

## NEW ISSUE -BOOK-ENTRY ONLY

NOT RATED

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, Bond Counsel, subject, however to certain qualifications, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein.

\$38,280,000\*

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE  
CITY AND COUNTY OF SAN FRANCISCO  
COMMUNITY FACILITIES DISTRICT NO. 7  
(HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2014**

**Dated: Date of Delivery****Due: August 1, as shown on front inside cover**

The Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014 (the "Bonds") are being issued under the Mello-Roos Community Facilities Act of 1982 as amended, being section 53311 *et seq.* of the California Government Code (the "Act"), Article 11, commencing with Section 53580, of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Law"), the Dissolution Act (defined herein), a Fiscal Agent Agreement dated as of July 1, 2014 (the "Fiscal Agent Agreement"), by and between the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the "Successor Agency") and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), and a resolution of the Commission of the Successor Agency (the "Commission").

The Bonds are payable solely from Special Tax Revenues (as defined herein) consisting of, as more fully described in this Official Statement, (i) the proceeds of special taxes levied on real property within the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) (the "District") according to the Second Amended and Restated Rate and Method of Apportionment of Special Tax (the "Rate and Method"), by the Successor Agency, acting as the legislative body of the District, and (ii) moneys in certain funds and accounts established under the Fiscal Agent Agreement, including the Reserve Fund, as defined herein.

The Bonds are being issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple of \$5,000, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds will be dated the date of delivery and will mature on August 1 of the years and in the amounts as set forth on the inside cover. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2015. See "THE BONDS." Payments of principal of and interest on the Bonds will be payable by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See APPENDIX E—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Bonds are being issued to (i) provide funds to provide for the refunding of the entire \$34,500,000 outstanding principal amount of the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Variable Rate Demand Special Tax Bonds, 2005 Series A (the "Prior Bonds"), (ii) to fund capitalized interest on the Bonds through November 1, 2014, (iii) make a deposit to the Reserve Fund established under the Fiscal Agent Agreement, and (iv) pay the costs of issuance of the Bonds.

The Bonds are subject to optional and mandatory redemption prior to their stated maturity. See "THE BONDS—Redemption Provisions."

**THE BONDS, THE INTEREST THEREON, AND ANY PREMIUMS PAYABLE ON THE REDEMPTION OF ANY OF THE BONDS, ARE NOT AN INDEBTEDNESS OF THE SUCCESSOR AGENCY (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE FISCAL AGENT AGREEMENT), THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (THE "STATE"), AND THE SUCCESSOR AGENCY (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE FISCAL AGENT AGREEMENT), AND THE STATE IS NOT LIABLE ON THE BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE SUCCESSOR AGENCY (EXCEPT TO THE LIMITED EXTENT SET FORTH IN THE FISCAL AGENT AGREEMENT) OR THE STATE IS PLEDGED TO THE PAYMENT OF THE BONDS. OTHER THAN THE SPECIAL TAXES LEVIED WITHIN THE DISTRICT, NO TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT A GENERAL OBLIGATION OF THE SUCCESSOR AGENCY OR THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE SUCCESSOR AGENCY, FOR AND ON BEHALF OF THE DISTRICT, PAYABLE SOLELY FROM THE SOURCES PROVIDED IN THE FISCAL AGENT AGREEMENT.**

*This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision with respect to the Bonds. Investment in the Bonds involves risks which may not be appropriate for some investors. See "SPECIAL RISK FACTORS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.*

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### MATURITY SCHEDULE

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See inside front cover

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The Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Schiff Hardin LLP is acting as Disclosure Counsel to the Successor Agency. Certain legal matters will be passed on for the Successor Agency by its General Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, and for the Master Developer by its counsel Paul Hastings LLP, San Francisco, California, and Goodwin Procter LLP, Los Angeles, California. It is anticipated that the Bonds will be delivered to the Underwriters through the facilities of DTC in New York, New York on or about July 31, 2014.

# STIFEL



Backstrom McCarley Berry & Co., LLC

The date of this Official Statement is: \_\_\_\_\_, 2014.

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

## MATURITY SCHEDULE

\$ \_\_\_\_\_ Serial Bonds; CUSIP<sup>†</sup> Prefix \_\_\_\_\_

Maturity Date ( <u>August 1</u> )	Principal <u>Amount</u>	Interest <u>Rate</u>	<u>Yield</u>	<u>Price</u>	CUSIP <sup>†</sup> <u>Suffix</u>
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\$ \_\_\_\_\_ % Term Bond due August 1, 20 \_\_, Yield \_\_%, Price \_\_%, CUSIP<sup>†</sup> No. \_\_\_\_\_

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<sup>†</sup> Copyright 2014, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Successor Agency and are included solely for the convenience of the registered owners of the applicable Bonds. Neither the Successor Agency nor the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

## Location Map of the District



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**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY  
OF THE CITY AND COUNTY OF SAN FRANCISCO**

**Successor Agency Commission Members**

Christine Johnson, *Chairperson*  
Mara Rosales, *Vice Chairperson*  
Theodore Ellington  
Marily Modejar  
Darshan Singh

**Successor Agency Staff**

Tiffany Bohee, *Executive Director*  
Leo Levenson, *Deputy Executive Director, Finance and Administration*  
James Morales, *Interim General Counsel*  
Sally Oerth, *Deputy Executive Director*

**CITY AND COUNTY OF SAN FRANCISCO**

Edwin M. Lee, *Mayor*

Dennis J. Herrera, *City Attorney*  
Benjamin Rosenfield, *Controller*  
José Cisneros, *Treasurer*

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David Chiu, *President, District 3*  
Mark Farrell, *District 2*  
John Avalos, *District 11*  
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Katy Tang, *District 4*  
Jane Kim, *District 6*  
Scott Wiener, *District 8*  
Norman Yee, *District 7*  
Eric Mar, *District 1*  
Malia Cohen, *District 10*  
London Breed, *District 5*

**SPECIAL SERVICES**

**Bond Counsel**

Jones Hall, A Professional Law Corporation  
San Francisco, California

**Financial Advisor**

CSG Advisors Incorporated  
San Francisco, California

**Appraiser**

Seevers • Jordan • Ziegenmeyer  
Rocklin, California

**Disclosure Counsel**

Schiff Hardin LLP  
San Francisco, California

**Special Tax Consultant and  
District Administrator**

Goodwin Consulting Group, Inc.  
Sacramento, California

**Fiscal Agent**

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

No dealer, broker, salesperson or other person has been authorized by the Successor Agency or the City and County of San Francisco (the “City”) to give any information or to make any representations in connection with the offer or sale of the Bonds other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction where such offer, solicitation or sale would be unlawful.

The information set forth herein has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Successor Agency or the City. Neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Successor Agency or the City since the date hereof. The information and expressions of opinion stated herein are subject to change without notice.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking” statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions. The achievement of certain results or other expectations contained in such forward-looking statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. No assurance is given that actual results will meet the forecasts of the Successor Agency in any way, regardless of the optimism communicated in the information, and such statements speak only as of the date of this Official Statement. The Successor Agency disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the expectations of the Successor Agency with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

All summaries of the Fiscal Agent Agreement (as defined herein), and of statutes and other documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such statute and document. This Official Statement, including any amendment or supplement hereto, is intended to be deposited with one or more depositories. This Official Statement does not constitute a contract between any Owner of a Bond and the Successor Agency or the City.

The Successor Agency and the City maintain a website. However, the information presented therein is not a part of this Official Statement and must not be relied upon in making an investment decision with respect to the Bonds.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR AFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## OFFICIAL STATEMENT

**\$38,280,000\***

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE  
CITY AND COUNTY OF SAN FRANCISCO  
COMMUNITY FACILITIES DISTRICT NO. 7  
(HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)  
SPECIAL TAX REFUNDING BONDS, SERIES 2014**

### INTRODUCTION

*This introduction is not a summary of this Official Statement. It is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

#### **General; Purpose**

This Official Statement, including the cover page and appendices hereto, is provided to furnish information regarding the issuance and sale by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the “Successor Agency”), on behalf of the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) (the “District”), of \$38,280,000\* aggregate principal amount of the Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014 (the “Bonds”).

The Bonds are being issued in fully registered book-entry form in denominations of \$5,000 or any integral multiple of \$5,000, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). The Bonds will be dated the date of delivery and will mature on August 1 of each year in the amounts as set forth on the inside cover. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2015. See “THE BONDS.” Payments of principal of and interest on the Bonds will be payable by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See APPENDIX E—“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

The Bonds are being issued under the Mello-Roos Community Facilities Act of 1982 as amended, being section 53311 *et seq.* of the California Government Code (the “Act”), Article 11, commencing with Section 53580, of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Refunding Law”), the Dissolution Act (as defined herein), a Fiscal Agent Agreement dated as of July 1, 2014 (the “Fiscal Agent Agreement”), by and between the Successor Agency, for and on behalf of the District, and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”) and a resolution of the Commission of the Successor Agency (the “Successor Agency Commission”).

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\* Preliminary, subject to change.

The Act was enacted by the California Legislature to provide an alternate method of financing certain public capital facilities and services, especially in developing areas of the State of California (the “State”). Once duly established by a city, county or other local agency, a community facilities district is a legally constituted governmental entity within definitely defined boundaries, with the governing board or legislative body of the local agency acting on its behalf. Subject to approval by a two-thirds vote of a district’s qualified electors and compliance with the provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

The Bonds are being issued (i) to provide funds for the refunding of the entire \$34,500,000 outstanding principal amount of the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Variable Rate Demand Special Tax Bonds, 2005 Series A (the “Prior Bonds”), (ii) to fund capitalized interest on the Bonds through November 1, 2014, (iii) make a deposit to the Reserve Fund established under the Fiscal Agent Agreement, and (iv) pay the costs of issuance of the Bonds.

### **The Successor Agency**

As described below, the Successor Agency has succeeded to certain rights of the Redevelopment Agency of the City and County of San Francisco (the “Former Agency”). The Former Agency was organized by the Board of Supervisors (the “Board of Supervisors”) of the City and County of San Francisco (the “City”) in 1948, to exercise the powers granted by the California Community Redevelopment Law (Sections 33000 et seq. of the California Health and Safety Code) (the “Redevelopment Law”). The Successor Agency Commission approved the issuance of the Bonds by resolution adopted on April 15, 2014.

Pursuant to California legislation enacted in 2011 and 2012 (as more fully described herein, the “Dissolution Act”), redevelopment agencies in California, including the Former Agency, were dissolved, and with certain exceptions, could no longer conduct redevelopment activities. The Successor Agency, however, is authorized to continue to implement the respective redevelopment projects for certain project areas, including the Hunters Point Shipyard Redevelopment Project, which includes the District. See “THE DISTRICT” below. See also “THE SUCCESSOR AGENCY” for a discussion of the Dissolution Act, the formation of the Successor Agency and the current powers, and limitations thereon, of the Successor Agency.

Under the Dissolution Act, the issuance of the Bonds was subject to approval of the Successor Agency’s Oversight Board, as described below, and the optional review or approval by the Department of Finance of the State of California. See “THE SUCCESSOR AGENCY.”

The Oversight Board for the Successor Agency approved the issuance of the Bonds by the Successor Agency by resolution adopted on April 28, 2014. The Department of Finance of the State of California concluded that the issuance of the Bonds does not require its review.

### **Security for the Bonds and Sources of Payment**

The Bonds will be secured by a pledge of Special Tax Revenues (as hereinafter defined) received by the Successor Agency (including any prepayment thereof and proceeds from foreclosure sales pursuant to the Fiscal Agent Agreement) and amounts in certain other funds and accounts established under the Fiscal Agent Agreement, including the Reserve Fund. As more fully described below, Special Tax Revenues consist of special taxes levied on certain real property within the District according to the Rate and Method under the Act, the Ordinance Levying Special Taxes (as defined herein) and the Fiscal Agent



Agreement (the “Special Taxes”). The Special Tax Revenues are included on the regular property tax bills sent to the record owners of properties within the District subject to the Special Tax (the “Taxable Property”). The Successor Agency has covenanted for the benefit of the Owners of the Bonds, under certain circumstances described herein, to commence judicial foreclosure proceedings against property with delinquent Special Taxes and to diligently pursue such proceedings to completion. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

## **The District**

The District is comprised of approximately 66 acres located in the southeast corner of the City on a portion of the site of the former U.S. Navy Hunters Point Shipyard. The District was formed by the Former Agency in 2005 to provide financing for infrastructure therein. All of the Taxable Property in the District is currently owned by (i) HPS Development Co., LP, a Delaware limited partnership, the master developer within the District (the “Master Developer”) and (ii) certain builders affiliated with the Master Developer. Certain parcels within the District are owned by the Successor Agency and are intended to be developed as affordable housing by the Successor Agency; so long as the property remains owned by the Successor Agency, they are exempt from Special Taxes. Certain real property in the District consists of, or is reserved for, open space and streets and right-of-way; this property is not subject to Special Taxes.

Development of the Taxable Property within the District is anticipated to consist of 1,079 single-family residential units in two subdivisions - the Hilltop (705 units) and Hillside (374 units). The Master Developer has constructed substantially all of the infrastructure (other than parks and landscaping) necessary for development to proceed within the Hilltop subdivision and residential development therein has commenced (the portion of Hilltop in which residential development has commenced shall be referred to herein as “Developed Hilltop”). The remainder of the property in the District is referred to as “Undeveloped Hilltop” and “Hillside.” The Master Developer plans to finance the remaining infrastructure in the District primarily with certain loan proceeds and certain amounts derived from land and home sales and if needed, sponsor equity. The Master Developer expects that its affiliates will complete most of the residential development, although it may offer parcels for sale and development by unaffiliated merchant homebuilders and other developers. See “THE DISTRICT.”

The District is grouped into various blocks for development purposes (each a “Block” or “Sub-Block”).

An appraisal report (the “Appraisal”) commissioned by the Successor Agency determined that the Taxable Property had an aggregate value of \$127,650,000 as of May 30, 2014. See “THE DISTRICT—Property Valuation” and “—Appraised Property Value.”

## **Impact of Recent Changes in Redevelopment Law**

The Redevelopment Law was recently amended to dissolve the Former Agency and to provide for establishment of the Successor Agency. The Successor Agency does not expect that the recent changes in the Redevelopment Law will impact its ability to perform its obligations under the Fiscal Agent Agreement or under the Act as it relates to the Bonds. The Successor Agency covenants in the Fiscal Agent Agreement to take all actions within its power to cause the Special Tax Revenues to be used to timely pay the scheduled debt service on the Bonds. The Bonds are not payable from any tax increment revenues.

