusted Direct Costs	\$41,040,000

**Land<sup>2</sup>**

Estimated Existing Land and Bldg. Value Based on NPV of Lease Payments	
Base Case	\$24,000,000
Low Rents Case	\$9,000,000
High Costs Case	\$16,000,000
Average	\$16,300,000

Total Estimated Assessed Value \$57,340,000

**Income Approach**

Est. NOI	\$4,091,000
Est. Cap Rate	6.5%
Estimated Value	\$62,938,000

<b>Average of Two Approaches</b>	\$60,139,000
<b>Rounded</b>	<b>\$60,000,000</b>

<sup>1</sup> See Table B-2.

<sup>2</sup> See Table B-6.

**TABLE B-5  
Revenue Assumptions  
Fiscal Feasibility Analysis  
Pier 70 - 20th Street Historic Buildings  
Port of San Francisco**

*November 2, 2012*

**City and County General Fund**

**Property Tax <sup>1</sup>**

Property Tax Rate	1%
City and County's General Fund Share of Property Tax	56.59%

**Property Tax in Lieu of VLF <sup>2</sup>**

Property Tax Based Revenue 2004-05 <sup>3</sup>	\$109,881,177
2004-05 City of San Francisco Gross Assessed Value <sup>3</sup>	\$103,076,295,556
Property Tax in Lieu of VLF per \$1,000 in AV Growth	\$1.07

**Sales Tax**

Sales Tax Rate <sup>4</sup>	1.00%
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**Employee Spending**

Potential Non-Restaurant Weekly Spending <sup>5</sup>	\$45.53
Weeks at Work per Year <sup>6</sup>	50
Potential Annual Non-Restaurant Spending	\$2,277
San Francisco Capture <sup>6</sup>	100%
Potential Annual Non-Restaurant Spending per Employee	\$2,277
Potential Restaurant Weekly Spending <sup>5</sup>	\$26.29
Weeks at Work per Year <sup>6</sup>	50
Potential Annual Restaurant Spending	\$1,315
San Francisco Capture <sup>6</sup>	100.00%
Potential Annual Restaurant Spending per Employee	\$1,315

**Taxable Sales by New Restaurant**

Square Feet	7,695
Sales per SF <sup>6</sup>	\$500
Percent Taxable <sup>6</sup>	100%
Occupancy Rate <sup>6</sup>	90%

**Parking Tax**

Revenue per Space per Month <sup>7</sup>	\$100
Parking Spaces per 1,000 Square Feet Building <sup>8</sup>	1.0
Parking Occupancy Rate <sup>6</sup>	90%
San Francisco Parking Tax Rate <sup>9</sup>	20%
Parking Tax Revenue Allocation to General Fund <sup>10</sup>	20%

**Payroll Expense Tax**

Average Employee Salary <sup>11</sup>	\$64,000
San Francisco Payroll Expense Tax Rate <sup>12</sup>	1.5%
Percent Exempt Due to Non-Profit/Time spent outside SF <sup>6</sup>	50%

**TABLE B-5  
Revenue Assumptions  
Fiscal Feasibility Analysis  
Pier 70 - 20th Street Historic Buildings  
Port of San Francisco**

**November 2, 2012**

**City and County General Fund, continued**

**Business Registration Tax**

Average Number of Employees per Business <sup>13</sup>	6
San Francisco Payroll Expense Tax Rate <sup>12</sup>	1.5%
Average Employee Salary <sup>11</sup>	\$64,000
Estimated Payroll Expense Tax per Business	\$5,760
Registration Fee for Businesses with Payroll Tax of \$1 to \$10,000 <sup>14</sup>	\$150
Project Rentable Square Feet <sup>15</sup>	274,000
Employees per 1,000 Square Feet <sup>13</sup>	2
Square Foot per Business	3,000
Businesses in Project	91
Business Occupancy Rate <sup>6</sup>	90%

**Other General Fund Revenues <sup>16</sup>**

	<b>Amount FY 2011/2012 <sup>16</sup></b>	<b>Average Factor</b>	<b>Average Basis</b>
Utility Users Tax <sup>17</sup>			
Water Users Tax	\$2,638,576	\$5.04	per employee
Gas Electric Steam Users Tax	\$43,074,751	\$82.35	per employee
Telephone Users Tax	\$49,886,673	\$50.53	per service populati
Access Line Tax	\$41,100,000	\$41.63	per service populati
Licenses, Permits, and Franchise Fees	\$24,336,608	\$24.65	per service populati
Fines, Forfeitures, and Penalties	\$7,710,036	\$7.81	per service populati

**2011 City/Countywide Service Population Estimates**

Resident Population <sup>18</sup>	812,820
Employment Base <sup>19</sup>	523,100
Service Population <sup>20</sup>	987,187

**TABLE B-5  
Revenue Assumptions  
Fiscal Feasibility Analysis  
Pier 70 - 20th Street Historic Buildings  
Port of San Francisco**

**November 2, 2012**

**Other City and County Funds**

**Property Tax <sup>1</sup>**

City and County Special Fund Share of Property Tax 8.00%

**Sales Tax <sup>21</sup>**

Public Safety Sales Tax Rate 0.50%

SF County Transportation Authority Sales Tax Rate 0.50%

**Parking Tax**

SF County Transportation Authority Allocation 80%

- <sup>1</sup> Per the City and County of San Francisco Controller's Office. It is assumed that no diversion of tax revenues takes place. Excludes 0.164% in tax overrides. Special Funds include children's, library, and open space funds.
- <sup>2</sup> Per SB 1096, growth of property tax in lieu of VLF is proportional to growth in AV since 2004/05.
- <sup>3</sup> Values for City and County of San Francisco. California State Controller's Office.
- <sup>4</sup> City and County of San Francisco, Office of the Treasurer and Tax Collector.
- <sup>5</sup> Based on employee food and goods and services spending in the vicinity of the office, as reported in the ICSC report, "Office-Worker Retail Spending in a Digital Age" (2012), for urban workers.
- <sup>6</sup> KMA assumption.
- <sup>7</sup> Per City and County of San Francisco staff.
- <sup>8</sup> Economic Planning Systems Pier 70 Feasibility Analysis, 2010. Amount has not been escalated to 2012, reflecting slow economic growth.
- <sup>9</sup> The parking tax is 25 percent of the parking charge paid by the patron to the provider (operator) of the parking facility. Generally, the parking tax is already included in the posted parking rate and thus results in 20 percent of the patron's total parking charges being attributed to the parking tax. City and County of San Francisco Controller' Office.
- <sup>10</sup> Proposition A, passed in November 2007, specified that beginning in FY 2008-09, the Parking Tax be allocated between the General Fund (20%) and MTA (80%). City and County of San Francisco Controller's Office.
- <sup>11</sup> Based on occupations anticipated by Orton Development, Inc. and wages by occupation from the California Economic Development Department's 2012 Occupational Employment Survey. Consistent with EDD's OES average wage city-wide.
- <sup>12</sup> San Francisco Business and Tax Regulations Code Article 12-A: Payroll Expense Tax Ordinance.
- <sup>13</sup> Based on information for the American Industrial Center, a comparable existing business facility.
- <sup>14</sup> San Francisco Business and Tax Regulations Code Article 12: Business Registration Fee.
- <sup>15</sup> Developer information.
- <sup>16</sup> These factors are based on the methodology used in the Infrastructure Financing Plan, Infrastructure Financing District No. 1 (Rincon Hill Area) updated with data for FY 2011-12 from the Mayor's Proposed Budget FY 2011-12, except for fines and forfeitures which is from the City and County of San Francisco Consolidated Budget and Annual Appropriation Ordinance, FY 2011-12 and FY 2012-13.
- <sup>17</sup> Per San Francisco Business and Tax Regulations Code Article 10: Utility Users Tax, non-residential users pay telephone, water, gas, electric, and steam users utility taxes; residential and non-residential users pay cellular telephone and access line taxes. It has been assumed for purposes of these estimates that most residential users use cellular rather than land-line telephone service.
- <sup>18</sup> California Department of Finance, Demographic Research Unit. Table E-5 State/County Population and Housing Estimates, 1/1/2011.
- <sup>19</sup> Estimates by the California Department of Transportation. San Francisco County Economic Forecast.
- <sup>20</sup> Includes resident population and one-third the San Francisco employment base.
- <sup>21</sup> Per the report San Francisco Multi-Purpose Venue Project on Piers 30-32 and Seawall Lot 330: Findings of Fiscal Responsibility and Feasibility, by Economic Planning Systems in October 2012.

**Table B-6**  
**Projection of Lease Payments to Port**  
**Fiscal Feasibility Analysis**  
**Pier 70 - 20th street Historic Buildings**  
**Port of San Francisco**

November 2, 2012

Lease Year	1	2	3	4	5	6	7	8	9	10	11	12	13	21	2033	2078	Reversion
Base Case <sup>1</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 618	\$ 683	\$ 751	\$ 821	\$ 1,460	\$ 11,482	\$ 191,367	
Low Rents Case <sup>1</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,037	\$ 133,957
High Costs Case <sup>1</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,482	\$ 191,367

	Total	Average Annual
Total Nominal Rent, \$000	\$291,000	\$4,400 /yr
Base Case	\$165,000	\$2,500 /yr
High Costs Case	\$260,000	\$3,900 /yr

NPV @6%, \$000	Base Case	Low Rents Case	High Costs Case
Base Case	\$24,000	\$400 /yr	\$100 /yr
Low Rents Case	\$9,000	\$200 /yr	\$300 /yr
High Costs Case	\$16,000	\$400 /yr	\$200 /yr

NPV with Reversion (\$000)	Base Case	Low Rents Case	High Costs Case
Base Case	\$28,000	\$400 /yr	\$200 /yr
Low Rents Case	\$12,000	\$300 /yr	\$400 /yr
High Costs Case	\$20,000	\$400 /yr	\$300 /yr

**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 12-18**

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate and control the lands within Port jurisdiction; and
- WHEREAS, The Port owns an approximately 65-acre site, located on San Francisco's Central Waterfront, between 18th and 22nd Streets and east of Illinois Street, known as Pier 70; and
- WHEREAS, The Port Commission designated a substantial portion of the site as a Development Opportunity Area in the Waterfront Land Use Plan in 2000 to provide revenues for the Port's effort to preserve the Union Iron Works and Bethlehem Administration buildings; and
- WHEREAS, In late 2006, the Port initiated a community planning process to develop a master plan for Pier 70 to address regulatory, economic, maritime, historic preservation, open space and shoreline access challenges to redevelopment; and
- WHEREAS, In July 2009, after six informational Port Commission hearings, four community workshops, Central Waterfront Advisory Group policy discussions, and additional community outreach, the Port published its draft Preferred Master Plan for review, and after an additional informational Port Commission hearing on March 9, 2010, the Port published its final Pier 70 Preferred Master Plan ("Master Plan"), which addresses policymaker and community comment; and
- WHEREAS, On May 11, 2010, by Resolution 10-27, the Port Commission endorsed the vision, goals, objectives, and design criteria of the Master Plan for Pier 70 which identifies about 3 million square feet of capacity for new buildings and 700,000 square feet of potential adaptive reuse capacity, and a system of infrastructure, roadways, shoreline parks, plazas and open space while retaining 17 acres for ship repair use; and
- WHEREAS, The 20th Street corridor of Pier 70 includes a cluster of several historic buildings in need of substantial rehabilitation (the "20th Street Historic Buildings"), which, if adaptively reused would create an extraordinary showcase for Pier 70's heritage; and
- WHEREAS, The Port Commission, by Resolution 10-27, authorized staff to solicit interest in the 20th Street Historic Buildings through a request for interest ("RFI") process guided by the Preferred Master Plan to allow both the potential future users and the Port to address the potential for

rehabilitation and adaptive reuse of these buildings and provide the Port Commission with information upon which to direct staff on disposition of these important structures; and

- WHEREAS, On February 16, 2011, the Port issued a RFI for six 20<sup>th</sup> Street Historic Buildings and commenced a substantial outreach effort -- 176 people, representing 80 organizations toured the buildings; and by September 23, 2011, a total of 15 responses to the RFI were received; and
- WHEREAS, After consultation with the Port Commission, on October 4, 2011, the Port issued a Request for Proposals (RFP) for the 20<sup>th</sup> Street Historic Buildings and invited ten respondents to the RFI to respond to the RFP; and
- WHEREAS, On December 2, 2011 four parties submitted timely submittals to the Port; subsequently two voluntarily withdrew their proposals; and
- WHEREAS, The RFP required proposing a rehabilitation concept for the buildings including a conceptual pro forma and a demonstration of qualifications and financial capacity to undertake the project proposed; and
- WHEREAS, Port staff convened an evaluation review panel of four persons with experience in real estate economics, land use planning and architecture/urban design to review the two remaining proposals against the RFP objectives and evaluation criteria; and
- WHEREAS, The evaluation panel, Port Staff, and consultants found that the proposals from both Orton Development Inc. ("ODI") and the proposed joint venture of Equity Community Builders, Build Inc. and UP, a non-profit formed by Build Inc. (ECB/UP) were well qualified to undertake the 20<sup>th</sup> Street Historic Buildings effort and presented rehabilitation concepts that meet the Port's objectives; and
- WHEREAS, The evaluation panel, Port Staff, and consultants found that the ODI proposal presented a feasible rehabilitation concept and demonstrated strong financial capacity needed to address the 20<sup>th</sup> Street Historic Buildings; and
- WHEREAS, The evaluation panel, Port Staff, and consultants found that ODI's proposal best met the evaluation criteria in the RFP; and Port Staff recommends that the Port enter into negotiations with ODI to define mutually acceptable terms for undertaking rehabilitation of the 20<sup>th</sup> Street Historic Buildings; and
- WHEREAS, The Port Commission has reviewed and evaluated the analyses prepared by Port staff, consultants, and the evaluation panel, the Port

Staff recommendations set forth in the Staff Report accompanying this resolution, and has determined that ODI possesses the qualifications and financial capacity required by the RFP and presents a rehabilitation concept for 20<sup>th</sup> Street that meets Port's objectives; now therefore be it

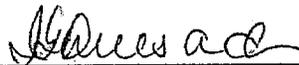
- RESOLVED, That the Port Commission hereby determines that following an extensive outreach and marketing process the proposals received by both the ECB/UP team and ODI present rehabilitation concepts that meet the objectives of the Port's RFP and are submitted by developers with the skills and capabilities to undertake the project proposed; and be it further
- RESOLVED, That the Port Commission hereby awards to ODI the Pier 70 20<sup>th</sup> Street Historic Buildings development opportunity and directs Staff to negotiate the terms of an Exclusive Negotiations Agreement ("ENA") for the lease disposition and development of this site to achieve the objectives specified in the RFP for a period of time ending May 8, 2012 unless the Port Director extends this period in her determination that the parties have made substantial progress towards reaching agreement; and be it further
- RESOLVED, The Port Commission must approve the terms of an ENA establishing performance benchmarks for the 20<sup>th</sup> Street Historic Buildings and authorize the Executive Director of the Port, or her designee to execute that agreement; and be it further
- RESOLVED, That the Port Commission reserves the right, if negotiations with ODI are unsuccessful and do not lead to approval of an ENA or a development agreement, lease and related documents to undertake other efforts including, but not limited to, determining no project will be pursued, selecting a tenant by any other means, negotiating ECB/UP, issuing a new development solicitation at the Port Commission's sole discretion; and be it further
- RESOLVED, That awarding the development opportunity to ODI begins a process of defining a project for the 20<sup>th</sup> Street Historic Buildings and the development concepts envisioned in the Master Plan and the RFP; that the ODI proposal will evolve through the extensive public review process including changes to the rehabilitation concept, uses, the mix of uses, or other fundamental terms, all leading to a final project proposal, subject to Port Commission review; and be it further
- RESOLVED, That the direction to staff to negotiate an ENA does not commit the Port Commission to approval of the terms of the ENA or any specific development concept or project proposal, nor will the ENA or the project review process it establishes foreclose the possibility of alternative development concepts, mitigation measures, or deciding not to grant

entitlement or approve the lease and development of the 20<sup>th</sup> Street Historic Buildings; and be it further

RESOLVED, That entering into exclusive negotiations does not commit the Port Commission to approval of a final lease disposition and development agreement, lease or related documents and that the Port Commission shall not take any discretionary actions committing it to the project until it has reviewed and considered environmental documentation prepared in compliance with the California Environmental Quality Act (CEQA); and be it further

RESOLVED, That the Port Commission expresses its thanks and appreciation to the Central Waterfront Advisory Group and the 20<sup>th</sup> Street Historic Buildings Evaluation panel for their participation in and support of the Port's evaluation of responses to the RFP.

***I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of February 28, 2012.***



Secretary

**PORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 12-36**

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate and control the lands within Port jurisdiction; and
- WHEREAS, On or near 20th Street, east of Illinois Street, the Port owns a cluster of historic buildings in need of substantial rehabilitation (the "20th Street Historic Buildings"), which, if adaptively reused, would create an extraordinary showcase for Pier 70's heritage; and
- WHEREAS, The Waterfront Land Use Plan designates three historic Union Iron Works buildings (Building ##101, 102, 104) that form a portion of the 20<sup>th</sup> Street Historic Buildings as a Mixed-Use Opportunity Area, recognizes that the preservation and adaptive reuse of the three historic Union Iron Works buildings pose a considerable challenge, and accordingly, one of the development standards for such Mixed Use Opportunity Area permits non-maritime land uses which result in the preservation and adaptive reuse of the three Union Iron Works buildings, consistent with the urban design and historic preservation guidelines called for in the Waterfront Plan, provided that such uses do not preclude nearby water-dependent activities or associated support services; and
- WHEREAS, In July 2009, after six informational Port Commission hearings, four community workshops, Central Waterfront Advisory Group policy discussions, and additional community outreach, the Port published its draft Pier 70 Preferred Master Plan for review, and after an additional informational Port Commission hearing on March 9, 2010, the Port published its final Pier 70 Preferred Master Plan ("Master Plan"), which addresses policymaker and community comment; and
- WHEREAS, The Port Commission, on May 11, 2010, by Resolution 10-27, authorized staff to solicit interest in the 20th Street Historic Buildings through a request for interest ("RFI") process and, after consultation with the Port Commission, on October 4, 2011, the Port issued a Request for Proposals ("RFP") for the 20th Street Historic Buildings and invited ten respondents to the RFI to respond to the RFP; and
- WHEREAS, The Port Commission on February 28, 2012 in Resolution 12-18 awarded to Orton Development, Inc. ("ODI") the Pier 70 20<sup>th</sup> Street Historic Buildings development opportunity and Staff has negotiated an exclusive negotiations agreement ("ENA") with ODI setting forth the terms for negotiating agreements for the development and lease of the 20<sup>th</sup> Street Historic Buildings to achieve the objectives specified in the Pier 70 20<sup>th</sup> Street Historic Buildings Request for Proposals ("RFP"); and

WHEREAS, The Port and ODI have agreed to terms for a no rent lease for a 12-month term of approximately 2,625 square feet of studio space at Building 11 to provide an on-site office for ODI and common meeting space for ODI, Port staff and others seeking meeting space related to the overall Pier 70 project ("Site Office") and ODI has agreed to construct no less than \$5000 worth of certain improvements to the Site Office to make the space useable for office and meeting space uses; and

WHEREAS, Port staff agrees that the Site Office lease should be at no fee because ODI has agreed to construct no less than \$5,000 worth of certain improvements to the Site Office, the Site Office is currently untenable without the construction of significant improvements by Port staff, there are no other uses for the space during the term of the lease that would generate rent to the Port, no other uses would be displaced, the meeting space within the Site Office will be made available at no charge to Port staff and others seeking meeting space related to the overall Pier 70 project, ODI will not use the space for either commercial or exclusive use the Port will not be expending any resources or revenues to support this use, and there is direct benefit to the Port in that the use will assist in the marketing and development of the entire Pier 70 site; and

WHEREAS, All other terms and conditions of the proposed lease for the Site Office will comply with the Port Commission's boilerplate terms including insurance and indemnity provisions; and now, therefore, be it

RESOLVED, That the Port Commission authorizes the Executive Director or her designee to execute the ENA and any additions, amendments or other modifications thereto that are necessary and advisable to complete the ENA consistent with the terms and conditions set forth in the Staff Memorandum and in a form approved by the City Attorney; and, be it further

RESOLVED, That the Port Commission hereby authorizes the Executive Director of the Port, or her designee, to waive or extend the times established in the ENA for performance of specific objectives under the ENA as specified in the ENA, including the right to condition such waiver or extension on additional performance objectives or other conditions required by the Port Commission in its sole discretion; and be it further

RESOLVED, The Port Commission authorizes the Executive Director to execute a no rent lease with ODI for Suite 108 of the Noonan Building (Building 11) at Pier 70 for a 12-month period on the terms discussed in the accompanying Staff Report and in a final form as approved by the City Attorney; and, be it further

RESOLVED, That the Port Commission reserves the right, if negotiations with ODI are unsuccessful and do not lead to approval of a development agreement, lease and related documents to undertake other efforts, which may

include determining no project will be pursued, selecting a tenant by any other means, negotiating with any other respondent to the RFP, and issuing a new development solicitation at the Port Commission's sole discretion; and, be it further

RESOLVED, That entering into the ENA with ODI begins a process of defining the scope of development for the 20<sup>th</sup> Street Historic Buildings, and the development concepts envisioned in the Pier 70 Preferred Master Plan, the RFP, and the ODI proposal will evolve through the extensive public review process through changes to the uses, the mix of uses, the intensity of development, or other fundamental terms, all leading to a final development proposal to be submitted to the Port Commission for review and approval; and, be it further

RESOLVED, That the ENA does not commit the Port Commission to approval of any specific development concept or project proposal, nor does ENA foreclose the possibility of alternative development concepts, mitigation measures, or deciding not to grant entitlements or approve the lease and development of the 20<sup>th</sup> Street Historic Buildings; and, be it further

RESOLVED, That entering into exclusive negotiations does not commit the Port Commission to approval of a final lease or related documents and that the Port Commission shall not take any discretionary actions committing it to the project until it has reviewed and considered environmental documentation prepared in compliance with the California Environmental Quality Act.

***I hereby certify that the foregoing resolution was adopted by the Port Commission at its meeting of April 24, 2012.***



Secretary

**PORT COMMISSION  
CITY & COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 12-78**

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate, and control the lands within Port jurisdiction; and
- WHEREAS, The Port owns, in trust, a cluster of several historic buildings in need of substantial rehabilitation (the "20th Street Historic Buildings"), located on or near 20<sup>th</sup> Street, east of Illinois Street, and identified as the "Historic Core (Orton)" on Exhibit A to the staff report accompanying this resolution; and
- WHEREAS, On February 28, 2012, by Resolution 12-18, the Port Commission awarded Orton Development Inc. ("ODI") an exclusive right to negotiate with the Port for the development, rehabilitation, and lease of the 20<sup>th</sup> Street Historic Buildings ("the Project"); and
- WHEREAS, On April 24, 2012, by Resolution 12-36, the Port Commission authorized the Executive Director or her designee to execute an Exclusive Negotiating Agreement ("ENA") between the Port and ODI for the Project and the Port and ODI entered into the ENA effective May 17, 2012, which ENA required, among other things, for the Port and ODI to negotiate a Term Sheet to describe the fundamental deal terms for the Project; and
- WHEREAS, ODI and Port staff have negotiated the Term Sheet attached as Exhibit C to the staff report accompanying this resolution (the "Term Sheet"), which sets forth the essential terms upon which the Port and ODI will negotiate in good faith to reach agreement on the final transaction documents; and
- WHEREAS, Prior financial analyses conducted by Port to develop and rehabilitate the 20th Street Historic Buildings of this Project found that the projected income would not be insufficient to support the projected capital costs of over \$100 million, thus requiring such that a significant subsidy would be required; and
- WHEREAS, The proposed financial terms between Port and Orton for the Project are structured as a participating rent deal in which the Port contributes \$1.5 million to the capital costs and defers minimum rent for a certain period, ODI contributes up to \$14 million in equity, and both parties share equally in the long-term net revenues of the Project, creating a structure that maximizes the ability to secure third-party capital for the Project; and

**WHEREAS** The parties acknowledge that the Term Sheet is not itself a binding agreement that commits the Port or ODI to proceed with the approval or implementation of the Project and that the Project will first undergo environmental review under CEQA and will be subject to public review in accordance with the processes of the Port Commission, other City departments and offices, and other government agencies with approval over the proposed Project before any entitlements and other regulatory approvals required for the Project will be considered; now, therefore be it

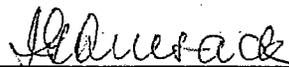
**RESOLVED**, That the Port Commission hereby endorses the Term Sheet and authorizes and directs the Executive Director of the Port, or her designee, to execute the Term Sheet and present the Term Sheet to the Board of Supervisors for their endorsement and for consideration of a finding that the Project is fiscally feasible and responsible under San Francisco Administrative Code Chapter 29 (the "Fiscal Feasibility Finding"), and in the event the Board of Supervisors fails to make a Fiscal Feasibility Finding for the Project, to either terminate the ENA or revise the Term Sheet; and be it further

**RESOLVED**, That provided the Board of Supervisors endorses the Term Sheet and makes a Fiscal Feasibility Finding for the Project, the Port Commission authorizes that directs the Executive Director of the Port, or her designee, to work with ODI to undertake project review and negotiate the terms and conditions of any development agreement, lease, and related documents ("Transaction Documents"), with the understanding that the final terms and conditions of the Transaction Documents negotiated between Port staff and ODI during the exclusive negotiation period will be subject to the approval of the Port Commission and as applicable, the Board of Supervisors and the Mayor;; and, be it further

**RESOLVED**, That approval of the Term Sheet and direction to Port staff does not commit the Port Commission or the City to approval of final Transaction Documents or implementation of the Project or grant any entitlements to ODI, nor does the Term Sheet foreclose the possibility of considering alternatives to the proposal, mitigation measures or deciding not to grant entitlement or approve or implement the Project, after conducting appropriate environmental review under CEQA, and while the Term Sheet identifies certain essential terms of a proposed transaction with the Port, it does not necessarily set forth all of the material terms and conditions of any final transaction documents; and, be it further

**RESOLVED,** That the Port Commission will not take any discretionary actions committing the Port to implement the Project, and the provisions of the Term Sheet are not intended and will not become contractually binding on the Port unless and until the Port Commission has reviewed and considered environmental documentation prepared in compliance with the CEQA for the Project and the Port Commission, and as applicable, the Board of Supervisors and the Mayor, have approved final Transaction Documents for the Project.

***I hereby certify that the foregoing resolution was adopted by the San Francisco Port Commission at its meeting of October 9, 2012.***



Secretary



**20<sup>th</sup> Street Historic Buildings  
Term Sheet  
October 3, 2012**

As required in the Exclusive Negotiating Agreement (ENA) executed, May 17, 2012, this Term Sheet sets forth the basic terms and conditions on which the parties agree to further negotiation regarding the development concept and uses described below (the "Project") and that will be refined and set forth in more detail in the lease (the "Lease"), the lease disposition and development agreement ("LDDA") and other transaction documents between Port and Orton Development, Inc. ("ODI").

This Term Sheet is not intended to be, and will not become, contractually binding unless and until environmental review has been completed in compliance with the California Environmental Quality Act and the parties are able and willing to execute and deliver a mutually acceptable LDDA, Lease and related transaction documents regarding the Project. In addition, under San Francisco Charter, no officer or employee of the City and County of San Francisco (the "City") has authority to commit the City to the transaction contemplated herein unless and until the San Francisco Port Commission has approved the transaction and the San Francisco Board of Supervisors has approved the Lease.

Lessor	Port of San Francisco
Lessee/ Key Man	<ul style="list-style-type: none"> <li>Orton Development, Inc. or an affiliated entity controlled by J.R. Orton III.</li> <li>J.R. Orton III to remain actively involved in the project until at least project completion.</li> </ul>
Premises	<ul style="list-style-type: none"> <li>Historic buildings 14, 101, 102, 104, 113, 114, 115, 116, 122, and 123, at Pier 70. See Exhibit A. ODI and the Port will negotiate a precise premises boundary to address needed ingress and egress with the current, and the future street grid.</li> <li>Parties anticipate entering into a license for adjacent areas.</li> </ul>
Term of Lease	<ul style="list-style-type: none"> <li>66 years.</li> </ul>
Uses	<ul style="list-style-type: none"> <li>Buildings 101, 104: Office and ancillary uses;</li> <li>Building 102: restaurant and commercial;</li> <li>Buildings 113/114, 115/116, and 14: Light industrial, arts production, education, recreation, ancillary retail, and ancillary office uses.</li> </ul>
As-Is Conditions	<ul style="list-style-type: none"> <li>For all buildings and site areas, Developer takes in "as-is" conditions.</li> </ul>
Hazardous Materials	<ul style="list-style-type: none"> <li>Developer is responsible for implementing the Risk Management Plan, including any and all costs, regulatory, and operational responsibilities specified therein for aboveground environmental conditions. If Developer disturbs belowground soils, Developer will follow the Risk Management Plan for those areas.</li> <li>If previously unidentified below ground environmental conditions unrelated to the Developer's activities require additional investigation or remediation, the Port will be responsible for those costs including regulatory costs.</li> </ul>

	<ul style="list-style-type: none"> <li>• Prior to issuance of the Risk Management Plan, Developer will be responsible for compliance with existing regulatory requirements and conducting activities in manner consistent with the Remedial Action Plan (Treadwell and Rollo, May 2012).</li> <li>• PCB transformer removal and abatement in Building 102 remains responsibility of the Port.</li> <li>• Removal of existing PCB transformer in the northwest corner of Building 113 and abatement of all above ground hazardous materials are the responsibility of ODI.</li> </ul>
"Early Work"	<ul style="list-style-type: none"> <li>• ODI can propose to undertake at its cost weatherizing, cleanup or security improvements ("Early Work") under the existing access agreement terms, which include Port approval of the work scope.</li> <li>• Approval of any scope of Early Work would include agreement on a budget for that work.</li> <li>• Under the ENA, ODI has paid a \$75,000 negotiation fee that is non-refundable if the ENA is terminated. If ODI terminates the ENA and does not execute a Lease for the project, the Port will return to ODI the documented expenditures not to exceed the agreed-to cost of any Early Work performed but no more than \$75,000.</li> <li>• If the project moves forward, Early Work costs will be included in Total Project Costs and the \$75,000 negotiation fee will be applied to the lease deposit as agreed in the ENA.</li> </ul>
Building 102	<ul style="list-style-type: none"> <li>• Building 102 is an active part of the electrical systems serving the BAE ship repair facility. Developer will assess existing conditions, meet with BAE to understand their needs, and recommend a solution for: <ol style="list-style-type: none"> <li>1. Removing electrical equipment</li> <li>2. Establishing separate service to BAE</li> <li>3. Establishing service to other electric uses now served from building 102 including ODI's project</li> </ol> </li> <li>• Developer to recommend options and provide conceptual cost estimates for the options to meet objectives (1), (2), and (3) above.</li> <li>• Port and Developer to negotiate in the Development Agreement how to undertake and fund the work needed to re-use Building 102 for new uses and sustain electrical service to the shipyard.</li> <li>• Cost of BAE equipment and service remains a Port or BAE responsibility. To the extent designing a new BAE service incurs third party fees, such fees shall be reimbursed by Port or BAE.</li> </ul>
Total Project Cost	<ul style="list-style-type: none"> <li>• "Total Project Cost" shall include Lessee's hard and soft costs such as permit, development, and impact fees, if any, construction and materials costs, subcontractor and design fees, legal and other professional fees, financing costs that are capitalized, and all project-related expenses of Lessee or Orton Development Inc. (ODI), including a proportionate share of ODI's overhead such as salaries paid by ODI for employees (other than J.R. Orton III).</li> </ul>

	<ul style="list-style-type: none"> <li>• ODI will not charge a developer fee.</li> <li>• Parties to negotiate the level of performance or surety bond or completion guaranties in the LDDA.</li> </ul>
Port Capital Contribution	<ul style="list-style-type: none"> <li>• \$1.5 million with an additional \$250,000 grant funding from the California Cultural Equity Endowment, if available.</li> <li>• The Port has the option to, but is not bound to, secure additional capital above \$1.5 million in seismic funding to pay down the amount of Orton Equity at any time before the Orton Equity is fully repaid, subject to any finance conditions.</li> </ul>
Project Debt	<ul style="list-style-type: none"> <li>• Port and ODI agree to cooperate to secure the greatest amount of debt and the lowest cost third-party capital and debt as reasonably possible for the project.</li> <li>• As soon as additional financing is reasonably supported by the project, ODI agrees to pay down its remaining equity interest and remaining equity through additional debt.</li> <li>• ODI may propose that, once Orton Equity is re-paid, additional debt be placed on the site to the advantage of both the parties. The Port's approval of additional debt will not be unreasonably withheld.</li> <li>• Port consent shall not be unreasonably withheld for any assignment of the lease as security for project financing or refinancing. The lease will contain mortgagee protection and related provisions reasonably satisfactory to Lessee's lender(s) and investor(s), including future amendments as may be reasonably required for such purpose.</li> </ul>
Orton Equity	<ul style="list-style-type: none"> <li>• Orton Equity is defined as Total Project Cost through project completion less tax credit equity, permanent debt proceeds, and Port capital contribution.</li> <li>• Orton Equity will accrue a simple return of 14% per year. Orton Equity shall be no more than the lesser of 20% of Total Project Cost or \$14 million, once permanent debt is in place to achieve the shared goal of the lowest overall cost of capital for the project.</li> <li>• Unpaid return accumulates until paid without compounding.</li> <li>• Re-Opener process may increase cap on Orton Equity above \$14 million.</li> </ul>
Orton Equity Repayment/ Participation Rent	<ul style="list-style-type: none"> <li>• Participation Net Revenue is defined as project revenue (on a triple net basis or its equivalent) less reasonable unrecovered operating expenses on vacant space, appropriate reserves using standard accounting, tax credit equity payments, and debt service and related fees (on the Total Project Cost).</li> <li>• Participation Net Revenue shall be distributed as: <ol style="list-style-type: none"> <li>1. To Lessee until the accumulated 14% return on Orton Equity is paid;</li> <li>2. To Lessee to pay down outstanding Orton Equity until paid;</li> <li>3. Split equally between Lessee and Lessor.</li> </ol> </li> </ul>
Right to Pre-pay	<ul style="list-style-type: none"> <li>• Port has right to pre-pay accumulated interest on Orton Equity and Orton Equity at any time, at no charge or payment of any penalty.</li> </ul>
Complete	<ul style="list-style-type: none"> <li>• ODI will submit a Complete Project Underwriting Package ("Project</li> </ul>