For more information about the recent changes in the Redevelopment Law, see “THE SUCCESSOR AGENCY—Effect of the Redevelopment Agency Dissolution.”

## **Risks of Investment**

The purchase of the Bonds involves investment risk, especially because the District is not completely developed. Before purchasing any of the Bonds, all prospective investors should carefully consider the risks of investment. See “SPECIAL RISK FACTORS” in this Official Statement for a description of some of the risk factors to be considered when investing in the Bonds.

## **Continuing Disclosure**

The Successor Agency has covenanted for the benefit of Bondowners and Beneficial Owners to provide certain financial information and operating data relating to the District by not later than 270 days after the end of the Successor Agency’s Fiscal Year, commencing with the report for Fiscal Year ending June 30, 2014 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access (EMMA) website of the MSRB (the “Repository”). The notices of material events will be filed with the Repository.

The Master Developer has agreed to file semi-annual reports with the Repository on each September 30 and March 31, commencing March 31, 2015. As this is its first undertaking, the Master Developer has never failed to comply in any material respect with any previous undertaking in accordance with S.E.C. Rule 15c2-12 to provide disclosure reports or notices of material events.

The specific nature of the information to be contained in the Annual Report, the notices of material events and other information or reports is set forth in APPENDIX D—“FORMS OF CONTINUING DISCLOSURE CERTIFICATES.” These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

In the past five years, the Former Agency and the Successor Agency have not failed to comply in any material respect with their obligation to file annual reports but did fail on occasion to file notices of bond insurer-related rating downgrades on a timely basis. Additionally, due to the dissolution of the Former Agency and delays in the preparation of audited financials for Fiscal Year ending 2012 for the Successor Agency, the Successor Agency and the Former Agency filed their respective audited financial statements approximately 30 days late. The Former Agency had, however, filed unaudited financial statements for the Former Agency for the first seven months of the fiscal year in a timely manner. Additionally, certain tabular information related to a merged project area was not aggregated as required by the continuing disclosure agreement, however, all of the required information was available for the component areas of such merged project area. The Successor Agency has filed notices of all bond rating downgrades. The Successor Agency has established procedures that it believes will be sufficient to ensure future compliance with its continuing disclosure undertakings.

## **Additional Information**

Brief descriptions of the Bonds, the security for the Bonds, the Special Taxes, the Successor Agency, the City, the District, the Master Developer and the current affiliated homebuilders are included in this Official Statement together with summaries of certain provisions of the Bonds, the Fiscal Agent Agreement and certain other documents. Such descriptions do not purport to be comprehensive or definitive. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms as set forth in the Fiscal Agent Agreement. All references herein to the Fiscal Agent Agreement and other documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Fiscal Agent Agreement, copies of which are available prior to the issuance of the Bonds from the Office of the Deputy



Executive Director, Finance and Administration, Successor Agency to the Redevelopment Agency of the City and County of San Francisco, One South Van Ness Avenue, 5th Floor, San Francisco, California 94103; telephone: (415) 749-2465 and thereafter from the Fiscal Agent, The Bank of New York Mellon Trust Company, N.A., 500 Kearny Street, Suite 600, San Francisco, California 94108; telephone: (415) 263-2418. Within the City, the Successor Agency is constituted as the Office of Community Investment and Infrastructure or “OCII,” which may be contacted at: Office of Community Investment and Infrastructure, One South Van Ness Avenue, 5th Floor, San Francisco, California 94103; telephone: (415) 749-2465. The Successor Agency will respond to requests by any Bondowner for public information.

## **PLAN OF FINANCE**

### **Background**

The real property in the District represents a portion of Parcel A of the Hunters Point Naval Shipyard. Parcel A is the first of six parcels to be conveyed by the United States Navy to the Former Agency and the Successor Agency as environmental conditions are remediated and the parcels are determined to be sufficiently toxin-free to transfer. The Bonds are being issued for the primary purpose of providing funds to refund the Prior Bonds, as described below.

### **Issuance of Prior Bonds; Construction of Public Improvements**

The Prior Bonds were issued in April 2005 in order to provide (i) approximately \$22,000,000 for the acquisition on behalf of the City of public capital improvements in the District, which improvements were constructed and installed by the Master Developer (and its predecessor); (ii) approximately \$10,900,000 to reimburse the predecessor to Master Developer for preliminary and design costs; and (iii) approximately \$1,700,000 to reimburse Former Agency and City staff time spent in connection with the Master Developer’s acquisition of the land in the District. To date, the Master Developer has constructed and the Successor Agency has acquired over \$71,000,000 of public improvements.

### **Value to Debt Burden Ratio**

The Act requires as a condition of issuing special tax bonds thereunder, that the value of the real property within the District that is subject to a special tax is at least three times the principal amount of the bonds to be issued and any other special tax bonds or special assessment bonds unless credit enhancement for the bonds is provided. The value of the real property in the District at the time the Prior Bonds were issued, which at such time of was unimproved raw land, was insufficient to meet this requirement. As a result, upon issuance, the Prior Bonds were secured by a letter of credit issued by KBC Bank, N.V., New York Branch, which letter of credit was subsequently replaced in 2009 with a letter of credit (the “Prior Bonds Letter of Credit”) issued by JP Morgan Chase Bank, N.A. (the “Prior Bonds Letter of Credit Bank”). These letters of credit were direct pay letters of credit from which all scheduled payments of debt service (solely interest) on, the Prior Bonds, have been made.

As described under “THE DISTRICT” since the time of issuance of the Prior Bonds, the Master Developer has completed a significant amount of the backbone infrastructure required for development within the Developed Hilltop portion of the District and construction of residential units therein commenced in 2013. Other infrastructure improvements in the remainder of the District have also been constructed. As a result, the value of the real property in the District is now in excess of the 3:1 value to debt burden requirement of the Act as described above. As a result, the credit enhancement represented

by the Prior Bonds Letter of Credit is no longer required and the Successor Agency, at the request of the Master Developer, is refunding the Prior Bonds.

**Although the District in the aggregate satisfies the 3:1 value-to-debt burden requirement, a substantial majority of the individual parcels of Taxable Property in the District do not meet the 3:1 value-to-debt burden ratio. See “THE DISTRICT–Property Valuation” and “SPECIAL RISK FACTORS–Proceeds of Foreclosure Sales” and “–Failure to Complete Development.”**

### **Plan of Refunding**

Proceeds from the issuance of the Bonds will be deposited by the Successor Agency in an irrevocable escrow account (the “Escrow Account”) established pursuant to the terms and conditions of an Escrow and Deposit Agreement dated July 1, 2014 (the “Escrow Agreement”) between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”).

On the delivery date of the Bonds, the Successor Agency will deposit a portion of the proceeds therefrom, together with certain other available funds, in the Escrow Account held by the Escrow Agent. On the date of redemption of the Prior Bonds, (i) the trustee for the Prior Bonds will draw on the Prior Bonds Letter of Credit to effect the redemption of the Prior Bonds, and (ii) the Escrow Agent will transfer all amounts on deposit in the Escrow Account to reimburse the Prior Bonds Letter of Credit Bank for the drawing under the Prior Bonds Letter of Credit.

### **Estimated Sources and Uses of Funds**

The sources and uses of funds in connection with the Bonds are expected to be as follows:

#### ***Sources:***

Principal Amount  
Amount relating to the Prior Bonds  
*Less:* Underwriter’s Discount

#### **Total Sources**

#### ***Uses:***

Escrow Account  
Capitalized Interest  
Reserve Fund  
Costs of Issuance<sup>†</sup>

#### **Total Uses**

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<sup>†</sup> Includes legal, financing and consultant fees, and other miscellaneous expenses.

## Debt Service Schedule

The following table presents the debt service schedule for the Bonds, assuming the Bonds are not redeemed prior to maturity other than as a result of a mandatory sinking fund redemption:

**Table 1**  
**Debt Service Schedule**

<b>Year Ending</b> <b><u>(August 1)</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
------------------------------------------------	-------------------------	------------------------	---------------------

**TOTAL**

## THE BONDS

### Description of the Bonds

The Bonds will be issued in the form of fully registered bonds without coupons and in principal denominations of \$5,000 or any integral multiple thereof.

The Bonds will be dated the date of their delivery to the original purchasers thereof. The Bonds will bear or accrue interest at the rates per annum and will mature, subject to redemption provisions set forth hereinafter, on the dates and in the principal amounts all as set forth on the inside cover page hereof. The Bonds will be initially registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, which is required to remit payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX E–“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Interest on the Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2015 (each an “Interest Payment Date”). Interest on the Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the January 15, 2015, in which event it shall bear interest from the Dated Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. “Record Date” means the fifteenth day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day.

### Redemption Provisions

***Optional Redemption.*** The Bonds maturing on August 1, 20\_\_ and thereafter are subject to redemption prior to their stated maturities, on any Interest Payment Date, in whole or in part, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed) as set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
On or before August 1, 20__	____%

***Mandatory Sinking Fund Redemption.*** The Bonds maturing on August 1, \_\_\_\_ (the “\_\_ Term Bonds”) are subject to mandatory redemption in part by lot, from sinking fund payments made by the Successor Agency from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts all as set forth in the following table:

<u>Sinking Fund Redemption Date (August 1)</u>	<u>Principal Amount Subject to Redemption</u>
--------------------------------------------------------	---------------------------------------------------

Provided, however, if some but not all of the \_\_\_\_ Term Bonds of a given maturity have been redeemed as described in “–*Optional Redemption*” above or as described in “–*Redemption from Special Tax Prepayments*” below, the total amount of all future Sinking Fund Payments relating to such maturity shall be reduced by the aggregate principal amount of \_\_\_\_ Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination (which shall consist of a revised sinking fund schedule) shall be given by the Fiscal Agent to the Successor Agency.

***Redemption from Special Tax Prepayments.*** The Bonds are subject to redemption from Special Tax Prepayments and any corresponding transfers from the Reserve Fund pursuant to the Fiscal Agent Agreement on the next Interest Payment Date for which notice of redemption can timely be given under the Fiscal Agent Agreement, among maturities so as to maintain substantially the same debt service profile for the Bonds (and any Outstanding Parity Bonds) as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<b><u>Redemption Date</u></b>	<b><u>Redemption Price</u></b>
On or before August 1, 20__	____%

***Purchase In Lieu of Redemption.*** In lieu of a redemption of the Bonds, moneys in the Bond Fund or other funds provided by the Successor Agency may be used and withdrawn by the Fiscal Agent for the purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer’s Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer’s Certificate may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such Bonds were to be redeemed in accordance with the Fiscal Agent Agreement.

***Notice of Redemption.*** The Fiscal Agent shall give notice of any redemption by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Securities Depositories, to the Municipal Securities Rulemaking Board (the “MSRB”), and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Principal Office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds.

Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date. The cost of mailing any such redemption notice and any expenses incurred by the Fiscal Agent in connection therewith shall be paid by the Successor Agency.

The Successor Agency has the right to rescind any notice of the redemption of Bonds under the Fiscal Agent Agreement by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an event of default under this Agreement. The Successor Agency and the Fiscal Agent have no liability to the Owners of the Bonds or any other party related to or arising from such rescission of redemption. The Fiscal Agent shall mail notice of such

rescission of redemption in the same manner as the original notice of redemption was sent under the Fiscal Agent Agreement.

So long as the book-entry system is in effect with respect to the Bonds, all notices of redemption will be mailed to DTC (or its nominee), as the registered owner of the Bonds. See APPENDIX E–“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

***Effect of Redemption.*** From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the Bonds so called for redemption shall have been deposited in the Bond Fund, such Bonds so called shall cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in the notice of redemption. All Bonds redeemed and purchased by the Fiscal Agent under the Fiscal Agent Agreement shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds in accordance with the Fiscal Agent’s retention policy then in effect.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General**

The Bonds are limited obligations of the Successor Agency on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Special Tax Fund, the Bond Fund and Reserve Fund created under the Fiscal Agent Agreement.

“*Special Tax Revenues*” is defined in the Fiscal Agent Agreement as the proceeds of the Special Taxes received by the Successor Agency, including any scheduled payments and any Special Tax Prepayments, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. “Special Tax Revenues” do not include any interest in excess of the interest due on the Bonds or any penalties collected in connection with delinquent Special Taxes.

### **Special Taxes**

Under the Fiscal Agent Agreement, the Successor Agency is obligated to annually fix and levy the amount of Special Taxes within the District required for the timely payment of principal of and interest on the outstanding Bonds (including the Bonds and any Parity Bonds) becoming due and payable in each succeeding calendar year, including any necessary replenishment of the Reserve Fund to the amount of the Reserve Requirement and an amount estimated to be sufficient to pay the Administrative Expenses, taking into account the balances in the applicable funds established under the Fiscal Agent Agreement and in the Special Tax Fund. The Special Taxes levied on any parcel of “Taxable Property” (as defined in “–Rate and Method”) may not exceed the maximum amount as provided in the Rate and Method.

The Special Taxes are payable and are currently being collected in the same manner, at the same time and in the same installment as ad valorem taxes on property levied on the secured tax roll are payable, and pursuant to the Act have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the taxes levied on the tax roll. The Fiscal Agent Agreement, however, allows for the Special Taxes to be levied in certain circumstances by direct billing by the Successor Agency of the affected parcels of Taxable Property.

Although the Special Taxes constitute a lien on Taxable Property within the District, they do not constitute a personal indebtedness of the owners of the property within the District. Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax on a parcel of Taxable Property, the Successor Agency may order the institution of a superior court action to foreclose the lien on the parcel of Taxable Property within specified time limits. In such an action, the real property subject to the unpaid amount of the Special Tax lien may be sold at judicial foreclosure sale. The Act provides that the Special Taxes are secured by a continuing lien on the Taxable Property that is subject to the same lien priority in the case of delinquency as ad valorem property taxes. See “–Rate and Method” and “–Covenant for Superior Court Foreclosure.”

Other liens for taxes and assessments already exist on the Taxable Property located within the District and others could come into existence in the future. See “SPECIAL RISK FACTORS–Parity Taxes and Special Assessments.” There is no assurance that any owner of a parcel of Taxable Property subject to the Special Tax levy will be financially able to pay the annual Special Taxes or that it will pay such taxes even if financially able to do so. See “SPECIAL RISK FACTORS.”

### **Rate and Method**

**General.** The Special Tax is levied and collected according to the Rate and Method set forth in APPENDIX B–“SECOND AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” The Successor Agency Commission by adoption of Ordinance No. 37-2014, adopted on May 6, 2014, following an election by the qualified landowner electors in the District (*i.e.*, the Master Developer and the then-current affiliated homebuilders), a Second and Amended Rate and Method (the “Rate and Method”). Capitalized terms used in the following paragraphs but not defined herein have the meanings given them in the Rate and Method and references to “Bonds” includes any Parity Bonds. The summary of the Rate and Method set forth below is qualified in its entirety by reference to the form thereof set forth as Appendix B.

The Rate and Method provides the means by which the Successor Agency may annually levy the Special Taxes within the District up to the Maximum Special Tax. The Rate and Method provides that the Annual Special Tax may not be levied after Fiscal Year 2055-56.

**Special Tax Requirement.** Annually, at the time of levying the Special Tax for the District, the Successor Agency will determine the amount of money to be collected from Taxable Property in the District (the “Special Tax Requirement”), which will be the amount required in any Fiscal Year to:

- (i) pay the principal and interest on all Fixed Rate Bonds for the calendar year that begins in such Fiscal Year;
- (ii) pay the debt service on all Variable Rate Bonds estimated for the calendar year that begins in such Fiscal Year, assuming a seven and one-half percent (7.5%) interest rate for all Variable Rate Bonds;
- (iii) pay periodic costs on the Bonds, including but not limited to, credit enhancement, liquidity support and rebate payments therein;
- (iv) create and/or replenish any reserve funds for the Bonds;
- (v) cure any delinquencies in the payment of principal or interest on the Bonds which have occurred in the prior Fiscal Year or, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the Fiscal Year in which the tax will be collected;



- (vi) pay Administrative Expenses; and
- (vii) pay directly for Authorized Facilities.

The amounts referred to in clauses (i), (ii) and (iii) of the preceding sentence may be reduced in any Fiscal Year by: (i) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against debt service pursuant to the Fiscal Agent Agreement; (ii) proceeds from the collection of penalties associated with delinquent Special Taxes; and (iii) any other revenues available to pay debt service on the Bonds.

Following determination of the annual Special Tax Requirement, the Administrator will apply the Rate and Method to determine the annual Special Tax for each Taxable Parcel in the District (as defined in the Rate and Method).

***Expected Maximum Special Tax.*** The Expected Maximum Special Tax is specified for each Sub-Block (as defined herein) and for the District as a whole in the Rate and Method. See Attachment 2 to the Rate and Method of Apportionment of Special Tax.

***Termination of the Annual Special Tax.*** The Successor Agency is authorized to levy the annual Special Tax until (i) the principal and interest on the Bonds have been repaid, (ii) the Successor Agency's costs of constructing or acquiring Authorized Facilities from Special Tax proceeds have been paid, and (iii) all Administrative Expenses have been reimbursed. However, in no event shall a Special Tax be levied after Fiscal Year 2055-56.

***Collection of Special Tax.*** Special Taxes shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that prepayments are permitted as described below and provided further that the Successor Agency may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

Pursuant to Section 53321(d) of the Act, the Special Tax levied against a Parcel used for private residential purposes shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels, in no event, exceed the Maximum Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

***Prepayment of Special Tax.*** **The Special Tax on any Assessor's Parcel may be prepaid in full or in part by a cash payment to the Fiscal Agent,** on behalf of the Successor Agency. The Parcels to be prepaid must not be delinquent in any payment of the Special Tax. Prepayment does not relieve the property owner from paying the Special Tax which has already been levied. The prepayment amount is calculated according to the procedure set forth in the Rate and Method.

***Exemptions.*** The following parcels are exempt from the Special Tax: (i) Public Property, except Taxable Public Property, (ii) Parcels that have prepaid the Special Tax Obligation and had a Release of Special Tax Lien recorded against the property, and (iii) Agency Affordable Housing Units.

Pursuant to Section 53340 of the Act, properties or entities of state, federal or other local governments are exempt from the Special Tax except that, under Section 53317.3 of the Act, property not otherwise exempt which is acquired by a public entity through a negotiated transaction, or by gift or devise, remains subject to the Special Tax. It is not clear under the Act whether property acquired by a public entity following a tax sale or foreclosure based upon failure of a non-exempt person or entity to pay property taxes would remain subject to the Special Tax under Section 53317.3 of the Act or would



become exempt from the Special Tax under Section 53340 of the Act. Pursuant to Section 53317.5 of the Act, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special annual assessment. For this purpose, the present value of the obligation to pay the Special Tax to pay principal and interest on any Outstanding Bonds prior to the date of apportionment is to be treated the same as a fixed lien special annual assessment. The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy new taxes under the Act or to alter the rate or method of apportionment of an existing tax under the Act.

***Expected Land Uses and Special Taxes.*** The District as a whole consists of 27 Sub-Blocks, each of which is proposed to contain units of one or more types of uses. The Rate and Method sets forth a Maximum Special Tax for each Sub-Block with a Maximum Special Tax set forth for each property use within each Sub-Block.

For a property within an Approved Development Plan, the Maximum Special Tax is the greater of the Designated Special Tax or the Back-Up Special Tax.

***Designated Special Tax.*** The Designated Special Tax for each Residential Unit built or expected to be built on Taxable Property shall be the sum of the Base Special Tax and the Incremental Special Tax as identified in the table below. The Incremental Special Tax for Market Rate Units shall be determined by multiplying the square footage of the residential structure(s) by the Incremental Special Tax shown for Market Rate Units. The Designated Special Tax for each Parcel of Non-Residential Property built or expected to be built on Taxable Property shall be determined by multiplying the Square Footage of the non-residential structure(s) by the Incremental Special Tax shown for Non-Residential Property in the table below.

**Table 2**  
**Designated Special Tax**  
**(Fiscal Year 2014-15)**

<b><u>Land Use</u></b>	<b><u>Base Special Tax</u></b> <b><u>Fiscal Year 2014-15<sup>(1)</sup></u></b>	<b><u>Incremental</u></b> <b><u>Special Tax</u></b> <b><u>Fiscal Year 2014-15<sup>(1)</sup></u></b>
Market Rate Units	\$1,503 per unit	\$2.40 per square foot
Required BMR 80% Units <sup>(2)</sup>	\$641 per unit	\$194 per bedroom
Required BMR 50% Units <sup>(3)</sup>	\$359 per unit	\$92 per bedroom
Non-Residential Property	N/A	\$1.44 per square foot

(1) Beginning July 1, 2015 and each July 1 thereafter, the amounts show in the table above shall be increased by two percent (2%) of the amounts in effect in the prior Fiscal Year.

(2) Below market rate units rented to or for sale to persons with incomes at or below 80% of area median income.

(3) Below market rate units rented to or for sale to persons with incomes at or below 50% of area median income.

***Back-Up Special Tax.*** As set forth above, if the Administrator determines that the Total Designated Special Tax calculated for an Approved Development Plan is less than the Expected Maximum Special Tax and such reduction causes the Maximum CFD Revenues to be insufficient to provide the Required Coverage, then the Back-Up Special Tax applies as described in the Rate and Method. “Required Coverage” means, for purposes of the Rate and Method, (i) 110% of the total Annual Debt Service of the then Outstanding Bonds and (ii) 100% of the total Annual Debt Service of the then Outstanding Bonds and the amount of the levy for Administrative Expenses in the current fiscal year.

***Method of Apportionment.*** The Rate and Method provides that the Successor Agency shall levy annual Special Taxes as follows:

(i) The Special Tax shall be levied Proportionately on each Parcel of Developed Property within the District up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year until the amount levied on Developed Property is equal to the Special Tax Requirement prior to applying Capitalized Interest that is available under the Fiscal Agent Agreement;

(ii) If additional revenue is needed after clause (i) in order to meet the Special Tax Requirement after Capitalized Interest has been applied to reduce the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Subsequent Owner Property within the District, up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year;

(iii) If additional revenue is needed after clause (ii) in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property that is not Subsequent Owner Property, up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year; and

As used above "Developed Property" means, in any Fiscal Year, all Assessor's Parcels of Taxable Property in the District for which a building permit for new construction of a residential or non-residential structure was issued prior to June 1 of the preceding Fiscal Year. A "Subsequent Owner" means any owner of undeveloped property within CFD No. 7 that is not the Master Developer, HPS1 Block 50, LLC, HPS1 Block 51, LLC, HPS1 Block 53, LLC, or HPS1 Block 54, LLC.

(iv) If additional revenue is needed after clause (iii) in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property, up to 100% of the Maximum Special Tax assigned to each Parcel.

Clauses (ii) and (iii) of the method of apportionment summarized above are intended to more equitably allocate the overall tax burden between the Master Developer and its related entities on the one hand and the owners of Undeveloped Property that are not related to the Master Developer on the other hand.

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**Maximum Special Tax by Sub-Block.** The following table summarizes the Expected Maximum Special Tax by Sub-Block. See APPENDIX B–“SECOND AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

## DEVELOPED HILLTOP

## UNDEVELOPED HILLTOP

## UNDEVELOPED HILLSIDE

<b><u>Sub-Block<sup>(1)</sup></u></b>	<b><u>Expected Maximum Special Tax<sup>(2)(3)</sup></u></b>	<b><u>% of Expected Maximum Special Tax</u></b>
48AJV	\$60,739	1.50%
48B	134,775	3.32
48C	87,211	2.15
48D	53,691	1.32
48E	74,277	1.83
48FJV	91,812	2.26
48G	183,934	4.54
48H	53,691	1.32
48I	74,277	1.83
48JJV	91,812	2.26
48KJV	121,739	3.00
48L	98,041	2.42
48M	125,116	3.09
48N	138,654	3.42
48OJV	87,815	2.17
<b>SUBTOTAL</b>	<b>\$1,477,584</b>	<b>36.43%</b>

<b>\$4,055,609</b>	<b>100.00%</b>
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**Total Maximum CFD Revenue, Fiscal Year 2014-15: \$4,055,609**

- (1) See Attachment 1 to the Rate and Method, as set forth in Appendix B to this Official Statement, for the geographic area associated with each Sub-Block.
- (2) Beginning July 1, 2015 and each July 1 thereafter, the Expected Maximum Special Taxes shown above shall be increased by an amount equal to 2.0% of the amount in effect for the prior Fiscal Year.
- (3) Based upon the development plan for the District as of July 1, 2014, as shown in Attachment 2 of the Rate and Method, which is subject to change as development occurs. The total Expected Maximum Special Tax may be lower in future Fiscal Years due to changes in the development plan, however the Successor Agency has covenanted not to make changes to the development plan which would reduce Special Taxes to less than what is required to meet Required Coverage.

**Maximum Special Tax by Land Use.** Table 4 sets forth the Expected Maximum Special Tax and the percentage thereof by unit type at the Maximum Special Tax rates for Fiscal Year 2014-15 based upon the development plan for the District as of July 1, 2014, as shown in Attachment 2 of the Rate and Method, which is subject to change as development occurs. The total Expected Maximum Special Tax may be lower in future Fiscal Years due to changes in the development plan, however the Successor Agency has covenanted not to make changes to the development plan which would reduce Special Taxes to less than what is required to meet Required Coverage.

**Table 4**  
**Percentage Share of Maximum Special Taxes Among Expected Land Uses**  
**(Fiscal Year 2014-15)<sup>†</sup>**

<b>Land Uses</b>	<b><u>Units</u></b>	<b><u>Square Feet</u></b>	<b><u>Base Special Tax</u></b>	<b><u>Incremental Special Tax</u></b>	<b><u>Expected Maximum Special Tax</u></b>	<b><u>Percentage of Expected Maximum Special Tax</u></b>
Market Rate Units	966	—	\$1,452,362	\$2,475,282	\$3,927,644	96.84%
BMR - 80% Units	113	—	72,384	42,637	115,021	2.84
Non-Residential Property	<u>N/A</u>	9,000	<u>N/A</u>	<u>12,944</u>	<u>12,944</u>	<u>0.32</u>
<b>Total</b>	<b>1,079</b>		<b>\$1,524,746</b>	<b>\$2,530,863</b>	<b>\$4,055,609</b>	<b>100.00%</b>

<sup>†</sup> Based upon the development plan for the District as of July 1, 2014, as shown in Attachment 2 of the Rate and Method, which is subject to change as development occurs. The total Expected Maximum Special Tax may be lower in future Fiscal Years due to changes in the development plan, however the Successor Agency has covenanted not to make changes to the development plan which would reduce Special Taxes to less than what is required to meet Required Coverage.

Source: Goodwin Consulting Group, Inc.

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## Fiscal Year 2014-15 Special Tax Levy by Property Owner

The following table summarizes the Special Tax Levy for Fiscal Year 2014-15 by Property Owner.

**Table 5**  
**Property Ownership of Taxable Property**  
**and Expected Share of Fiscal Year 2014-15 Special Tax Levy<sup>(1)</sup>**

<u>Property Owner</u>	<u>Block</u>	<u>Neighborhood</u>	<u>Expected Special Tax Levy on Developed Property*<sup>(2)</sup></u>	<u>Expected Special Tax Levy on Undeveloped Property*<sup>(3)</sup></u>	<u>Total Expected Special Tax*</u>	<u>% of Tax Levy</u>
HPS Development Co., LP	1	Undeveloped Hilltop	\$0	\$165,567	\$165,567	10.39%
HPS Development Co., LP	52	Undeveloped Hilltop	0	54,470	54,470	3.42
HPS Development Co., LP	55	Undeveloped Hilltop	0	75,894	75,894	4.76
HPS Development Co., LP	56/57	Undeveloped Hilltop	0	82,238	82,238	5.16
HPS Development Co., LP	48A	Hillside (Undeveloped)	0	13,566	13,566	0.85
HPS Development Co., LP	48B	Hillside (Undeveloped)	0	30,101	30,101	1.89
HPS Development Co., LP	48C	Hillside (Undeveloped)	0	19,478	19,478	1.22
HPS Development Co., LP	48D	Hillside (Undeveloped)	0	11,991	11,991	0.75
HPS Development Co., LP	48E	Hillside (Undeveloped)	0	16,589	16,589	1.04
HPS Development Co., LP	48F	Hillside (Undeveloped)	0	20,505	20,505	1.29
HPS Development Co., LP	48G	Hillside (Undeveloped)	0	41,080	41,080	2.58
HPS Development Co., LP	48H	Hillside (Undeveloped)	0	11,991	11,991	0.75
HPS Development Co., LP	48I	Hillside (Undeveloped)	0	16,589	16,589	1.04
HPS Development Co., LP	48J	Hillside (Undeveloped)	0	20,505	20,505	1.29
HPS Development Co., LP	48K	Hillside (Undeveloped)	0	27,189	27,189	1.71
HPS Development Co., LP	48L	Hillside (Undeveloped)	0	21,897	21,897	1.37
HPS Development Co., LP	48M	Hillside (Undeveloped)	0	27,944	27,944	1.75
HPS Development Co., LP	48N	Hillside (Undeveloped)	0	30,967	30,967	1.94
HPS Development Co., LP	48O	Hillside (Undeveloped)	<u>0</u>	<u>19,613</u>	<u>19,613</u>	<u>1.23</u>
SUBTOTAL			\$0	\$708,173	\$708,173	44.46%
HPS1 Block 50, LLC	50	Developed Hilltop	\$91,472	\$0	\$91,472	5.74%
HPS1 Block 51, LLC	51	Developed Hilltop	206,842	0	206,842	12.98
HPS1 Block 53, LLC	53	Developed Hilltop	343,742	0	343,742	21.58
HPS1 Block 54, LLC	54	Developed Hilltop	<u>242,731</u>	<u>0</u>	<u>242,731</u>	<u>15.24</u>
SUBTOTAL			\$884,786	\$0	\$884,786	55.54%
<b>TOTAL</b>			<b>\$884,786</b>		<b><u>\$1,592,959</u></b>	<b>100.00%</b>

\* Preliminary, subject to change.