Underwriting Package	<p>Underwriting”) with a detailed estimate of total project costs including hard and soft costs, finance costs, and expected lease rates, with a pro forma projecting ODI and Port income.</p> <ul style="list-style-type: none"> <li>• Port and ODI will use this package to negotiate the LDDA.</li> </ul>
Unknown Base Building Costs Found Prior to Lease Execution	<p>After approval of the Transaction and/or execution of the development agreement, ODI can request re-opening of business terms, if it can demonstrate that due to costs of unforeseen base building conditions, the required Orton Equity for the entire project exceeds \$14 million or that the project returns significantly differ from the Project Underwriting projected returns.</p> <p>At this stage, ODI will have the right to:</p> <ol style="list-style-type: none"> <li>1. Remove buildings – except Building 113/114 – from the Project</li> <li>2. Invest additional equity into the transaction and, if so, the Base Rent will not be applicable until all Orton Equity plus the 14% return is repaid,</li> <li>3. Renegotiate the deal – subject to returning to the Port Commission and the Board of Supervisors for approval, or</li> <li>4. Terminate its Development Agreement without incurring a termination fee</li> </ol>
Unknown Base Building Costs After Lease Execution	<ul style="list-style-type: none"> <li>• Lease to include a provision to address unknown base building costs discovered during construction, including that ODI may (i) invest additional equity, in the project to address the unforeseen costs at a market rate of return to be negotiated based on the investment returns expected by real estate equity investors, but in no event more than 14% per annum, into the transaction to address the unforeseen costs and (ii) delay the start of the Base Rent.</li> </ul>
Initial Base Rent	<ul style="list-style-type: none"> <li>• Beginning in Year 20 after lease execution, a base rent of \$200,000 (expressed in 2012\$) per year will be paid even if all Orton Equity has not been repaid.</li> <li>• If Orton Equity is repaid before year 10, Base Rent shall commence 10 years after Orton Equity is repaid.</li> <li>• Re-opener provisions can delay the start of Base Rent.</li> </ul>
Base Rent Escalation	<ul style="list-style-type: none"> <li>• Base Rent shall be adjusted every 5 years but in no event decrease, based on CPI, limited to a 20% increase.</li> </ul>
Base Rent Re-Sets	<ul style="list-style-type: none"> <li>• Every 10 years after commencing payment of Base Rent, the Base Rent amount will be adjusted to equal the higher of (i) the then payable Base Rent or (ii) 60% of the average of the previous 5 years of participation rent paid to the Port.</li> <li>• Any participation in refinancing or sales proceeds is not included in the five year average calculation.</li> </ul>
Participation in refinancing proceeds	<ul style="list-style-type: none"> <li>• If Lessee refinances, excess funds shall be applied first to Orton Equity interest and second to Orton Equity.</li> <li>• Net proceeds after repaying debt and Orton Equity shall be split equally between Port and Orton and paid to each party at close of escrow</li> </ul>
Participation in sale or assignment	<ul style="list-style-type: none"> <li>• Port receives 10% of any net sales proceeds (remaining after repayment of debt, return on outstanding Orton Equity, return of Orton Equity, and Lessee’s standard sales costs such as brokerage commissions and legal fees)</li> </ul>

Parking:	<ul style="list-style-type: none"> <li>Port shall manage parking, as part of a Pier 70 wide parking plan, for the proposed project. Parking rates will be set through the Port parameter rate setting process. Consistent with the Pier 70 Master Plan, parking of one space per 1,000 square feet of building area will be provided.</li> </ul>
Subleasing and Assignment	<ul style="list-style-type: none"> <li>Lessee shall have the right to sublease the premises for all uses allowed under the lease.</li> <li>Port shall have rights at its sole discretion over any lease assignment or change in control of ODI prior to project completion.</li> <li>After project completion, the lease may be assigned to any qualified purchaser, subject to Port's reasonable approval.</li> </ul>
Property Management	<ul style="list-style-type: none"> <li>ODI may manage the property or use third-party management. In either case, the records and financials shall be completely transparent.</li> <li>In the event ODI is managing the project and the Port objects reasonably to the quality of property management, it shall put such objections in writing. ODI shall have a reasonable time to cure, no less than 30 days. In the event ODI is unable to reasonably cure in the time period, Port may request that the project be managed by a third party management and ODI shall select a reasonable established third party management company for the project. All asset and management fees will be consistent with those prevailing in the marketplace.</li> </ul>
Utility and Impact fees	<ul style="list-style-type: none"> <li>To the extent due for this project, utility connection and impact fees are Lessee's responsibility. Port to reasonably cooperate with Lessee in the investigation and applicability of impact fees.</li> </ul>
Infrastructure Costs	<ul style="list-style-type: none"> <li>In the future, a Master or Sub Developer(s) may replace the infrastructure in 20<sup>th</sup> Street. Lessee will bear its equitable share of costs with respect to repair of infrastructure including roadway and sidewalks.</li> </ul>
Condition of Premises at the end of the lease; Capital Reserves	<ul style="list-style-type: none"> <li>The condition of the property at the end of the lease shall be as constructed, well-maintained, minus reasonable wear and tear.</li> <li>Mutually agreed upon reasonable reserves to meet this standard are project expenses and will be included in the operating budget.</li> </ul>
Development over the course of the lease	<ul style="list-style-type: none"> <li>Lessor and Lessee are aware that a Preferred Master Plan for Pier 70 was published in 2010 addressing the complete redevelopment of Pier 70. During the course of the lease, a complete redevelopment of Pier 70 may occur.</li> <li>Lessor and Lessee agree to reasonably cooperate on any future master plan, agreements with other Pier 70 developers and tenants, and their implementation.</li> </ul>
Standard Lease Terms	The development agreement and lease, except as negotiated above or in the Exclusive Negotiating Agreement between the Port and ODI, will address the terms and conditions of the Port's October 4, 2011, Request for Proposals for the 20 <sup>th</sup> Street Historic Buildings

Scale in Feet  
50 0 50 100 150

ILLINOIS ST.

PORT JURISDICTION LINE

**NOTES:**

1. ODI and the Port will negotiate a precise premises boundary to address code requirements and needed ingress and egress with the current and the future street grid.
2. Parking for the project will be part of a Pier 70 wide district parking plan.

AGREEMENT BOUNDARY

20TH ST.

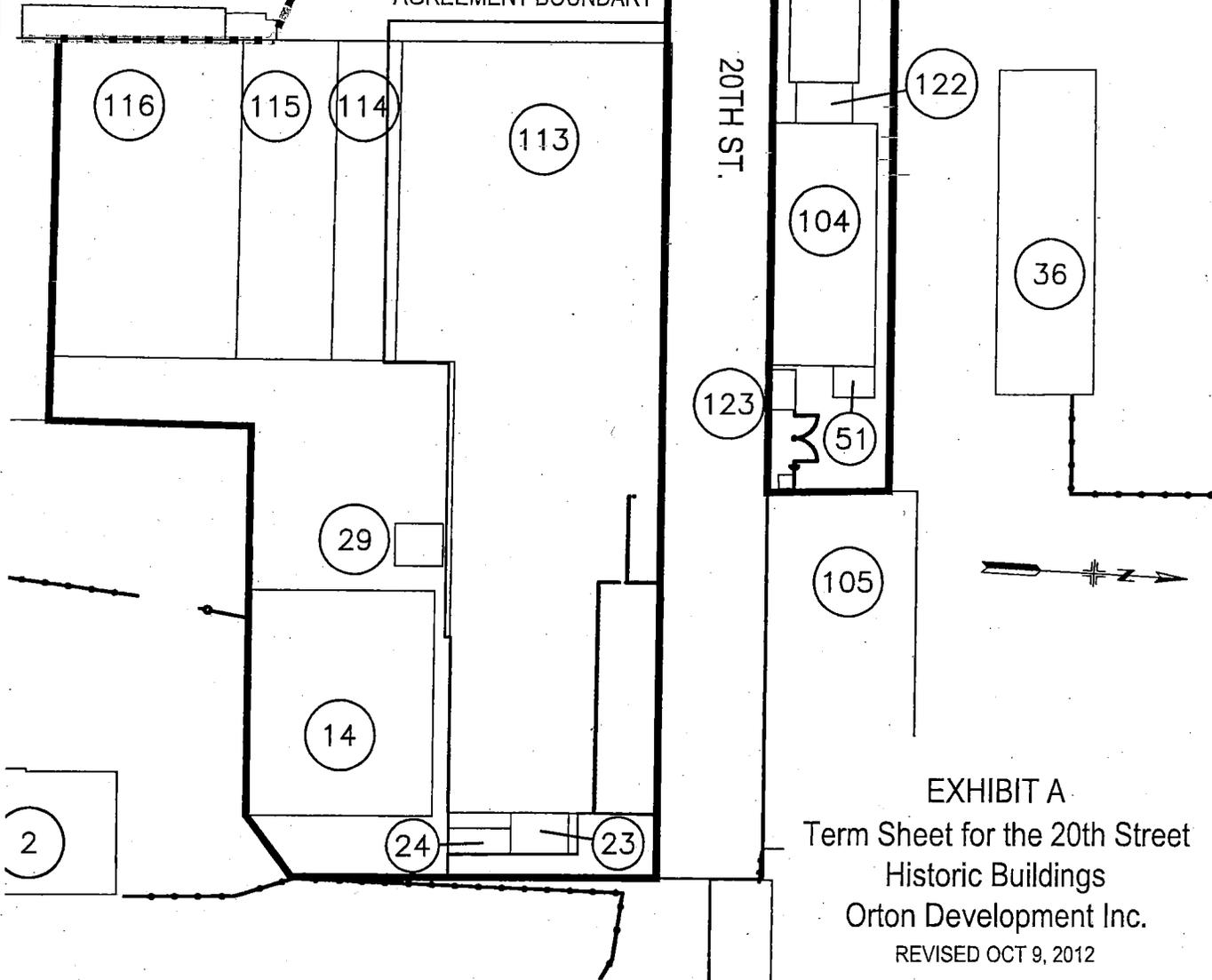


EXHIBIT A  
Term Sheet for the 20th Street  
Historic Buildings  
Orton Development Inc.  
REVISED OCT 9, 2012

**MEMORANDUM**

September 20, 2012

**TO:** MEMBERS, PORT COMMISSION  
Hon. Doreen Woo Ho, President  
Hon. Kimberly Brandon, Vice President  
Hon. Willie Adams  
Hon. Leslie Katz

**FROM:** Monique Moyer  
Executive Director

**SUBJECT:** Informational Presentation on the Progress from Plans to Projects for the 69-acre Pier 70 site, located near the intersection of 20th and Illinois Streets

**DIRECTOR'S RECOMMENDATION:** Information Only - No Action Required

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**EXECUTIVE SUMMARY**

This staff report provides a progress report on transforming Pier 70 to a vibrant waterfront district. Pier 70 encompasses 69 acres roughly bounded by Mariposa, Illinois, and 22<sup>nd</sup> Streets and the San Francisco Bay. In the last 18 months, since the Port's completion of the Pier 70 Master Plan, the Port selected private development partners (Forest City and Orton Development) for portions of the site, secured necessary legislative changes, and advanced technical and policy planning. The two Pier 70 development partners are currently undertaking significant due diligence investigations. Orton and Forest City both intend to bring forward refined project proposals to the Port Commission, the Central Waterfront Advisory Group (CWAG) and the community for discussion later this year.

Pier 70 is a high priority project for Mayor Edwin M. Lee as part of his efforts to grow the City's economy and leverage the redevelopment of key underutilized properties in the City's portfolio to create significant public benefits for the City. In May 2012, the Port Commission recognized that leadership from the City's Office of Economic and Workforce Development ("OEWD") is essential to address the complexity of the Pier 70 project and assure that the full resources of the City are brought to this effort.

**THIS PRINT COVERS CALENDAR ITEM NO. 9B**

In addition to these development projects, OEWD and Port staff have been working on other fronts with the community and City family to formally recognize the rich maritime history of Pier 70 and address current site conditions. Later this year, staff will:

- i. Submit a Pier 70 Historic District nomination to initiate the process to list the Pier 70 Historic District on the National Register of Historic Places.
- ii. Work with the San Francisco Regional Water Quality Control Board ("Water Board") to secure approval of a Risk Management Plan establishing remedies and controls for containments in the soils from prior industrial use.
- iii. Collaborate with other City agencies to incorporate Pier 70's future needs into the City's plans for infrastructure, transportation, and other public services.

This report and the Port Commission Informational Presentation provide an overview of the background and policy context for Pier 70, the key project components, OEWD's role on the project and general next steps. No action is requested at this time.

This memorandum is organized as follows:

1. Define Pier 70 Sub-areas and projects underway
2. Introduction to the Port/OEWD project team.
3. Overview of Pier 70 Context and 2010 Master Plan
4. Overview of the five Pier 70 project components
5. Other sitewide "policy initiatives necessary to realize the Pier 70 vision
6. Immediate next steps

#### PIER 70 SUB-AREAS (EXHIBIT A)

- **Pier 70 Shipyard.** BAE San Francisco Ship Repair Inc. ("BAE SFSR"), a subsidiary of BAE Systems Inc., currently operates the ship repair facility on about 15 acres of land, piers and two dry docks. Ship repair is one of the Port's highest revenue maritime tenants and important to supporting San Francisco's cruise terminal.
- **Pier 70 Cove:** The northeast corner of Pier 70, from Terry François Boulevard south to, but not including, the historic buildings on the northside of 20<sup>th</sup> Street. This sub-area includes **Crane Cove Park**, a proposed 7 acre new park at the northern shore of Pier 70. An initial phase of improvements, funded by the 2008 Clean and Safe Neighborhood Parks General Obligation Bond, is scheduled to begin construction in 2014. It also includes the historic Kneass Building and about two acres of land for new development.
- **The Pier 70 Waterfront Site**, approximately 25 acres at the eastern edge of Pier 70, a site for new mixed-use development. Following a competitive development solicitation process, on July 8, 2011, the Port Commission approved an Exclusive Negotiation Agreement ("ENA") with Forest City Development California, Inc. for development of this site. Forest City is currently engaging with the community on its proposed vision for the Waterfront site, which will be presented to the Port Commission later this year. Forest City will also work with the Port and OEWD to

define an infrastructure system and regulatory framework that serves the Waterfront Site and Pier 70 as a whole.

- **The Pier 70 Historic Core** including six buildings on or near 20<sup>th</sup> Street focus on the immediate repair and rehabilitation of Pier 70's most valuable but deteriorated historic buildings. Following a competitive developer solicitation process, on May 17, 2012, the Port entered into an ENA with Orton Development Inc., ("ODI") for the lease, rehabilitation, and development of the 20th Street Historic Buildings. ODI presented its conceptual project to the Port Commission on July 10, 2012. A refined project proposal and business terms will be reviewed by the Port Commission in October 2012.
- **Pier 70 Hill** Irish Hill, a 1.5-acre land form, at the southwestern corner of the Pier 70, is planned as an open space. Two potential development areas are on either side of Irish Hill on the east side of Illinois Street. The Port owns one of these sites and PG&E the other. These sites are important to connecting Pier 70 to the Dogpatch neighborhood.

#### **PIER 70 TEAM**

On May 29, 2012, the Port Commission established OEWD as the lead negotiator on three major waterfront real estate development projects: the new Warriors arena, and the Giants' Mission Rock development; and Forest City's rehabilitation and remaking of the waterfront site on Pier 70. The potential, and complexity, of these efforts, and the importance of these projects to the Mayor's vision for growing the City's economy require singular leadership reporting directly to the Mayor to coordinate city-wide efforts on these projects and lead real estate development negotiations with private and public sector partners.

The OEWD, along with senior Port staff, will be the lead negotiator with Forest City on the Pier 70 waterfront site development project. Port staff will continue to work with OEWD to assist with environmental review and ensure the project's compliance with public trust policy and regulations of the State Lands Commission ("SLC"), the Port Commission, and the San Francisco Bay Conservation and Development Commission ("BCDC").

In consultation with OEWD, Port staff will continue to lead coordination efforts across the entire Pier 70 site with other City agencies, project partners and stakeholders to ensure all components of the Pier 70 project are complementary and working in concert to realize the City's vision for Pier 70. Port staff is negotiating with ODI the business terms of the rehabilitation of the 20th Street Historic Buildings and will coordinate closely with OEWD and the Planning Department in its review. Port staff will continue to manage the existing leases on the site (many which are of an interim nature) and the lease with BAE SFSR. Working with the City, Port staff are also the lead planners for Crane Cove Park and the Blue Greenway network that includes Pier 70. Port staff also is leading efforts with the Water Board and with PG&E to address legacy contamination issues at Pier 70.

The Port's Central Waterfront Advisory Group continues to provide community input to all the Pier 70 efforts as they have since 1999 including extensive participation in the planning processes to date.

## **CONTEXT FOR PIER 70**

### **Pier 70 Today**

Pier 70 is located on the shoreline of San Francisco Bay and generally includes the area bounded by 22nd Street to the south, Illinois Street to the west, and San Francisco Bay to the north and east, encompassing approximately 69 acres. The Pier 70 area includes Piers 68 and 70 and Seawall Lots 349 and 3492. BAE Systems operates the Port's ship repair facility at the site. Outside of the BAE SFSR lease area, there are 25 buildings, 11 of which are currently occupied. The San Francisco Municipal Transportation Authority ("SFMTA") leases 12 acres and 4 buildings for the City's impound yard for towed vehicles. The Noonan Building houses over a dozen artist studios. Delancey Street, Affordable Self Storage, Paul's Stores, Multicultural Radio and Sims Metals are other tenants at Pier 70.

### **Planning Context**

Pier 70 is located in a City growth corridor that extends from Mission Bay south to Bayview Hunters Point, known as the Central Waterfront in adopted Planning Commission plans. From 2001 to 2009, the Planning Commission worked with the community to produce new policies for the Central Waterfront, as part of a broader Eastern Neighborhoods planning effort. The primary focus within the Central Waterfront was balancing new housing development and industrial uses. The Eastern Neighborhoods Central Waterfront Plan also introduced policies to create new parks and open space that extend to the Bay, preserve area architecture and history, and expand pedestrian and public realm amenities important to creating inviting places for residents, workers and visitors. The Blue Greenway Plan extended from these public discussions, to focus specific attention on creating a system of waterfront open spaces that also allow physical access from the City to the Bay waters wherever possible. These new policy initiatives also were supported by City transportation initiatives that have increased transit, bicycle and pedestrian access to the area.

### **2010 Pier 70 Preferred Master Plan ("Master Plan")**

It was against this broader City backdrop that the Port undertook work to develop the Master Plan<sup>1</sup>. From 2007 to 2010, the Port conducted a community process that evaluated the unique site conditions and opportunities, and the Port Commission's responsibilities, and built a public consensus for Pier 70's future that nested within the policies established for the Eastern Neighborhoods-Central Waterfront. The resulting Master Plan creates a strong policy framework that also sets forth strategies for Port development offerings and implementation initiatives. On May 11, 2010, by Resolution

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<sup>1</sup> The Master Plan is available on the Port's web site: <http://www.sfport.com/index.aspx?page=218>

10-27, the Port Commission endorsed the vision, goals, objectives, and design criteria of the Master Plan shown in Exhibit B.

The Master Plan provides a framework for Pier 70 that served to:

- Allocate land between parks, ship repair, historic rehabilitation and new development sites in a manner to frame developer solicitations.
- Provide guidelines to protect the integrity of the historic district as substantial new development occurs.
- Prioritize investment in the most significant historic buildings.
- Assess the environmental remediation needed to re-use Pier 70.
- Articulate the case for General Fund investment in Pier 70 parks.
- Establish a basis to work with the SLC staff to define and secure legislation to rectify the public trust at Pier 70.
- Coalesce community support for a revitalized Pier 70, including substantial new development.

The Master Plan did not:

- Propose new zoning or height limits for the site.
- Define or prescribe specific building footprints or massing, or limit specific uses, recognizing the need to collaborate with the private sector to establish development parameters.
- Establish impact fees or other infrastructure funding mechanisms.
- Contain sufficient detail to support an environmental review under CEQA. That review will come after the more detailed planning underway at the present with the Port's development partners.

The City, working with its development partners, will determine a set of land use controls, business agreements, and implementation documents that provide the definition of Pier 70's future that the Master Plan did not. The implementation documents resulting this further planning will be approved by the Port Commission, and as required the Planning Commission, prior to Board of Supervisors review.

## **PARTNERSHIP PROJECTS AT PIER 70**

### **Public/Private Partnerships to realize Pier 70 Development**

Essential to realizing Pier 70's potential is a concerted "place-making" effort to establish an identity for Pier 70 as a unique West Coast district that will draw business tenants and local residents to enjoy the commercial and cultural offerings of the site, as well as its parks, open spaces, and connections to the Bay. The skills to do this lay within the private sector: first-hand knowledge of market conditions, experience leveraging private capital and managing complex entitlement processes, and hands-on experience implementing mixed-use development projects. The City is currently working with two private development entities on different components of the Pier 70 site to help realize the City's vision and goals for Pier 70.

## **Forest City Development California – Waterfront Site**

Forest City specializes in large, urban infill projects, with a specialization in public/private partnerships. Forest City proposes to create a new mixed-use district on the Pier 70 Waterfront site that is an extension of the fabric of the adjacent Dogpatch neighborhood. Forest City also proposes to create an innovation cluster that includes a variety of office spaces for new economy with diverse activities and public amenities for the greater San Francisco community, in particular, artists, “makers”, and other creative sectors.

Forest City’s place-making planning process, underway now, reaches out to a broad range of individuals and organizations that are likely “users” of the future Pier 70 district. The outreach builds on the foundation established by the Port through the Master Plan community planning process. Forest City will build on that foundation through several community engagement activities undertaken in partnership with the OEWD, the Port, the Central Waterfront Advisory Committee (CWAG) and other formal and informal organizations and groups and including key stakeholders like the historic preservation community and the ship repair operations at Pier 70.

Forest City is developing a set of “Principles of Place” that will combine cultural goals and physical design principles to inform proposed project plans to create a place at Pier 70 that feels authentic and alive, where local community and the economy come together at the water’s edge of Dogpatch. Forest City’s planning is also addressing real estate market realities, infrastructure costs, and economic feasibility requirements to define development intensity and the mix of uses for the Waterfront Site.

Forest City anticipates presenting a project proposal to the Port Commission, CWAG and the community in November or December 2012. OEWD will lead development negotiations for the business terms needed to realize the Forest City vision, with support of Port staff and subject to the direction of the Port Commission. The Port Commission and the Board of Supervisors will endorse the business terms early next year, at which time environmental review will commence.

## **Orton Development Inc. – Historic Core: 20<sup>th</sup> Street Historic Buildings**

In the interest of maintaining accelerated and priority attention to save the 20<sup>th</sup> Street Historic Buildings, the Port selected ODI as its developer partner. These buildings date from the 1880s and are in very dilapidated and fragile condition, needing seismic and other upgrades to bring them to active use. The knowledge and experience ODI has from the historic rehabilitation of the Ford Plant in Richmond and its extensive portfolio of revitalized industrial and office buildings directly relates to the requirements of these six buildings, which encompass 250,000+ square feet, including the massive Union Iron Works Machine Shop and the Bethlehem Steel office building at 20<sup>th</sup> and Illinois Streets.

ODI’s proposed concept is to rehabilitate these historic office and industrial buildings, utilizing Federal Historic Rehabilitation Tax Credits, for a range of businesses from light industrial (such as the SFMade industries), tech office, artisan/artist studios and showrooms, and dining destinations.

The next step for the ODI project will be Port Commission consideration of a term sheet with the parameters for a lease to be reviewed by the Port Commission and the Board of Supervisors, later this year. Construction repair proposals will undergo preservation review to ensure all work is consistent with Secretary Standards.

### **BAE Systems San Francisco Ship Repair – Pier 70 Shipyard**

BAE San Francisco Ship Repair Inc. (“BAE SFSR”), a subsidiary of BAE Systems Inc., currently leases 15 acres of land and 17.4 acres of water at Pier 70 where it or predecessor entities have conducted ship repair operations since 1987. Twenty buildings, two floating drydocks, and seven functional cranes also comprise the leasehold. About 250 workers are employed year round at the shipyard with peak employment of 800 to 1,000 jobs.

The BAE SFSR leasehold and the ODI project are adjacent to each other; in fact, they overlap as BAE SFSR’s lease area will be smaller in the future. Currently, significant shipyard electric systems are in use in the Power House (Building 102) that ODI hopes to convert to a restaurant use. ODI has agreed to work with BAE SFSR to assess their respective needs for power and recommend a solution. The Port, working with the SFPUC and OEWD will determine how to include these electrical needs into the larger Pier 70 infrastructure system, also in collaboration with Forest City. This recommended plan will be developed in 2012, but implementation likely will be phased.

Adjacent to the shipyard operations are two important historic buildings, Building 6 and Building 111, which are not included in either Forest City’s or ODI’s development project. These buildings, if repaired, could be used to consolidate shipyard operations or could be rehabilitated for other uses. The long-term boundaries of the ship repair facility need to be defined before the Port can determine the best rehabilitation plans for these buildings and seek a developer partner.

### **CITY/PORT LEAD PROJECTS AT PIER 70**

Two subareas of Pier 70, the Cove and the Hill are not included in either the Forest City or the ODI project. As shown in Exhibit A, the Master Plan includes three development areas on the east side of Illinois Street. These sites (totaling 4.5 acres) form the “cityside” boundary of Pier 70. Each includes a planned significant open space – Crane Cove Park and Irish Hill, respectively and sites for new buildings that will be the critical transition from the Dogpatch neighborhood and the revitalized Pier 70

These development sites can be re-zoned with the overall Pier 70 re-zoning and plan approval process. Further site planning for the Cove and Hill will be undertaken in Winter 2012, anticipating reviewing development options with the community in 2013.

### **Pier 70 Cove: Crane Cove Park and Development Sites**

In 2008, San Francisco voters approved the 2008 Clean and Safe Parks General Obligation Bond for waterfront parks, which included \$33 million for parks in Port jurisdiction, including Crane Cove Park. Of that amount, \$22 million is slated for

waterfront shoreline, open space and way-finding improvements to implement the Blue Greenway on Port lands. To set a framework for these improvements, the Port led the City's effort to develop a community planning process to develop the Blue Greenway Design Guidelines.

In October 2012, Staff will review with the Port Commission the public comments received and request direction to facilitate the preparation of a draft Crane Cove Park Master Plan, cost estimate and phasing program. The draft plan will likely be a hybrid of the two alternative concepts. The draft park plan, phasing and cost estimates will be presented to the Port Commission, other public agency partners and the public for review and comment later in 2012. Construction of the first phase is anticipated begin in 2014.

In addition to the planned Crane Cove Park, this subarea includes the historic Kneass Buildings, several additional historic buildings, and the planned 19<sup>th</sup> Street Extension.. The parcels between Terry Francois to 19th Street including the Kneass Building will be considered as part of the Crane Cove Park planning process. Planning for the development site between the planned 19th Street extension and the Bethlehem Steel Headquarters building (Building 101) will be coordinated with plans for Crane Cove Park, the 19th Street extension, the ODI rehabilitation of Buildings 101, 102, and 104 and the realignment of the BAE SFSR leasehold.

#### **Pier 70 Hill: Entry Plaza, Irish Hill, and Development Sites**

This subarea is bounded by 20th, Illinois, 22nd and Michigan Streets. (Michigan is a paper street on the eastern edge of the Union Iron Works Machine Shop.) At the southeast corner of 20th and Illinois Streets, the Master Plan includes a plaza to maintain the view of the west elevation of the Union Iron Works Machine Shop (Building 113/114) and provide a sense of arrival at Pier 70. Between 20th Street and Irish Hill is a potential Port-owned development site of 2.5 acres (currently leased to Affordable Self Storage.)

Irish Hill is partly owned by the Port and partially by PG&E and planned (and currently zoned) as open space. PG&E's 3-acre site at 22nd and Illinois Streets is a potential site for new development and open space provision on the remnant of Irish Hill that could be considered as part of the broader Pier 70 planning. Planning for the Pier 70 Hill will be coordinated with Forest City and ODI as it is adjacent to both of their projects.

#### **PIER 70 SITE WIDE POLICY INITIATIVES**

##### **Public Trust**

The Port acquired Pier 70 parcels from the State, the federal government, and private parties. Portions of the site are historic uplands that were never submerged tidelands subject to the public trust, and several parcels have been in and out of private and federal ownership, creating a patchwork of sites subject to public trust restrictions.

This complicated history creates a patchwork of parcels where public trust use restrictions apply. Market potential and community consensus suggest that cultural, institutional, office, biotech, other commercial, and residential uses, most of which are not consistent with the public trust, should be developed at Pier 70 in areas that are least suitable for public trust uses. Higher land value uses are essential to generating the revenues needed to realize Pier 70's potential and the City's overarching goals. Today, the patchwork of land-use restrictions and title uncertainties related to the public trust impairs the ability of the City to further public trust purposes at Pier 70 and clouds the reuse potential of areas not subject to the trust.

On October 5, 2011, Governor Jerry Brown signed AB418 into law delegating to the SLC the authority to reorient these lands to further benefit the trust, for example by overlaying the trust on the current shipyard operations at Pier 70 and future waterfront parks. For areas remaining in the public trust, AB418 authorizes non-public trust uses of historic buildings, if necessary, to finance rehabilitation of the buildings consistent with federal standards and subject to certain other limitations.

OEWD and Port staff will collaborate with Forest City and ODI to determine a trust realignment to bring to the SLC as part of the future planning for the site. As part of the overall Pier 70 approval process, with extensive input from its development partners, the City will seek SLC approval of realigned trust boundaries.

### **Pier 70 National Register Historic District**

The Port and its historic preservation consultants prepared a National Park Service ("NPS") nomination document to list the Pier 70 district in the National Register of Historic Places. Port staff has consulted with OEWD, Planning Department staff, ODI, and Forest City in preparation of the nomination. The Port will initiate the listing process in Fall 2012. The listing process includes the following key sequence of steps which will include public hearings and ongoing community outreach with preservation stakeholders.

1. State Office of Historic Preservation ("OHP") technical review
2. Port response and nomination revision
3. OHP referral of the nomination to the San Francisco Historic Preservation Commission ("HPC") for comment
4. State Historical Resources Commission hearing and recommendation to NPS
5. NPS evaluation and listing in the National Register

### **Environmental Conditions**

With federal funding, the Port has investigated soil, soil gas, and ground water throughout the Pier 70 area and evaluated the potential human health and ecological risks associated with chemical constituents in the Pier 70 area. The Water Board and the City and County of San Francisco Department of Public Health are overseeing the environmental investigation, risk assessment, and remedial action. The investigation found that metals (arsenic, cadmium, chromium, cobalt, lead, mercury, nickel, and zinc) and polycyclic aromatic hydrocarbons ("PAH"s) are present in much of the soil at Pier

70. The contaminants are within the range that can be safely managed onsite through risk management measures.

The Port issued a Site Investigation and Risk Assessment Report in January 2011. In March 2012, the draft *Feasibility Study and Remedial Action Plan (FS/RAP), Pier 70 Master Plan Area* was circulated for public comment. It was revised and finalized in May 2012. On August 9, 2012, the Water Board approved the plan finding it was an “acceptable and appropriate remedy for the site”. The Water Board has required the Port to prepare a Risk Management Plan (“RMP”) for the Pier 70 area by December 31, 2012. When the RMP has been finalized, it will be incorporated into an environmental covenant and deed restriction that will be applied to the site as part of the institutional controls described in the remedy. The Port is working with OEWD, Forest City and ODI to determine the best practices to include in the RMP and explore the most efficient ways to address remediation across the site. Once approved by the Water Board, all developers and tenants at Pier 70 will be required to comply with the terms of the RMP.