(1) Expected Special Tax levy is based upon a preliminary net debt service projection of \$1,552,959 for the bond year ending August 1, 2015, plus \$40,000 for administrative expenses. Assumes interest is capitalized through November 1, 2014.

(2) Includes all parcels for which a building permit has, or is expected to be, issued prior to June 1, 2014 and, therefore, will be categorized as Developed Property for purposes of the fiscal year 2014-15 special tax levy.

(3) The estimated Special Tax to be levied on undeveloped property is approximately 22% of the Maximum Special Tax applicable to such property for fiscal year 2014-15.

Source: Stifel Nicolaus & Company, Incorporated; Goodwin Consulting Group, Inc.

## **Delinquencies**

There have been no delinquencies in payment of Special Taxes since the formation of the District.

## **Reserve Fund**

The Fiscal Agent Agreement establishes a Reserve Fund to be held by the Fiscal Agent, and requires that the Reserve Fund be maintained in the amount of the "Reserve Requirement" which is defined to mean, as of any date of calculation, an amount equal to the least of: (a) Maximum Annual Debt Service on the Outstanding Bonds that are secured by the Reserve Fund on such date, (b) 125% of average Annual Debt Service on the Outstanding Bonds that are secured by the Reserve Fund on such date and (c) 10% of the original principal amount of the Bonds that are secured by the Reserve Fund on such date; provided, that the Reserve Requirement shall not exceed the sum of (A) the amount deposited in the Reserve Fund on the Closing Date with respect to the Bonds, and (B) with respect to each other series of Bonds (as defined in the Indenture) that is secured by the Reserve Fund, the amount deposited in the Reserve Fund on the date each such series of Bonds is issued. Upon issuance of the Bonds, the Reserve Fund Requirement will be \$\_\_\_\_\_.

All money in the Reserve Fund will be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on, principal of and any premium on the Bonds in the event there is insufficient money in the Bond Fund available for this purpose, or in the event the Special Tax on a lot or parcel is prepaid and the balance in the Reserve Fund is in excess of the Reserve Requirement as further described below. All references to "Bonds" in this section shall refer to the Bonds and any Parity Bonds, the proceeds of which, pursuant to a Supplemental Agreement, were deposited into the Reserve Fund in the amount contemplated by the Fiscal Agent Agreement.

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon the written request of the Successor Agency, transfer any cash or Permitted Investments in the Reserve Fund to the Bond Fund to be applied, on the redemption date to the payment and redemption, in accordance with the Fiscal Agent Agreement, of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the Successor Agency to be applied for any lawful purpose.

Notwithstanding the provisions of the first paragraph of this section, no amounts shall be transferred from the Reserve Fund under until after: (i) the calculation of any amounts due to the federal government under the Fiscal Agent Agreement and withdrawal of any such amount for purposes of making such payment to the federal government; and (ii) payment of any fees and expenses due to the Fiscal Agent.

Whenever Special Taxes are prepaid and Bonds are to be redeemed with the proceeds of such prepayment, a proportionate amount in the Reserve Fund (determined on the basis of the principal of Bonds to be redeemed and the original principal of the Bonds, but in any event not in excess of the amount that will leave the balance in the Reserve Fund following the proposed redemption equal to the Reserve Requirement) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the Bonds pursuant to the Fiscal Agent Agreement. The Successor Agency shall deliver to the Fiscal Agent an Officer's Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer's Certificate.

## **Covenant for Superior Court Foreclosure**

Pursuant to Section 53356.1 of the Act, the Successor Agency has covenanted in the Fiscal Agent Agreement with and for the benefit of the owners of the Bonds that it will order, and cause to be commenced as provided in the Fiscal Agent Agreement and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs. Prior to such transfer, the Successor Agency shall notify counsel to the Successor Agency of any such delinquency of which it is aware, and the counsel will commence, or cause to be commenced, the proceedings.

On or about October 1 of each year, the Successor Agency will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the Successor Agency, and:

(A) ***Individual Delinquencies.*** If the Successor Agency determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$3,000 or more, then the Treasurer will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the Successor Agency within 90 days of such determination. Notwithstanding the foregoing, in its sole discretion the Successor Agency may defer such action if the amount in the Reserve Fund is at least equal to the Reserve Requirement.

(B) ***Aggregate Delinquencies.*** If the Successor Agency determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies described in (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, or (ii) there are 10 or fewer owners of real property within the District, determined by reference to the latest available secured property tax roll of the City and County of San Francisco, the Successor Agency will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

Notwithstanding the foregoing clause (A), the Successor Agency may defer any such actions with respect to a delinquent parcel if (1) the District is then participating in the Alternative Method of Distribution of Tax Levies and Collections described in Revenue and Taxation Code Section 4701 et seq., or an equivalent procedure, (2) the amount in the Reserve Fund is at least equal to the Reserve Requirement and the amount in any other debt service reserve account established under a Supplemental Agreement is at least equal to its applicable requirement, and (3) the subject parcel is not delinquent with respect to more than \$5,000 of Special Taxes.

***Sufficiency of Foreclosure Sale Proceeds; Foreclosure Limitations and Delays.*** No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. Subject to the maximum rates, the Rate and Method is designed to generate from all non-exempt property within the District the current year's debt service with respect to the Bonds, administrative expenses, and any needed replenishment of the Reserve Fund to the Reserve Requirement, including an amount reflecting the prior year's delinquencies. However, if foreclosure proceedings are necessary, and the Reserve Fund has been depleted, there could be a delay in payments to owners of the Bonds pending prosecution of the

foreclosure proceedings and receipt by the Successor Agency of the proceeds of the foreclosure sale. See “SPECIAL RISK FACTORS–Bankruptcy Delays” and “–Proceeds of Foreclosure Sales.”

Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post-judgment interest and authorized costs, unless the consent of the owners of 75% of the outstanding Bonds is obtained. However, under Section 53356.6 of the Act, the Successor Agency, as judgment creditor, is entitled to purchase any property sold at foreclosure using a “credit bid,” where the Successor Agency could submit a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax. If the Successor Agency becomes the purchaser under a credit bid, the Successor Agency must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale. Neither the Act nor the Fiscal Agent Agreement requires the Successor Agency to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale, and the Successor Agency has no intent to be such a purchaser.

### **Successor Agency Bid at Foreclosure Sale**

The Successor Agency has covenanted in the Fiscal Agent Agreement that it will not bid at a foreclosure sale of property in respect of delinquent Special Taxes, unless it expressly agrees to take the property subject to the lien for Special Taxes imposed by the District and that the Special Taxes levied on the property are payable while the Successor Agency owns the property.

### **Parity Bonds**

In addition to the Bonds, the Successor Agency may issue bonds (“Parity Bonds”) secured by a pledge of Special Tax Revenues and funds pledged for the payment of the Bonds under the Fiscal Agent Agreement on a parity with the pledge thereof securing the Bonds subject to certain conditions precedent, including the following:

(a) The CFD Value (as defined in the Fiscal Agent Agreement) shall be at least three (3) times the sum of: (i) the aggregate principal amount of all Bonds and any Parity Bonds then Outstanding, plus (ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any fixed assessment liens on the parcels in the District subject to the levy of Special Taxes, plus (iv) a portion of the aggregate principal amount of any and all other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within the District (the “Other District Bonds”) equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of land within the District, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land against which the special taxes are levied to pay the Other District Bonds (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent available Fiscal Year.

(b) That amount of the Special Taxes that may be levied under the Ordinance Levying Special Taxes (as defined herein), the Fiscal Agent Agreement and any Supplemental Agreement shall be at least (i) 110% of the total Annual Debt Service of the then Outstanding Bonds and the proposed Parity Bonds and (ii) 100% of the total Annual Debt Service of the then Outstanding Bonds, Outstanding Parity Bonds and the proposed Parity Bonds and the amount of



the levy for Administrative Expenses in the current fiscal year, and the aggregate Special Tax Prepayments that could occur after the issuance of the Parity Bonds shall be not less than the principal amount of the Outstanding Bonds, Outstanding Parity Bonds and the proposed Parity Bonds.

### **No Teeter Plan**

Collection of the Special Taxes is not subject to the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds,” as provided for in Section 4701 et seq. of the California Revenue and Taxation Code (known as the “Teeter Plan”). Accordingly, collections of Special Taxes will reflect actual delinquencies, if any.

### **Limited Obligation**

The Bonds are limited obligations of the Successor Agency on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Bond Fund, the Special Tax Fund, the Revenue Fund and the Reserve Fund created pursuant to the Fiscal Agent Agreement.

In the event that the Special Taxes are not paid when due, the only sources of funds available to repay the Bonds are amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund, and the proceeds, if any, from foreclosure sales of parcels with delinquent Special Taxes.

## **PROJECTED DEBT SERVICE COVERAGE**

Table 6 below sets forth the debt service coverage on the Bonds provided by the Expected Maximum Special Tax. The actual Special Taxes levied in each year will be an amount sufficient to pay debt service on the Bonds and other amounts, including reserve replenishment, Administrative Expenses and may account for any anticipated delinquencies. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Rate and Method–*Special Tax Requirement*.”

The Expected Maximum Special Tax set forth in Table 6 below is based upon the Expected Land Uses and Expected Maximum Special Tax by Sub-Block as specified in the Rate and Method. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Expected Maximum Special Tax.” The development plan for the District is subject to change as development occurs and such changes may reduce the total Expected Maximum Special Tax that can be levied in any Fiscal Year. However, the Successor Agency has covenanted in the Fiscal Agent Agreement not to permit any change to the development plan which would cause the amount of the Special Taxes that may be levied under the Ordinance and the Rate and Method to be less than “Required Coverage,” which is defined to mean (i) 110% of the total Annual Debt Service of the then Outstanding Bonds and (ii) 100% of the total Annual Debt Service of the then Outstanding Bonds and the amount of the levy for Administrative Expenses in the current fiscal year.

**Table 6**  
**Projected Debt Service Coverage<sup>(1)\*</sup>**

<b>Year Ending (August 1)</b>	<b>Total Debt Service<sup>(2)</sup></b>	<b>Developed Hilltop Total Expected Maximum Special Taxes<sup>(1)</sup></b>	<b>Undeveloped Hilltop Total Expected Maximum Special Taxes<sup>(1)</sup></b>	<b>Undeveloped Hillside Total Expected Maximum Special Taxes<sup>(1)</sup></b>	<b>Total District Expected Maximum Special Taxes<sup>(3)</sup></b>	<b>Debt Service Coverage<sup>(1)(4)</sup></b>
2015	\$2,066,253	\$884,786	\$1,693,239	\$1,477,584	\$4,055,609	196%
2016	2,109,713	902,481	1,727,104	1,507,136	4,136,721	196
2017	2,152,313	920,531	1,761,646	1,537,279	4,219,455	196
2018	2,193,563	938,942	1,796,879	1,568,024	4,303,844	196
2019	2,236,763	957,721	1,832,816	1,599,385	4,389,921	196
2020	2,282,963	976,875	1,869,472	1,631,372	4,477,720	196
2021	2,329,213	996,412	1,906,862	1,664,000	4,567,274	196
2022	2,377,463	1,016,341	1,944,999	1,697,280	4,658,620	196
2023	2,422,463	1,036,668	1,983,899	1,731,225	4,751,792	196
2024	2,474,213	1,057,401	2,023,577	1,765,850	4,846,828	196
2025	2,522,213	1,078,549	2,064,049	1,801,167	4,943,764	196
2026	2,571,463	1,100,120	2,105,330	1,837,190	5,042,640	196
2027	2,621,713	1,122,122	2,147,436	1,873,934	5,143,493	196
2028	2,677,713	1,144,565	2,190,385	1,911,413	5,246,362	196
2029	2,728,963	1,167,456	2,234,193	1,949,641	5,351,290	196
2030	2,785,463	1,190,805	2,278,876	1,988,634	5,458,315	196
2031	2,841,713	1,214,621	2,324,454	2,028,407	5,567,482	196
2032	2,897,463	1,238,914	2,370,943	2,068,975	5,678,831	196
2033	2,955,838	1,263,692	2,418,362	2,110,354	5,792,408	196
2034	3,011,025	1,288,966	2,466,729	2,152,561	5,908,256	196
2035	3,074,388	1,314,745	2,516,064	2,195,612	6,026,421	196
2036	3,133,013	1,341,040	2,566,385	2,239,525	6,146,950	196
2037	3,198,575	1,367,861	2,617,713	2,284,315	6,269,889	196
2038	3,260,269	1,395,218	2,670,067	2,330,002	6,395,286	196
2039	3,327,825	1,423,122	2,723,468	2,376,602	6,523,192	196
2040	3,392,475	1,451,585	2,777,938	2,424,134	6,653,656	196
2041	3,461,400	1,480,616	2,833,496	2,472,616	6,786,729	196
2042	3,528,775	1,510,229	2,890,166	2,522,069	6,922,464	196
2043	3,599,050	1,540,433	2,947,970	2,572,510	7,060,913	196
2044	3,671,400	1,571,242	3,006,929	2,623,960	7,202,131	196

\* Preliminary, subject to change.

- (1) Based upon the development plan for the District as of July 1, 2014, as shown in Attachment 2 of the Rate and Method, which is subject to change as development occurs. The total Expected Maximum Special Tax may be lower in future Fiscal Years due to changes in the development plan, however the Successor Agency has covenanted not to make changes to the development plan which would reduce Special Taxes to less than what is required to meet Required Coverage.
- (2) Estimated gross debt service provided by Stifel Nicolaus & Company, Incorporated based upon an aggregate principal amount of Bonds of \$38,280,000. Interest will be capitalized through November 1, 2014. Net debt service is estimated to be \$1,552,959.
- (3) Expected Maximum Special Taxes are expected to increase 2% per year. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS-Expected Maximum Special Tax" and "THE DISTRICT-Status of Development" for a description of the development status of Taxable Property in the District and the Special Taxes allocable to such property.
- (4) Assumes Administrative Expenses are paid out of coverage.

Source: Goodwin Consulting Group, Inc.

## THE SUCCESSOR AGENCY

### Authority for Issuance

In calendar year 2005, the Former Agency established the District in accordance with procedures required under the Act, including a landowner election at which Lennar - BVHP, LLC (the “Original Master Developer”) was the sole owner of land subject to the proposed special tax, and authorized the levy of a special tax therein.

In connection with the issuance of the Bonds, the Successor Agency Commission on April 15, 2014 adopted its Resolution No. 27-2014 (the “Resolution”) approving issuance of the Bonds and related matters. In accordance with the Dissolution Act, on April 28, 2014, the Oversight Board (see “–Oversight Board” below) adopted its Resolution No. 3-2014 approving the action of the Successor Agency Commission and the Department of Finance of the State of California subsequently concluded that the issuance of the Bonds does not require its review. In accordance with the Act, a landowner election was held on May 6, 2014, at which the Master Developer and the current affiliated homebuilders cast votes to adopt the Second Amended Rate and Method of Apportionment of Special Tax and to levy special taxes in the District in accordance therewith. The Successor Agency Commission by adoption of Ordinance No. 37-2014, finally adopted on May 6, 2014 (the “Ordinance Levying Special Taxes”), adopted such Second Amended and Restated Rate and Method of Apportionment of Special Tax.

The Bonds are issued by the Successor Agency, for and on behalf of the District, pursuant to the Act, the Refunding Law, the Fiscal Agent Agreement, and the Resolution.

### Authority and Personnel

The powers of the Successor Agency are vested in the Successor Agency Commission, which has five members who are appointed by the Mayor of the City with the approval of the Board of Supervisors. Members are appointed to staggered four-year terms (provided that two members have initial two-year terms). Once appointed, members serve until replaced or reappointed.

The current members of the Successor Agency Commission, together with their principal occupations, the years of their first appointment to the Successor Agency Commission and the expiration date of their current terms are as follows:

<u>Name</u>	<u>Occupation</u>	<u>First Appointed</u>	<u>Term Expires</u>
Christine Johnson, Chair	Finance Professional	2012	December 2016
Mara Rosales, Vice Chair	Attorney	2012	December 2014
Theodore Ellington	Community Service	2012	December 2016
Marly Mondejar	Community Organizer	2012	December 2014
Darshan Singh	Businessman	2012	December 2016

The Successor Agency currently employs approximately 50.6 full-time equivalent positions. The Executive Director, Tiffany Bohee, was appointed to that position in February 2012. The other principal full-time staff positions are: the Deputy Executive Director; the Deputy Executive Director, Finance and Administration; and the Successor Agency General Counsel. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs, including a separate staff to manage the South Beach Harbor Marina.

Within the City, the Successor Agency is constituted as the Office of Community Investment and Infrastructure or “OCII” and the Successor Agency Commission is known as the “Commission on Community Investment and Infrastructure.” References in this Official Statement to the Successor Agency refer to OCII, or any successor thereto.

### **Effect of the Redevelopment Agency Dissolution**

**AB 26 and AB 1484.** The Former Agency was established under the Redevelopment Law in 1948. As a result of AB 1X 26 and the decision of the California Supreme Court in *California Redevelopment Association v. Matosantos*, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies and also to satisfy “enforceable obligations” of the former redevelopment agency all under the supervision of a new oversight board, the State Department of the Finance and the State Controller.

Pursuant to Resolution No. 11-12 (the “Establishing Resolution”) adopted by the Board of Supervisors of the City on January 24, 2012 and signed by the Mayor on January 26, 2012, and Sections 34171(j) and 34173 of the Dissolution Act, the Board of Supervisors of the City confirmed the City’s role as successor to the Former Agency. On June 27, 2012, the Redevelopment Law was amended by AB 1484, which clarified that successor agencies are separate political entities and that the successor agency succeeds to the organizational status of the former redevelopment agency but without any legal authority to participate in redevelopment activities except to complete the work related to an approved enforceable obligation. AB 1X 26 and AB 1484 are collectively referred to as the “Dissolution Act.”

Pursuant to Ordinance No. 215-12 finally adopted by the Board of Supervisors of the City on October 2, 2012 and signed by the Mayor on October 4, 2012, the Board of Supervisors (i) officially gave the following name to the Successor Agency: the “Successor Agency to the Redevelopment Agency of the City and County of San Francisco,” (ii) created the Successor Agency Commission as the policy body of the Successor Agency, (iii) delegated to the Successor Agency Commission the authority to act in place of the Commission of the Former Agency to implement the surviving redevelopment projects, the replacement housing obligations and other enforceable obligations of the Former Agency and the authority to take actions that AB 26 and AB 1484 require or allow on behalf of the Successor Agency and (iv) established the composition and terms of the members of the Successor Agency Commission.

As discussed below, many actions of the Successor Agency are subject to approval by an “oversight board” and the review or approval by the California Department of Finance, including the issuance of bonds such as the Bonds.

**Debt Service is not Subject to ROPS Process.** The application of Special Taxes to payment of debt service on the Bonds is not subject to the Recognized Obligation Payment Schedule (“ROPS”) process applicable to tax increment obligations of successor redevelopment agencies, which generally requires approval by the Oversight Board and the State Department of Finance.

**Final and Conclusive Determination for Development Agreement.** The Development Agreement is an enforceable obligation of the Successor Agency and has been duly listed on each ROPS since the Former Agency was dissolved. On December 14, 2012, the State Department of Finance issued a Final and Conclusive Determination for the Development Agreement. Pursuant to the Dissolution Act, the Department of Finance’s review of the Development Agreement in all future ROPS is limited to confirming that any requested payments on the ROPS (which does not include debt service on the Bonds) are required by the Development Agreement.

## **Oversight Board**

The Oversight Board was formed pursuant to Establishing Resolution adopted by the City's Board of Supervisors and signed by the Mayor on January 26, 2012. The Oversight Board is governed by a seven-member governing board, with four members appointed by the Mayor, and one member appointed by each of the Bay Area Rapid Transit District (BART), the Chancellor of the California Community Colleges, and the County Superintendent of Education.

## **Department of Finance Finding of Completion**

The Dissolution Act established a process for determining the liquid assets that redevelopment agencies should have shifted to their successor agencies when they were dissolved, and the amount that should be available for remittance by the successor agencies to their respective county auditor-controllers for distribution to affected taxing entities within the project areas of the former redevelopment agencies. This determination process was required to be completed through the final step (review by the State Department of Finance) by November 9, 2012 with respect to affordable housing funds and by April 1, 2013 with respect to non-housing funds. Within five business days of receiving notification from the State Department of Finance, a successor agency must remit to the county auditor-controller the amount of unobligated balances determined by the State Department of Finance, or it may request a meet and confer with the State Department of Finance to resolve any disputes.

On May 23, 2013, the Successor Agency promptly remitted to the City Controller the amounts of unobligated balances relating to affording housing funds, determined by the State Department of Finance in the amount of \$10,577,932, plus \$1,916 in interest. On May 23, 2013, the Successor Agency promptly remitted to the City Controller the amount of unobligated balances relating to all other funds determined by the State Department of Finance in the amount of \$959,147. The Successor Agency has made all payments required under AB 1484 and has received its finding of completion from the State Department of Finance on May 29, 2013.

## **State Controller Asset Transfer Review**

The Dissolution Act requires that any assertion of a former redevelopment agency transferred to a city, county or other local agency after January 1, 2011, be transferred back to the successor agency. The Dissolution Act further requires that the State Controller review any such transfer. As of the date hereof, the Controller's review is pending. The Successor Agency does not expect the outcome of the State Controller's Asset Transfer Review to have a material adverse impact on the availability of Special Tax Revenues.

## **Continuing Activities**

The Former Agency was organized in 1948 by the Board of Supervisors of the City pursuant to the Redevelopment Law. The Former Agency's mission was to eliminate physical and economic blight within specific geographic areas of the City designated by the Board of Supervisors. The Former Agency had redevelopment plans for nine (9) redevelopment project areas.

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, four major redevelopment projects that were previously administered by the Former Agency: (i) the Mission Bay North and South Redevelopment Project Areas, (ii) the Hunters Point Shipyard Redevelopment Project Area and Zone 1 of the Bayview Redevelopment Project Area, and (iii) the Transbay Redevelopment Project Area (collectively, the “Major Approved Development Projects”). In addition, the Successor Agency continues to manage Yerba Buena Gardens and other assets within the former Yerba Buena Center Redevelopment Project Area (“YBC”). The Successor Agency exercises land use, development and design approval authority for the Major Approved Development Projects and manages the Former Agency assets in YBC in place of the Former Agency.

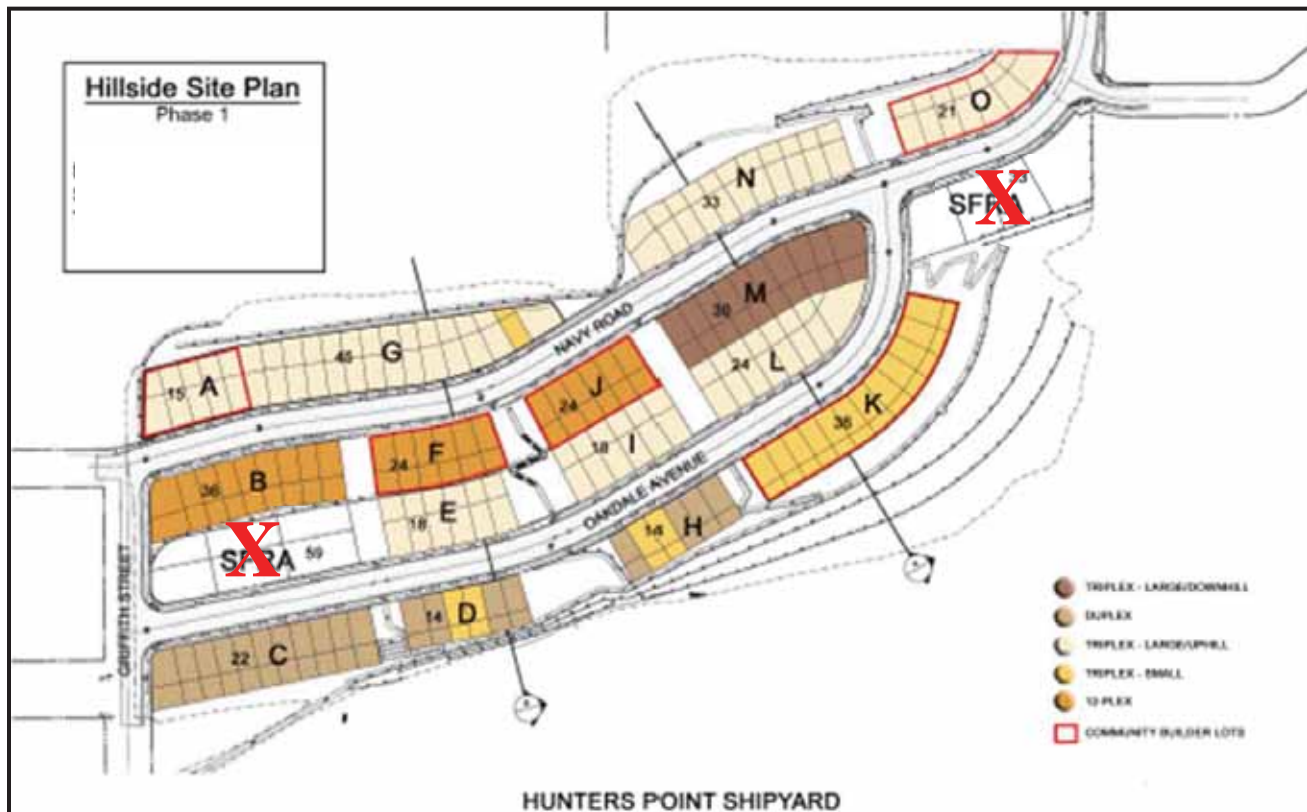
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## Aerial View of the District



### Hilltop and Hillside Site Plans:









## THE DISTRICT

### General

The District is comprised of approximately 66 acres known as Parcel A within the Hunters Point Shipyard Redevelopment Project Area (the “Project Area”) established by the Former Agency, which is located in the southeast corner of the City. The District was formed on April 5, 2005 and is comprised of a portion of Parcel A, the first parcel to be transferred by the United States Navy to the Former Agency. Following its acquisition from the Navy and prior to the formation of the District, the Former Agency transferred the Taxable Property within the District to the Original Master Developer. The conveyance by the Navy to the Former Agency or the Successor Agency, as applicable, and subsequent development within the District and the Shipyard as a whole are pursuant to the revitalization and re-use plan for the former Hunters Point Naval Shipyard (the “Shipyard”) as provided in the Redevelopment Plan for the Project Area adopted in July 1997. See “–History” below. See page (i) for a location map of the District, page 27 for an aerial view of the District, page 28 for a diagrams of the Taxable Parcels in the District and page 29 for conceptual rendering of proposed development in the District, See also APPENDIX B–“SECOND AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Development within the District is governed by a Disposition and Development Agreement Hunters Point Shipyard Phase 1 dated as of December 2, 2003, as amended (the “Development Agreement”), originally by and between the Former Agency and the Original Master Developer. The Development Agreement sets forth a development plan for the property in the District, including provision of infrastructure, including parks and other open space, affordable housing, and various other requirements with respect to development of property in the District. See “–The Development Agreement” below.