Additionally, the Port has been coordinating with Pacific Gas and Electric (PG&E), the former property owner, on its investigation of contamination at and originating from the adjacent Potrero Power Plant site to the south of Pier 70. Both the Port’s and PG&E’s investigations have found PAHs beneath a portion of the Waterfront Site near the southeastern boundary related to historic operations at the adjacent Potrero Power Plant. PG&E is responsible for addressing contamination from the power plant site. The Port expects to reach agreement with the Water Board and PG&E in 2013 regarding remediation and risk management measures.

### **Transportation**

Now that the vision for Pier 70 is becoming more clear, Port staff and OEWD will work with SFMTA, the County Transportation Authority and the Planning Department as they plan for City’s future transportation needs. For example, a turnaround loop for the 3rd Street Light Rail is planned adjacent to Pier 70. This will improve both headways on the 3rd Street line, be the terminus of the future Central subway and will bring light rail closer to Pier 70. The City’s bicycle route network recently expanded to include upgraded bike lanes on Illinois Street. Additionally, growth at Pier 70 and within the Central Waterfront area is being analyzed as part of the Planning Department’s transportation implementation work for the Eastern Neighborhoods planning efforts.

### **Infrastructure Finance**

Since 2006, the Port secured a number of public finance tools including access to tax increment financing using infrastructure financing district (“IFD”) tools and a mechanism to allow payroll tax growth to be reinvested in public facilities. Since 2010, the landscape for public finance has changed with the dismantling of redevelopment agencies in California and with consideration of replacement of payroll tax with gross receipts taxes.

The Port continues to seek funds for Pier 70. Recent accomplishments include:

- Enactment of AB1199 which allows the State share of property tax growth to be captured in a Pier 70 IFD district.
- Inclusion of a request for \$10 million toward Pier 70 parks in the 2012 General Obligation Bond to be submitted to the voters in November 2012.
- Investment of \$5.7 million of Port funds to upgrade the electrical systems at the shipyard to allow for shore powering ships in for repair.

Legislation in process at present includes:

- Proposing the establishment of a Port-wide IFD to City policy makers.
- Adoption of AB2259 clarifying the Port's IFD law to improve its usefulness
- Adoption of State legislation, AB2649, and local legislation that will allow the Port to meet some of the Pier 70 affordable housing nexus fee obligations through provision of affordable housing on appropriate sites in the northern waterfront.

OEWD, with support from the Port, will lead efforts with private development partners, SFPUC, DPW, SFMTA and other agencies to determine how to serve the entire Pier 70 site with infrastructure including identifying infrastructure costs and assessing public financing tools available to fund an infrastructure program for the site.

**NEXT STEPS**

OEWD and the Port will work with Forest City, ODI, and BAE SF SR to knit the portions of Pier 70 together. Beyond sharing an address and an infrastructure grid, the five projects discussed bring activity and vibrancy to Pier 70. As envisioned now, development and change at Pier 70 will happen in phases, beginning in the northwest corner, with Crane Cove Park, followed by the reuse of the revitalized 20<sup>th</sup> Street historic buildings, and moving toward the waterfront site.

More immediately, on September 26, 2012, staff will present an overview of the Pier 70 components to the CWAG. The discussion of Pier 70's future will continue this Fall with the following anticipated Port Commission presentations:

October 9, 2012	Approval of ODI Term Sheet for 20 <sup>th</sup> Street Historic Buildings
October 23, 2012	Update on Crane Cove Park Planning as a part of a Blue Greenway Informational update
Nov/Dec 2012	Informational presentation on Forest City's proposed plan

Prepared by: Kathleen Diohep, Manager, Public/Private Development Projects  
 Carol Bach, Manager, Environmental & Regulatory Affairs  
 David Beaupre, Senior Waterfront Planner  
 Mark Paez, Historic Preservation Planner

Through: Diane Oshima, Assistant Deputy Director Waterfront Planning  
 Jonathan Stern, Assistant Deputy Director Waterfront Development

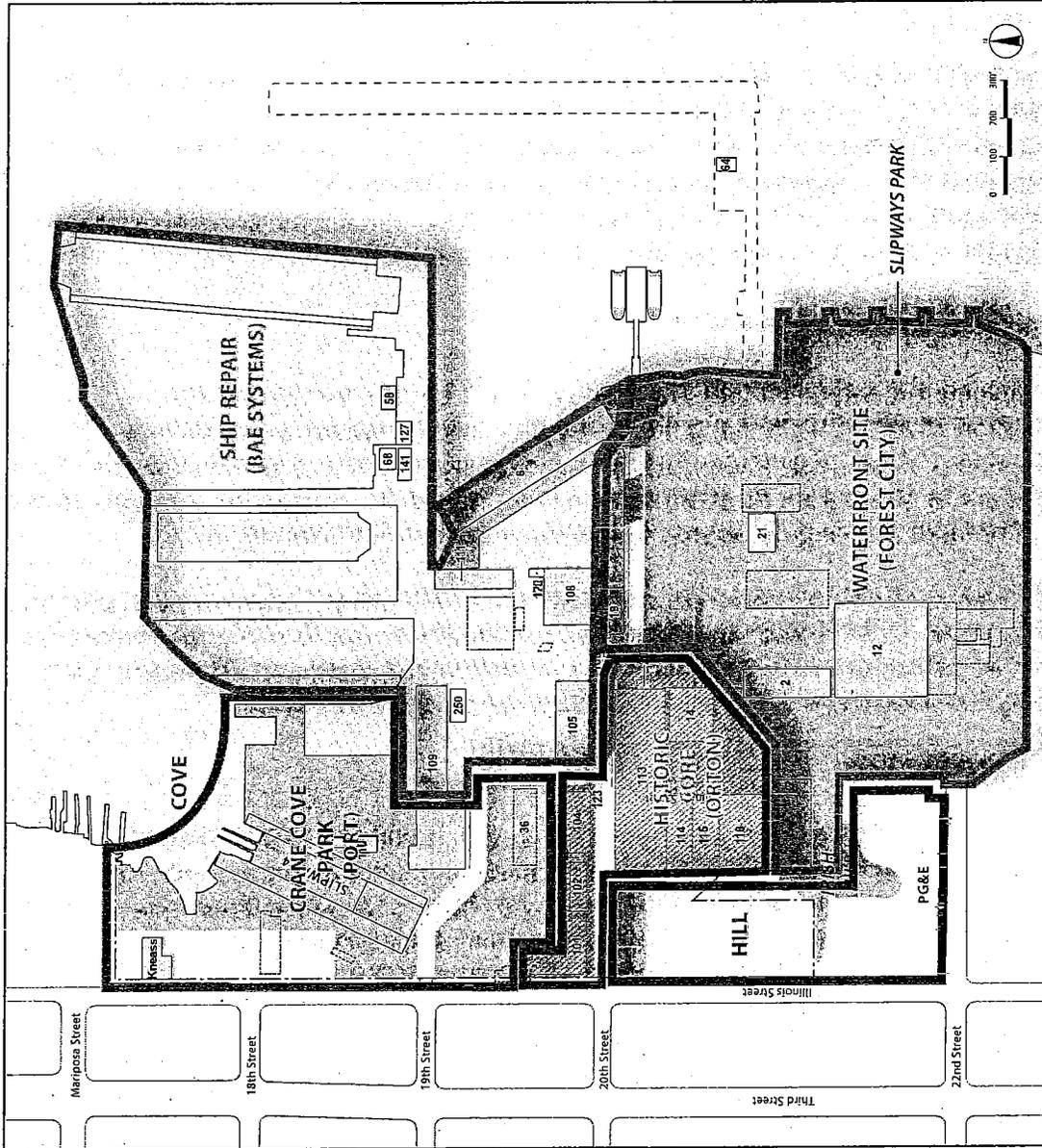
For: Byron Rhett, Deputy Director Planning & Development

Exhibit A: Pier 70 Project Components  
 Exhibit B: 2010 Pier 70 Preferred Master Plan Maps and Policies

# EXHIBIT A: PIER 70 PROJECTS

	HISTORIC BUILDINGS
	SHIP REPAIR (HISTORIC USE)
	OFFICE, BIOTECH, COMMERCIAL, R&D, PDR
	MIXED USE- RESIDENTIAL ALLOWED
	COMMERCIAL/SPECIAL USE- HISTORIC CORE
	OPEN SPACE
	BUILDING PROPOSED FOR REMOVAL
	PIER 70 AREA BOUNDARY

<b>PIER 70 PROJECT SUB-AREAS</b>	
	SHIP REPAIR
	FOREST CITY WATERFRONT SITE*
	ORTON - HISTORIC CORE*
	COVE
	HILL
* NOTE: BOUNDARIES BETWEEN PROJECTS ARE CONCEPTUAL, VARY SLIGHTLY FROM THE EXCLUSIVE NEGOTIATING AGREEMENT TERMS, AND WILL BE REFINED AS LEASE DETAILS ARE NEGOTIATED.	



SEPTEMBER 2012

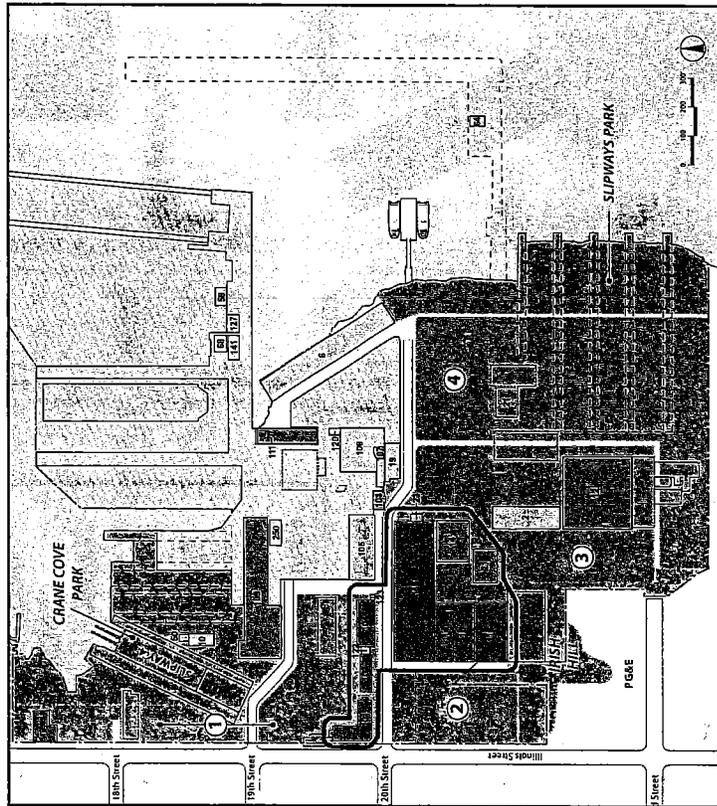
# EXHIBIT B: PIER 70 PREFERRED MASTER PLAN GOALS AND POLICIES

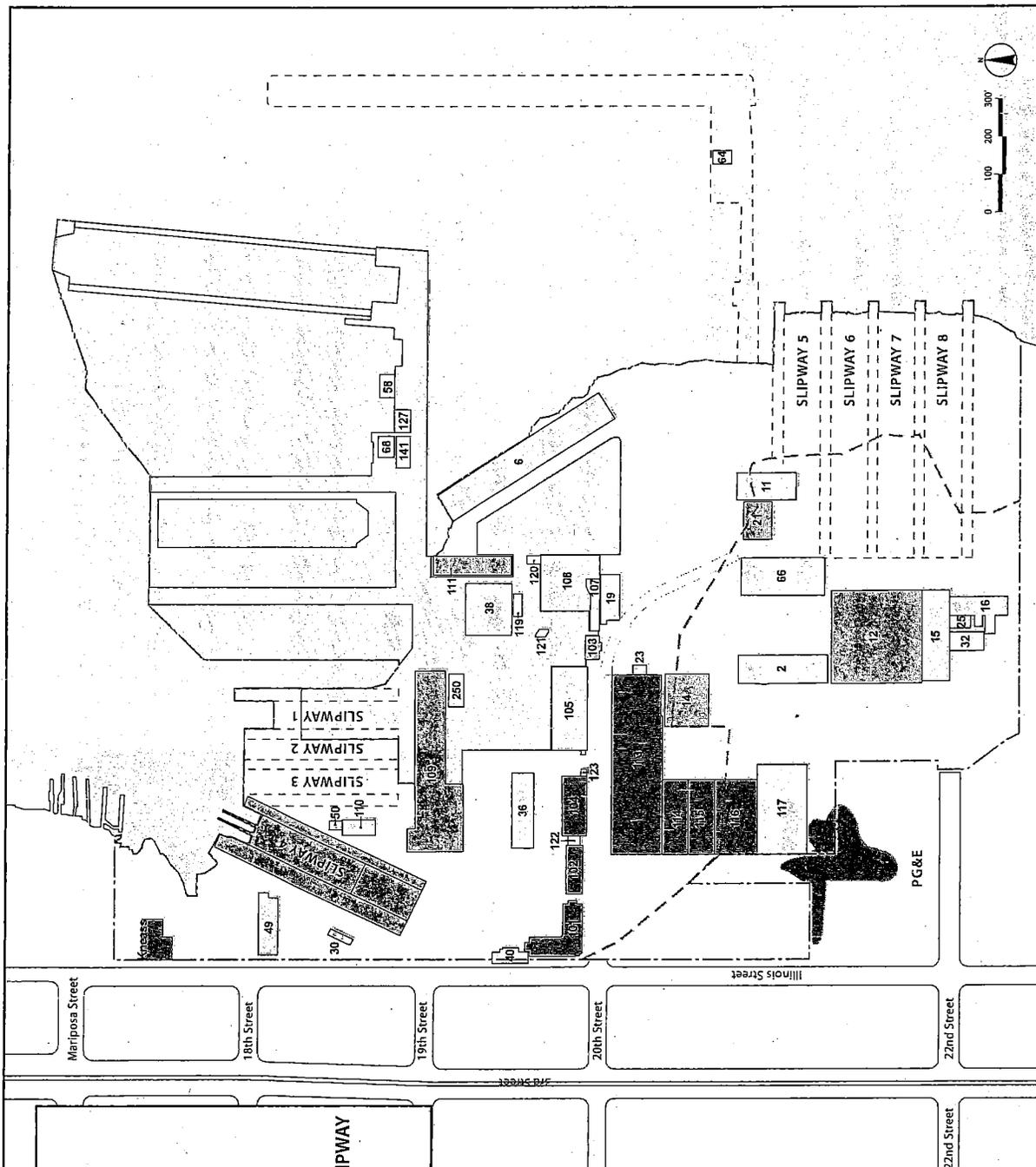
## Vision:

*Create a vibrant and authentic historic district that re-establishes the historic activity level, activates new waterfront open spaces, creates a center for innovative industries, and integrates ongoing ship repair operations.*

## Pier 70 Goals

1. Create a Pier 70 National Register Historic District and rehabilitate its extraordinary historic resources.
2. Preserve the long-term viability of the ship repair industry.
3. Create a major new shoreline open space system that extends the San Francisco Bay Trail and the Blue Greenway to and through Pier 70.
4. Promote sustainable mixed-use infill development and economic vitality that includes climate adaptation strategies appropriate to this waterfront location.
5. Provide sites for office, research, emerging technologies, light industry, commercial, cultural, and recreational uses to expand San Francisco's economic base and generate revenues to fund public benefits.
6. Promote development that is pedestrian-oriented and fosters use of alternative, sustainable transportation modes and practices.
7. Extend the city street grid to enhance public access and integrate new development with the Central Waterfront.
8. Remediate environmental contamination to enable use and public enjoyment of Pier 70 and its waterfront, and improve environmental quality.





**HISTORIC RESOURCES**

- VERY SIGNIFICANT
- SIGNIFICANT
- CONTEXT

**REMNANT OF IRISH HILL**

**LINE OF HISTORIC UPLANDS**

**SHIP REPAIR (HISTORIC USE)**

**FORMER PIER, WHARF, OR SLIPWAY**

**PIER 70 AREA BOUNDARY**

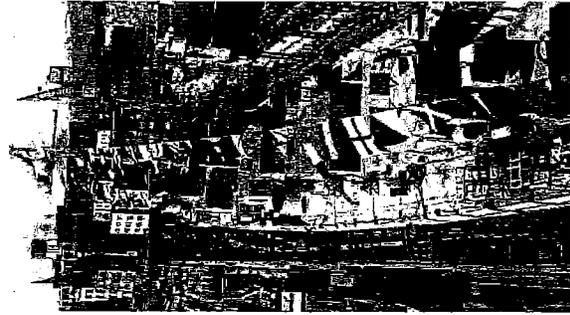
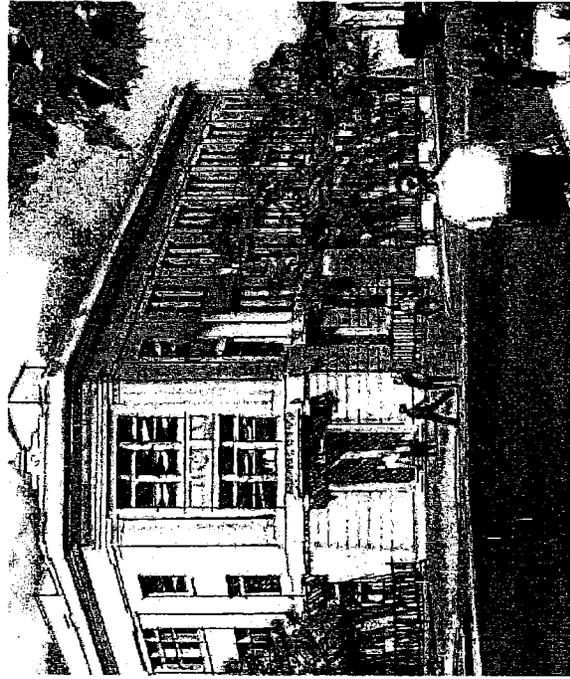
**HISTORIC RESOURCE RATINGS**

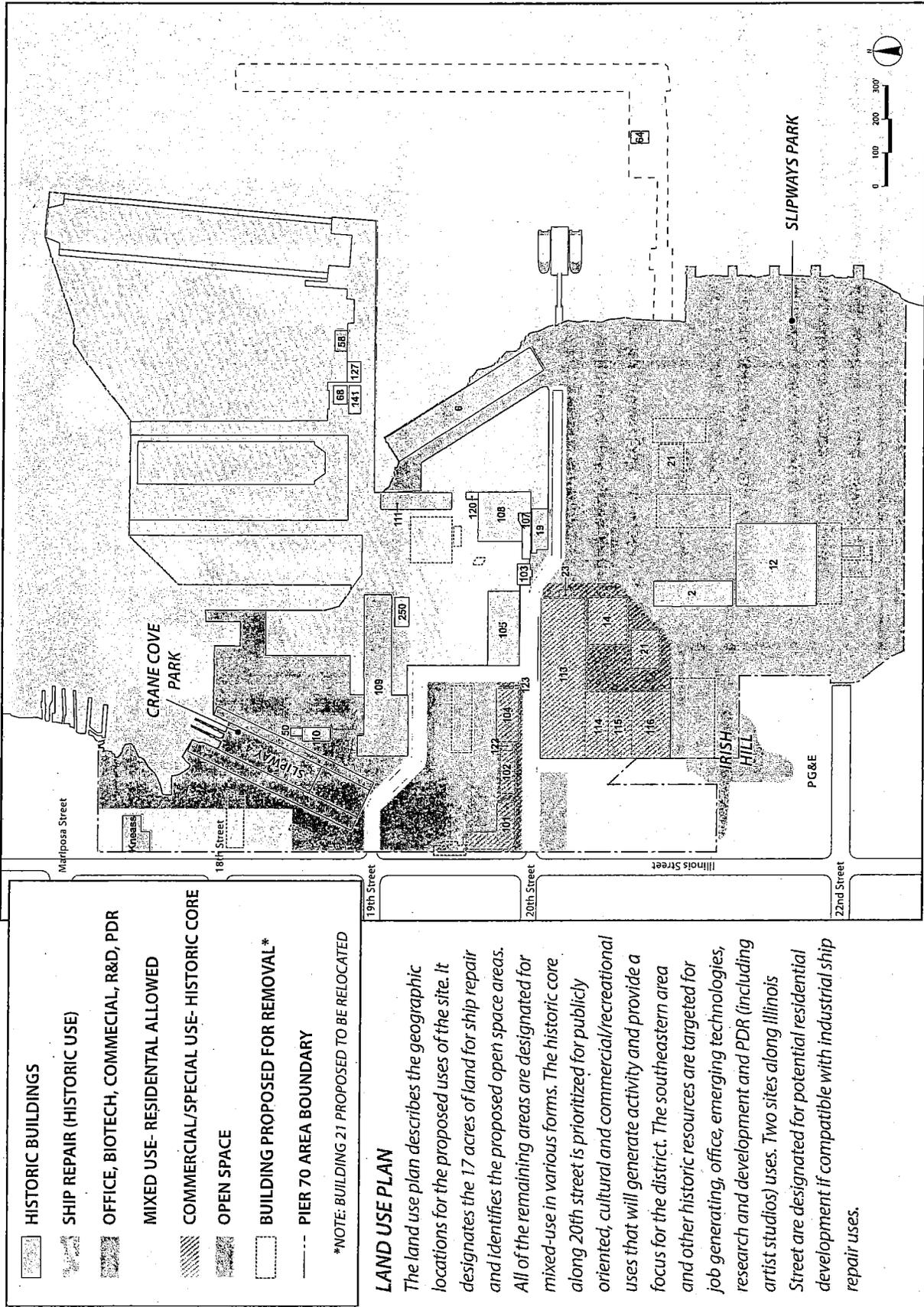
Pier 70 hosts a number of individual historic resources of varying significance. In National Register historic districts, resources are classified as "contributing" or "non-contributing" to the district depending on their historic significance, degree of integrity, and whether they reflect the historic period for which the district is significant. For contributing resources, the Port and its consultants used a finer grain of analysis to further refine historic building's relative significance and to develop the preservation strategy and priorities for Pier 70, including very significant, significant, and context resources.

# HISTORIC PRESERVATION

## Historic Preservation Objectives:

1. Recognize continuation of viable ship repair and drydock operations as an act of preserving Pier 70's history, and give priority to physical shipyard changes necessary to support the contemporary needs of the industry while maintaining the overall integrity of the Historic District.
2. Protect the integrity of the Pier 70 Historic District by directing major new construction to open and vacant areas or locations containing Non-Contributing Resources, reflective of the history of the built environment at Pier 70.
3. Encourage adaptive reuse of the historic resources that add new life to Pier 70, consistent with Secretary Standards.
4. Apply design criteria for new infill development to ensure new construction meets Plan objectives and is sensitively designed, consistent with Secretary Standards.
5. Prioritize the stabilization and rehabilitation of Very Significant resources along 20th Street for public and private investment as early as possible.
6. Promote an understanding of the site's history, significance, and function through a program of coordinated interpretive exhibits in public areas and open spaces and as part of new development and historic rehabilitation improvements.





**LAND USE PLAN**

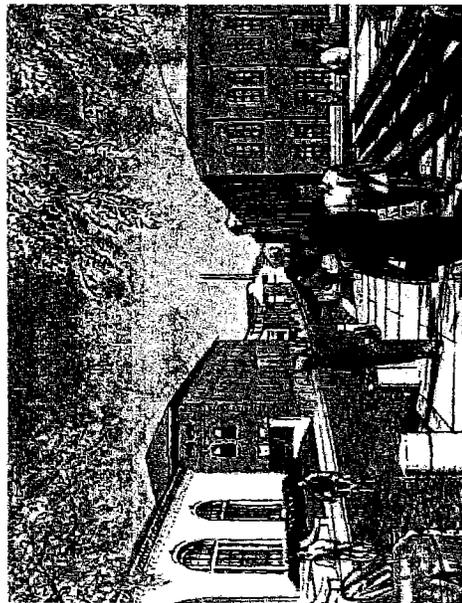
The land use plan describes the geographic locations for the proposed uses of the site. It designates the 17 acres of land for ship repair and identifies the proposed open space areas. All of the remaining areas are designated for mixed-use in various forms. The historic core along 20th street is prioritized for publicly oriented, cultural and commercial/recreational uses that will generate activity and provide a focus for the district. The southeastern area and other historic resources are targeted for job generating, office, emerging technologies, research and development and PDR (including artist studios) uses. Two sites along Illinois Street are designated for potential residential development if compatible with industrial ship repair uses.

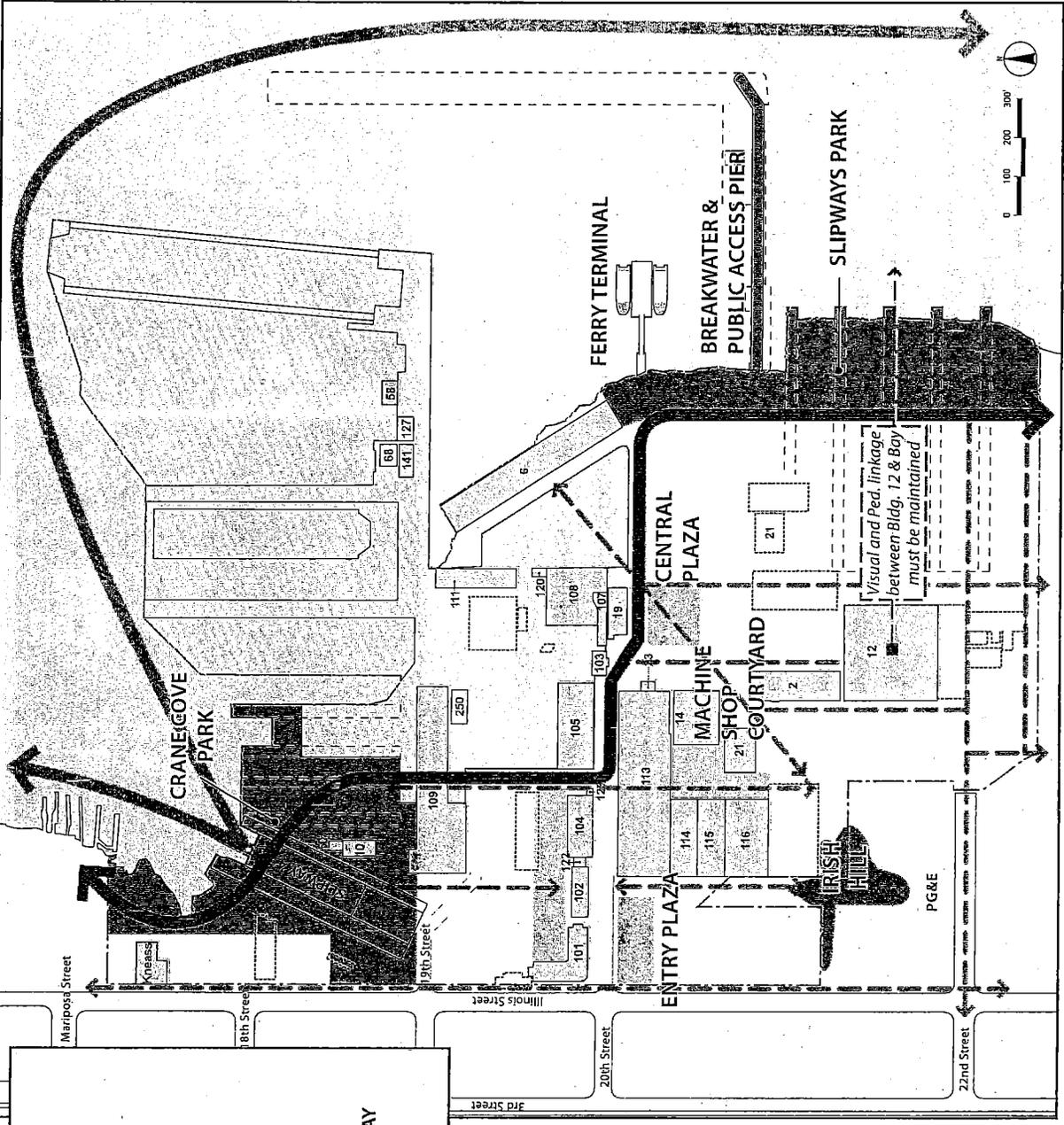
\*NOTE: BUILDING 21 PROPOSED TO BE RELOCATED

## LAND USE AND ADAPTIVE REUSE

### Land Use and Adaptive Reuse Objectives:

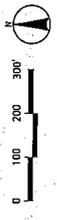
1. Recognize that the continuation of ship repair industry is consistent with the historic preservation objectives of the Plan and the Port's public trust mission. Ensure that new development and land uses are designed and managed to respect and be compatible with the operational needs of ship repair.
2. Invite a wide range of activities that promote public use and appreciation of the waterfront and of the rehabilitation of Pier 70's historic resources.
3. Promote a mix of uses oriented toward commercial, office, educational, retail, cultural, and entertainment uses along 20th Street, to provide an active entrance to Pier 70.
4. Target publicly-oriented uses for the Union Iron Works Machine Shop (building 113/114) as an anchor facility to activate Pier 70's historic core along 20th Street, to attract broad public appreciation of this very significant grouping of historic resources.
5. Allow office, biotech, research and development, light industrial, and institutional uses in new construction and rehabilitated historic resources.
6. Consistent with the open space policies of this Plan, encourage imaginative architectural design of new development to contribute to the experience, activities, and enjoyment of shoreline parks and public spaces.
7. Allow limited residential development opportunities, if conflicts with ship repair operations and other adjacent uses are appropriately addressed.





- OPEN SPACE
- ▨ PLAZAS, COURTYARDS, & PEDESTRIAN WAYS
- ▩ BAY TRAIL / BLUE GREENWAY
- ▧ BAY WATER TRAIL
- ▦ PEDESTRIAN LINKAGES
- ▥ SHIP REPAIR (HISTORIC USE)
- ▤ FORMER PIER, WHARF, OR SLIPWAY
- ▣ PIER 70 AREA BOUNDARY

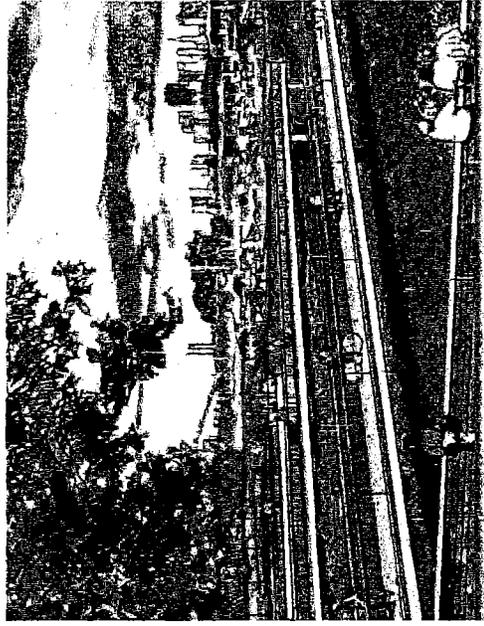
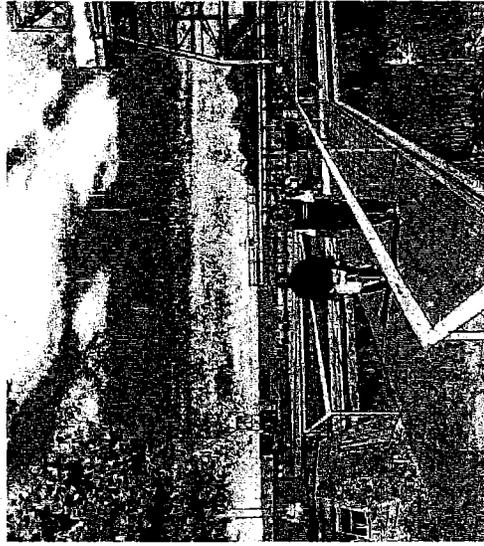
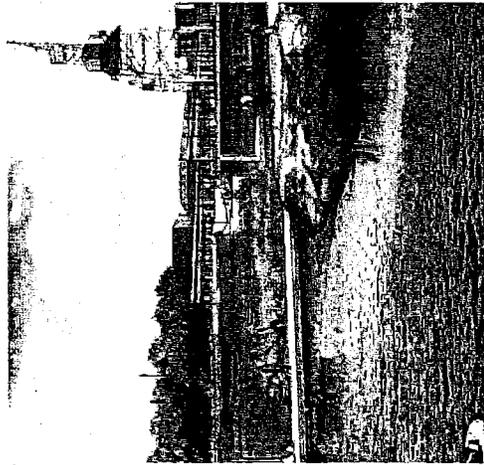
**PIER 70 OPEN SPACE CONCEPT**  
 The Open Space Concept identifies how the Bay Trail and the Blue Greenway can be extended along the shoreline through Pier 70. It also illustrates the two major proposed shoreline parks – Crane Cove and Slipways Parks. Irish Hill is preserved as a remnant of the natural landscape and integrated into the proposed Pier 70 Historic District. Irish Hill is an element of an internal open space network which is based on the historic characteristics of the district and includes a number of courtyards, plazas, and passageways.

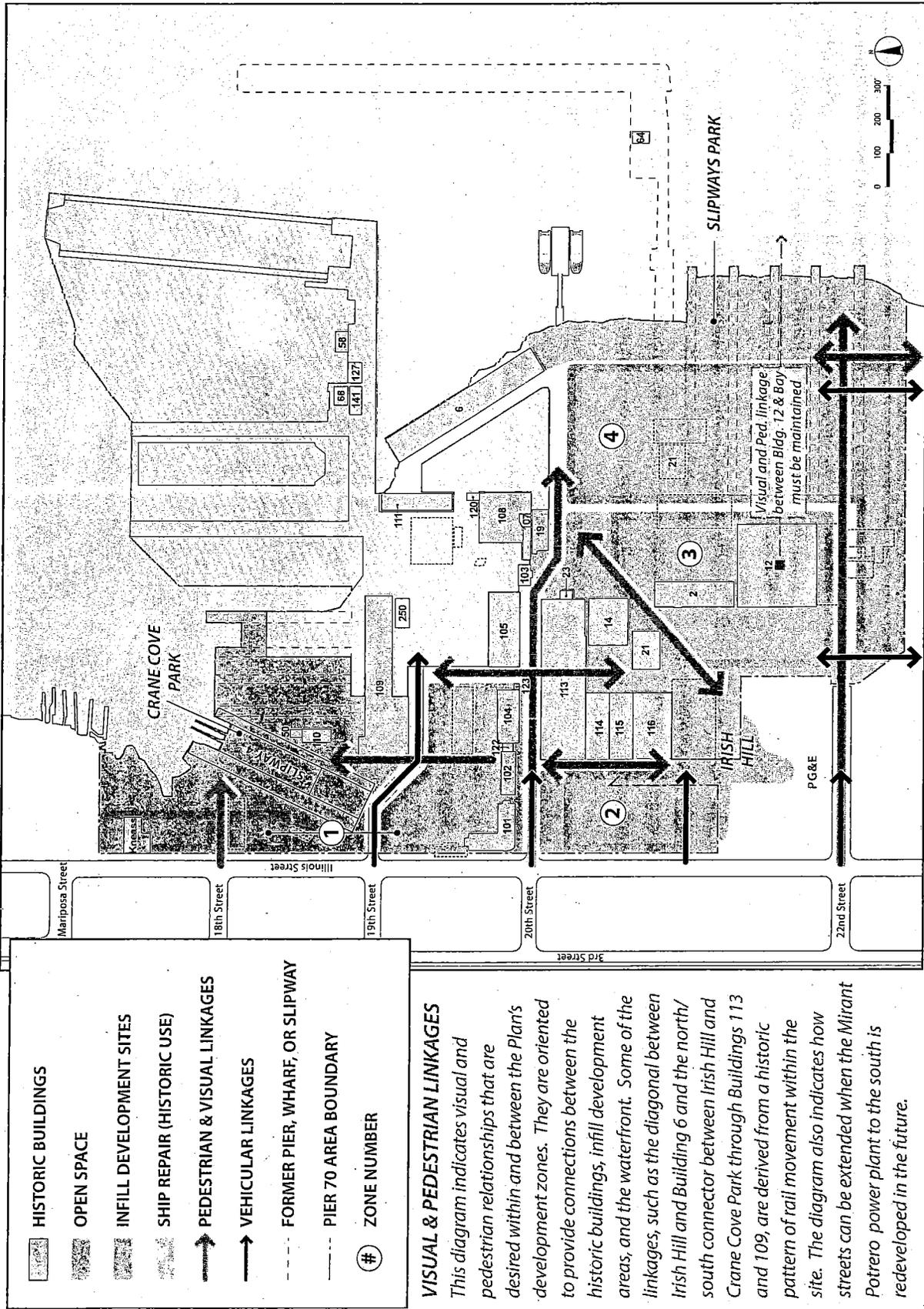


# OPEN SPACE AND PUBLIC ACCESS

## Open Space and Public Access Objectives:

1. Create public open spaces that attract a diverse spectrum of users and establish a sense of identity and focus for new development at Pier 70 that is sensitive to ship repair operations.
2. Develop a diverse network and program of parks, paths, roads, and public spaces that recognize historic passages and connect upland areas and adjacent neighborhoods to waterfront open spaces, enjoyment of the Bay, and celebrate and reveal the rich history of Pier 70
3. Integrate the Bay Trail, the Bay Water Trail, and the Blue Greenway into the design of the Pier 70 open space network, which creates an inter-connected path that links public open spaces along the shoreline, includes areas that support natural habitat for wildlife, and provides access into or on the Bay.
4. Require sensitive design and site placement of new development adjacent to the shoreline open spaces that provide comfortable sunlight access and microclimate conditions that support a high level of public enjoyment of those open spaces.
5. Use hardscape paving and materials to improve streets, pedestrian ways, and other public spaces that interface with historic resources to respect the industrial character of Pier 70, and create shoreline access wherever possible.
6. Allow ancillary structures in major open spaces to support water-oriented recreational activities and users, such as an aquatic center, boat rental and supplies, and refreshments.





**HISTORIC BUILDINGS**

**OPEN SPACE**

**INFILL DEVELOPMENT SITES**

**SHIP REPAIR (HISTORIC USE)**

**PEDESTRIAN & VISUAL LINKAGES**

**VEHICULAR LINKAGES**

**FORMER PIER, WHARF, OR SLIPWAY**

**PIER 70 AREA BOUNDARY**

**ZONE NUMBER**

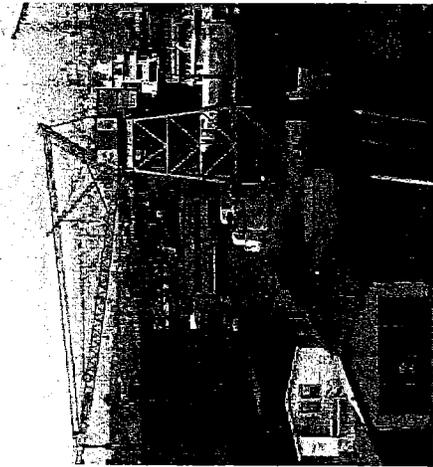
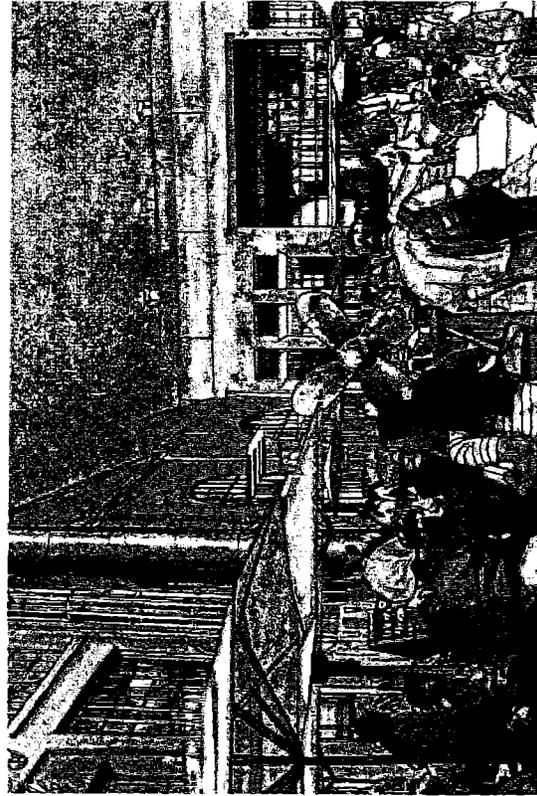
**VISUAL & PEDESTRIAN LINKAGES**

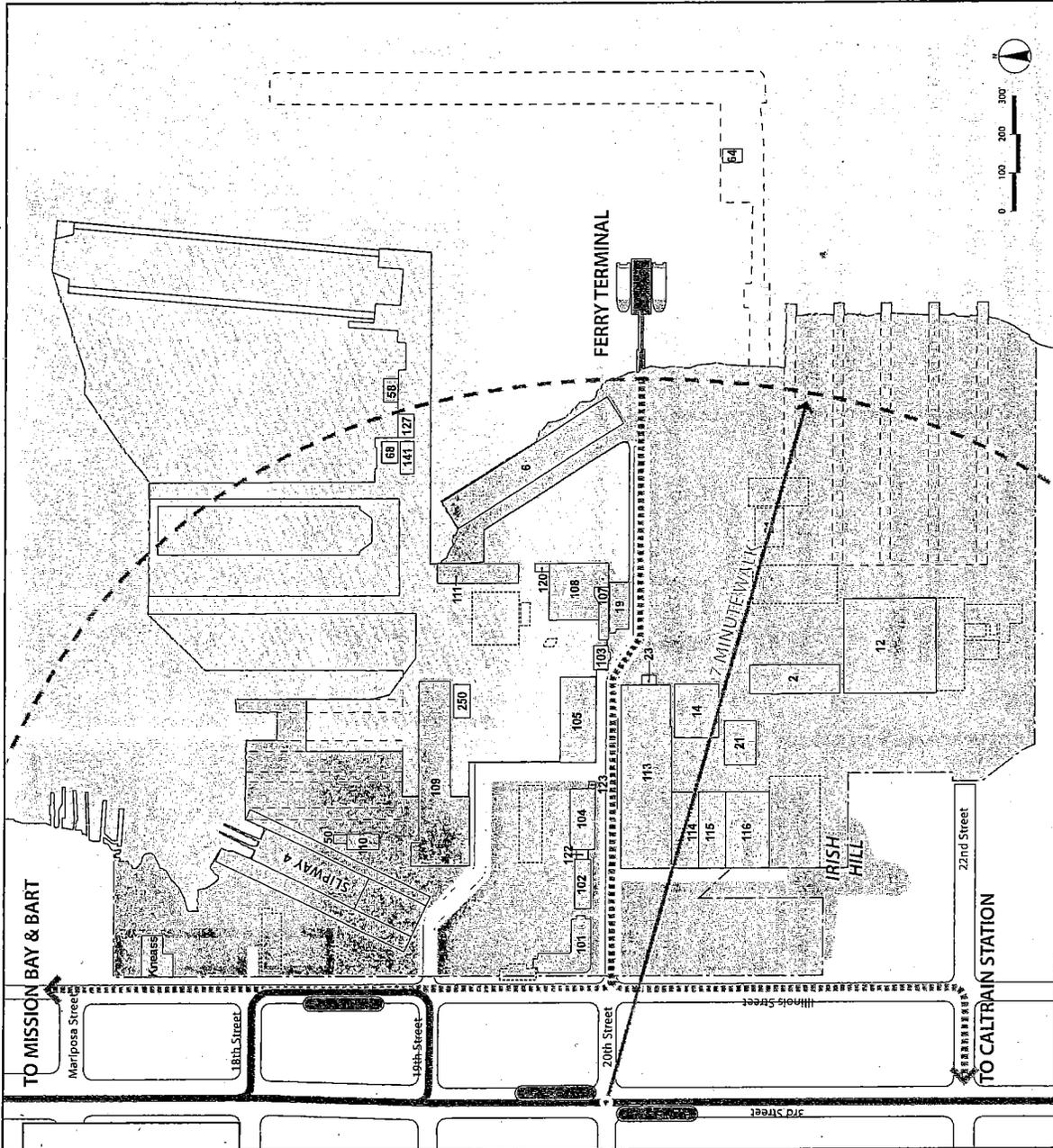
*This diagram indicates visual and pedestrian relationships that are desired within and between the Plan's development zones. They are oriented to provide connections between the historic buildings, infill development areas, and the waterfront. Some of the linkages, such as the diagonal between Irish Hill and Building 6 and the north/south connector between Irish Hill and Crane Cove Park through Buildings 113 and 109, are derived from a historic pattern of rail movement within the site. The diagram also indicates how streets can be extended when the Mirant Potrero power plant to the south is redeveloped in the future.*

# FORM AND CHARACTER OF INFILL DEVELOPMENT

## Infill Development Objectives:

1. Respect the district as a historic landscape that reflects the industrial shipbuilding processes, including the evolution of the Union Iron Works/Bethlehem Steel operations and ongoing ship repair activity.
2. Showcase the historic district's resources, industrial heritage, landscape features, and waterfront location.
3. Develop a pattern that reflects the unique building and open space relationships that are characteristic of the historic district.
4. Allow for architectural diversity that is compatible with the historic character of the district. Add new architecture that complements the surrounding resources and promotes activity in the area.
5. Encourage the design of buildings and open spaces that not only responds to Pier 70's historic qualities but also strengthens connections to Dogpatch and Potrero Hill neighborhoods.
6. Encourage public access and views to the waterfront and connect shoreline parks and promenades with proposed open spaces that are integrated with development.





- \*\*\*\*\* POTENTIAL SHUTTLES
- 3RD STREET LRT MUNI
- LRT MUNI STATION
- PIER 70 AREA BOUNDARY

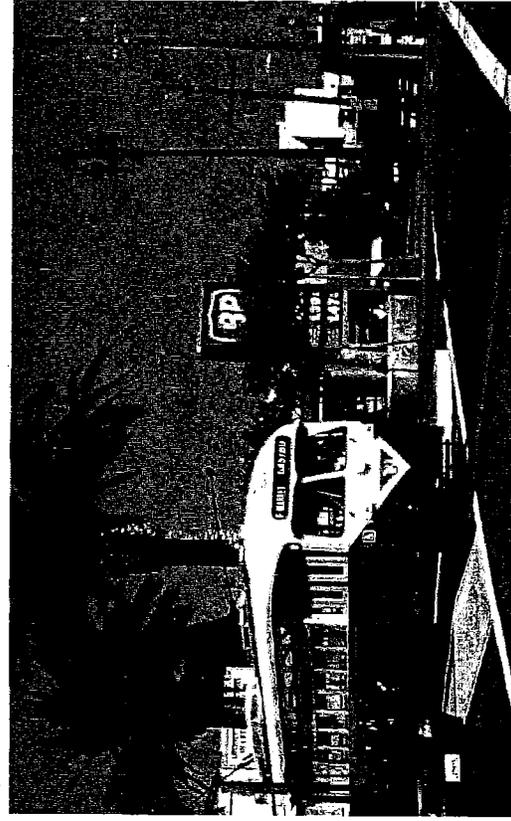
**PIER 70 TRANSIT ACCESS**

The preliminary transportation analysis conducted during the planning process suggests that, given the available vehicle capacity of the existing street network, successful development at Pier 70 will require significant use of alternative modes of travel. Thus, the Port and its development partners have a joint interest and responsibility to design and manage new development at Pier 70 that actively promotes high levels of transit, pedestrian, and bicycle access and prioritizes resources and services to increase transit service levels.

# TRANSIT, CIRCULATION, AND PARKING

## Transit, Circulation and Parking Objectives:

1. Increase public transit service by providing ferry and shuttle connections between Pier 70, Mission Bay, and other public transit hubs.
2. Extend 19th Street access to ensure continued reliable maritime industrial access to the shipyard. Rerouting truck traffic will enable 20th Street to be improved as a pedestrian-oriented gateway to Pier 70 and as a vibrant hub of cultural, commercial, and entertainment activity.
3. Establish a street system within Pier 70 that connects with the existing city-street grid from the Dogpatch and Potrero Hill neighborhoods, while interfacing with Pier 70's network of historic rail spurs, pathways, and internal access routes.
4. Create walkable and bikeable streets.
5. Introduce a network of pedestrian ways integrated with new development.
6. Locate and manage parking facilities to promote shared use operated on a market-rate pricing basis, consistent with smart growth objectives.





**MEMORANDUM**

October 4, 2012

**TO:** MEMBERS, PORT COMMISSION  
Hon. Doreen Woo Ho, President  
Hon. Kimberly Brandon, Vice President  
Hon. Willie Adams  
Hon. Leslie Katz

**FROM:** Monique Moyer  
Executive Director

**SUBJECT:** Request approval of term sheet for Pier 70 20<sup>th</sup> Street Historic Buildings development opportunity with Orton Development Inc. ("ODI")

**DIRECTOR'S RECOMMENDATION:** Approve Attached Resolution

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**EXECUTIVE SUMMARY**

Port Staff seeks approval of a term sheet for the lease and rehabilitation of the 20<sup>th</sup> Street Historic Buildings at Pier 70. The Term Sheet presents a conceptual agreement by the parties of the terms of a transaction to achieve the objectives specified in the Port's October 4, 2011 Request for Proposals ("RFP")<sup>1</sup>.

On December 2, 2011, ODI submitted a proposal to create a "New American Workplace" through thoughtful rehabilitation of these historic office and industrial buildings. ODI proposed a participation structure for the transaction economics: ODI would provide the capital, design, redevelop, and operate the project. The Port would share in proceeds from the project after ODI had recovered its equity investment. On February 28, 2012, the Port Commission awarded ODI an exclusive negotiating right for the 20<sup>th</sup> Street Historic Buildings.

After negotiations with ODI and project due diligence, Port Staff is now presenting for approval a refined project concept (Exhibit B) and term sheet (Exhibit C). As proposed, ODI will rehabilitate the buildings securing the required funding including up to \$14 million of its own equity investment. The Port will contribute \$1.5 million capital funds,

**THIS PRINT COVERS CALENDAR ITEM NO. 9C**

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<sup>1</sup>The RFP, ODI's proposal, and background information is available on the Port's website at: <http://www.sfport.com/index.aspx?page=1559>

already budgeted for these buildings. ODI will receive a 14% percent return (on a simple interest basis) on its investment after specified expenses and debt service. ODI and the Port will share equally in net cash flow after ODI's equity is repaid. An annual guaranteed base rent of \$200,000 (escalated to reflect inflation) is due 20 years after commencement of the lease.

Based on current cost and revenue estimates and assuming lease approval in early 2013, Staff projects that the Orton equity investment will be repaid by 2021 and the Port will subsequently receive \$600,000 a year in participation rent. The transaction structure guarantees revenue to the Port starting 20 years after the lease execution (expected to be 2033), even if the maximum ODI investment is required.

Historic rehabilitation is inherently complex and laden with risks. Following the approval of the Term Sheet, ODI will continue to refine its project cost estimates including engineering analyses, code assessment, and historic preservation review. Concurrence of the Port Commission, and later the Board of Supervisors, on this transaction framework allows ODI to undertake the work needed to design the project, commence project review, secure capital partners, and attract tenants. More details on all aspects of the Project will be presented to the Port Commission, prior to approval of the lease (anticipated in January 2013), including an in-depth financial analysis.

ODI has agreed to work with the Port, BAE Systems, the Port's ship repair tenant, and Forest City, the developer for the 25 acre, Waterfront Site. ODI will collaborate to integrate its project into the physical infrastructure of Pier 70 as well as the "place-making" needed to reconnect Pier 70 with the Dogpatch and the rest of San Francisco.

Staff recommends approval of this term sheet to achieve the following Port objectives:

- Saving an extraordinary collection of historic buildings from potential collapse. The Port's Capital plan has approximately \$110 million of unfunded costs for these structures. Transferring responsibility for these buildings to ODI, who has the capability and access to capital to rehabilitate them, will reduce the Port's unfunded capital requirements and positively affect the Port's credit outlook.
- Adding to the value of Port Property. This effort would create about \$50 to \$60 million of new assessed value that could be bonded to provide \$4 to \$5 million of future infrastructure financing district funding for Pier 70.
- Improving the Port's operating cash flow. In the near-term, reducing security costs and repair costs due to vandalism.
- Providing Port revenue, in the longer-term.

## **BACKGROUND**

In April 2010, the Port published its Preferred Master Plan ("Master Plan") for the 65-acre Pier 70 area after an extensive community planning and technical feasibility analysis effort. The Pier 70 Master Plan provides a vision balancing sustained ship

repair, historic preservation, new waterfront parks, and new development. On May 11, 2010, the Port Commission authorized two efforts to attract development partners for Pier 70 (Resolution 10-27).<sup>2</sup> In July 2011, following a competitive solicitation process, the Port entered into an exclusive negotiating agreement with Forest City California for the "Waterfront Site", the southeast 25 acres of Pier 70 with capacity for significant new development and over 250,000 square feet of historic buildings.<sup>3</sup>

In this context, on October 4, 2011, the Port issued a RFP for the 20<sup>th</sup> Street Historic Buildings to ten parties. Four parties responded to the RFP as presented to the Port Commission on January 20, 2012<sup>4</sup>. On February 28, 2012, the Port Commission awarded the opportunity to ODI<sup>5</sup> and directed staff to negotiate an Exclusive Negotiating Agreement ("ENA") for the project. On April 24, 2012, the Port Commission approved the ENA terms<sup>6</sup>. This Term Sheet approval is one of the critical milestones in the ENA.

These buildings are in poor condition at the present with two red-tagged and none currently leased. It is important to note that the RFP did not set a minimum rent or any other floor financial requirements. In fact, it acknowledged the urgency and import of saving these buildings and that public funding sources could be required for this effort.

## **TERM SHEET**

### **Project Proposal**

On July 10, 2012, ODI presented its project concept to the Port Commission<sup>7</sup> and received supportive feedback on its approach to this site. The uses proposed – light industrial, education, recreation, office, and commercial – are, with the addition of potential education and recreation components, the same as the proposal that the Port Commission considered when it selected ODI on February 28, 2012.

The purpose of this project is to rehabilitate the 20<sup>th</sup> street Historic Buildings and make them once again a vibrant, integral part of the surrounding community. ODI will return the buildings to profitable use while maintaining their historic fabric. The proposed work includes repair and maintenance, seismic and structural upgrades, security measures to combat an atmosphere of neglect and criminal opportunity, and abatement of hazardous environmental conditions.

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<sup>2</sup> Item 10B on this agenda: <http://www.sfport.com/index.aspx?page=1412>

<sup>3</sup> The evaluation process to select Forest City was presented to the Port Commission on April 11, 2011, <http://www.sfport.com/Modules/ShowDocument.aspx?documentid=1275>. The approval of the negotiations agreement is available at

<http://www.sfport.com/Modules/ShowDocument.aspx?documentid=1916>.

<sup>4</sup> Item 9B on this agenda: <http://www.sfport.com/index.aspx?page=1983>

<sup>5</sup> Item 10 C on this agenda: <http://www.sfport.com/index.aspx?page=2003>

<sup>6</sup> Item 9B on this agenda: <http://www.sfport.com/index.aspx?page=2063>

<sup>7</sup> Item 9B on this agenda: <http://www.sfport.com/index.aspx?page=2088>

Proposed uses by building are as follows:

- Building 101 and 104, as former Bethlehem Steel and Union Ironworks office buildings will return to office use with the technological capabilities required for modern businesses.
- The former Bethlehem steel cafeteria (in Building 101) will remain food production, while the former powerhouse (Building 102) will become a restaurant.
- The Union Ironworks Machine shop (Building 113) and surrounding warehouses (Buildings 114/115/116 and Building 14) will return to industrial and educational use as food, technology and arts production centers, mirroring the high-quality "maker" type businesses currently thriving in the Dogpatch neighborhood, with ancillary office and retail.
- A limited number of caretaker residential units may be included in the project.

New floor area construction is limited to that required for seismic stability or life-safety systems, for example, if a structural mezzanine is required to create a seismic diaphragm. All work will be consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties ("Secretary's Standards"). ODI's efforts will include repairing or replacing existing roofing, repairing existing masonry surfaces, repairing deteriorated windows, making existing toilet rooms operational and constructing accessible toilet rooms. The work also includes installing a new concrete slab floor to the industrial buildings, creating accessible entries to each space, and stubbing in new electrical, fire safety, phone, data, water, sewer and gas utilities that will be upgraded to meet applicable code requirements.

Working with the Port, 20th Street will be improved to accommodate safe pedestrian thoroughfare with links to Crane Cove Park, and the Machine Shop courtyard can be programmed with activities and events open to the public. The result will be a beautiful historic core that will foster successful businesses, provide jobs, and enhance the local neighborhood.

### **Proposed Transaction Terms**

Attached as Exhibit C is the Term Sheet proposed for approval. The key business terms are as follows:

- ODI will rehabilitate the buildings to meet the Secretary's Standards. Given the age and dilapidation of the structures, this involves extensive repair and replacement of building systems, structural upgrades, and life safety improvements. ODI estimates the project cost at \$58 million.

- The Port will redeploy the \$1.5 million of capital funding budgeted in FY2011/12 for interim shoring of the Union Ironworks Machine Shop as a contribution to the full seismic retrofit for this structure.<sup>8</sup>
- ODI will invest up to \$14 million of equity in the project and secure project debt and tax credit investors for the remaining funds.
- Net revenue from the project after debt service will first pay ODI a 14% return (on a simple interest basis), then repay ODI's investment, and finally be split equally with the Port.
- Port participation through equal sharing of any refinancing proceeds and a 10% participation in the net proceeds from a sale or assignment of the lease.
- A guaranteed annual minimum rent of \$200,000 escalated to reflect inflation after 20 years, even if ODI has not yet recovered its equity investment.
- Parking for the project will be provided as part of an area parking strategy on sites to be determined and the Port, not ODI, will receive the parking income.
- Recognizing the difficult state of the buildings, a provision to allow ODI to undertake limited early work and to be reimbursed up to \$75,000, before lease execution, on the project to address security or other immediate needs.

In addition, the Term Sheet provides for mechanisms to further the evaluation of the project including:

- Requiring a full project underwriting package to be submitted to inform the transaction documents negotiation.
- Working closely with BAE Systems and the Port to identify a plan to remove the existing electrical systems from Building 102 to allow its re-use.
- Committing to minimizing the cost of capital for the project.
- Risk sharing measures to address the risks of unknown base building conditions.

### **Pier 70 Wide Coordination**

ODI will collaborate with Forest City, the Port, the City, the shipyard tenant, and the community to revitalize Pier 70.<sup>9</sup> This collaboration will start with defining site-wide infrastructure requirements. It will also include shared parking resources, transportation demand management efforts, and other needed activities to fully invigorate Pier 70. For example, as some of these buildings frame the planned "Machine Shop Courtyard", project concepts and uses must foster the success of that plaza. Similarly, for ODI to reuse Building 102, the Power House, the existing electrical systems serving the

<sup>8</sup> This capital project was put on hold after selection of ODI so the Port could evaluate whether this interim measure was still prudent if a full seismic repair could be achieved soon. The shoring work, while addressing life-safety concerns regarding collapse, is an interim measure.

<sup>9</sup> On September 25, 2012, the Port Commission received an overview presentation on how the Office of Workforce and Economic Development and the Port are managing the Pier 70 initiatives.

shipyard must be relocated. In the Term Sheet, ODI agrees to assess the electrical systems, recommend a strategy, and then negotiate with the Port how to best address electrical system separation.

## **ANALYSIS OF PROPOSED PROJECT**

Rehabilitation of these buildings has been a goal of the Port since the adoption of the Waterfront Land Use Plan which acknowledged, "the cost of renovating these buildings would be prohibitive for maritime businesses and most public uses" and allowed flexibility in uses. As part of the Pier 70 Master Plan process, the financial feasibility analyses for these six buildings estimated \$150 million of capital costs<sup>10</sup>. With a typical real estate development structure, the revenues forecasted supported private investment of \$100 million, leaving a feasibility gap on the order of \$50 million. This estimate was revisited in late 2011 to incorporate new information on environmental conditions and uses for the buildings to show a total cost of \$106 million and a feasibility gap of \$13 million. Several different real estate developer assessments, including other recent proposals, found that major public investment would be required to save these buildings.

Given the earlier evaluations of the economic challenge of this project, it is exciting that the ODI project offers the ability to address these buildings in the near term. ODI's vision and expertise brings the following factors to accelerate this project:

- A lower project capital cost estimate of \$58 million due to:
  - A less extensive rehabilitation – largely leaving the buildings in their existing form.
  - Building to cold shell and having tenants fund their use-specific improvements and rents appropriate for that building standard.
  - ODI's expertise in rehabilitation projects in particular in addressing hazardous materials and designing cost-effective solutions to address structural and other code issues.
- Strong market interest in authentic space and in the Dogpatch neighborhood.
- ODI's access to capital given its track record and assets. Between historic tax credit investors and bank debt, ODI anticipates a capital structure for the project that has a 5% annual average weighted average cost of capital. If the maximum equity is required, this increases to 7%.
- ODI's willingness to commit its equity to the project.

In addition to these factors, the Port's contribution of the \$1.5 million and the participating rent structure mitigates certain risks of the project, allowing ODI to secure

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<sup>10</sup> Economics and Planning Systems, February 2010, available at this link:  
[http://www.sfport.com/ftp/uploadedfiles/Pier70\\_SI/Pier%2070%20Financial%20Feasibility%20Study%20-%20February%202010.pdf](http://www.sfport.com/ftp/uploadedfiles/Pier70_SI/Pier%2070%20Financial%20Feasibility%20Study%20-%20February%202010.pdf)

needed third party capital. The terms proposed provide the Port a means to share in the upside of the project yet catalyze the project by deferring guaranteed base rent for 20 years.

### **ANALYSIS OF THE FINANCIAL TERMS**

Based on current information, Staff prepared three projections of Port rent income under this deal structure:

- A Base Case with current estimates of capital costs, revenues, and capital structure.
- A Low Rents Case where rents are 30% lower and ODI would be required to invest \$14 million to realize the project
- A High Costs Case with a total capital cost of \$70 million that, with other factors held constant, would also require ODI to invest \$14 million

In the base case, ODI's investment is repaid in 2021 triggering the start of participation rent. In the other two cases, although the guaranteed minimum base rent begins in 20 years, participation rent is delayed due to the length of time needed to repay the ODI equity. In the High Costs Case, ODI's equity is repaid in 2045; for the Low Rent Case repayment takes until 2051;

### **FURTHER PROJECT REVIEW**

After endorsement of the Term Sheet by the Port Commission and the Board of Supervisors, the Project Concept presented in Exhibit B will be refined and subject to a historic resources evaluation. The repair and construction improvements will require review by the Port and Planning Department to determine their consistency with the Secretary Standards. The proposed repairs and use of the buildings are subject to review under the California Environmental Quality Act ("CEQA"). The Eastern Neighborhoods Final Environmental Impact Report ("EIR")<sup>11</sup>, certified August 8, 2008, evaluated the environmental effects of General Plan amendments, rezoning and projected new development in the Eastern Neighborhoods, which includes the Central Waterfront and Pier 70. The review of environmental effects of ODI's proposed repairs and use of the 20th Street historic buildings will be conducted by the Planning Department to determine the CEQA review needed, in the context of the analysis in the Eastern Neighborhoods FEIR.

ODI will be seeking Federal Historic Rehabilitation Tax Credits for this project. Eligibility for tax credits requires the Port to list the Pier 70 Historic District on the National Register of Historic Places. The tax credit process includes an additional level of project design review by both the California State Office of Historic Preservation and the U.S. National Park Service.

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<sup>11</sup> Available at this link: <http://www.sf-planning.org/Modules/ShowDocument.aspx?documentid=3991>

## **COMMUNITY BENEFITS**

Rehabilitation of these historic structures and allowing their reuse and public enjoyment is both the primary outcome of the project and the primary community benefit. The challenging nature of the Pier 70 project as a whole, with a particular focus on the historic resources, was well understood by the public and policymakers in November 2008 when 68 percent of voters supported Proposition D amending San Francisco's Charter to facilitate the Pier 70 project. As discussed above, ODI's project will include a public plaza and spaces to foster the community's enjoyment of Pier 70's heritage.

These buildings will provide 400-500 jobs when the project is complete and leased. Construction of the project, over a two year period, will employ an estimated 250 workers (full time equivalents). In both the construction of the project and in its long-run operation, ODI is committed to working closely with the City to employ San Franciscans and use local businesses.

## **CENTRAL WATERFRONT ADVISORY GROUP COMMENT**

ODI has presented its project concepts to the Central Waterfront Advisory Group ("CWAG") twice, July 25, 2012 and September 26, 2012. CWAG expressed support for the uses and project concept. Exhibit D summarizes the discussions. CWAG asked that the ODI project be very well coordinated with the overall plans for Pier 70 on issues like transportation, parking and public realm. OEWD and Port staff discussed how this coordination will occur and committed to continuing to work closely with the CWAG and the community as all the Pier 70 initiatives progress.

## **NEXT STEPS**

If the Port Commission endorses it, the Term Sheet will be submitted to the Board of Supervisors ("Board") for endorsement and finding that the project is fiscally feasible and that it is prudent to commence environmental review as required under Administrative Code Chapter 29. The Board action will include public hearings and opportunities for public comment. The Board review of the Term Sheet is consistent with the recommendations of the 2004 Management Audit of the Port by the Board of Supervisor's Budget Analyst as a means of providing the Board with an "early read" on Port development projects.

If the Port Commission and the Board endorse the Term Sheet, Port staff will move forward with project review and negotiation of transaction documents for the project. Throughout this process, there will be numerous opportunities for public comment and review of the proposed project.

**RECOMMENDATION**

Port staff recommends that the Port Commission approve the attached resolution endorsing the Term Sheet shown in Exhibit C.