**The remaining parcels within the Project Area (Parcels B-G and other portions of the Shipyard not subject to the Development Agreement), as well as a portion of adjacent Candlestick Point, are subject to a development agreement between the Successor Agency and an affiliate of the Master Developer but are not part of the District.**

The District property is comprised of two subdivisions, referred to as Hilltop and Hillside, respectively. Development in the District is almost exclusively residential, with all of the Taxable Property to be developed as attached units, including townhomes and stacked units, and certain retail space (estimated to be approximately 9,000 square feet on Block 1). The Hilltop subdivision contains approximately 12.5 acres of land which is to be developed with 705 units with the Hillside subdivision consisting of approximately 6.6 acres to be developed with 374 single family units. Of the residential units to be constructed by homebuilders, approximately 10.5% are required by the Development Agreement to be affordable to lower-income residents (i.e., sold with price restrictions to persons whose income does not exceed 80% of area median income).

The Successor Agency owns approximately 2.2 acres of real property in the District (Block 49 and other Blocks) for the development of approximately 350 affordable housing units, and approximately 40.49 acres of open space. This property is initially exempt, and upon completion of development is expected to remain exempt, from Special Taxes.

The District was formed by the Former Agency for the purpose of financing the acquisition of certain infrastructure to be constructed by the Original Master Developer and the Master Developer. See “PLAN OF FINANCE.”

## History

The District is located entirely within the property comprising the Shipyard which is located in southeastern San Francisco adjacent to the City's Bayview Hunters Point neighborhood and consists of approximately 936 acres, 443 of which are on land with the remaining acreage underwater. From 1869 until 1939, the Shipyard was operated as a drydock. In 1940, the United States Department of the Navy obtained ownership of the Shipyard and conducted ship building, repair, and maintenance activities. After World War II, activities shifted from ship repair to submarine servicing and testing. The Shipyard was deactivated in 1974 and in 1976 was leased to a private ship repair firm. In 1986, the Navy reoccupied the property and commenced investigation and remediation of environmental contamination of the site.

In 1990, the United States Congress designated the Shipyard for formal closure under the federal Defense Base Closure and Realignment Act of 1990 ("BRAC"). Under BRAC, the Navy is required to work with affected local governmental entities to develop a plan to convey the property to an appropriate local agency. In response, the Former Agency was designated as the appropriate "local redevelopment authority," and the City and the Former Agency began negotiations with the Navy in 1991. In July 1997, the Former Agency Commission and the City's Board of Supervisors adopted the Hunters Point Shipyard Redevelopment Plan (as amended, the "Redevelopment Plan"). The Redevelopment Plan comprised the "local reuse plan" required under BRAC for the conversion of the Shipyard to civilian use. It provides for the development of (i) significant new housing, (ii) mixed-use and commercial uses, including retail, maritime, research and development, and light industrial uses, (iii) education, training, and cultural facilities, and (iv) over 100 acres for recreational and public open space uses.

In 1998, the Former Agency distributed a request for qualifications to prospective developers to develop the Shipyard property as described in the Redevelopment Plan. In 1999, the Original Master Developer was selected as the developer for the Shipyard.

In April, 2004, the Navy and the Former Agency entered into a Conveyance Agreement, setting forth the process for conveying Shipyard parcels to the Former Agency, which requires certification by the federal and state regulators that the parcels are remediated to a level suitable for their intended uses and after independent confirmation by the Agency and the City. See "–Environmental Matters and Hazardous Substances" below.

On April 5, 2005, the Former Agency transferred the Taxable Property in the District to the Original Master Developer. The Agency also transferred several parcels to the Original Master Developer that will be developed into streets, alleyways, parks, etc.

## Development Plan

The property within the District consists of the Hilltop and the Hillside neighborhoods, each of which overlooks the San Francisco Bay and the other property in the Shipyard (as described below). The District is grouped into various Blocks for development purposes. The District property is comprised of two subdivisions that are the subject of final maps:

- Final Map 4231, referred to as the "Hilltop." Final Map 4231 was recorded on August 12, 2009, and created 154 individual lots, 20 lettered lots (that will be open space and alleyways), and 37 street lots. Following certain lot line adjustments and the recording of Final Maps 6945 and 6946 (described below), there are now 98 individual lots, 19 lettered lots, and 37 street lots within the Hilltop. These lots consist of Taxable Property, property that will become streets and alleyways, and Successor Agency-owned parcels that will be open space or exempt affordable housing.

- Final Map 6945, a merger and resubdivision of part of the Hilltop. Final Map 6945 was recorded on October 15, 2013. This map merged lots 42-59 and Lot O of Final Map 4231 in Block 54 and created two individual lots and one lettered lot (that will become an alleyway).
- Final Map 6946, a merger and resubdivision of part of the Hilltop. Final Map 6946 was recorded on October 15, 2013. This map merged lots 80-97 and Lot P of Final Map 4231 in Block 52 and created two individual lots and one lettered lot (that will become an alleyway).
- Final Map 5255, referred to as the “Hillside”. Final Map 5255 was recorded on August 12, 2009, and created 131 individual lots, 6 lettered lots (that will be open space and alleyways), and 6 street lots.

HPS Development Co., LP, a Delaware limited partnership (the “Master Developer”), is the successor to the Original Master Developer. Development in the District is almost exclusively residential, with all of the Taxable Property to be developed as either for-sale or for-rental attached units, including townhomes and stacked units, and certain retail space (estimated to be approximately 9,000 square feet on Block 1). The Master Developer intends to transfer the Taxable Property in the District to homebuilders for the development of approximately 1,079 for-sale and for-rent attached housing units to be constructed by various homebuilders. Of the residential units to be constructed by such homebuilders, approximately 10.5% of these units are required by the Development Agreement to be affordable to lower-income residents (i.e., sold with price restrictions to persons whose income does not exceed 80% of area median income).

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The Hilltop subdivision contains approximately 12.5 acres of land which is expected to be developed with 705 single-family units, and the Hillside subdivision contains approximately 6.6 acres of land which is expected to be developed with 374 single-family units, as shown below. The number of expected market rate units and below-market rate units by Block and ownership is shown below in Table 7.

**Table 7**  
**Expected Development of Taxable Property by Property Owner and Neighborhood**

<u>Block</u>	<u>Property Owner</u>	<u>Neighborhood</u>	<u>Expected<sup>†</sup> Number of Market Rate Units</u>	<u>Expected<sup>†</sup> Number of Below Market Rate Units</u>
1	HPS Development Co., LP	Hilltop	199	25
50	HPS1 Block 50, LLC	Hilltop	22	3
51	HPS1 Block 51, LLC	Hilltop	57	6
52	HPS Development Co., LP	Hilltop	63	7
53	HPS1 Block 53, LLC	Hilltop	84	9
54	HPS1 Block 54, LLC	Hilltop	59	7
55	HPS Development Co., LP	Hilltop	59	7
56/57	HPS Development Co., LP	Hilltop	88	10
48A	HPS Development Co., LP	Hillside	13	2
48B	HPS Development Co., LP	Hillside	32	4
48C	HPS Development Co., LP	Hillside	20	2
48D	HPS Development Co., LP	Hillside	13	1
48E	HPS Development Co., LP	Hillside	16	2
48F	HPS Development Co., LP	Hillside	22	2
48G	HPS Development Co., LP	Hillside	40	5
48H	HPS Development Co., LP	Hillside	13	1
48I	HPS Development Co., LP	Hillside	16	2
48J	HPS Development Co., LP	Hillside	22	2
48K	HPS Development Co., LP	Hillside	31	5
48L	HPS Development Co., LP	Hillside	21	3
48M	HPS Development Co., LP	Hillside	27	3
48N	HPS Development Co., LP	Hillside	30	3
48O	HPS Development Co., LP	Hillside	<u>19</u>	<u>2</u>
<b>TOTAL</b>			<b>966</b>	<b>113</b>
<b>GRAND TOTAL</b>				<b>1,079</b>

<sup>†</sup> The expected number of market rate and below-market rate units described above are based on the current development plan and the Development Agreement. However, no assurance can be given that the development will occur at all, will occur in a timely manner, or will occur as presently anticipated and described in this Official Statement. Moreover, as determined by the Master Developer and/or the applicable homebuilder based on, among other things, the residential market in the San Francisco Bay area, the number, size, and type of residential units within each Block may change after the date of this Official Statement.

Table 7 shows only the Taxable Property and does not show the property within the District that is owned by the Successor Agency. The Successor Agency owns (i) 13 lots (three of which are considered Agency Housing Parcels) and 11 lettered lots in Hilltop, and (ii) nine lots (seven of which are considered Agency Housing Parcels) and five lettered lots in Hillside. The Successor Agency intends to construct approximately 350 affordable housing units on the 10 Agency Housing Parcels. The Successor Agency also anticipates that approximately 40.49 acres of the parcels it owns will be open space. Both the open space lots and the Agency Housing Parcels are initially exempt from the levy of Special Taxes and are expected to remain exempt from Special Taxes.

The Master Developer intends to sell Blocks it owns within the District to homebuilders for the construction of residential units and retail space (estimated to be approximately 9,000 square feet on Block 1). As of July 1, 2014, the Master Developer owns all but four of the Blocks of Taxable Property, having previously sold Blocks 50, 51, 53, and 54 to various affiliated homebuilders, representing approximately 247 of the 1,079 units anticipated to be constructed by homebuilders. A summary of the ownership of the Taxable Property is shown in Table 7 above.

Construction activities for the required infrastructure commenced upon the transfer of the property to the Original Master Developer and are anticipated to be completed in accordance with the Development Agreement. The Master Developer subdivided the real property within the District in 2009 pursuant to the recordation of final maps for the Hilltop and Hillside portions of the District and began selling land to homebuilders in June 2013.

### **Status of Development**

The Master Developer has constructed a significant portion of the infrastructure necessary for development to proceed within the Hilltop subdivision, and residential development has commenced in Blocks 50, 51, 53, and 54 (referred to as “Developed Hilltop”). The remainder of the property in the District is referred to as “Undeveloped Hilltop” and “Hillside.” The Master Developer plans to finance the remaining infrastructure in the District primarily with certain loan proceeds and certain amounts derived from land and home sales and if needed, sponsor equity. The Master Developer expects that its affiliates will complete most of the residential development, although it may offer parcels for sale and development by non-affiliated merchant homebuilders and other developers. See “THE DISTRICT.”

For the Developed Hilltop portion of the District, the infrastructure has been substantially completed (other than parks and landscaping) and development is underway therein. In June 2013, the first two development Blocks, commonly referred to as Blocks 50 and 51, were transferred to homebuilders affiliated with the Master Developer (these homebuilders are known as HPS1 Block 50, LLC and HPS1 Block 51, LLC, respectively). In December 2013, two further development Blocks, commonly referred to as Blocks 53 and 54, were transferred to homebuilders affiliated with the Master Developer (these homebuilders are known as HPS1 Block 53, LLC and HPS1 Block 54, LLC, respectively). See “The Homebuilders” below.

For the Undeveloped Hilltop portion of the District, the Master Developer estimates that the remaining infrastructure will be completed in 2015.

For the Hillside portion of the District, principal grading has been completed, but other infrastructure remains to be completed. The Master Developer estimates that a significant portion of the infrastructure (excluding parks) will be completed in 2015 so that sales of parcels in Hillside may occur, with the remaining infrastructure improvements to Hillside completed in 2016.



## Property Valuation

The aggregate appraised value of the Taxable Property is \$127,650,000 (as of the May 30, 2014 date of value) (see “–Appraisal and Methodology” below), as set forth by development status in the table below.

**Table 8**  
**Appraised Value**

<u>Development Status</u>	<u>Appraised Value</u>
Developed Hilltop	\$46,320,000
Undeveloped Hilltop	47,480,000
Hillside	<u>33,850,000</u>
<b>TOTAL</b>	<b>\$127,650,000</b>

**Direct and Overlapping Debt Burden.** The direct and overlapping debt obligations (other than the Bonds and the Prior Bonds) of local agencies affecting the property in the District as of July 1, 2014 are show in the following table. The table was prepared by California Municipal Statistics, Inc., and is included for general information purpose only. The Successor Agency has not reviewed this report for completeness or accuracy and makes no representation in connection therewith.

**Table 9**  
**Direct and Overlapping Governmental Obligations<sup>†</sup>**

<u>Direct and Overlapping Tax and Assessment Debt</u>	<u>Percent of Assessed Value of Overlapping District within the District</u>	<u>Total Debt Outstanding</u>	<u>Share of Overlapping Debt Outstanding within the District</u>
City and County General Obligation Bonds	0.021%	\$1,938,083,783	\$408,315
San Francisco Unified School District General Obligation Bonds	0.021	818,130,000	172,363
San Francisco Community College District General Obligation Bonds	0.021	328,550,000	69,219
Bay Area Rapid Transit District General Obligation Bonds	0.007	648,275,000	<u>44,315</u>
<b>TOTAL</b>			<b>\$694,212</b>

<sup>†</sup> Excludes the Bonds.

Source: California Municipal Statistics, Inc.

**Value-to-Debt Burden Ratio.** Based upon a principal amount of Bonds of \$38,280,000\*, the overall value-to-debt burden ratio for the District is 3.33:1\*.

**Table 10**  
**Value-to-Debt Burden Analysis**

	<u>Units</u>	<u>Value Per Unit<sup>(1)</sup></u>	<u>Total Appraised Value</u>	<u>Fiscal Year 2014-15 Expected Maximum Special Tax</u>	<u>Bond Principal Allocation*<sup>(2)</sup></u>	<u>Value-to-Debt Burden<sup>(3)*</sup></u>	<u>% of Share of Maximum Special Taxes</u>
Developed Hilltop	247	\$187,530	\$46,320,000	\$884,786	\$8,351,298	5.55	22%
Undeveloped Hilltop	458	103,668	47,480,000	1,693,239	15,982,109	2.97	42
Hillside (Undeveloped)	<u>374</u>	90,508	<u>33,850,000</u>	<u>1,477,584</u>	<u>13,946,593</u>	<u>2.43</u>	<u>36</u>
<b>Total</b>	<b>1,079</b>		<b>\$127,650,000</b>	<b>\$4,055,609</b>	<b>\$38,280,000</b>	<b>3.33</b>	<b>100%</b>

\* Preliminary, subject to change.

(1) Based on June 13, 2014 Appraisal prepared by Seevers • Jordan • Ziegenmeyer.

(2) The principal of the Bonds was allocated to parcels based upon each parcel's share of the Maximum Special Tax.

(3) Excludes all debt secured by *ad valorem* property taxes. For specifics see “–Direct and Overlapping Debt Burden” above.