Prepared by: Kathleen Diohep, Manager  
Public/Private Development Projects

Through: Jonathan Stern, Assistant Deputy Director  
Waterfront Development

For: Byron Rhett, Deputy Director  
Planning & Development

**Exhibits**

- A. Pier 70 Area Map
- B. Project Proposal
- C. Term Sheet
- D. Central Waterfront Advisory Group Review

**PORT COMMISSION  
CITY & COUNTY OF SAN FRANCISCO**

**RESOLUTION NO. 12-78**

- WHEREAS, Charter Section B3.581 empowers the Port Commission with the authority and duty to use, conduct, operate, maintain, manage, regulate, and control the lands within Port jurisdiction; and
- WHEREAS, The Port owns, in trust, a cluster of several historic buildings in need of substantial rehabilitation (the "20th Street Historic Buildings"), located on or near 20<sup>th</sup> Street, east of Illinois Street, and identified as the "Historic Core (Orton)" on Exhibit A to the staff report accompanying this resolution; and
- WHEREAS, On February 28, 2012, by Resolution 12-18, the Port Commission awarded Orton Development Inc. ("ODI") an exclusive right to negotiate with the Port for the development, rehabilitation, and lease of the 20<sup>th</sup> Street Historic Buildings ("the Project"); and
- WHEREAS, On April 24, 2012, by Resolution 12-36, the Port Commission authorized the Executive Director or her designee to execute an Exclusive Negotiating Agreement ("ENA") between the Port and ODI for the Project and the Port and ODI entered into the ENA effective May 17, 2012, which ENA required, among other things, for the Port and ODI to negotiate a Term Sheet to describe the fundamental deal terms for the Project; and
- WHEREAS, ODI and Port staff have negotiated the Term Sheet attached as Exhibit C to the staff report accompanying this resolution (the "Term Sheet"), which sets forth the essential terms upon which the Port and ODI will negotiate in good faith to reach agreement on the final transaction documents; and
- WHEREAS, Prior financial analyses conducted by Port to develop and rehabilitate the 20th Street Historic Buildings of this Project found that the projected income would not be insufficient to support the projected capital costs of over \$100 million, thus requiring such that a significant subsidy would be required; and
- WHEREAS, The proposed financial terms between Port and Orton for the Project are structured as a participating rent deal in which the Port contributes \$1.5 million to the capital costs and defers minimum rent for a certain period, ODI contributes up to \$14 million in equity, and both parties share equally in the long-term net revenues of the Project, creating a structure that maximizes the ability to secure third-party capital for the Project; and

WHEREAS The parties acknowledge that the Term Sheet is not itself a binding agreement that commits the Port or ODI to proceed with the approval or implementation of the Project and that the Project will first undergo environmental review under CEQA and will be subject to public review in accordance with the processes of the Port Commission, other City departments and offices, and other government agencies with approval over the proposed Project before any entitlements and other regulatory approvals required for the Project will be considered; now, therefore be it

RESOLVED, That the Port Commission hereby endorses the Term Sheet and authorizes and directs the Executive Director of the Port, or her designee, to execute the Term Sheet and present the Term Sheet to the Board of Supervisors for their endorsement and for consideration of a finding that the Project is fiscally feasible and responsible under San Francisco Administrative Code Chapter 29 (the "Fiscal Feasibility Finding"), and in the event the Board of Supervisors fails to make a Fiscal Feasibility Finding for the Project, to either terminate the ENA or revise the Term Sheet; and be it further

RESOLVED, That provided the Board of Supervisors endorses the Term Sheet and makes a Fiscal Feasibility Finding for the Project, the Port Commission authorizes that directs the Executive Director of the Port, or her designee, to work with ODI to undertake project review and negotiate the terms and conditions of any development agreement, lease, and related documents ("Transaction Documents"), with the understanding that the final terms and conditions of the Transaction Documents negotiated between Port staff and ODI during the exclusive negotiation period will be subject to the approval of the Port Commission and as applicable, the Board of Supervisors and the Mayor;; and, be it further

RESOLVED, That approval of the Term Sheet and direction to Port staff does not commit the Port Commission or the City to approval of final Transaction Documents or implementation of the Project or grant any entitlements to ODI, nor does the Term Sheet foreclose the possibility of considering alternatives to the proposal, mitigation measures or deciding not to grant entitlement or approve or implement the Project, after conducting appropriate environmental review under CEQA, and while the Term Sheet identifies certain essential terms of a proposed transaction with the Port, it does not necessarily set forth all of the material terms and conditions of any final transaction documents; and, be it further

RESOLVED, That the Port Commission will not take any discretionary actions committing the Port to implement the Project, and the provisions of the Term Sheet are not intended and will not become contractually binding on the Port unless and until the Port Commission has reviewed and considered environmental documentation prepared in compliance with the CEQA for the Project and the Port Commission, and as applicable, the Board of Supervisors and the Mayor, have approved final Transaction Documents for the Project.

*I hereby certify that the foregoing resolution was adopted by the San Francisco Port Commission at its meeting of October 9, 2012.*

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Secretary

**EXHIBIT A  
PIER 70 AREA MAP**

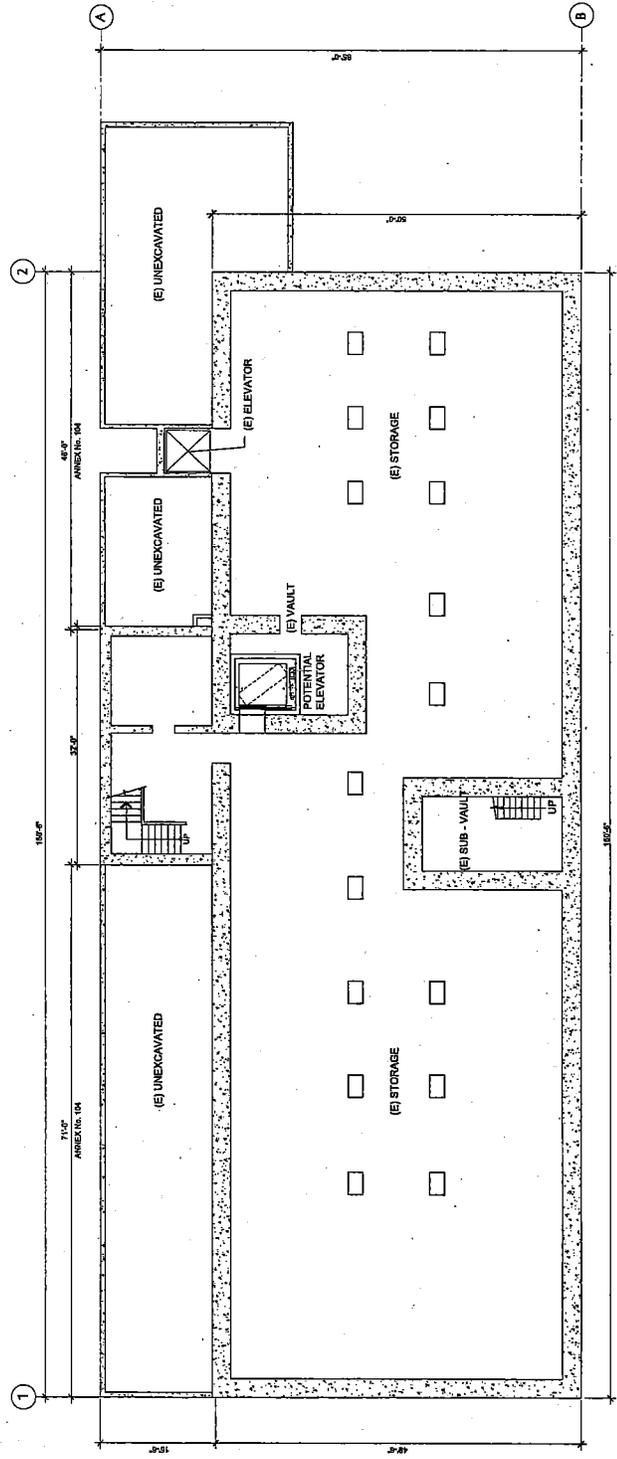
**EXHIBIT B  
PROJECT PROPOSAL**

**BUILDING INFORMATION: BUILDING 104 & ANNEX 51**

BUILDING NO.	ANNEX NO.
188	181
YEAR BUILT:	188
MATERIALS:	WICK & METAL SLABS ROOFING: TPA & BRANDEL
ORIGINAL USE:	XX
NUMBER OF STORIES:	4 - BASEMENT 2 - FLOOR
BUILDING HEIGHT:	42'-0"
BUILDING AREA:	TOTAL
SUB-BASEMENT	0 BSF
BASEMENT	1,855 GSF
FIRST FLOOR	8,778 GSF
SECOND FLOOR	1,776 GSF
TOTAL	11,410 GSF

- GENERAL NOTES FOR ALL BUILDINGS:**
- ABATE LEAD, ASBESTOS & MOLD AS NECESSARY.
  - REMOVE & RECYCLE NON-CONTRIBUTING METAL.
  - REMOVE & RECYCLE NON-CONTRIBUTING WOOD.
  - REPAIR & RECYCLE HISTORIC ARCHITECTURAL ELEMENTS.
  - PRESERVATION ORDER (P.O.) IN THE WORK AREA.
  - PIZZA IMPROVEMENTS TO BE DETERMINED PURSUANT TO NEGOTIATIONS WITH THE PORT.

- BLDG. 104 & ANNEX 51 SCOPE (ALL LEVELS)**
- REPAIR TO RETURN BUILDING TO SERVICEABILITY "2" IS EXISTING, "3" IS NEW
- OCCUPANCY**
- ALL LEVELS - 4 STORIES - BASEMENT
  - "3" OFFICE, ONE TENANT
- ACCESSIBILITY**
- ENTRANCE
  - TOLLET ROOMS
  - ELEVATOR
  - TOILET ROOMS
  - "3" ELEVATOR
  - "3" ELEVATOR HANDICAP THROUGHOUT
- EXITING**
- "3" FIRE ESCAPE TO REPLACE NON-COMPLIANT LADDER FROM 2ND FLOOR
- STRUCTURAL**
- "3" STRUCTURE
  - 188 BLDG. USE OF BRICK WITH WOOD ROOF NON RATED STRUCTURE
  - 181 ANNEX WOOD FRAME
  - UPGRADE FOR COMPLIANCE WITH CBC AND APPLICABLE UMB DEMANDS
- MECHANICAL**
- "3" EXTERIOR & SITE LIGHTING
  - REPAIR "3" EXTERIOR WALLS WINDOWS & TRIM WITH LUC.
  - PATCH & REPAIR BRICK MASONRY
  - REPAIR OR REPLACE "3" ROOF, REPLACE "3" INSULATION
- UTILITIES**
- SEWERS
  - HEATING
  - PLUMBING
  - ELECTRICAL
  - GAS
  - FIRE SPRINKLERS
- INTERIOR REHABILITATION**
- PROVIDE NEW PAINT, CARPET, "3" HISTORIC LIGHT FIXTURES REMAIN
  - REPAIR/REPLACE PORTION OF 1ST FLOOR OF MAIN BLDG. & ALL FLOORS OF ANNEX BLDG.
  - INTERIOR DEMOLITION & HOISTY MAINTENANCE AS REQD.



1 BUILDING 104 - BASEMENT FLOOR PLAN  
 Scale: 1/8" = 1'-0" AT FULL SIZE (27x34" PAPER SIZE)

<p><b>San Francisco Port Commission</b>          PORT SAN FRANCISCO</p>	<p><b>Developer:</b>          Orton Development, Inc.          1975 Powell Street, Suite 801          San Francisco, CA 94102          Tel: 415.774.7685</p>	<p><b>Architect:</b>          MARCY WONG          DONN LOGAN          ARCHITECTS          520 Broadway Way #200          San Francisco, CA 94102          Tel: 415.774.7685          office@wonglogan.com</p>	<p><b>Contractor:</b></p>	<p><b>Owner:</b></p>	<p><b>Revision:</b></p>	<p><b>Sheet Name:</b>          BLDG. 104 - BASEMENT PLAN</p>	<p><b>Sheet Number:</b>          104 A2.0</p>
	<p><b>Concept Design:</b>          19 September 2012          KR, KS, RM, CC</p>	<p><b>DRAFT - NOT FOR CONSTRUCTION</b>          PIER 70 SAN FRANCISCO          HISTORIC 20TH STREET BUILDINGS</p>	<p><b>Issue Date:</b></p>	<p><b>Issue By:</b></p>	<p><b>Scale:</b></p>	<p><b>Author:</b></p>	<p><b>Checker:</b></p>



- GENERAL NOTES FOR ALL BUILDINGS:**
- ABATE LEAD, ASBESTOS & MOLD AS NECESSARY.
  - REMOVE ABOVE GROUND CONDITIONS AS REQUIRED.
  - REMOVE & RECYCLE NON-CONTRIBUTING METAL.
  - ALL WORK WILL BE CONSISTENT WITH THE HISTORIC PRESERVATION OFFICE (HPO) & THE SECRETARY OF THE INTERIOR'S STANDARDS.
  - CONSULTANT TO NEGOTIATE WITH THE HPO.

**BLDG. 101 SCOPE (ALL LEVELS)**

REPAIR TO RESTORE BUILDING TO ORIGINAL CONDITION. "R" IS REPAIR, "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION.

**OCCUPANCY**

REPAIR TO RESTORE BUILDING TO ORIGINAL CONDITION. "R" IS REPAIR, "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION.

**ACCESSIBILITY**

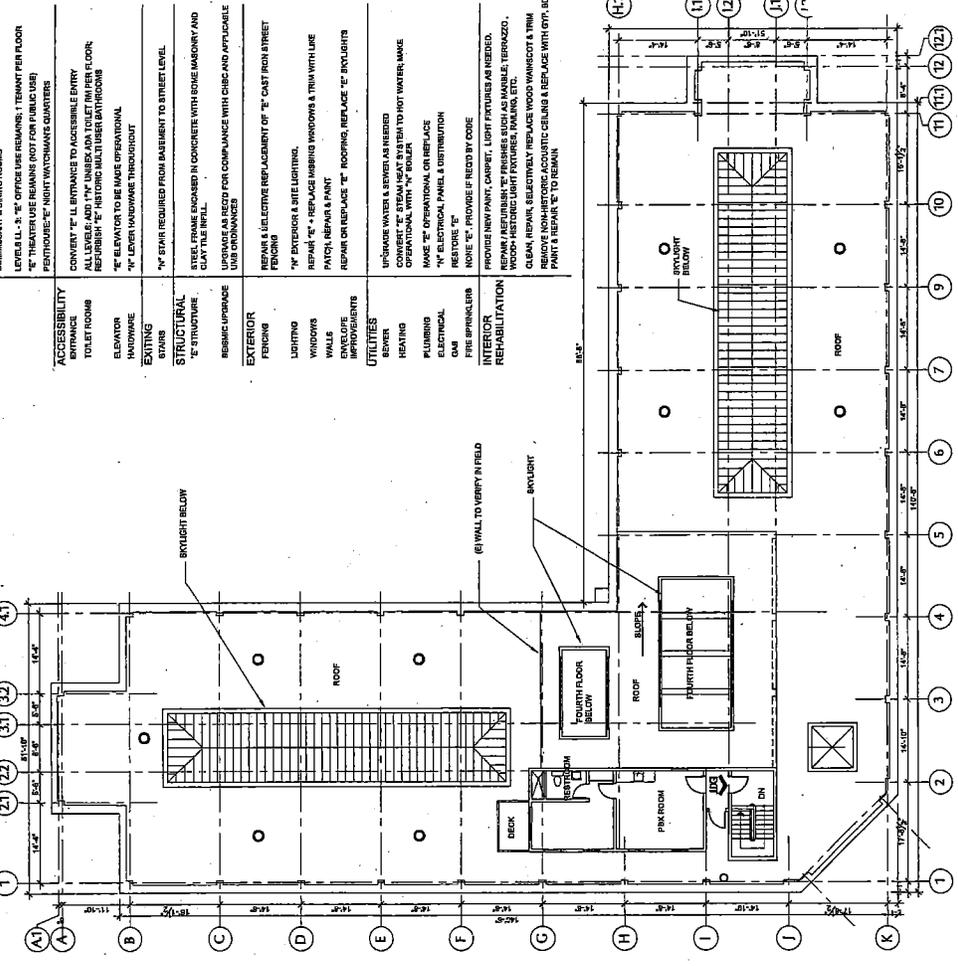
REPAIR TO RESTORE BUILDING TO ORIGINAL CONDITION. "R" IS REPAIR, "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION.

**EXTERIOR**

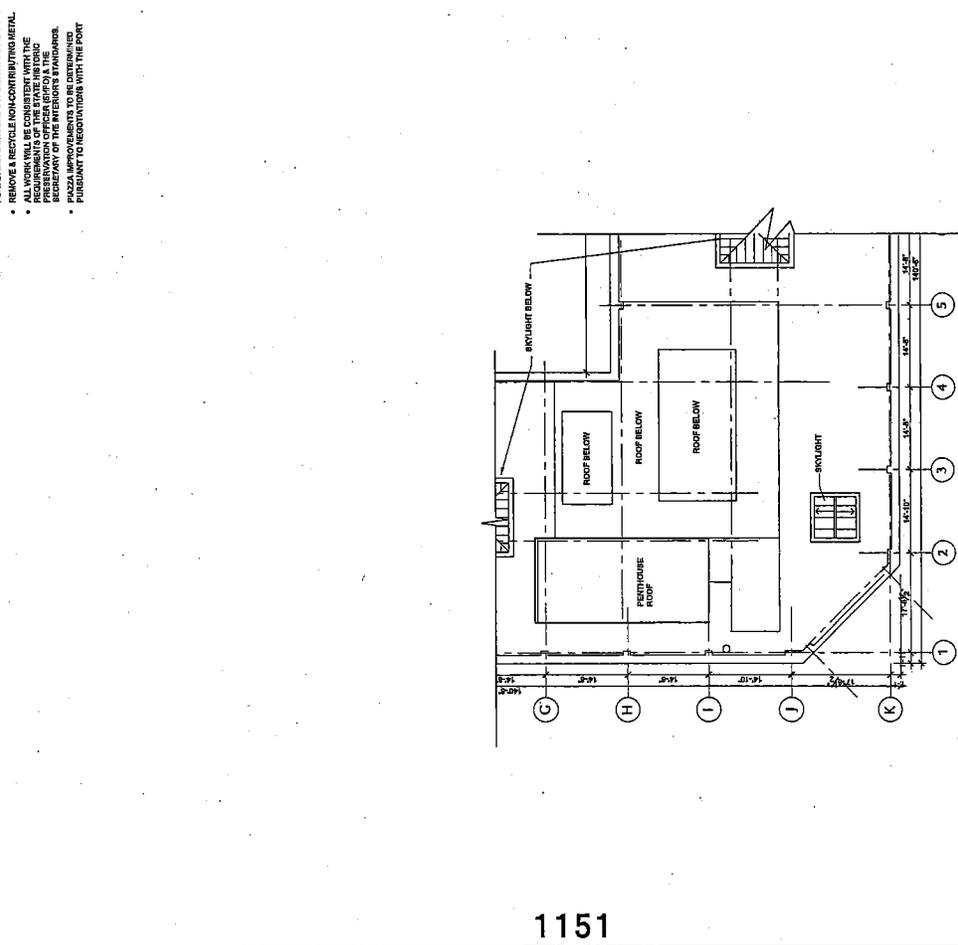
REPAIR TO RESTORE BUILDING TO ORIGINAL CONDITION. "R" IS REPAIR, "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION.

**INTERIOR**

REPAIR TO RESTORE BUILDING TO ORIGINAL CONDITION. "R" IS REPAIR, "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION. "R" IS REPAIR TO ORIGINAL CONDITION.



**1 BUILDING 101 - LOWER ROOF PLAN**  
 3/2" = 1'-0" AT FULL SIZE (22"x34" PAPER SIZE)



**1 BUILDING 101 - UPPER ROOF PLAN**  
 3/2" = 1'-0" AT FULL SIZE (22"x34" PAPER SIZE)

<p><b>SAN FRANCISCO PORT COMMISSION</b> PORT OF SAN FRANCISCO</p>	<p><b>Developer</b> Orton Developments, Inc. 145 Powell Street, Suite 101 San Francisco, CA 94102 Tel: 415.774.7625</p>	<p><b>Architect</b> MARCUS WONG DONN LOGAN ARCHITECTS 800 Broadway Way #200 San Francisco, CA 94102 Tel: 415.774.7625 office@wonglogan.com</p>	<p><b>Contractor</b></p>	<p><b>Owner</b></p>	<p><b>Address</b></p>	<p><b>Sheet Name</b> BLDG. 101 - LOWER &amp; UPPER ROOF PLAN</p> <p><b>Phase</b> Concept Design</p> <p><b>Date</b> 19 September 2012</p> <p><b>By</b> KR, KS, RM, CC</p>	<p><b>Sheet Number</b> 101 A2.3</p>
	<p><b>DRAFT - NOT FOR CONSTRUCTION</b> PIER 70 SAN FRANCISCO HISTORIC 20TH STREET BUILDINGS</p>						





**BUILDING INFORMATION BUILDING 101**

YEAR BUILT: 1917

MATERIALS: BRICK, CONCRETE & STEEL

ROOFING: OFFICE

ORIGINAL USE: OFFICE

NUMBER OF STORIES: 4 + SUBTERRANEAN

BUILDING HEIGHT: 72'-0"

BUILDING AREA: 10,916 SFP

SUB-BASEMENT: 11,800 SFP

FIRST FLOOR: 10,600 SFP

SECOND: 10,600 SFP

THIRD: 10,600 SFP

TOTAL: 43,516 SFP

**GENERAL NOTES FOR ALL BUILDINGS:**

- ABATE LEAD, ASBESTOS & MOLD AS NECESSARY.
- REMOVE & RECYCLE NON-CONTRIBUTING METAL.
- ALL WORK WILL BE CONSIDERED WITH THE PRESERVATION OFFICER (PO) AT THE DISCRETION OF THE INTERIORS STANDARDS PURSUANT TO INSPECTIONS WITH THE PO.

**BLDG. 101 SCOPE (ALL LEVELS)**

REPAIR TO RETURN BUILDING TO SERVICEABILITY. "E" IS EXISTING, "N" IS NEW.

**OCCUPANCY**

- PARK LEVEL: "E" CONING FOOD PREP (RESTORED TO COMMERCIAL)
- LEVELS 1L-3: "E" OFFICE USE REMAINS; TRIMANT PER FLOOR
- "E" TRAVELER USE REMAINS (NOT FOR PUBLIC USE)
- REINFORCE "E" NIGHT WATCHMAN'S QUARTERS

**ACCESSIBILITY**

- CONVERT "E" L1 STAIRCASE TO ACCESSIBLE ENTRY
- TOILET ROOMS
- ELEVATOR
- "E" ELEVATOR TO BE MADE OPERATIONAL
- REPAIR "E" HISTORIC WOOD LINER BATHROOMS
- "N" LEVER HARDWARE THROUGHOUT

**EXITING**

- "N" STAIRS REQUIRED FROM BASEMENT TO STREET LEVELS

**STRUCTURAL**

- STEEL FRAME ENCASED IN CONCRETE WITH ROUGH MASONRY AND CLAY TILE INFILL
- UPGRADE AS REQ'D FOR COMPLIANCE WITH CHRC AND APPLICABLE UMS DRINKINGS.

**EXTERIOR**

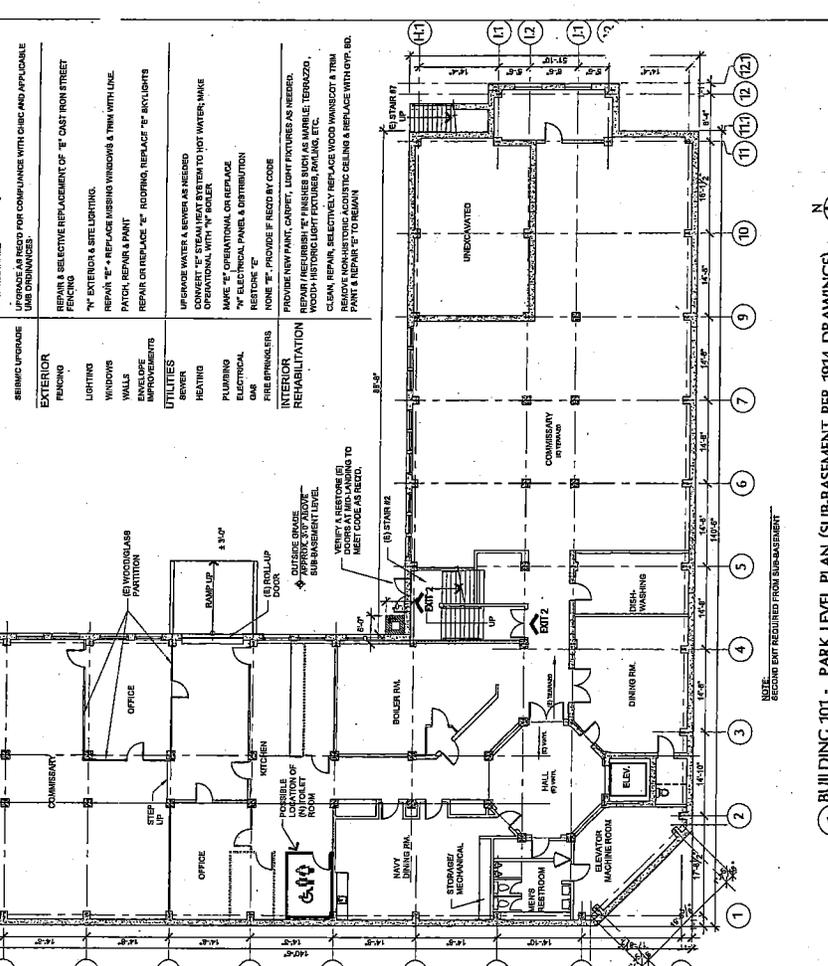
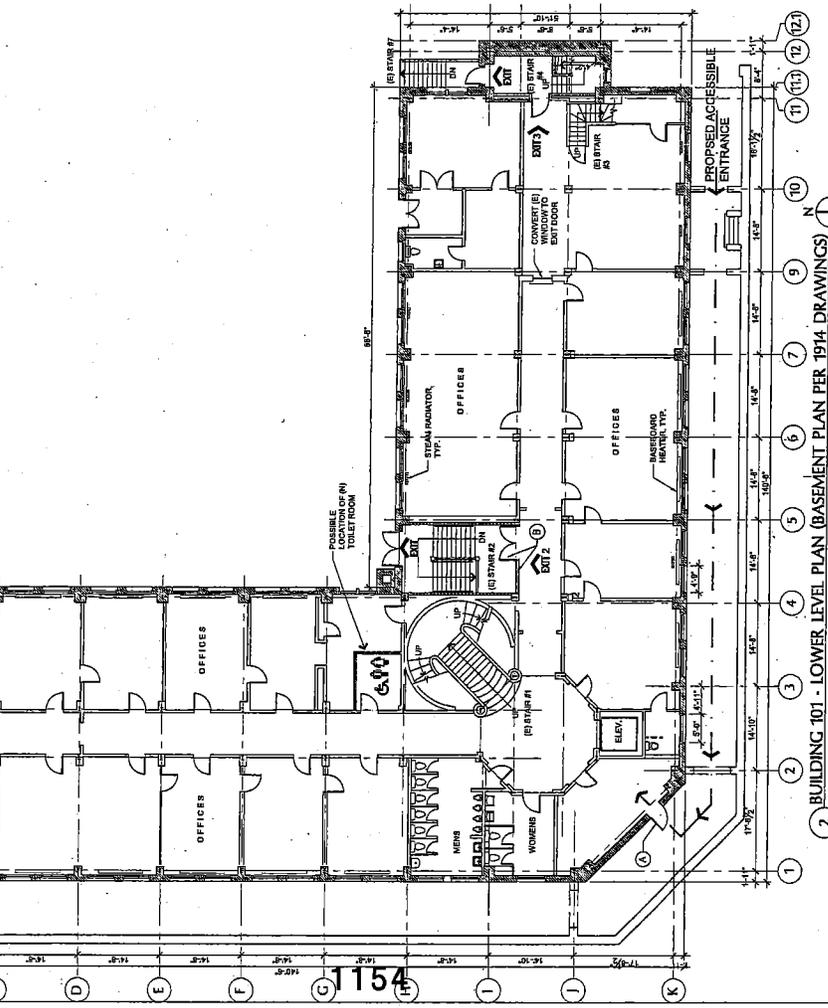
- REPAIR & SELECTIVE REPLACEMENT OF "E" CAST IRON STREET FENCING
- "N" EXTERIOR & SITE LIGHTING.
- REPAIR "E" + REPLACE MISSING WINDOWS & TRIM WITH LINE.
- PAINT, REPAIR & PAINT
- REPAIR OR REPLACE "E" ROOFING, REPLACE "E" BRYLIGHTS

**UTILITIES**

- REPLACE WATER & SEWER AS NEEDED
- CONCRETE "E" TO BE REINFORCED TO JUST WATER, MAKE OPERATIONAL WITH "N" INCLER
- MAKE "E" OPERATIONAL OR REPLACE
- "N" ELECTRICAL PANEL & DISTRIBUTION
- RESTORE "E"
- NONE "E" PROVIDE IF REQ'D BY CODE

**INTERIOR**

- PROVIDE NEW PAINT, CARPET, LIGHT FIXTURES AS NEEDED.
- REPAIR (REFINISH) "E" FINISHES SUCH AS MARBLE, TERRAZZO, WOOD-HISTORIC LIGHT FIXTURES, BURNING, ETC.
- CLEAN, REPAIR, SELECTIVELY REPLACE WOOD VENEER & TRIM
- REPAIR "E" CEILING, SELECTIVELY REPLACE CEILING & REPLACE WITH OPP. BD.
- PAINT & REPAIR "E" TO REMAIN



**1154**

**2 - BUILDING 101 - LOWER LEVEL PLAN (BASEMENT PLAN PER 1914 DRAWINGS)**

Scale: 1/8" = 1'-0" AT FULL SIZE (22"x34" PAPER SIZE)

NOTE: SECOND ENTRY REQUIRED FROM SUB-BASEMENT

Architect: **Orton Development, Inc.**  
1055 Broadway, Suite 101  
Emeryville, CA 94608  
tel: 510.774.7655  
fax: 510.774.7655

Developer: **SAN FRANCISCO PORT COMMISSION**  
PORT OF SAN FRANCISCO

Consultant: **Marcy Wong, Logan Architects**  
1055 Broadway, Suite 101  
Emeryville, CA 94608  
tel: 510.843.0714  
office@wonglogan.com

Contract: **DRAFT - NOT FOR CONSTRUCTION**  
**PIER 70 SAN FRANCISCO**  
HISTORIC 20TH STREET BUILDINGS

Revision: **BLDC. 101 - PARK & LOWER LEVEL FLOOR PLANS**

Phase: Concept Design

Date: 19 September 2012

By: KR, KS, RM, CC

Sheet Name: **BLDC. 101 - PARK & LOWER LEVEL FLOOR PLANS**

Building Number: **101**

Sheet Number: **A2.0**

**1 - BUILDING 101 - PARK LEVEL PLAN (SUB-BASEMENT PER 1914 DRAWINGS)**

Scale: 1/8" = 1'-0" AT FULL SIZE (22"x34" PAPER SIZE)

NOTE: SECOND ENTRY REQUIRED FROM SUB-BASEMENT

Architect: **Orton Development, Inc.**  
1055 Broadway, Suite 101  
Emeryville, CA 94608  
tel: 510.774.7655  
fax: 510.774.7655

Developer: **SAN FRANCISCO PORT COMMISSION**  
PORT OF SAN FRANCISCO

Consultant: **Marcy Wong, Logan Architects**  
1055 Broadway, Suite 101  
Emeryville, CA 94608  
tel: 510.843.0714  
office@wonglogan.com

Contract: **DRAFT - NOT FOR CONSTRUCTION**  
**PIER 70 SAN FRANCISCO**  
HISTORIC 20TH STREET BUILDINGS

Revision: **BLDC. 101 - PARK & LOWER LEVEL FLOOR PLANS**

Phase: Concept Design

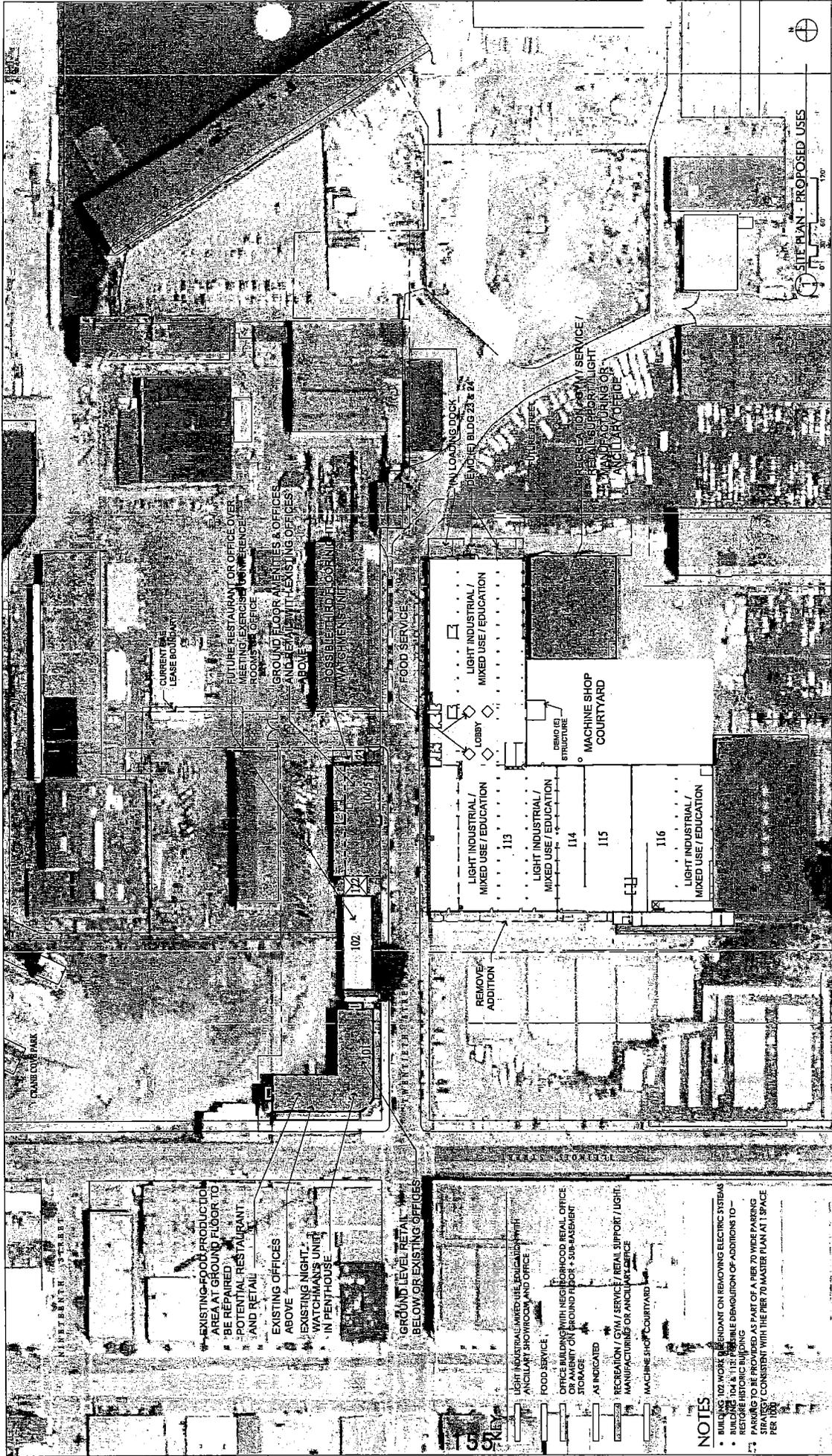
Date: 19 September 2012

By: KR, KS, RM, CC

Sheet Name: **BLDC. 101 - PARK & LOWER LEVEL FLOOR PLANS**

Building Number: **101**

Sheet Number: **A2.0**



Sheet Number	A1.1
Project Name	DRAFT PLAN - PROPOSED USES
Phase	Concept Design
Date	02 October 2012
By	KR, KS, RA, CC

**DRAFT - NOT FOR CONSTRUCTION**  
**PIER 70 SAN FRANCISCO**  
 HISTORIC 20TH STREET BUILDINGS

Architect	MARCY WONG DONN LOGAN ARCHITECTS 800 Broadway Way #200 San Francisco, CA 94111 Tel: 415.398.8114 office@wonglogan.com
Developer	Orton Development, Inc. 1497 Powell Street, Suite 301 San Francisco, CA 94133 Tel: 415.771.7808
Contractor	
Owner	

**NOTES**

- BUILDING 102 WORK IS PENDANT ON REMOVING ELECTRIC SYSTEMS
- BUILDING 104 & 113 IS POSSIBLE DIVISION OF ADDITIONS TO BE PROVIDED AS PART OF A PER 70 WIDE PARKING STRATEGY CONSISTENT WITH THE PER 70 MASTER PLAN AT 1 SPACE PER 100
- RECREATION / GYM / SERVICE / RETAIL SUPPORT / LIGHT MANUFACTURING OR ANCILLARY OFFICE
- MACHINE SHOP COURTYARD
- OFFICE BUILDING WITH NEIGHBORHOOD RETAIL OFFICE OR AMENITY ON GROUND FLOOR + SUB-BASEMENT STORAGE AS INDICATED
- FOOD SERVICE
- LOW RISE RETAIL (W/RETAIL EDUCATION / SERVICE / ANCILLARY SHOWROOM AND OFFICE)
- EXISTING NIGHT WATCHMAN'S UNIT IN PENTHOUSE
- EXISTING OFFICES ABOVE
- POTENTIAL RESTAURANT AND RETAIL
- EXISTING FOOD PRODUCTION AREA AT GROUND FLOOR TO BE REPAIRED
- GROUND LEVEL RETAIL BELOW OR EXISTING OFFICES

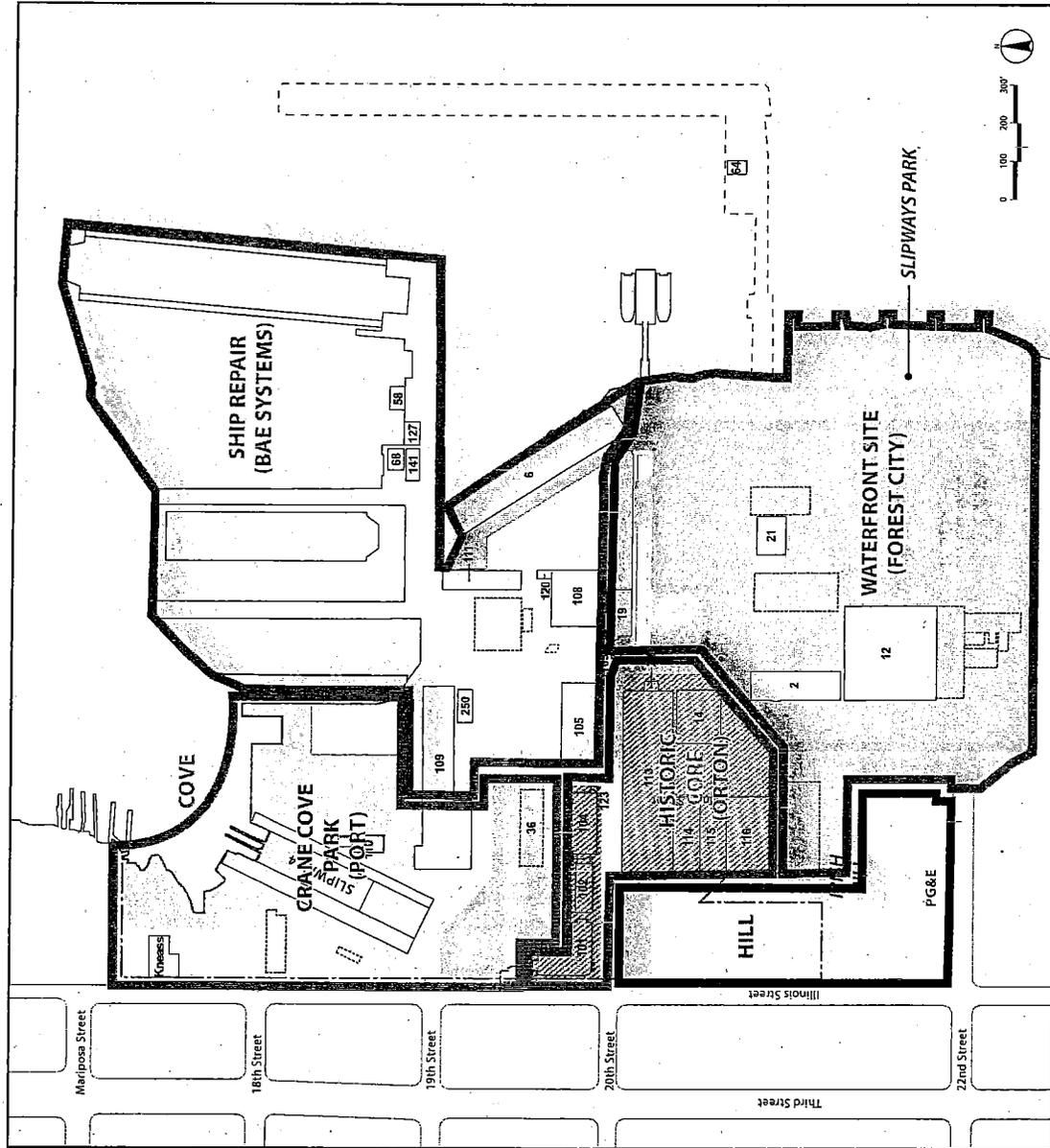


# EXHIBIT A: PIER 70 PROJECTS

	HISTORIC BUILDINGS
	SHIP REPAIR (HISTORIC USE)
	OFFICE, BIOTECH, COMMERCIAL, R&D, PDR
	MIXED USE- RESIDENTIAL ALLOWED
	COMMERCIAL/SPECIAL USE- HISTORIC CORE
	OPEN SPACE
	BUILDING PROPOSED FOR REMOVAL
	PIER 70 AREA BOUNDARY

	PIER 70 PROJECT SUB-AREAS
	SHIP REPAIR
	FOREST CITY WATERFRONT SITE*
	ORTON - HISTORIC CORE*
	COVE
	HILL

\* NOTE: BOUNDARIES BETWEEN PROJECTS ARE CONCEPTUAL. VARY SLIGHTLY FROM THE EXCLUSIVE NEGOTIATING AGREEMENT TERMS, AND WILL BE REFINED AS LEASE DETAILS ARE NEGOTIATED.



SEPTEMBER 2012

**EXHIBIT D**  
**Central Waterfront Advisory Group Review of ODI project**

**July 25, 2012**

The ODI team presented their project concepts and discussed four alternative proposals for the industrial buildings on the south side of 20<sup>th</sup> Street – in particular the iconic Union Ironworks Machine Shop (Building 113).

b

1. Arts production and education
2. Makers/light manufacturing/ likely food focus
3. Cirque du Soleil, a permanent facility, that would need a 300 room hotel elsewhere at Pier 70
4. Tech Office Campus

CWAG's discussion supported the arts and light industrial uses in Scenarios 1 and 2. CWAG members expressed significant concerns about Cirque and the required hotel. A tech office complex raised additional concerns about being too private of a use.

The Machine Shop, Building 113, with its 90,000 square feet of high volume space, has been suggested as an event venue or other predominately public use like a market hall or museum. ODI has programmed an atrium of 11,000 square feet in the building and suggests events for the courtyard behind; however, most of the building would be tenanted. At this time, an event space is not an economically feasible use without subsidy.

**September 26, 2012.**

ODI returned to CWAG on September 25, 2012 and discussed the rehabilitation efforts by building and the uses for each. ODI explained they have eliminated Scenarios 3 and 4 discussed in July. CWAG expressed support for the narrowed set of uses. Discussions with CWAG identified issues that will need careful attention as the design of the ODI project moves forward, which include:

**Seismic Retrofit:** how the details will impact the historic buildings

**Public Access:** Allowing the public to view and enjoy these buildings through the atrium, public lobbies, or other measures.

**Public Realm:** Upgrades to the streetscape and plazas to support returning these buildings to use, for example adding and repairing sidewalks as needed.

**Transportation and Parking:** As discussed above, locations for near-term parking will be refined as the transaction documents are negotiated and the parking requirements of the 20<sup>th</sup> Street businesses will be incorporated in the overall Pier 70 parking plan.

**EXHIBIT C  
TERM SHEET**

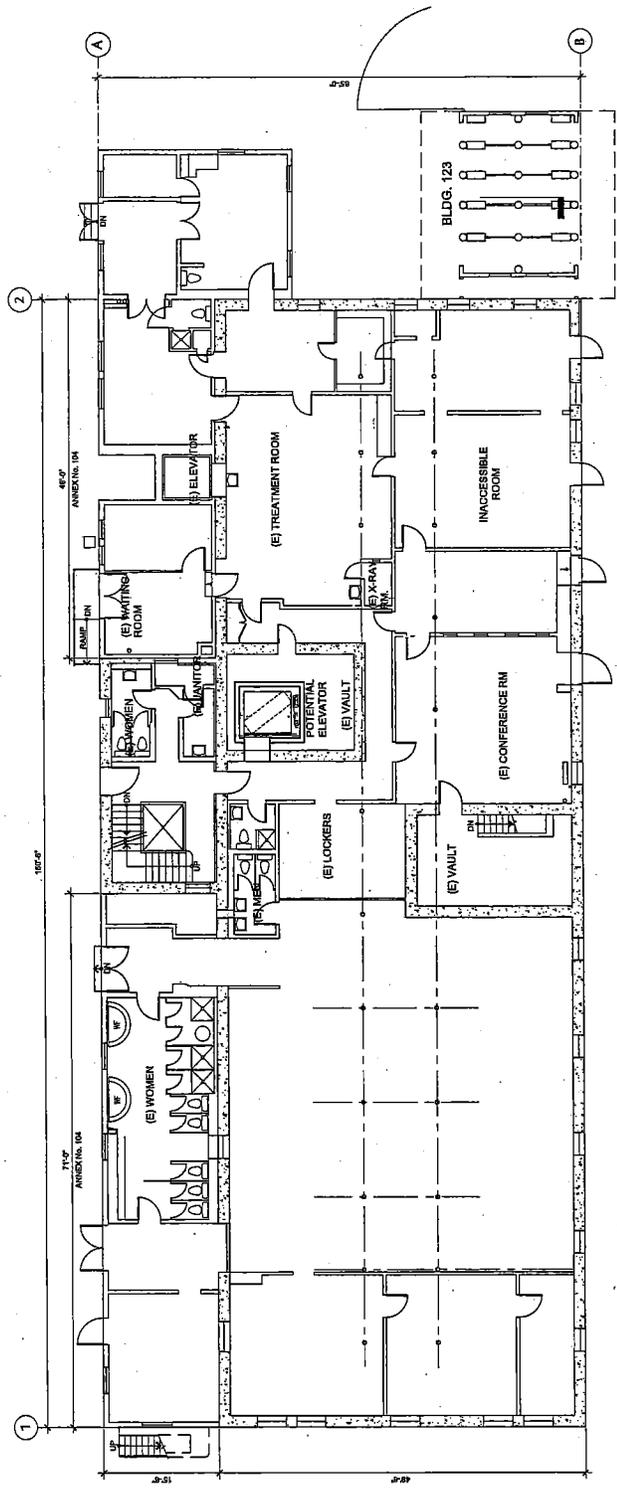
**BUILDING INFORMATION BUILDING 104 & ANNEX 51**

YEAR BUILT:	1889	ANNEX NO. 104	1941
MATERIALS:	BRICK & WOOD	WOOD & METAL	W/US INSULATION
ORIGINAL USE:	XX	2 + BASEMENT	2 + BASEMENT
NUMBER OF STORIES:	2 + BASEMENT	2 + BASEMENT	2 + BASEMENT
BUILDING HEIGHT:	65'-0"	42'-0"	
BUILDING AREA:	9,275 GSF	2,635 GSF	TOTAL 11,910 GSF
SUB-BASEMENT:	9,124 GSF	1,485 GSF	10,609 GSF
BASEMENT:	7,724 GSF	1,710 GSF	9,434 GSF
GROUND FLOOR:	2,551 GSF	5,250 GSF	7,801 GSF
TOTAL:	20,117 GSF	5,250 GSF	25,367 GSF

- GENERAL NOTES FOR ALL BUILDINGS:**
- ABATE LEAD, ASBESTOS & MOLD AS NECESSARY.
  - REMOVE & REGRADE NON-COMPLIANT METAL.
  - PRESERVE HISTORIC MATERIALS & FINISHES TO THE MAXIMUM EXTENT POSSIBLE.
  - PRESERVATION OF EXISTING EQUIPMENT & THE PLAZA IMPROVEMENTS TO BE DETERMINED PURSUANT TO NEGOTIATIONS WITH THE PORT

- BLDG. 104 & ANNEX 51 SCOPE (ALL LEVELS)**
- REPAIR TO RETURN BUILDING TO SERVICEABILITY**
- 'E' TO EXISTING, 'N' IS NEW
  - 'O' OFFICE, 'L' LOBBY, 'R' RESTROOM, 'E' ELEVATOR, 'S' STAIR, 'V' VAULT, 'X' X-RAY
  - 'T' TREATMENT ROOM, 'C' CONFERENCE ROOM, 'W' WOMEN, 'M' MEN
  - 'P' POTENTIAL, 'I' INACCESSIBLE ROOM

- OCCUPANCY**
- ALL LEVELS - 4 STORIES - 1 BASEMENT
  - 'E' OFFICE, ONE TENANT
- ACCESSIBILITY**
- CONVERT 'E' TO LIFTWALK TO ACCESSIBLE ENTRY
  - CONVERT 'E' TOILET ROOMS TO REPLACE 'E' NON-COMPLIANT TOILET ROOMS
  - 'N' ELEVATOR
  - 'N' LEVEL HARDWARE THROUGHOUT
- EXITING**
- 'N' FIRE ESCAPE TO REPLACE NON-COMPLIANT LADDER FROM 3RD FLOOR
- STRUCTURAL**
- 'E' STRUCTURE
  - 1941 ANNEX: WOOD FRAME
  - UPGRADE FOR COMPLIANCE WITH CBC AND APPLICABLE IHB DISABANCES
- REMAIN UPGRADERS**
- 'N' EXTERIOR LIGHT FIXTURES
  - REPAIR 'N' REPLACE MISSING WINDOWS & TRIM WITH LIKE
  - PATCH & REPAIR BRICK MASONRY
  - REPAIR OR REPLACE 'E' ROOF, REPLACE 'E' BRICKLIGHTS
- UTILITIES**
- SEWER
  - HEATING
  - PLUMBING
  - ELECTRICAL
  - GAS
  - FIRE SPRINKLERS
- INTERIOR REHABILITATION**
- PROVIDE NEW PAINT, CARPET, 'E' HISTORIC LIGHT FIXTURES REMAIN
  - REPAIR/REPLACE PORTION OF 3RD FLOOR OF MAIN BLDG. & ALL FLOORS OF ANNEX BLDG.
  - INTERIOR CONSULTATION & MAINTENANCE AS REQD.



**1 BUILDING 104 - LOWER LEVEL FLOOR PLAN**  
 1/8" = 1'-0" AT FULL SIZE (22x34" PAPER SIZE)

<p><b>Architect:</b>                  MARCY WONG                  DONN LOGAN                  ARCHITECTS                  600 Broadway Way #200                  Berkeley, CA 94710                  Tel: 415.863.8800                  office@wonglogan.com</p>	<p><b>Developer:</b>                  O r t o n                  Development, Inc.                  4977 Lowell Street, Suite 101                  Emeryville, CA 94608                  Tel: 310.234.7650</p>	<p><b>Commission:</b>                  SAN FRANCISCO PORT COMMISSION                  PORT OF SAN FRANCISCO</p>	<p><b>Scale:</b>                  1/8" = 1'-0" AT FULL SIZE (22x34" PAPER SIZE)</p>	<p><b>Revision:</b></p>	<p><b>Sheet Name:</b>                  BLDG. 104 - LOWER LEVEL PLAN</p>	<p><b>Sheet Number:</b>                  104 A2.1</p>
					<p><b>Date:</b>                  19 September 2012</p>	<p><b>By:</b>                  KK, KS, RMA, CC</p>

- GENERAL NOTES FOR ALL BUILDINGS:**
- ABATE LEAD, ASBESTOS & MOLD AS NECESSARY.
  - ABATE ABOVE GROUND CONDITIONS AS REQUIRED.
  - REMOVE & RECYCLE NON-CONTAMINATING METAL.
  - ALL WORK SHALL BE CONSISTENT WITH THE PRESERVATION OF PIER 70 & THE PRESERVATION OF THE INTERIOR SPANDRIL.
  - PURGANT TO NEGOTIATIONS WITH THE PORT

**BLDG. 104 & ANNEX 51 SCOPE (ALL LEVELS)**

REPAIR TO RETURN BUILDING TO SERVICEABILITY 'E' IS EXISTING, 'N' IS NEW

**OCCUPANCY**

- ALL LEVELS - 4 STORES - BASEMENT
- 'E' OFFICE, ONE TENANT

**ACCESSIBILITY**

- ENTRANCE
- TOILET ROOMS
- TOILET ROOMS

**ELEVATOR**

- 'N' ELEVATOR

**EXITING**

- 'N' FIRE ESCAPE TO REPLACE NON-COMPLIANT LADDER FROM 3RD FLOOR

**STRUCTURAL**

- 'E' STRUCTURE

**REPAIRS/UPGRADE**

- UPGRADE COMPLIANCE WITH CBC AND APPLICABLE UMB ORDINANCES

**EXTERIOR**

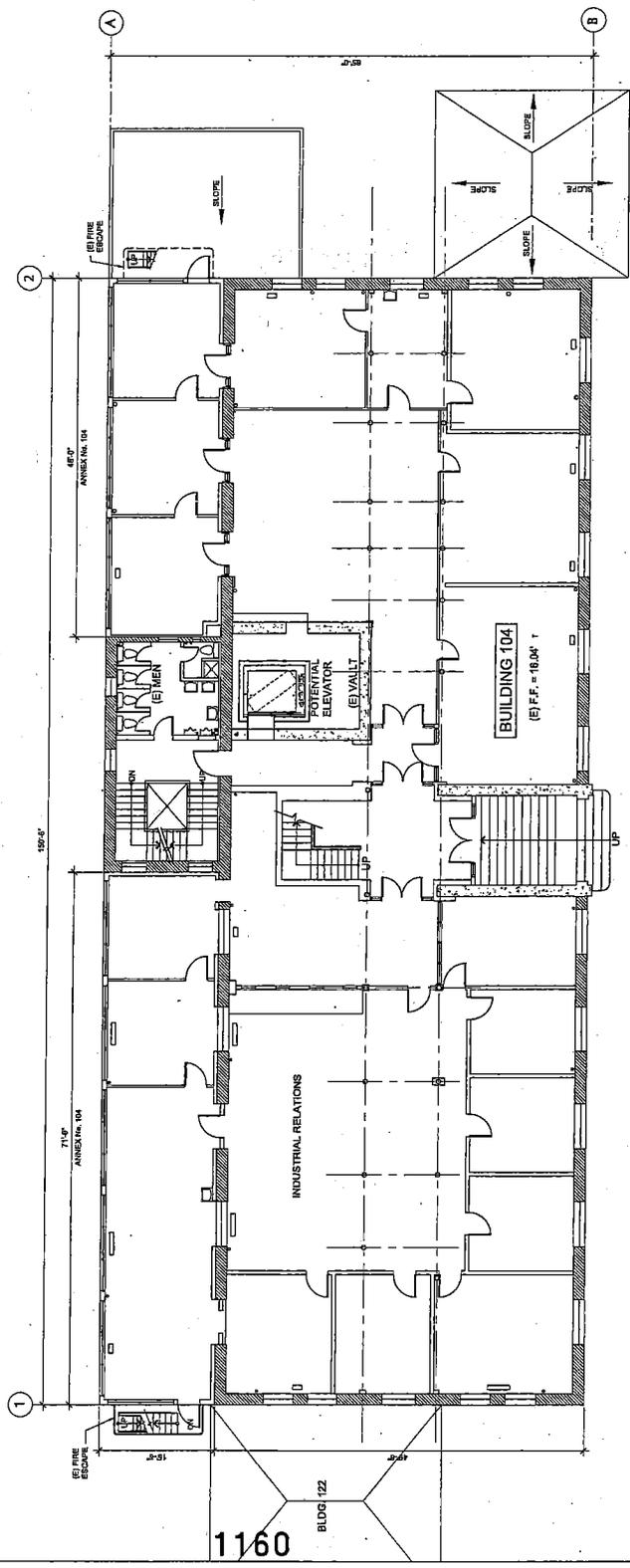
- LIGHTING
- WINDOWS
- WALLS
- ENVELOPE IMPROVEMENTS

**UTILITIES**

- SEWER
- HEATING
- PLUMBING
- ELECTRICAL
- GAS
- FIRE SPRINKLERS

**INTERIOR REHABILITATION**

- PROVIDE NEW PAINT, CARPET, 'E' HISTORIC LIGHT FIXTURES REMAIN IN PLACE
- REMOVE PORTION OF 3RD FLOOR OF MAIN BLDG. & ALL INTERIOR DEMOLITION & HAZARD ABATEMENT AS REQD.

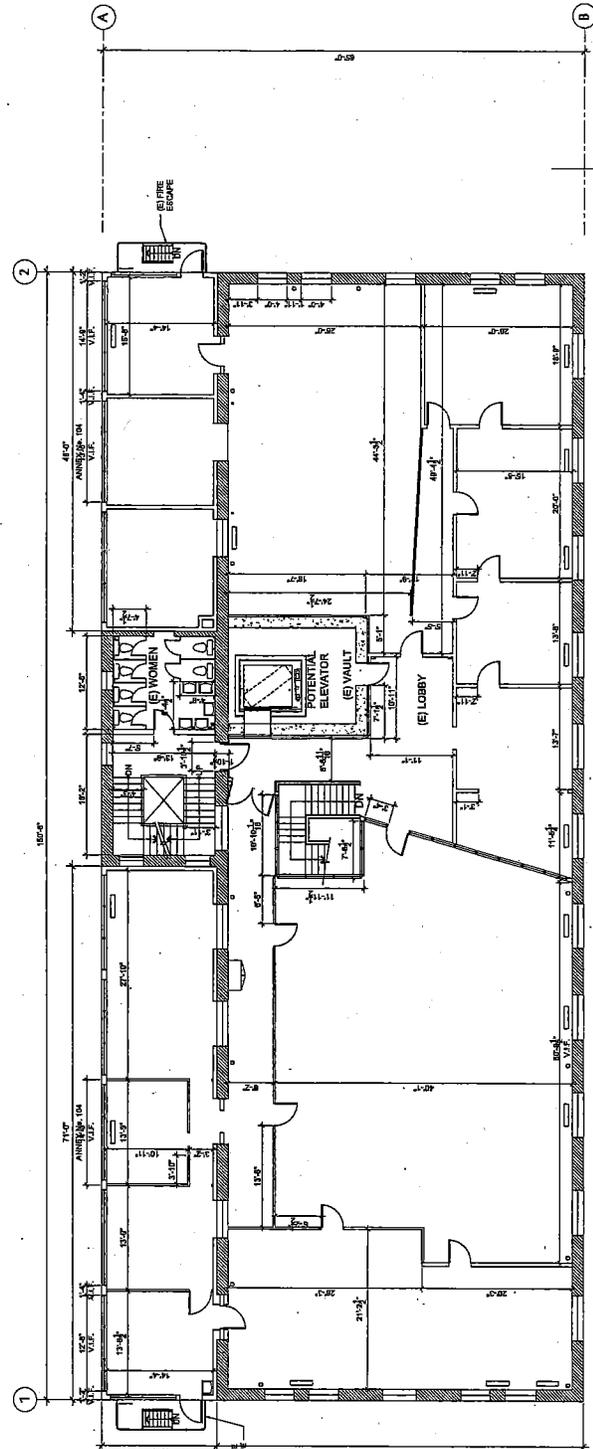


**1 BUILDING 104 - FIRST FLOOR PLAN**  
 0 2 4 8 16' = 1" = 16'-0" AT FULL SIZE (22"x34" PAPER SIZE)

<p><b>San Francisco Port Commission</b>  <b>PORT</b>  <small>MANAGEMENT</small></p>	<p><b>Developer</b>  <b>Orton</b>          Developments, Inc.          192 Powell Street, Suite 701          San Francisco, CA 94102          Tel: 415.774.7263</p>	<p><b>Architect</b>  <b>Marcy Wong</b>  <b>Donn Logan</b>          Architects          800 Conservatory Way #200          San Francisco, CA 94116          Tel: 510.413.0914          office@wongloggan.com</p>	<p><b>Consultant</b></p>	<p><b>Stamp</b></p>	<p><b>DRAFT - NOT FOR CONSTRUCTION</b>  <b>PIER 70 SAN FRANCISCO</b>          HISTORIC 20TH STREET BUILDINGS</p>	<p><b>Revision</b></p>	<p><b>Sheet Name</b>          BLDG. 104 - FIRST FLOOR PLAN  <b>PLAN</b></p>	<p><b>Sheet Number</b>          104 A2.2</p>
	<p><b>San Francisco Port Commission</b>          192 Powell Street, Suite 701          San Francisco, CA 94102          Tel: 415.774.7263</p>	<p><b>Concept Design</b>          19 September 2012          KR, KS, RM, CC</p>	<p><b>Plan</b></p>	<p><b>Date</b></p>	<p><b>By</b></p>			

- GENERAL NOTES FOR ALL BUILDINGS:**
- ABATE LEAD, ASBESTOS & MOLD AS NECESSARY.
  - REMOVE & RECYCLE NON-CONSTRUCTIVE METAL.
  - ALL WORK SHALL BE IN ACCORDANCE WITH THE REQUIREMENTS OF THE STATE HISTORIC PRESERVATION DIVISION & THE SUCCESSORS OF THE BUILDING & PLANNING DEPARTMENT.
  - PLAZZA IMPROVEMENTS TO BE DETERMINED PURSUANT TO NEGOTIATIONS WITH THE PORT

	TO BE EXISTING, "X" IS EXISTING, "N" IS NEW
<b>OCCUPANCY</b>	ALL LEVELS - 4 STORED + BARRACKS "E" OFFICE, ONE "TSMH"
<b>ACCESSIBILITY</b>	CONVERT "E" LLOUNGE TO ACCESSIBLE ENTRY ALL LEVELS, AND "N" TOILET RIMS TO REPLACE "E" NON-COMPLIANT "E" ELEVATOR "N" ELEVATOR THROUGHOUT
<b>EXITING</b>	"N" FIRE ESCAPE TO REPLACE NON-COMPLIANT LADDERS FROM 3RD FLOOR
<b>STRUCTURAL</b>	18" BRICK LINS OF BRICK WITH WOOD ROOF NON RATED STRUCTURE 18" ANNEK WOOD FRAME UPGRADE FOR COMPLIANCE WITH CBRC AND APPLICABLE IAB ORDINANCES
<b>EXTERIOR</b>	"N" EXTERIOR & LIFE LIGHTING REPAIR "E" REPAIRS MISSING WINDOWS & TRIM WITH LIME PLASTER & REPAIR/REPLACE REPAIR/REPLACE "E" ROOF, REPLACE "E" SLOUGHTS
<b>UTILITIES</b>	UPGRADE WATER & SEWER AS NEEDED CONVERT "E" STEAM HEAT SYSTEM TO HOT WATER "N" ADA TOILET ROOMS "N" ELECTRICAL PANEL & DISTRIBUTION, "N" CODE COMPLIANT LIGHTING REPAIR "E" PRE-FINISHES PARTIAL "E", PROVIDE IF FEED BY CODE
<b>INTERIOR REPAIR/REPLETION</b>	PROVIDE NEW PAINT, CARPET, "E" HISTORIC LIGHT FIXTURES REMAIN REPAIR/REPLACE PORTION OF 3RD FLOOR OF MAIN BLDG. & ALL FLOORS OF ANNEK BLDG. INTERIOR RENOVATION & MAINTAINMENT AS NEEDED.



1 BUILDING 104 - SECOND FLOOR PLAN  
1/8" = 1'-0" AT FULL SIZE (22x34" PAPER SIZE)

	<b>SAN FRANCISCO PORT COMMISSION</b> PORT OF SAN FRANCISCO	<b>Developer</b> O r t o n Development, Inc. 102 Powell Street, Suite 101 Emeryville, CA 94609 tel: 510.754.7805	<b>Architect</b> MARCY WONG DONN LOGAN ARCHITECTS 800 Bancroft Way #200 Berkeley, CA 94710 tel: 415.863.8888 office@wlogon.com	<b>Consultant</b>    	<b>Stamp</b>   	<b>Revisions</b>   	<b>Sheet Name</b> BLDG. 104 - SECOND FLOOR PLAN <b>Sheet Number</b> 104 A2.3
	<b>Phase</b> Concept Design <b>Date</b> 19 September 2012 <b>By</b> KR, MS, RM, CC						



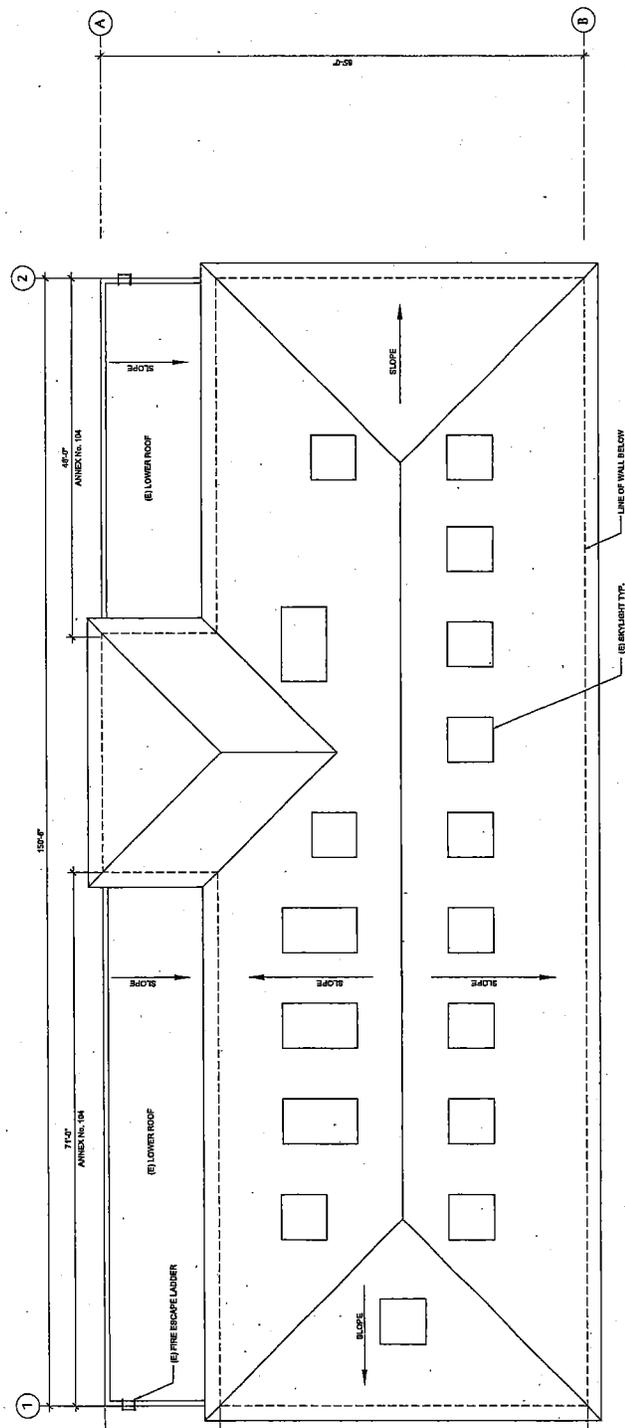
**GENERAL NOTES FOR ALL BUILDINGS:**

- WASTE, LEAD, ASBESTOS & MOULD AS NECESSARY.
- WASTE ABOVE GROUND CONDITIONS AS REQUIRED.
- REMOVE & RECYCLE NON-CONTRIBUTING METAL.
- ALL WORK SHALL BE IN ACCORDANCE WITH THE REGULATIONS OF THE STATE HISTORIC PRESERVATION OFFICE (SHPO) & THE REGULATIONS OF THE STATE HISTORIC PRESERVATION OFFICE (SHPO) AS APPLICABLE PURSUANT TO NEGOTIATIONS WITH THE PORT.