Source: Goodwin Consulting Group, Inc.

\* Preliminary, subject to change.

**Assessed Values.** The aggregate assessed value of real property in the District on the 2013-14 tax roll was \$3,270,809, with an assessed value of improvements of \$32,661,411 for a total assessed value of \$35,932,220.

**Appraisal and Methodology.** *The following is a summary of certain provisions of the Appraisal, which should be read in conjunction with the full text of the Appraisal attached as Appendix F. The City makes no representation as to the accuracy or completeness of the Appraisal.*

**The Appraisal.** An appraisal of the Taxable Property within the District dated June 9, 2014 (the “Appraisal”), was prepared by Seevers • Jordan • Ziegenmeyer (the “Appraiser”) in connection with issuance of the Bonds. The purpose of the Appraisal was to estimate the market value of the fee simple estate of the property within the District that is subject to the Special Tax, i.e., the “Taxable Property” as defined in the Rate and Method, as of May 30, 2014.

**Conditions and Assumptions.** The Appraisal was based on certain assumptions and limiting conditions set forth in Appendix B, including the following:

- The Appraisal assumes a sale after reasonable exposure in a competitive market under conditions required for a fair sale.
- The Appraiser assumed no adverse soil conditions, toxic substances or other environmental hazards that may interfere with or inhibit development of the subject property.
- The Appraiser relied on development cost and fee information provided by the Master Developer. The Appraisal notes that these costs could change and that the Appraiser assumed the accuracy of the Master Developer’s cost information.
- The Appraisal values the subject property in its “as is” condition.

**Valuation Methods.** The Appraiser used a land residual analysis (discounted cash flow analysis), which is summarized below, to estimate the value of the Taxable Property in the District owned by the Master Developer, by subdivision (Hilltop and Hillside) and by development status (unimproved and under development) and used the sales comparison approach (described below) to support the residual land value estimates of the Taxable Property in the District. In the land residual analysis, the Appraiser assumed the property would sell in a single bulk transaction. Please see Appendix F for a complete description of each approach to value.

**Discounted Cash Flow Analysis.** A discounted cash flow analysis is a procedure in which a discount rate is applied to a projected revenue stream generated from the sale of individual components of a project. As noted above, the Appraiser used the discounted cash flow analysis to estimate the value of Taxable Property owned by the Master Developer. The following paragraphs briefly summarize the various components of the discounted cash flow analysis.

**Revenue:** The revenue consists of the retail value of completed single-family residences on each Block within each subdivision (705 units in Hilltop and 374 units in Hillside). As described, Blocks 50, 51, 53 and 54 (247 units) of the Hilltop subdivision are presently under construction with vertical improvements and are analyzed separately from the balance of the Hilltop subdivision (458 units). The Appraiser identified several sales of residential condominium units in surrounding neighborhoods for comparison to the subject property, all of which occurred since January 2014. See Appendix F for further information about the comparable residential unit sales. The Appraiser concluded that the available sales comparison data was sufficient for the purpose of valuing the subject property’s proposed, average residential units within each Block and pertinent to the valuation of the subject’s residual land value.

Absorption Period: The Appraiser surveyed both the master developer and considered the marketing times for similar residential condominium sales in the market and concluded a sell-off of the subject property's 1,079 residential units over a 33-month period is reasonable in light of the unique and favorable market position of the Taxable Property.

Direct and Indirect Construction Costs: The Appraiser deducted the costs to complete the proposed residential units as part of the land residual analysis, with costs provided by the Master Developer, with consideration for increases in construction costs since the initial cost budgets were prepared.

Remaining Expenses: The Appraisal considers the improvements in place on the Taxable Property owned by the Master Developer and affiliated homebuilders as of the date of value and deducts the remaining public infrastructure costs of \$10,550,749 (Hilltop), which is separated on a pro rata basis between the partially improved Blocks 50, 51, 53 and 54 and the remaining unimproved Blocks, and \$10,894,840 (Hillside) in the discounted cash flow analysis.

Discount Rate: The Appraisal reports that, based on a national survey of residential, office and industrial developments by a leading publication in the appraisal industry, internal rates of return (IRRs) for land development projects free and clear of financing, inclusive of developer's profit, and assuming entitlements are in place ranged from 10% to 30%, with an average of 18.31%, during the fourth quarter of 2013. The Appraisal concludes as follows: "The subject's price points are indicative of entry level and move-up housing in the San Francisco area. In consideration of the subject's location, physical attributes and profit expectation, along with the fact vertical construction is underway on four of the Blocks in Phase 1 of the Hilltop subdivision, an IRR of 25.0% is considered reasonable. With a disposition period of just under three years for the balance of the Hilltop subdivision (Blocks 1JV, 52JV, 55, 56 and 57), and considering its location and targeted market segments, an IRR of 20% is considered reasonable. With fewer developable units, but site development yet to be initiated, an IRR of 24.0% is considered reasonable for the Hillside subdivision."

Sales Comparison Approach. The sales comparison approach is based on the premise that the value of a property is directly related to the prices being generated for comparable, competitive properties in the marketplace. The Appraiser states in the Appraisal that this approach has broad applicability and is particularly persuasive when there has been an adequate volume of recent, reliable transactions of similar properties that indicate value patterns or trends in the market. As noted above, the Appraiser used the sales comparison approach as a supporting indicator of value derived by the land residual analysis.

***Value Estimate.*** The Appraiser's estimate of the market value of the property within the District, as of the May 30, 2014, date of value, is shown in the Table 8—"Appraised Value" above. It is subject to the various assumptions and conditions set forth in the Appraisal.

***Absorption Assumptions Affecting Valuation.*** A number of assumptions are made in the discounted cash flow analysis, not the least of which is the forecast of absorption, or disposition, of the various land use components comprising the subject property. It is common for surveys of market participants to reveal different estimations of anticipated absorption periods for the sell-off of multiple components comprising a master planned development, with some developers preferring to hasten the holding period in favor of mitigating exposures to fluctuations in market conditions; whereas, other developers prefer to manage the sell-off of the property over an extended period of time so as to minimize direct competition of product within the master planned project. The Master Developer has projected a disposition (absorption) period for the sell-off of the proposed units based on investment criteria dictated by business objectives, which can vary amongst the likely market participants for such projects like

Hunters Point Shipyard. The projected disposition (absorption) period, trending and pricing estimated in the appraisal are based on market surveys and conclusions, which can differ slightly from investment decisions by the Master Developer.

## **The Master Developer**

**History.** On August 29, 2008, the Original Master Developer transferred its ownership of property in the District to the Master Developer. Concurrently, the rights and obligations under the Development Agreement and certain other rights and obligations related to development within the District were assigned to and assumed by the Master Developer. These transfers were part of the creation of a joint venture to bring in new strategic and equity partners for development of the Shipyard and other properties.

The Master Developer was formed on August 27, 2008 for the purpose of acquiring and developing property in the District. The Master Developer is a subsidiary of The Shipyard Communities, LLC (“Shipyard Communities”), which is a joint venture between a subsidiary of Lennar Corporation, a Delaware corporation (“Lennar”), and funds managed by Castlelake, L.P.

*Lennar* – Lennar, founded in 1954, is headquartered in Miami, Florida. Lennar is publicly traded under the symbol “LEN” since 1971, and is one of the nation’s largest home builders. Lennar’s home building operations include the sale and construction of single-family attached and detached homes, as well as the purchase, development, and sale of residential land directly, and through unconsolidated entities. Lennar offers its services primarily in 16 states including Arizona, California, Colorado, Florida, Georgia, Illinois, Maryland, Minnesota, Nevada, New Jersey, North Carolina, Oregon, South Carolina, Texas, Virginia, and Washington.

Lennar is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files, reports, proxy statements and other information with the SEC. Such filings, particularly the Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Such files can also be accessed over the internet at the SEC’s website at [www.sec.gov](http://www.sec.gov). *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the internet site.* Copies of such material can be obtained from the public reference section of the SEC at prescribed rates. In addition, the aforementioned material may also be inspected at the office of the NYSE at 20 Broad Street, New York, New York 10005.

Copies of Lennar’s Annual Report and related financial statements, prepared in accordance with generally accepted accounting standards, are available from Lennar’s website at [lennar.com](http://lennar.com). *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the internet site.*

Lennar, through various subsidiaries and affiliates, is a large developer in California with numerous divisions throughout the State that have been involved in a variety of development projects, some with joint venture partners. Like many other real estate developers across the country, Lennar and its subsidiaries and affiliates were impacted during the downturn in the real estate market commencing in 2007. That downturn resulted in reduced home prices and longer absorption periods and, accordingly, depressed residual land values in many communities. In addition, tighter restrictions on the availability of

credit decreased the homebuyer pool. As a result, with respect to certain projects they were developing, Lennar and certain of its subsidiaries and affiliates: (i) re-evaluated the financial feasibility of certain wholly-owned projects and the economics of exercising options on certain land and, in some cases, determined to not exercise such options; (ii) effectuated land sales at reduced prices; and (iii) renegotiated loan structures that were originally based upon prior land valuations and absorption rates. In connection with the actions taken due to the market downturn, there were instances when joint ventures in which Lennar had an interest failed to pay ad valorem property taxes, lost property to a lender's foreclosure, or terminated options on the acquisition of property (some of which were in community facilities districts). Although Lennar and its subsidiaries and affiliates were impacted by the real estate downturn and national recession, the Master Developer does not believe that the current housing market will have an adverse impact on the ability of the Master Developer to develop in the District as contemplated by this Official Statement and to pay, prior to delinquency, any special taxes for which it is responsible.

*Castlelake - Castlelake, L.P. ("Castlelake") is a global institutional alternative investment firm focused on deep value, asset rich opportunities in dislocated industries. For more information on Castlelake, see their website at castlelake.com. This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the internet site.*

*Because ownership of the property in the District may change at any time, and for other reasons, no assurance can be given that the planned development will occur at all, will occur in a timely manner or will occur as presently anticipated and described in this Official Statement or that the Master Developer will continue to own the Taxable Property in the District.*

*The Master Developer and its owners are not personally liable for payment of the Special Taxes or the Bonds, and the foregoing information should not be construed to suggest that the Special Taxes or the Bonds are personal obligations or indebtedness of the Master Developer or its owners, or that the Master Developer will continue to own the Taxable Property in the District.*

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**Master Developer's Development Plan.** Pursuant to the Development Agreement, the Master Developer is required to complete all infrastructure to serve the District, including streets, curbs, gutters, storm drains, wet and dry utilities, and parks. The anticipated cost of the infrastructure work for the District is \$92.8 million. As of May 1, 2014, the Master Developer has expended approximately \$71.3 million on infrastructure costs and anticipates that an additional \$21.4 million will be required to complete the infrastructure, as shown in Tables 11 and 12 below.

**Table 11**  
**Infrastructure Costs**  
**Hilltop**

<u>Improvement</u>	<u>Total Estimated Cost<sup>†</sup></u>	<u>Construction Status</u>	<u>Estimated Cost to Complete as of May 1, 2014</u>
Planning and Design	\$17,156,155	Substantially Complete	\$439,433
Excavation and Grading	16,448,633	Complete	0
Demolition	3,226,729	Substantially Complete	113,244
Special Conditions	4,117,521	Dust Monitoring Required Through Construction	548,461
Erosion Control	732,725	Required Through Construction	292,500
Sanitary Sewer	1,607,057	Complete	0
Water	2,858,604	Substantially Complete	145,000
Storm Drains	2,755,585	Complete	0
Roadways	4,856,381	Road base complete; asphalt cover overlay dependent on vertical deliveries	1,182,405
Utilities	4,424,330	Substantially Complete	165,208
Retaining Walls	315,789	Complete	0
Landscape and Parks	<u>7,939,537</u>	Initial park and streetscape construction underway	<u>7,664,499</u>
<b>Total for Hillside</b>	<b>\$66,439,045</b>		<b>\$10,550,750</b>

<sup>†</sup> Many of the costs incurred for the Project are the subject of single contracts and no distinction is made between the Hilltop and Hillside portions. Consequently, to show costs for each of the Hilltop and Hillside portions of the Project, the Master Developer made an allocation of such single-contract costs between Hilltop and Hillside based upon criteria that it determined was reasonable.

**Table 12**  
**Infrastructure Costs**  
**Hillside**

<u>Improvement</u>	<u>Total Estimated Cost<sup>†</sup></u>	<u>Construction Status</u>	<u>Estimated Cost to Complete as of May 1, 2014</u>
Planning and Design	\$5,952,052	Hillside Design Revisions	\$379,811
Excavation and Grading	5,482,878	Complete	0
Demolition	1,075,576	Substantially Complete	37,748
Special Conditions	1,372,507	Dust Monitoring Required Throughout Construction	182,820
Erosion Control	244,242	Required Throughout Construction	97,500
Sanitary Sewer	50,062	Installation to begin in 2015	50,062
Water	2,002,231	Partially Installed	1,209,701
Storm Drains	1,221,638	Partially Installed	809,348
Roadways	3,156,525	Installation to begin in 2015	3,130,372
Utilities	2,330,743	Installation to begin in 2015	2,213,012
Retaining Walls	473,683	Substantially Complete	48,989
Landscape and Parks	<u>3,002,128</u>	Installation to begin in 2015	<u>2,735,477</u>
<b>Total for Hillside</b>	<b>\$26,364,264</b>		<b>\$10,894,840</b>

<sup>†</sup> Many of the costs incurred for the Project are the subject of single contracts and no distinction is made between the Hilltop and Hillside portions. Consequently, to show costs for each of the Hilltop and Hillside portions of the Project, the Master Developer made an allocation of such single-contract costs between Hilltop and Hillside based upon criteria that it determined was reasonable.

Under the Development Agreement, Master Developer is required to transfer Taxable Property to “Vertical Developers” that will undertake development of residential units and retail space in accordance with the vertical development agreement with the Successor Agency for such Taxable Property. Vertical Developers can be affiliates of Master Developer, third parties that are appropriately capitalized and experienced, or Community Builders (local developers and builders that have applied to the Successor Agency for an opportunity to develop certain Taxable Property). See “—Sales of Developable Parcels to Homebuilders; Vertical Development” below.

The Master Developer has provided a five-year development schedule (Table 13) and a four-year proposed financing plan (Table 14) to the Successor Agency for inclusion in this Official Statement. These tables are current estimates of the information provided and are subject to change as development progresses.