**BLDG. 104 & ANNEX 61 SCOPE (ALL LEVELS)**

REPAIR TO RETURN BUILDING TO SERVICEABILITY "E" IS EXISTING, "N" IS NEW

OCCUPANCY	ALL LEVELS - 4 STORES + BASEMENT:
ACCESSIBILITY	CONVERT "E" TO "N" ENTRANCE TO ACCESSIBLE ENTRY
TOILETS	ADD "N" TOILET RM TO REPLACE "E" NON-COMPLIANT TOILET ROOMS
ELEVATORS	"N" ELEVATOR
HARDWARE	"N" LEVER HARDWARE THROUGHOUT
EXITING	"N" FIRE ESCAPE TO REPLACE NON-COMPLIANT LADDER FROM ROOF FLOOR
STRUCTURAL	"N" 18" BLS. LIMS OF BRICK WITH WOOD ROOF NON RATED STRUCTURE
"E" STRUCTURE	"N" 184 ANNEK-WOOD FRAME
SEISMO UPGRADE	UPGRADE FOR COMPLIANCE WITH CHED AND APPLICABLE LMR ORDINANCES
EXTERIOR	"N" EXTERIOR & LIFE LIGHTING
LIGHTING	REPAIR "E" & REPLACE MISSING WINDOWS & TRIM WITH LINE
WINDOWS	PATCH & REPAIR BRICK/MORTAR
WALLS	REPAIR OR REPLACE "E" ROOF, REPLACE "E" SKYLIGHTS
IMPROVEMENTS	UPGRADE WATER & SEWER AS NEEDED
UTILITIES	CONVERT "E" STEAM HEAT SYSTEM TO HOT WATER
SEWER	"N" ADA TOILET ROOMS
HEATING	"N" ELECTRICAL PANEL & DISTRIBUTION, "N" CODE COMPLIANT LIGHTING
PLUMBING	RESTORE "E"
ELECTRICAL	PARTIAL "E" PROVIDE IF NEEDED BY CODE
GAS	PROVIDE NEW PAINT, CARPET, "E" HISTORIC LIGHT FIXTURES REMAIN
FIRE SPRINKLERS	REPAIR/REPLACE PORTION OF 2ND FLOOR OF MAIN BLDG. & ALL FLOOR OF ANNEX BLDG.
INTERIOR	INTERIOR OBSTRUCTION & FINISH MAINTENANCE AS REQ'D.
REHABILITATION	



**1 BUILDING 104 - ROOF PLAN**  
 1" = 1'-0" AT FULL SIZE (22x34" PAPER SIZE)

1163

	<b>SAN FRANCISCO PORT COMMISSION</b> PORT OF SAN FRANCISCO	Developer: <b>O r t o n</b> Development, Inc. 1615 Powell Street, Suite 101 San Francisco, CA 94133 Tel: 415 774 7603	Architect: <b>MARCY WONG</b> <b>DONN LOGAN</b> <b>ARCHITECTS</b> 800 Broadway Way #200 San Francisco, CA 94102 Tel: 415 398 0915 office@wonglogan.com	Consultant:    	Name:    	Address:    	Sheet Name: <b>BLDG. 104 - ROOF PLAN</b>	Sheet Number:  
	Phase: Date: By:	Concept Design 19 September 2012 KR, KS, RM, CC	Building Number: <b>104</b>	Sheet Number: <b>A2.5</b>				





**BLDG. 14 SCOPE**

REPLACE FLOOR SLAB ON MAIN LEVEL INTERIOR FLOOR ELEVATIONS TO ABOVE EXISTING TO IS EXISTING, TO IS NEW

MANUALS, INSTRUCTIONS, DATA, GENERAL SUPPORT/LIGHT MANUFACTURING OR INCLAY OFFICE

1 TRIMM

ACCESSIBILITY

ENTRANCE

TOILET ROOMS

ELEVATOR

HARDWARE

EXITING

STAIRS

STRUCTURAL

SEISMIC UPGRADE

EXTERIOR LIGHTING

WINDOWS

WALLS

MECHANICAL IMPROVEMENTS

UTILITIES

OTHER IMPROVEMENTS

**GENERAL NOTES FOR ALL BUILDINGS:**

- AVOID LOAD, ASSISTOR & MOLD AS NECESSARY.
- REMOVE & RECYCLE NON-CONTAMINATING METAL.
- THE STATE HISTORIC PRESERVATION OFFICER (SHPO) & THE ARCHITECT SHALL DETERMINE THE NECESSARY REGULATORY NEGOTIATIONS WITH THE PORT.

**BUILDING 14**

YEAR BUILT: 1941

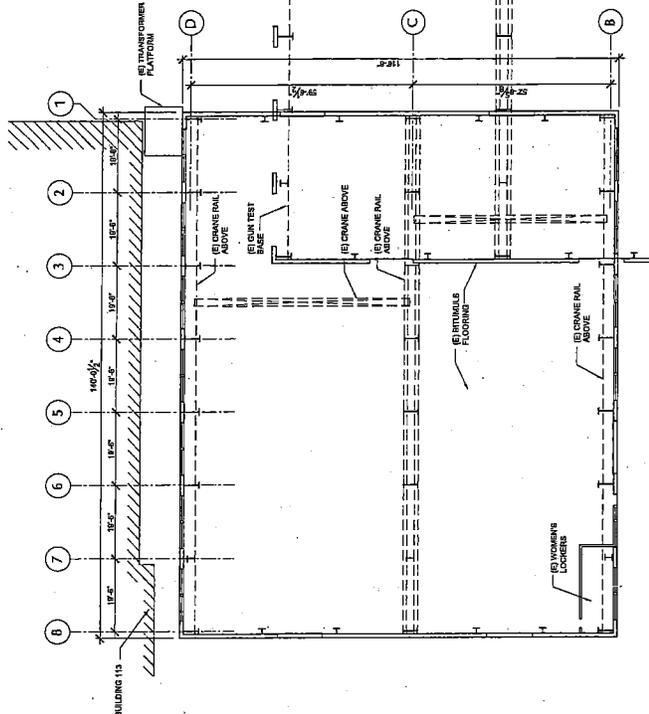
MATERIALS: STEEL & CONCRETE

ORIGINAL USE: HEAVY WAREHOUSE

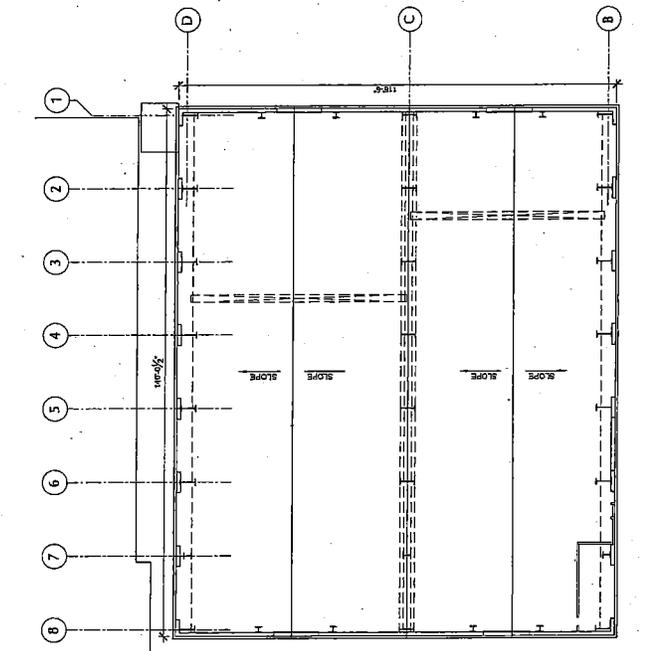
NUMBER OF STORIES: 1

BUILDING HEIGHT: 66'-0"

BUILDING AREA: 10,944 GSF.



**1 BUILDING 14 - FLOOR PLAN**  
 1/8" = 1'-0" AT FULL SIZE (22"x34" PAPER SIZE)



**2 BUILDING 14 - ROOF PLAN**  
 1/8" = 1'-0" AT FULL SIZE (22"x34" PAPER SIZE)

<p>Architect: <b>Marcy Wong</b> DUNN &amp; GAN ARCHITECTS SAN FRANCISCO, CA 94102 Tel: 415.843.0716 office@wonggan.com</p>	<p>Developer: <b>Orton</b> Development, Inc. 1975 Foothill Expressway Emeryville, CA 94608 Tel: 510.234.7405</p>	<p>San Francisco Port Commission PORT OF SAN FRANCISCO</p>	<p>Sheet Name: <b>BLDG. 14 - FLOOR PLAN</b></p>	<p>Sheet Number: <b>14 A2.0</b></p>

**20<sup>th</sup> Street Historic Buildings  
Term Sheet  
October 3, 2012**

As required in the Exclusive Negotiating Agreement (ENA) executed, May 17, 2012, this Term Sheet sets forth the basic terms and conditions on which the parties agree to further negotiation regarding the development concept and uses described below (the "Project") and that will be refined and set forth in more detail in the lease (the "Lease"), the lease disposition and development agreement ("LDDA") and other transaction documents between Port and Orton Development, Inc. ("ODI").

This Term Sheet is not intended to be, and will not become, contractually binding unless and until environmental review has been completed in compliance with the California Environmental Quality Act and the parties are able and willing to execute and deliver a mutually acceptable LDDA, Lease and related transaction documents regarding the Project. In addition, under San Francisco Charter, no officer or employee of the City and County of San Francisco (the "City") has authority to commit the City to the transaction contemplated herein unless and until the San Francisco Port Commission has approved the transaction and the San Francisco Board of Supervisors has approved the Lease.

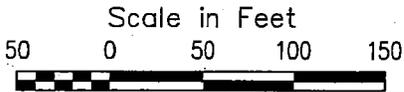
Lessor	Port of San Francisco
Lessee/ Key Man	<ul style="list-style-type: none"> <li>Orton Development, Inc. or an affiliated entity controlled by J.R. Orton III.</li> <li>J.R. Orton III to remain actively involved in the project until at least project completion.</li> </ul>
Premises	<ul style="list-style-type: none"> <li>Historic buildings 14, 101, 102, 104, 113, 114, 115, 116, 122, and 123, at Pier 70. See Exhibit A. ODI and the Port will negotiate a precise premises boundary to address needed ingress and egress with the current, and the future street grid.</li> <li>Parties anticipate entering into a license for adjacent areas.</li> </ul>
Term of Lease	<ul style="list-style-type: none"> <li>66 years.</li> </ul>
Uses	<ul style="list-style-type: none"> <li>Buildings 101, 104: Office and ancillary uses;</li> <li>Building 102: restaurant and commercial;</li> <li>Buildings 113/114, 115/116, and 14: Light industrial, arts production, education, recreation, ancillary retail, and ancillary office uses.</li> </ul>
As-Is Conditions	<ul style="list-style-type: none"> <li>For all buildings and site areas, Developer takes in "as-is" conditions.</li> </ul>
Hazardous Materials	<ul style="list-style-type: none"> <li>Developer is responsible for implementing the Risk Management Plan, including any and all costs, regulatory, and operational responsibilities specified therein for aboveground environmental conditions. If Developer disturbs belowground soils, Developer will follow the Risk Management Plan for those areas.</li> <li>If previously unidentified below ground environmental conditions unrelated to the Developer's activities require additional investigation or remediation, the Port will be responsible for those costs including regulatory costs.</li> </ul>

	<ul style="list-style-type: none"> <li>• Prior to issuance of the Risk Management Plan, Developer will be responsible for compliance with existing regulatory requirements and conducting activities in manner consistent with the Remedial Action Plan (Treadwell and Rollo, May 2012).</li> <li>• PCB transformer removal and abatement in Building 102 remains responsibility of the Port.</li> <li>• Removal of existing PCB transformer in the northwest corner of Building 113 and abatement of all above ground hazardous materials are the responsibility of ODI.</li> </ul>
"Early Work"	<ul style="list-style-type: none"> <li>• ODI can propose to undertake at its cost weatherizing, cleanup or security improvements ("Early Work") under the existing access agreement terms, which include Port approval of the work scope.</li> <li>• Approval of any scope of Early Work would include agreement on a budget for that work.</li> <li>• Under the ENA, ODI has paid a \$75,000 negotiation fee that is non-refundable if the ENA is terminated. If ODI terminates the ENA and does not execute a Lease for the project, the Port will return to ODI the documented expenditures not to exceed the agreed-to cost of any Early Work performed but no more than \$75,000.</li> <li>• If the project moves forward, Early Work costs will be included in Total Project Costs and the \$75,000 negotiation fee will be applied to the lease deposit as agreed in the ENA .</li> </ul>
Building 102	<ul style="list-style-type: none"> <li>• Building 102 is an active part of the electrical systems serving the BAE ship repair facility. Developer will assess existing conditions, meet with BAE to understand their needs, and recommend a solution for: <ol style="list-style-type: none"> <li>1. Removing electrical equipment</li> <li>2. Establishing separate service to BAE</li> <li>3. Establishing service to other electric uses now served from building 102 including ODI's project</li> </ol> </li> <li>• Developer to recommend options and provide conceptual cost estimates for the options to meet objectives (1), (2), and (3) above.</li> <li>• Port and Developer to negotiate in the Development Agreement how to undertake and fund the work needed to re-use Building 102 for new uses and sustain electrical service to the shipyard.</li> <li>• Cost of BAE equipment and service remains a Port or BAE responsibility. To the extent designing a new BAE service incurs third party fees, such fees shall be reimbursed by Port or BAE.</li> </ul>
Total Project Cost	<ul style="list-style-type: none"> <li>• "Total Project Cost" shall include Lessee's hard and soft costs such as permit, development, and impact fees, if any, construction and materials costs, subcontractor and design fees, legal and other professional fees, financing costs that are capitalized, and all project-related expenses of Lessee or Orton Development Inc. (ODI), including a proportionate share of ODI's overhead such as salaries paid by ODI for employees (other than J.R. Orton III).</li> </ul>

	<ul style="list-style-type: none"> <li>• ODI will not charge a developer fee.</li> <li>• Parties to negotiate the level of performance or surety bond or completion guaranties in the LDDA.</li> </ul>
Port Capital Contribution	<ul style="list-style-type: none"> <li>• \$1.5 million with an additional \$250,000 grant funding from the California Cultural Equity Endowment, if available.</li> <li>• The Port has the option to, but is not bound to, secure additional capital above \$1.5 million in seismic funding to pay down the amount of Orton Equity at any time before the Orton Equity is fully repaid, subject to any finance conditions.</li> </ul>
Project Debt	<ul style="list-style-type: none"> <li>• Port and ODI agree to cooperate to secure the greatest amount of debt and the lowest cost third-party capital and debt as reasonably possible for the project.</li> <li>• As soon as additional financing is reasonably supported by the project, ODI agrees to pay down its remaining equity interest and remaining equity through additional debt.</li> <li>• ODI may propose that, once Orton Equity is re-paid, additional debt be placed on the site to the advantage of both the parties. The Port's approval of additional debt will not be unreasonably withheld.</li> <li>• Port consent shall not be unreasonably withheld for any assignment of the lease as security for project financing or refinancing. The lease will contain mortgagee protection and related provisions reasonably satisfactory to Lessee's lender(s) and investor(s), including future amendments as may be reasonably required for such purpose.</li> </ul>
Orton Equity	<ul style="list-style-type: none"> <li>• Orton Equity is defined as Total Project Cost through project completion less tax credit equity, permanent debt proceeds, and Port capital contribution.</li> <li>• Orton Equity will accrue a simple return of 14% per year: Orton Equity shall be no more than the lesser of 20% of Total Project Cost or \$14 million, once permanent debt is in place to achieve the shared goal of the lowest overall cost of capital for the project.</li> <li>• Unpaid return accumulates until paid without compounding.</li> <li>• Re-Opener process may increase cap on Orton Equity above \$14 million.</li> </ul>
Orton Equity Repayment/ Participation Rent	<ul style="list-style-type: none"> <li>• Participation Net Revenue is defined as project revenue (on a triple net basis or its equivalent) less reasonable unrecovered operating expenses on vacant space, appropriate reserves using standard accounting, tax credit equity payments, and debt service and related fees (on the Total Project Cost).</li> <li>• Participation Net Revenue shall be distributed as: <ol style="list-style-type: none"> <li>1. To Lessee until the accumulated 14% return on Orton Equity is paid;</li> <li>2. To Lessee to pay down outstanding Orton Equity until paid;</li> <li>3. Split equally between Lessee and Lessor</li> </ol> </li> </ul>
Right to Pre-pay	<ul style="list-style-type: none"> <li>• Port has right to pre-pay accumulated interest on Orton Equity and Orton Equity at any time, at no charge or payment of any penalty.</li> </ul>
Complete	<ul style="list-style-type: none"> <li>• ODI will submit a Complete Project Underwriting Package ("Project</li> </ul>

Underwriting Package	<p>Underwriting”) with a detailed estimate of total project costs including hard and soft costs, finance costs, and expected lease rates, with a pro forma projecting ODI and Port income.</p> <ul style="list-style-type: none"> <li>• Port and ODI will use this package to negotiate the LDDA.</li> </ul>
Unknown Base Building Costs Found Prior to Lease Execution	<p>After approval of the Transaction and/or execution of the development agreement, ODI can request re-opening of business terms, if it can demonstrate that due to costs of unforeseen base building conditions, the required Orton Equity for the entire project exceeds \$14 million or that the project returns significantly differ from the Project Underwriting projected returns.</p> <p>At this stage, ODI will have the right to:</p> <ol style="list-style-type: none"> <li>1. Remove buildings – except Building 113/114 – from the Project</li> <li>2. Invest additional equity into the transaction and, if so, the Base Rent will not be applicable until all Orton Equity plus the 14% return is repaid,</li> <li>3. Renegotiate the deal – subject to returning to the Port Commission and the Board of Supervisors for approval, or</li> <li>4. Terminate its Development Agreement without incurring a termination fee</li> </ol>
Unknown Base Building Costs After Lease Execution	<ul style="list-style-type: none"> <li>• Lease to include a provision to address unknown base building costs discovered during construction, including that ODI may (i) invest additional equity, in the project to address the unforeseen costs at a market rate of return to be negotiated based on the investment returns expected by real estate equity investors, but in no event more than 14% per annum, into the transaction to address the unforeseen costs and (ii) delay the start of the Base Rent.</li> </ul>
Initial Base Rent	<ul style="list-style-type: none"> <li>• Beginning in Year 20 after lease execution, a base rent of \$200,000 (expressed in 2012\$) per year will be paid even if all Orton Equity has not been repaid.</li> <li>• If Orton Equity is repaid before year 10, Base Rent shall commence 10 years after Orton Equity is repaid.</li> <li>• Re-opener provisions can delay the start of Base Rent.</li> </ul>
Base Rent Escalation	<ul style="list-style-type: none"> <li>• Base Rent shall be adjusted every 5 years but in no event decrease, based on CPI, limited to a 20% increase.</li> </ul>
Base Rent Re-Sets	<ul style="list-style-type: none"> <li>• Every 10 years after commencing payment of Base Rent, the Base Rent amount will be adjusted to equal the higher of (i) the then payable Base Rent or (ii) 60% of the average of the previous 5 years of participation rent paid to the Port.</li> <li>• Any participation in refinancing or sales proceeds is not included in the five year average calculation.</li> </ul>
Participation in refinancing proceeds	<ul style="list-style-type: none"> <li>• If Lessee refinances, excess funds shall be applied first to Orton Equity interest and second to Orton Equity.</li> <li>• Net proceeds after repaying debt and Orton Equity shall be split equally between Port and Orton and paid to each party at close of escrow</li> </ul>
Participation in sale or assignment	<ul style="list-style-type: none"> <li>• Port receives 10% of any net sales proceeds (remaining after repayment of debt, return on outstanding Orton Equity, return of Orton Equity, and Lessee’s standard sales costs such as brokerage commissions and legal fees)</li> </ul>

Parking:	<ul style="list-style-type: none"> <li>Port shall manage parking, as part of a Pier 70 wide parking plan, for the proposed project. Parking rates will be set through the Port parameter rate setting process. Consistent with the Pier 70 Master Plan, parking of one space per 1,000 square feet of building area will be provided.</li> </ul>
Subleasing and Assignment	<ul style="list-style-type: none"> <li>Lessee shall have the right to sublease the premises for all uses allowed under the lease.</li> <li>Port shall have rights at its sole discretion over any lease assignment or change in control of ODI prior to project completion.</li> <li>After project completion, the lease may be assigned to any qualified purchaser, subject to Port's reasonable approval.</li> </ul>
Property Management	<ul style="list-style-type: none"> <li>ODI may manage the property or use third-party management. In either case, the records and financials shall be completely transparent.</li> <li>In the event ODI is managing the project and the Port objects reasonably to the quality of property management, it shall put such objections in writing. ODI shall have a reasonable time to cure, no less than 30 days. In the event ODI is unable to reasonably cure in the time period, Port may request that the project be managed by a third party management and ODI shall select a reasonable established third party management company for the project. All asset and management fees will be consistent with those prevailing in the marketplace.</li> </ul>
Utility and Impact fees	<ul style="list-style-type: none"> <li>To the extent due for this project, utility connection and impact fees are Lessee's responsibility. Port to reasonably cooperate with Lessee in the investigation and applicability of impact fees.</li> </ul>
Infrastructure Costs	<ul style="list-style-type: none"> <li>In the future, a Master or Sub Developer(s) may replace the infrastructure in 20<sup>th</sup> Street. Lessee will bear its equitable share of costs with respect to repair of infrastructure including roadway and sidewalks.</li> </ul>
Condition of Premises at the end of the lease; Capital Reserves	<ul style="list-style-type: none"> <li>The condition of the property at the end of the lease shall be as constructed, well-maintained, minus reasonable wear and tear.</li> <li>Mutually agreed upon reasonable reserves to meet this standard are project expenses and will be included in the operating budget.</li> </ul>
Development over the course of the lease	<ul style="list-style-type: none"> <li>Lessor and Lessee are aware that a Preferred Master Plan for Pier 70 was published in 2010 addressing the complete redevelopment of Pier 70. During the course of the lease, a complete redevelopment of Pier 70 may occur.</li> <li>Lessor and Lessee agree to reasonably cooperate on any future master plan, agreements with other Pier 70 developers and tenants, and their implementation.</li> </ul>
Standard Lease Terms	The development agreement and lease, except as negotiated above or in the Exclusive Negotiating Agreement between the Port and ODI, will address the terms and conditions of the Port's October 4, 2011, Request for Proposals for the 20 <sup>th</sup> Street Historic Buildings



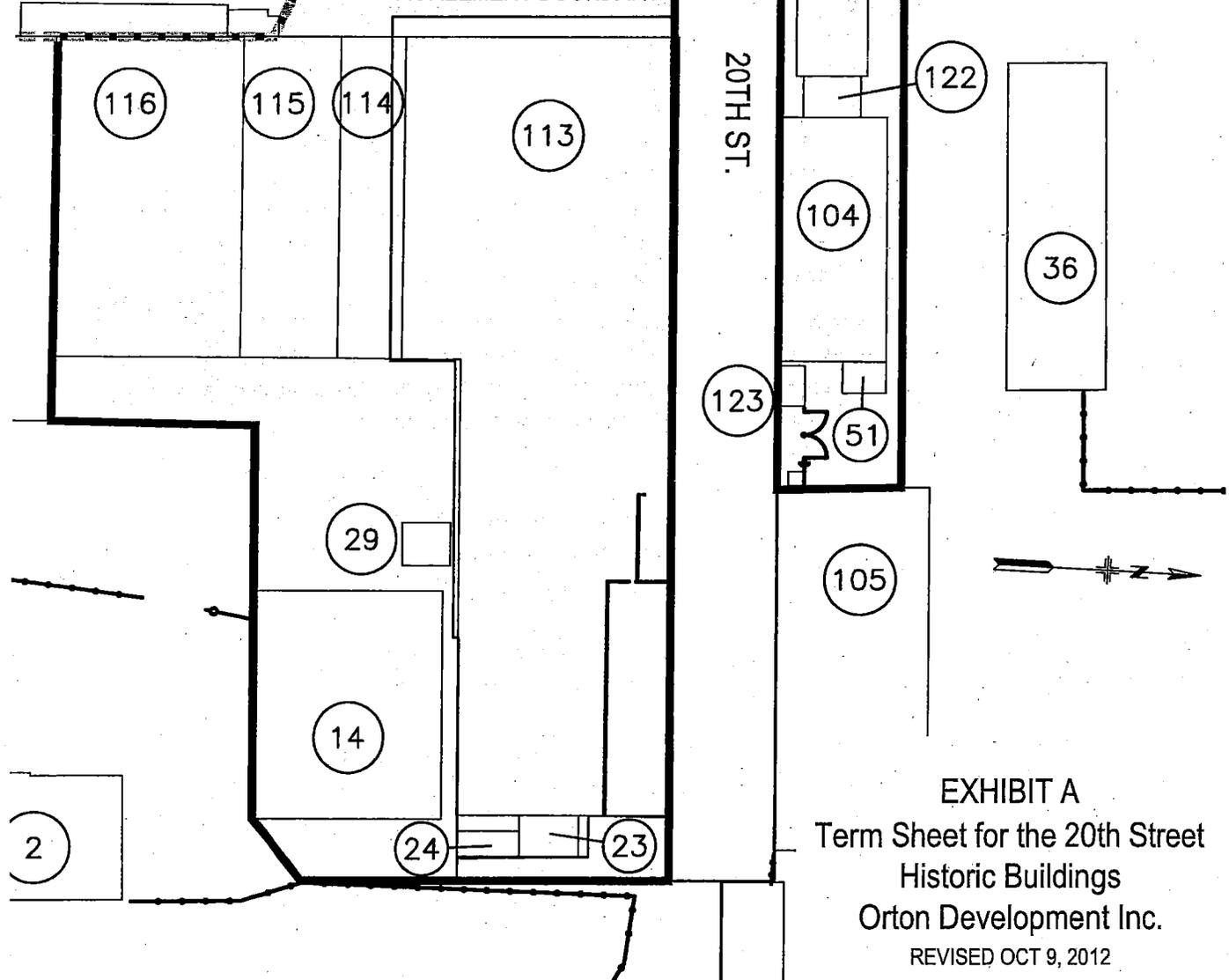
ILLINOIS ST.

PORT JURISDICTION LINE

**NOTES:**

1. ODI and the Port will negotiate a precise premises boundary to address code requirements and needed ingress and egress with the current and the future street grid.
2. Parking for the project will be part of a Pier 70 wide district parking plan.

AGREEMENT BOUNDARY



**EXHIBIT A**  
 Term Sheet for the 20th Street  
 Historic Buildings  
 Orton Development Inc.  
 REVISED OCT 9, 2012

## Exhibit D

### Central Waterfront Advisory Group Review of ODI project

#### July 25, 2012

The ODI team presented their project concepts and discussed four alternative proposals for the industrial buildings on the south side of 20<sup>th</sup> Street – in particular the iconic Union Ironworks Machine Shop (Building 113).

1. Arts production and education
2. Makers/light manufacturing/ likely food focus
3. Cirque du Soleil, a permanent facility, that would need a 300 room hotel elsewhere at Pier 70
4. Tech Office Campus

CWAG's discussion supported the arts and light industrial uses in Scenarios 1 and 2. CWAG members expressed significant concerns about Cirque and the required hotel. A tech office complex raised additional concerns about being too private of a use.

The Machine Shop, Building 113, with its 90,000 square feet of high volume space, has been suggested as an event venue or other predominately public use like a market hall or museum. ODI has programmed an atrium of 11,000 square feet in the building and suggests events for the courtyard behind; however, most of the building would be tenanted. At this time, an event space is not an economically feasible use without subsidy.

#### September 26, 2012.

ODI returned to CWAG on September 25, 2012 and discussed the rehabilitation efforts by building and the uses for each. ODI explained they have eliminated Scenarios 3 and 4 discussed in July. CWAG expressed support for the narrowed set of uses. Discussions with CWAG identified issues that will need careful attention as the design of the ODI project moves forward, which include:

**Seismic Retrofit:** how the details will impact the historic buildings

**Public Access:** Allowing the public to view and enjoy these buildings through the atrium, public lobbies, or other measures.

**Public Realm:** Upgrades to the streetscape and plazas to support returning these buildings to use, for example adding and repairing sidewalks as needed.

**Transportation and Parking:** As discussed above, locations for near-term parking will be refined as the transaction documents are negotiated and the parking requirements of the 20<sup>th</sup> Street businesses will be incorporated in the overall Pier 70 parking plan.



OFFICE OF THE MAYOR  
SAN FRANCISCO



EDWIN M. LEE  
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors  
FROM: *EM* Mayor Edwin M. Lee *EL*  
RE: Finding of Fiscal Feasibility; Endorsement of Term Sheet; Rehabilitation of  
the 20th Street Historic Buildings on or near 20th Street, east of Illinois  
Street  
DATE: October 23, 2012

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Attached for introduction to the Board of Supervisors is the resolution finding the proposed rehabilitation of the 20th Street Historic Buildings on or near 20th Street, east of Illinois Street, fiscally feasible pursuant to Administrative Code Chapter 29 and endorsing the Term Sheet between Orton Development, Inc. and the San Francisco Port Commission.

Please note this item is cosponsored by Supervisor Cohen.

I request that this item be calendared in Budget and Finance Committee.

Should you have any questions, please contact Jason Elliott (415) 554-5105.

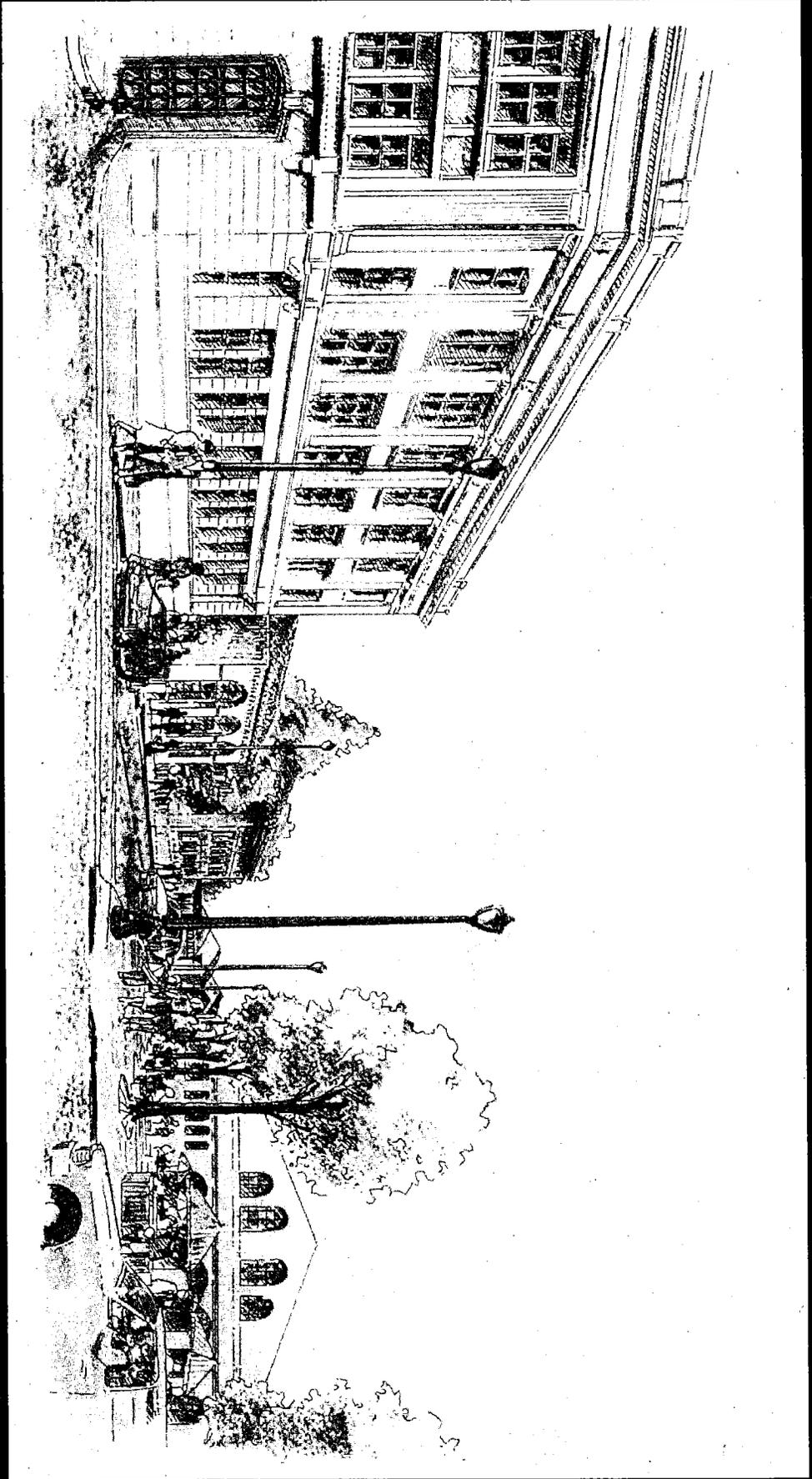
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cc. Supervisor Malia Cohen

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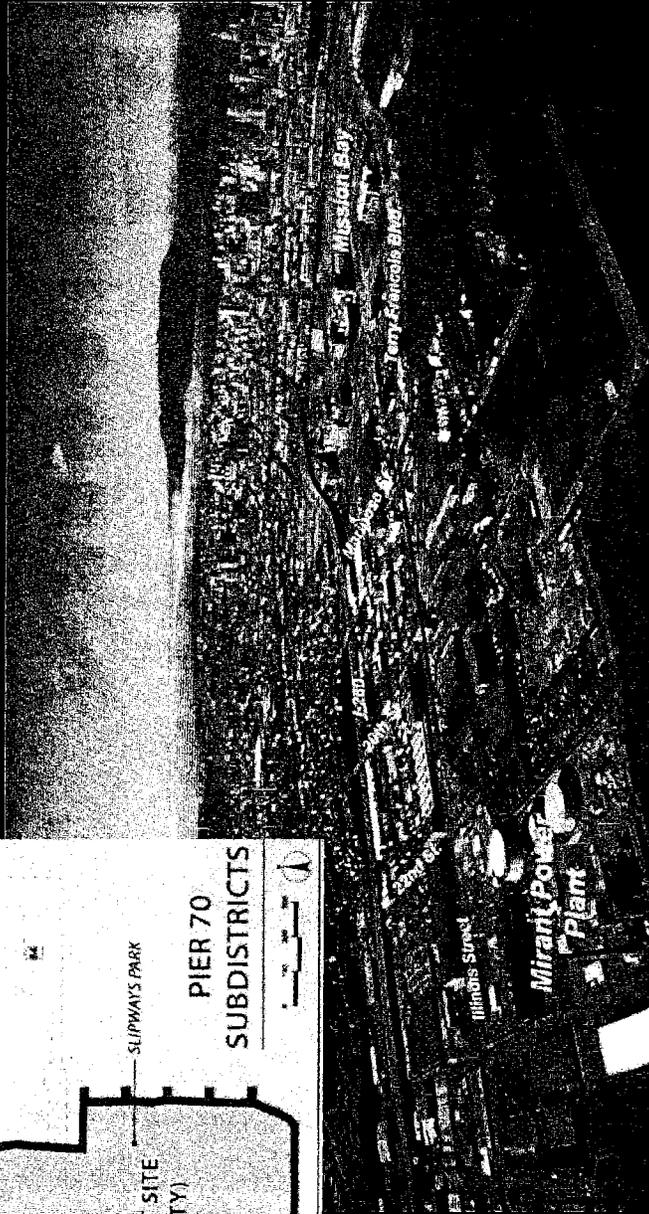
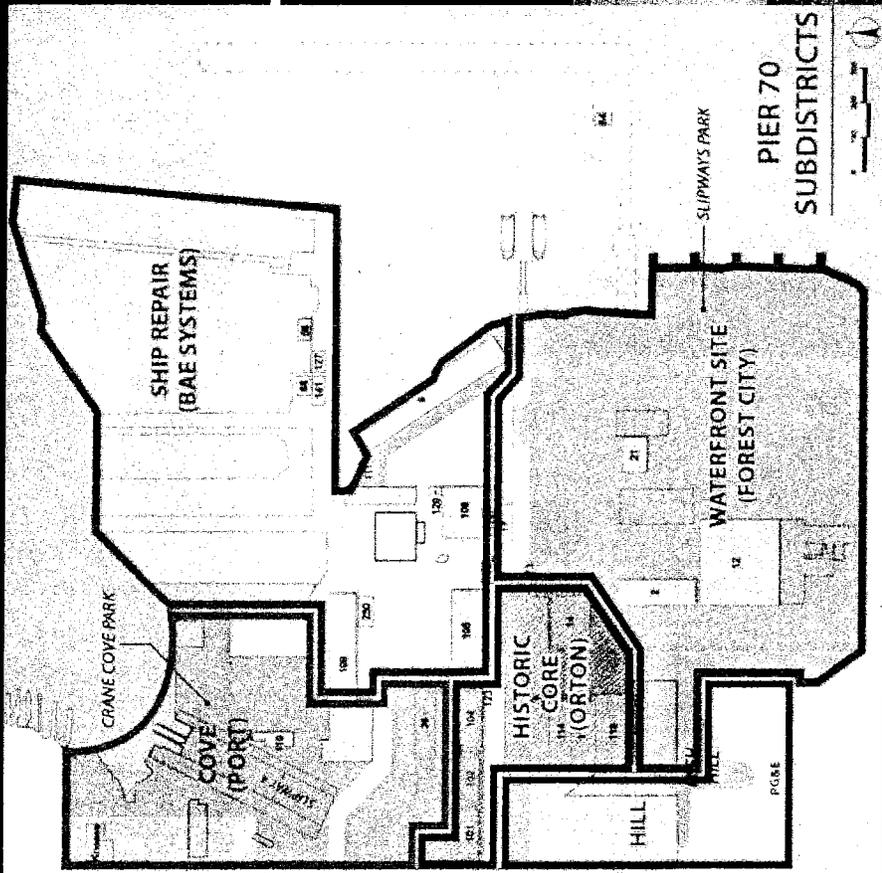


# ODI Term Sheet & Fiscal Feasibility



Pier 70: 20<sup>th</sup> St. Historic Buildings

# Pier 70's Historic Core



# Overview

- Requesting endorsement of the Term Sheet with Orton Development Inc. (ODI) for rehabilitation of 6 historic buildings at Pier 70
- Requesting finding of Fiscal Feasibility of project prior to project review
- Return to Board for lease approval in 2013

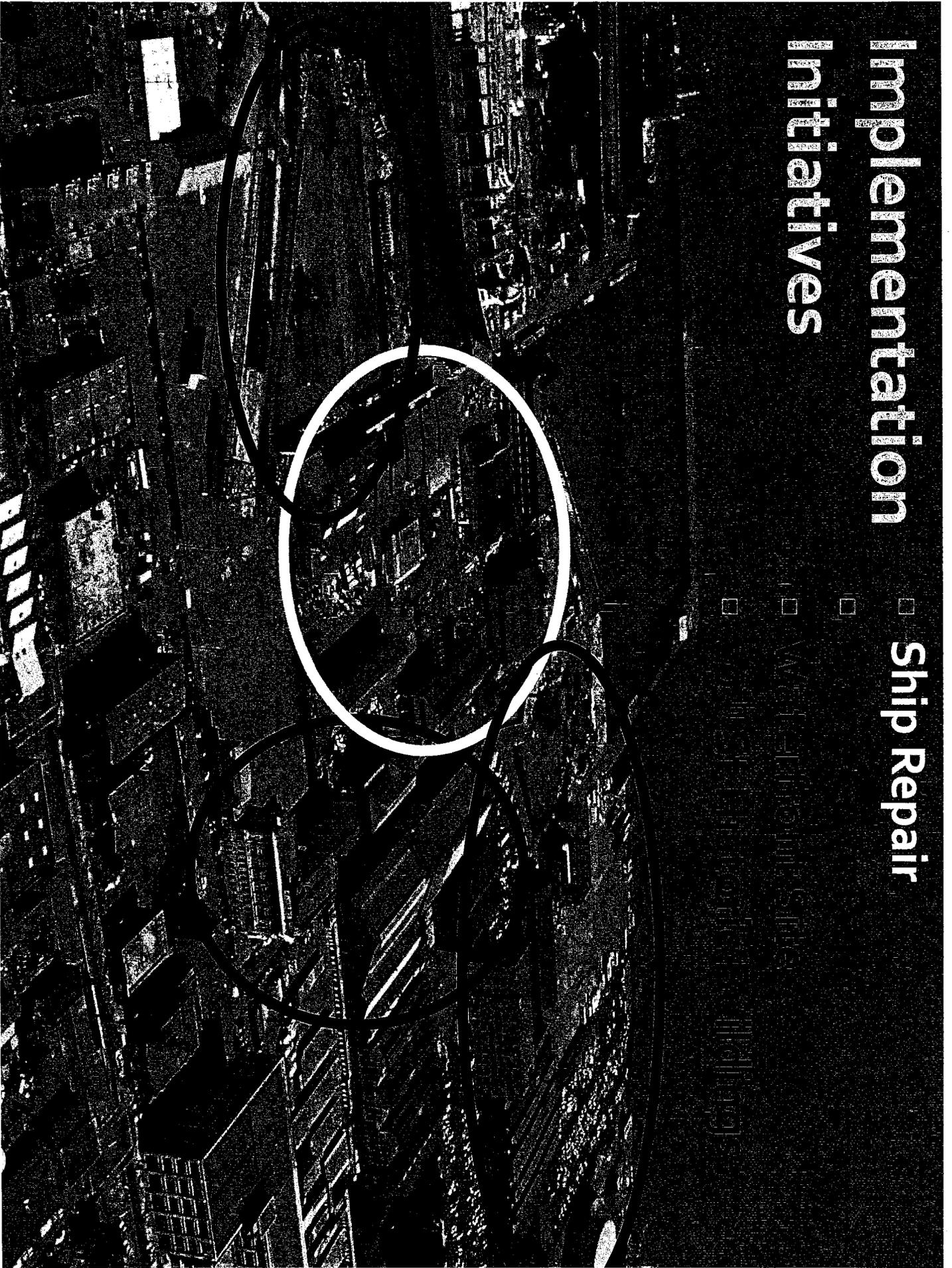




# Implementation Initiatives

## Ship Repair

- [View Ship Repair Sites](#)
- [View Ship Repair Sites](#)
- [View Ship Repair Sites](#)



# 20<sup>th</sup> Street Historic Buildings

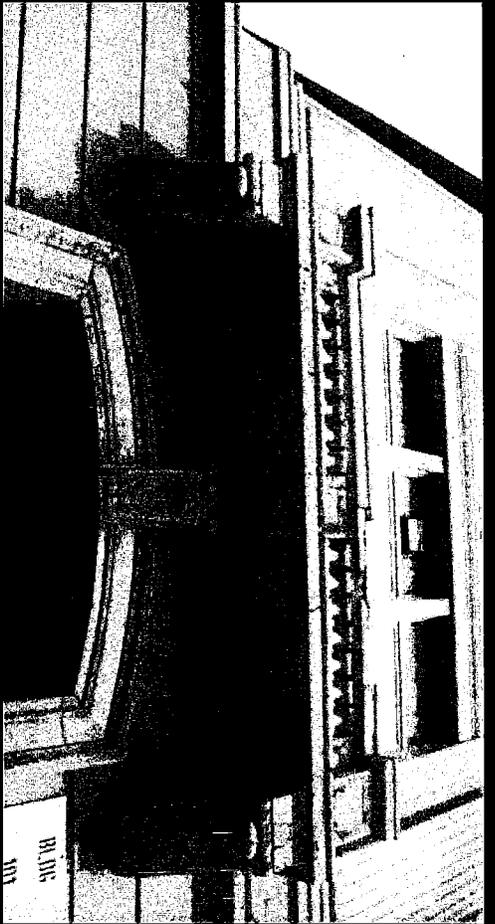
## Buildings

- Date from 1885 to 1940s
- Eligible for the National Register of Historic Places
- Two office buildings; 4 industrial inc. powerhouse

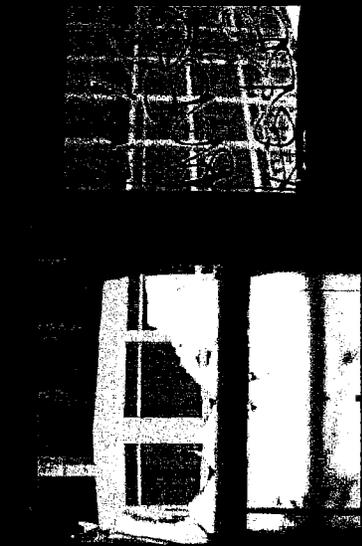
## Orton Development

- Selected through competitive Request for Proposals (RFP)
- Extensive experience in rehabilitation of industrial and office buildings
- Met or exceeded RFP objectives





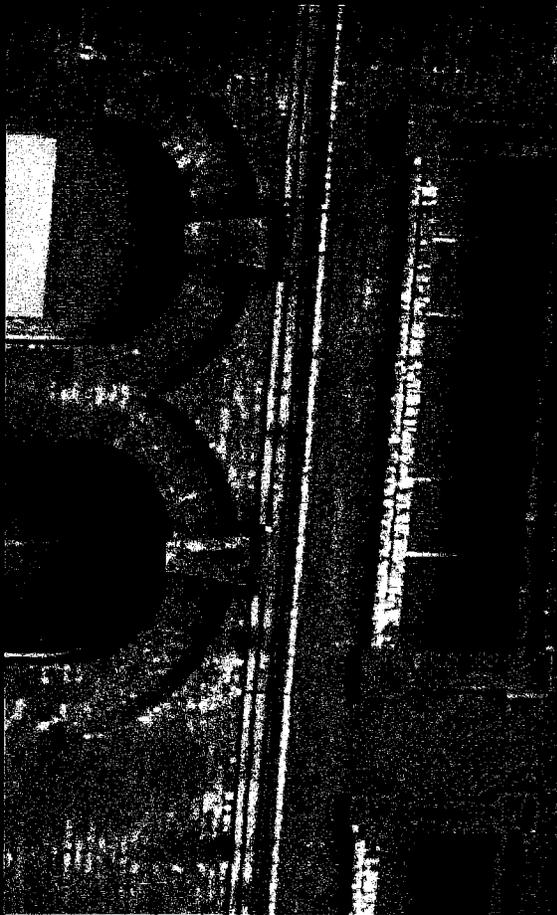
- BUILDING 101 -  
BETHLEHEM STEEL OFFICE BUILDING**
- Gateway to Pier 70 historic district
  - Offices & ground floor food service



## BUILDING 102- POWER HOUSE

- Restaurant
- Project amenities, e.g. meeting rooms, gym, and classroom facilities,

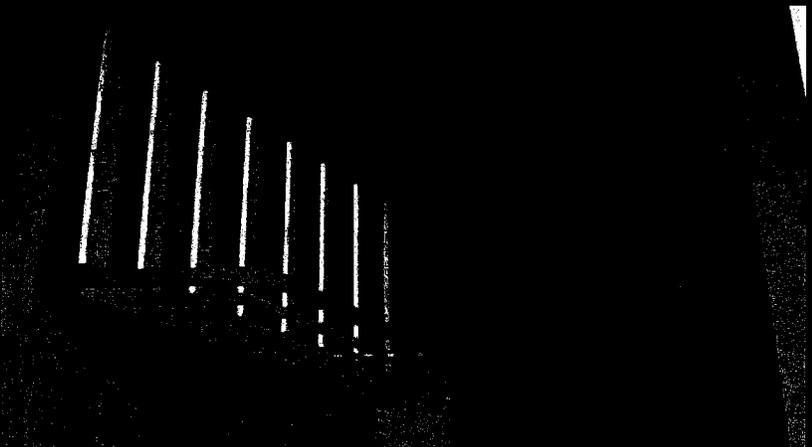




## **BUILDING 104**

### **UNION IRONWORKS OFFICE BUILDING**

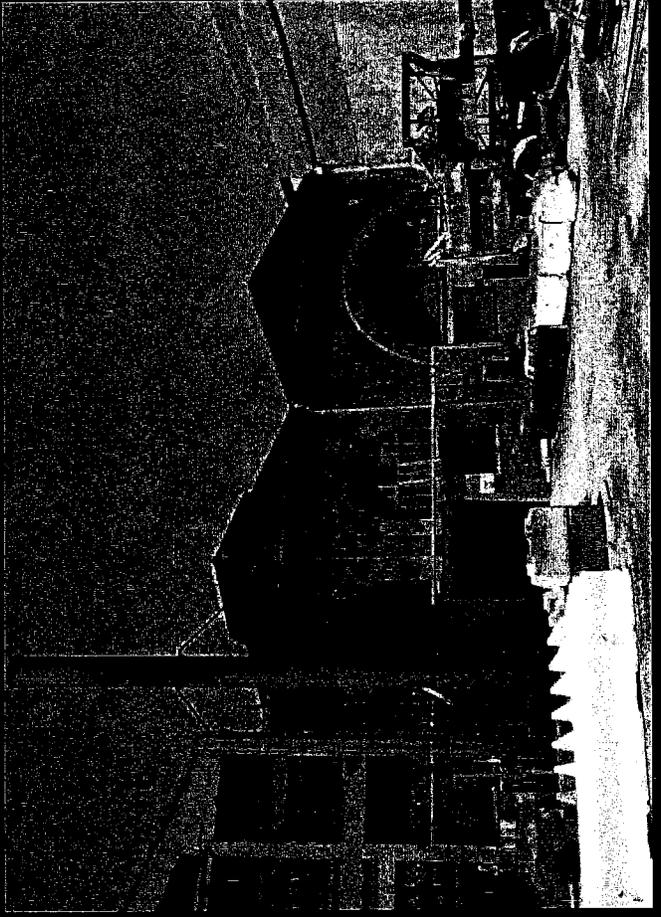
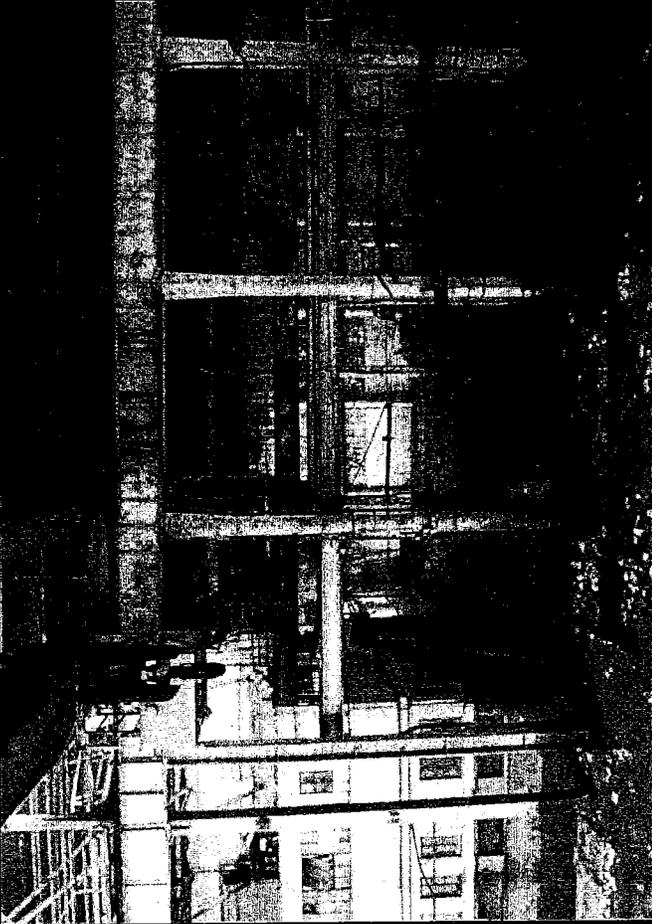
- Unreinforced Masonry
- Single or multi-tenant office space



## BUILDINGS 113 & 114

### UNION IRONWORKS MACHINE SHOP & FOUNDRY

- Incipient collapse advisory: mezzanine bracing system around building's interior
- Large scale manufacturing and light industrial or arts-related uses





## **BUILDINGS 115 & 116 -**

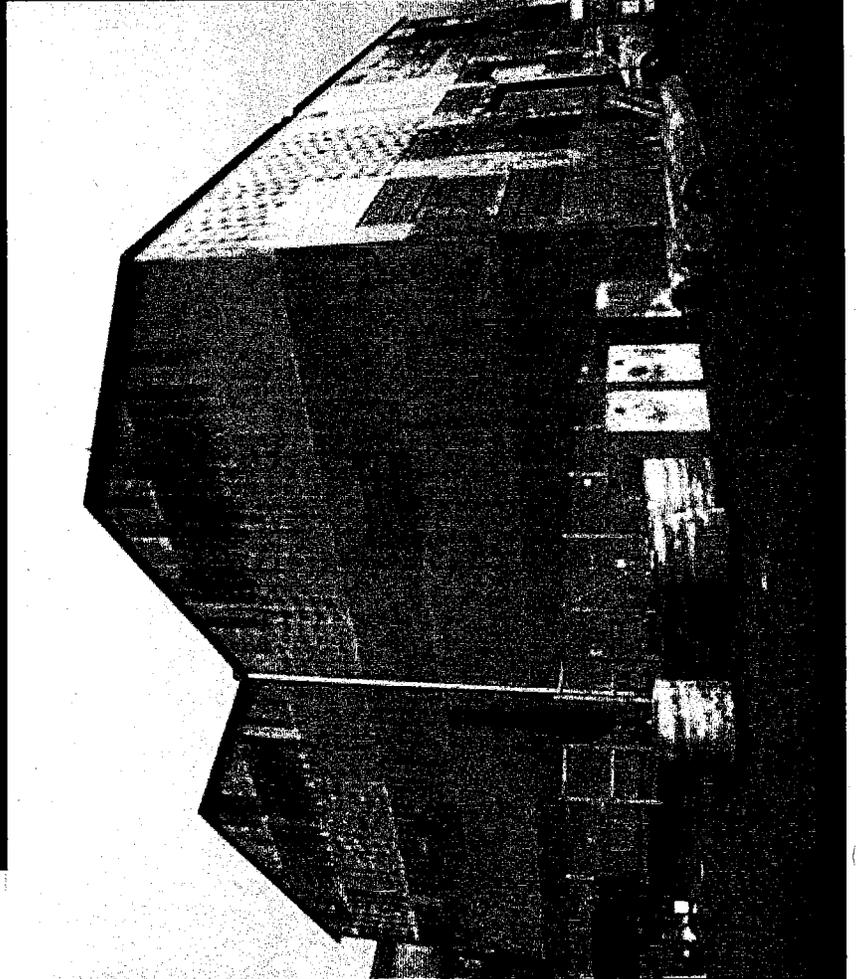
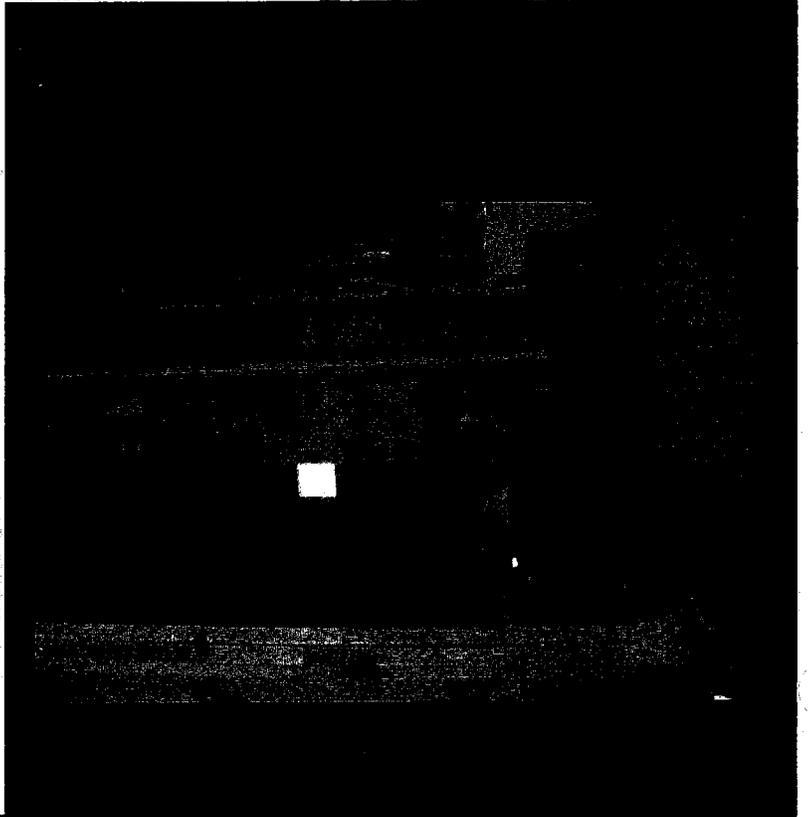
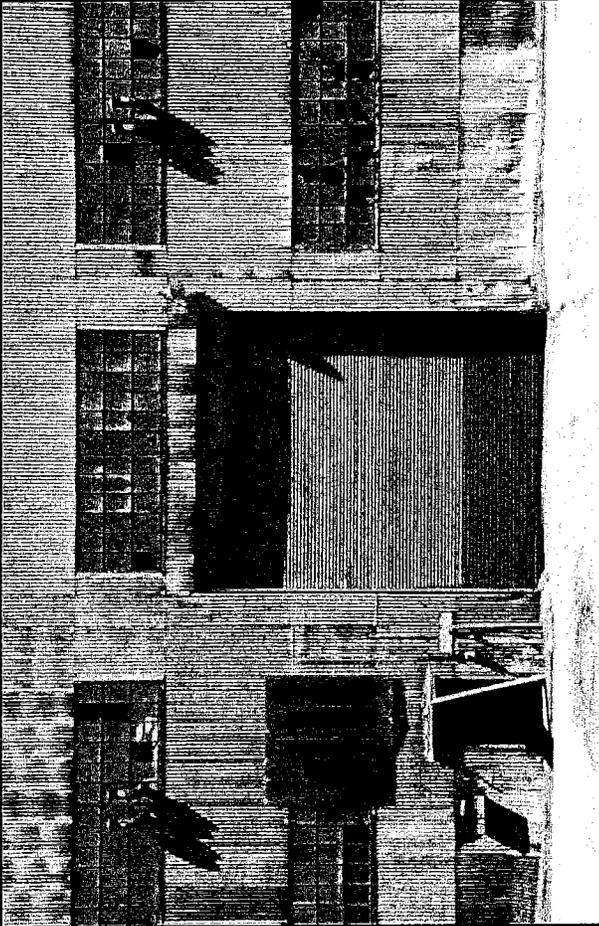
### **UNION IRONWORKS WAREHOUSE**

- Highly efficient, flex work spaces combining buildings, yard, traditional infrastructure, and state-of-the-art data capabilities
- Light industrial, mixed use



# BUILDINGS 14 WAREHOUSE

- Anticipated uses include recreation or light industrial with ancillary retail and office.



# Special Fund Revenues

Annual at Completion

SF Transportation Authority	
Parking Tax	\$47,000
Sales Tax	\$24,000
Subtotal	\$71,000
Special Funds*	\$48,000
Total	\$140,000

\*(Children's, Library, Open Space Public Safety Fund)

Source: Keyser Marston, November 2012

# Next Steps

- Board Endorsement & Fiscal Feasibility Finding
- Refine Project inc. Pier 70-wide coordination
- Further Project Review – Rest of 2012
- Lease approval – Early 2013
- Construction Starts – Spring 2013
- First Occupancy – 2014



# Project Goals

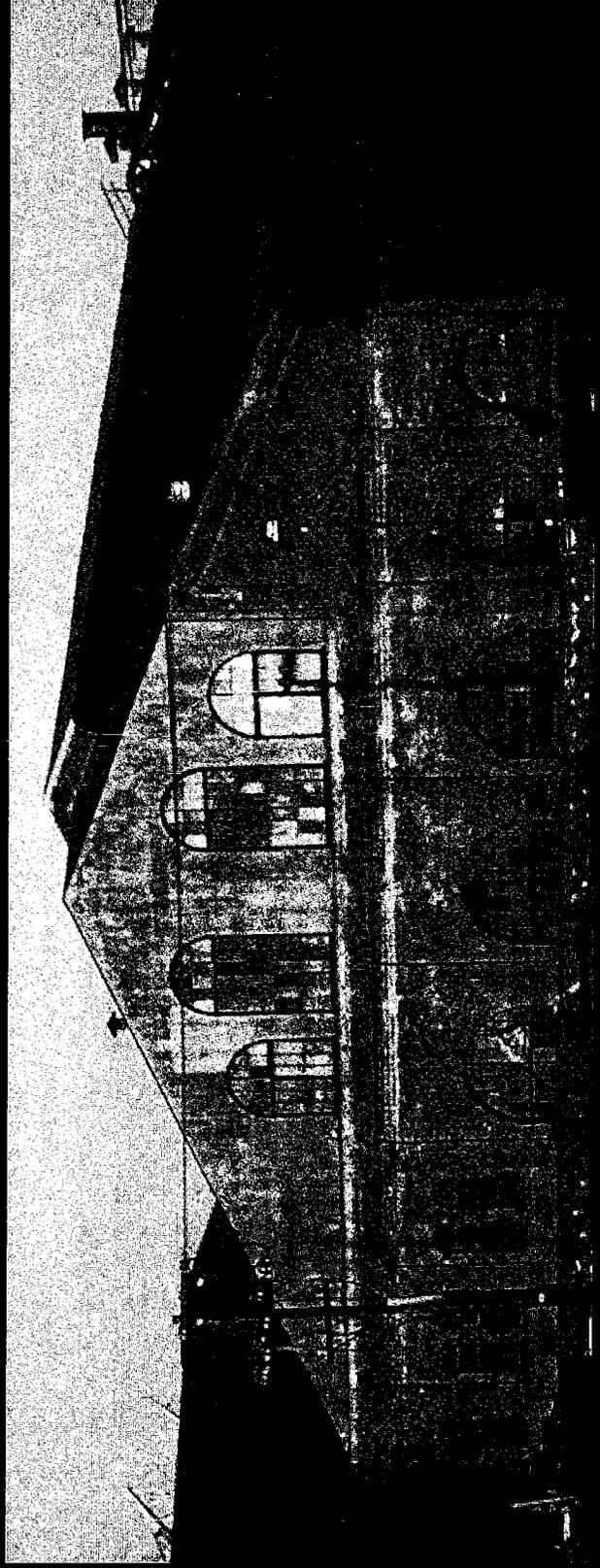
- Return buildings to use
- Security & safety
- Reverse deterioration and prevent collapse
- Deliver exciting public space
- Create vibrant productive community Workplaces for 400 to 500 jobs



Pier 70: 20<sup>th</sup> Street Historic Buildings | Orton Development, Inc.

# Success Factors

- Capital Cost \$58M – Less than Prior Estimates
- Strong Market Interest
- ODI's Access to Capital & Equity Commitment
- Participation Rent Structure



# Business Terms

- ODI to invest up to \$14 Million of equity
- Port to contribute \$1.5 Million
- Participation Deal Structure
  - Net revenue after debt service repays ODI equity and a 14% return on the equity
  - Once ODI equity is repaid, 50/50 sharing of net revenue
  - Port participates in Refinancing and Sale Proceeds

# Port Base Rent

- In 20 years, a Base Rent of \$200,000 escalated by CPI is imposed
- ODI will pay the greater of the Participation Rent or the Base Rent
- Provisions to delay Base Rent, if more than \$14 M of ODI equity is required.



# Fiscal Feasibility Assessment

- Required for major projects prior to initiating environmental review
- Primary benefit is to save these buildings
  - Financial benefits
    - Rent
    - Tax Revenues



# General Fund Revenues

Annual at Completion

Property Tax	\$340,000
Payroll Tax	\$238,000
Property Tax in-lieu of Motor Vehicle License	\$64,000
Utility Users Tax	\$58,000
Sales Tax	\$47,000
Parking Tax	\$12,000
Other*	\$17,000
Total, Excluding Property Tax	\$440,000
Total, Including Property Tax	\$780,000

\*Business registration fees; license, permit, and franchise fees; and fines, forfeitures, and penalties.

Source: Keyser Marston, November 2012



Pier 70: 20th Street Historic Buildings | Orton Development, Inc.