**Table 13**  
**Anticipated Sales/Development Schedule**

<u>Block</u>	<u>Neighborhood</u>	<u>Projected<sup>†</sup> Date of Sales to Merchant Builders</u>
1	Hilltop	1Q 2015
50	Hilltop	2Q 2013
51	Hilltop	2Q 2013
52	Hilltop	1Q 2015
53	Hilltop	4Q 2013
54	Hilltop	4Q 2013
55	Hilltop	1Q 2015
56/57	Hilltop	3Q 2014
48A	Hillside	3Q 2015
48B	Hillside	4Q 2015
48C	Hillside	3Q 2015
48D	Hillside	4Q 2015
48E	Hillside	4Q 2015
48F	Hillside	4Q 2015
48G	Hillside	3Q 2015
48H	Hillside	4Q 2015
48I	Hillside	4Q 2015
48J	Hillside	4Q 2015
48K	Hillside	4Q 2015
48L	Hillside	4Q 2015
48M	Hillside	3Q 2015
48N	Hillside	3Q 2015
48O	Hillside	3Q 2015

<sup>†</sup> These dates are estimates only; actual sales dates will be determined by the real estate market and, for Hillside, by the timing of development of infrastructure improvements.

***Master Developer's Financing Plan.*** To date, Master Developer has financed construction of the infrastructure principally through sponsor equity, proceeds of the Prior Bonds, the proceeds of a five year EB-5 loan made to the Master Developer (which is not secured by property in the District), and government grants. The Master Developer anticipates that it will cost approximately \$21.4 million to complete the remaining required infrastructure for the District. Master Developer anticipates that it will use EB-5 loan proceeds, as well as distributed and recontributed proceeds from land and home sales to third parties for further development of the infrastructure on the Hilltop and Hillside, as described below and if needed, sponsor equity. The Master Developer does not expect to require a capital call on the members of Shipyard Communities to fund the remaining infrastructure costs on Hilltop and Hillside. However, if such sponsor equity is required, the Master Developer expects that it would originate from Lennar.

The Immigrant Investor Program, also known as "EB-5," was established by Congress in 1990 to stimulate the U.S. economy through job creation and capital investment by foreign investors. The program is administered by the U.S. Citizenship and Immigration Services and grants a foreign investor

permanent U.S. resident status, a “green card,” if he or she makes certain investments qualifying in amount and job creation.

**Table 14**  
**Proposed Financing Plan of Public Infrastructure**  
**Shipyards Phase 1**

<b>Sources:</b>	<b>Through 5/1/14<sup>(1)</sup></b>	<b>Through 12/31/14</b>	<b>Through 12/31/15</b>	<b>Through 12/31/16</b>	<b>After 12/31/16</b>	<b>Totals</b>
Equity <sup>(2)</sup>	\$46,987,763	\$1,570,317	\$11,429,347	\$4,446,052	\$31,159,880	\$95,593,359
EB-5 Loan Proceeds <sup>(3)</sup>	14,500,000	12,500,000	—	—	—	27,000,000
Bond Proceeds	33,490,272	—	—	—	—	33,490,272
Grants <sup>(4)</sup>	3,159,253	—	—	—	—	3,159,253
Master Marketing Fees <sup>(5)</sup>	—	116,953	1,174,018	2,585,959	2,234,124	6,111,054
Rental/Lease Income <sup>(6)</sup>	—	279,144	476,179	—	—	755,323
<b>TOTAL SOURCES</b>	<b>\$98,137,288</b>	<b>\$14,466,414</b>	<b>\$13,079,544</b>	<b>\$7,032,011</b>	<b>\$33,394,004</b>	<b>\$166,109,261</b>
<b>Uses:</b>						
Infrastructure Costs <sup>(7)</sup>	\$71,357,721	\$7,484,093	\$6,884,539	\$3,680,911	\$3,396,045	\$92,803,309
Sales and Marketing	3,063,993	3,095,954	1,944,070	1,431,100	1,187,586	10,722,703
Horizontal Property Taxes <sup>(8)</sup>	6,158,488	107,321	471,469	—	—	6,737,278
Interest and Credit Enhancement <sup>(9)</sup>	17,557,086	1,380,860	1,080,000	1,080,000	1,080,000	22,177,946
EB-5 Loan Repayment	—	—	—	—	27,000,000	27,000,000
Miscellaneous Costs <sup>(10)</sup>	—	2,398,186	2,699,466	840,000	730,373	6,668,025
<b>TOTAL USES</b>	<b>\$98,137,288</b>	<b>\$14,466,414</b>	<b>\$13,079,544</b>	<b>\$7,032,011</b>	<b>\$33,394,004</b>	<b>\$166,109,261</b>

(1) Includes only revenues and costs associated with the construction of public infrastructure through May 1, 2014; does not include every source or cost incurred by the Master Developer through May 1, 2014.

(2) Equity sources include those of the Master Developer and Shipyards Communities, and may include distributed and recontributed proceeds from land and home sales to third parties.

(3) EB-5 Loan has been made to the Master Developer in the total amount of \$27 million. The proceeds of this loan may be used to pay for infrastructure costs associated with development of property in the District. EB-5 loans are made with proceeds obtained from individual investors in the applicable EB-5 lender. The United States Citizenship and Immigration Services (“USCIS”) must approve each individual investor. The USCIS process is ongoing for various applicants and no guarantee can be made that the applicants will be approved by USCIS, and therefore no guarantee can be made that the full amount of the loan will be funded to the applicable borrower and, if funded, that if the investor is subsequently denied that the loan proceeds advanced to the borrower in respect of such investor will not have to be returned by the borrower. The loan is a five-year unsecured loan.

(4) The Master Developer benefitted from two grants: an EDA Grant in the amount of \$1.33 million and an EPA Grant in the amount of \$1.83 million.

(5) The Master Developer built the welcome center in the District and is funding various costs associated with marketing to potential homebuyers. The Master Developer is partially reimbursed for this effort through a fee from homebuilders.

(6) This includes income from existing buildings located on the Shipyards. These revenue sources will discontinue as the tenants are relocated and certain of the existing buildings are demolished as part of the development the remaining portions of the Shipyards by the Master Developer’s affiliate.

(7) The Master Developer’s obligation to complete the infrastructure improvements under the Development Agreement is backed by subdivision improvement bonds provided to the City and the Successor Agency under the Public Improvement Agreement and by a guaranty from Shipyards Communities. See “—The Development Agreement—Security for Master Developer’s Obligations” herein.

(8) Projected amounts include estimated Special Taxes and the special taxes relating to CFD No. 8 to be paid on the Bonds. Special taxes securing the Prior Bonds are shown on the following line.

(9) These costs include interest on the Prior Bonds, the costs of the credit enhancement for the Prior Bonds, and interest on the EB-5 loan to the Master Developer.

(10) These costs included general and accounting, legal, and community benefit costs; fees due the Successor Agency; and rental expenses.

To assist in the construction financing of Blocks 53 and 54, the Master Developer encumbered the Hillside portion of the District with a deed of trust securing loans in the aggregate amount of \$30 million loan made by East West Bank to HPS1 Block 53, LLC and HPS1 Block 54, LLC (the “East West Bank Loans”). If either of those homebuilders is delinquent in the repayment of their respective East West Bank Loan, East West Bank could foreclose the lien encumbering the Hillside portion of the District. The deed of trust on the Hillside portion of the District will be reconveyed upon the earlier of completion of the improvements to Blocks 53 and 54 by HPS1 Block 53, LLC and HPS1 Block 54, LLC, respectively, or repayment of the East West Bank Loans (which is anticipated to occur through sales of the new homes on Blocks 53 and 54). The maturity date of the East West Bank Loans is December 16, 2018. The East West Bank Loans are in good standing as of April 30, 2014. See “Homebuilders’ Financing Plans” herein.

*No assurance can be given that the sources of financing available to the Master Developer will be sufficient to complete property development in the District as currently anticipated and as described in this Official Statement. While the Master Developer has made such internal and external financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future. The Master Developer has no legal obligation of any kind to make any internal funds or proceeds of lot sales available or obtain loans. Other than pointing out the willingness of the Master Developer to provide internal financing in the past, the Master Developer has not represented in any way that it will do so in the future.*

## **The Homebuilders**

Acquisition by Homebuilders. As of July 1, 2014, four homebuilders – all affiliates of the Master Developer – acquired Blocks of property from the Master Developer as follows:

<u>Homebuilders</u>	<u>Block</u>	<u>Date of Acquisition</u>
HPS1 Block 50, LLC	50	June 2013
HPS1 Block 51, LLC	51	June 2013
HPS1 Block 53, LLC	53	December 2013
HPS1 Block 54, LLC	54	December 2013

Proposed Unit Mix. In Block 50, HPS1 Block 50, LLC intends to construct 25 row townhomes. In Block 51, HPS1 Block 51, LLC intends to construct 63 podium flats. In Blocks 53 and 54, the homebuilders intend to build a combination of row townhomes and podium flats. The proposed unit mix within the Blocks owned by the homebuilders is as follows:

**Table 15**  
**Proposed Unit Mix**  
**Blocks 50, 51, 53, and 54**

<u>Homebuilders</u>	<u>Block</u>	<u>Number of Units</u>	<u>Type of Unit</u>	<u>Approximate Square Footage of Units<sup>†</sup></u>
HPS1 Block 50, LLC	50	25	Townhomes	1,150
HPS1 Block 51, LLC	51	63	Flats	850
HPS1 Block 53, LLC	53	93	Townhomes/Flats	1,000
HPS1 Block 54, LLC	54	66	Townhomes/Flats	1,000
<b>TOTAL</b>		<b>247</b>		

<sup>†</sup> Weighted average square footage of all of the projected units in the Block.

Development Plan. The homebuilders intend to build single-family attached units within each Block. The welcome center in the District and the off-site sales center for all four Blocks opened in June 2014, and sales have commenced. As shown below, the first closing is anticipated in Block 50 in September 2014. The proposed construction and sales schedule is set forth below:

**Table 16**  
**Proposed Construction and Sales Schedule**  
**Blocks 50, 51, 53, and 54**  
**(As of June 1, 2014)**

<u>Homebuilders</u>	<u>Block</u>	<u>Number of Units</u>	<u>Begin Home Construction</u>	<u>Estimated<sup>†</sup> First Home Sale Closings</u>	<u>Estimated<sup>†</sup> Last Home Sale Closings</u>
HPS1 Block 50, LLC	50	25	June 2013	September 2014	November 2014
HPS1 Block 51, LLC	51	63	June 2013	November 2014	August 2015
HPS1 Block 53, LLC	53	93	December 2013	February 2015	August 2016
HPS1 Block 54, LLC	54	66	December 2013	February 2015	November 2015

<sup>†</sup> These dates are estimates only; actual closing dates will be determined by construction schedules, which in turn are determined by the real estate market.

Construction Status. Building permits on all 247 units within Blocks 50, 51, 53, and 54 have been issued and construction is underway. The first sales and closings are anticipated to occur as shown in Table 16 above. The status of those Blocks under construction is described below:

**Table 17**  
**Status of Construction**  
**Blocks 50, 51, 53, and 54**  
**(As of May 1, 2014)**

<u>Homebuilders</u>	<u>Block</u>	<u>Number of Units</u>	<u>Number of Units with Building Permits<sup>†</sup></u>	<u>Number of Units Under Construction</u>	<u>Number of Units Under Contract to be Sold</u>	<u>Number of Units Sold and Closed Escrow</u>
HPS1 Block 50, LLC	50	25	25	25	0	0
HPS1 Block 51, LLC	51	63	63	63	0	0
HPS1 Block 53, LLC	53	93	93	93	0	0
HPS1 Block 54, LLC	54	<u>66</u>	<u>66</u>	<u>66</u>	<u>0</u>	<u>0</u>
<b>TOTALS</b>		<b>247</b>	<b>247</b>	<b>247</b>	<b>0</b>	<b>0</b>

<sup>†</sup> Under the Rate and Method, a parcel that has been classified as Developed Property following the issuance of a building permit will continue to be classified as Developed Property and taxed accordingly even if the building permit for that parcel expires.



***The Homebuilders' Financing Plans.*** The costs to build homes on the lots owned by the homebuilders and their respective financing plans are set forth below:

Block 50. As of May 1, 2014, HPS1 Block 50, LLC, has expended approximately \$4.5 million on construction of its planned 25 units. HPS1 Block 50, LLC anticipates that it will cost approximately \$7.5 million to complete the construction, marketing, and selling of the 25 homes in Block 50. To date, HPS1 Block 50, LLC has financed construction of the residential units on Block 50 through sponsor equity and a related debt facility (i.e., funds derived from an EB-5 loan (described below) made to a parent of HPS1 Block 50, LLC; the five-year loan is not secured by property in the District). HPS1 Block 50, LLC anticipates that it will use similar financing sources for the remaining costs to develop Block 50.

Block 51. As of May 1, 2014, HPS1 Block 51, LLC, has expended approximately \$7.5 million on construction of its planned 63 units. HPS1 Block 51, LLC anticipates that it will cost approximately \$15 million to complete the construction, marketing, and selling of the 63 homes in Block 51. To date, HPS1 Block 51, LLC has financed construction of the residential units on Block 51 through sponsor equity and a related debt facility (i.e., funds derived from an EB-5 loan (described below) made to a parent of HPS1 Block 51, LLC; the five-year loan is not secured by property in the District). HPS1 Block 51, LLC anticipates that it will use similar financing sources for remaining costs to developer Block 51.

Block 53. As of May 1, 2014, HPS1 Block 53, LLC, has expended approximately \$3 million on construction of its planned 93 units. HPS1 Block 53, LLC anticipates that it will cost approximately \$41 million to complete the construction, marketing, and selling of the 93 homes in Block 53. To date, HPS1 Block 53, LLC has financed construction of the residential units on Block 53 through sponsor equity (including funds derived from an EB-5 loan (described below) made to a parent of HPS1 Block 53, LLC; the five-year loan is not secured by property in the District) and up to \$17,432,112 of the \$30 million East West Bank Loan (the "Block 53 Loan"). The Block 53 Loan has an outstanding balance of \$2,213,968.41 (as of April 29, 2014). The Block 53 Loan is secured by a deed of trust on the property owned by HPS1 Block 53, LLC in the District and on the Hillside property owned in the District by Master Developer. The deed of trust on the Hillside property will be released on completion of the new homes on Block 53 and the deed of trust on Block 53 will be partially released in conjunction with the sale of a home in Block 53 to a homebuyer. The maturity date of the Block 53 Loan is December 16, 2018.

The Block 53 Loan is in good standing as of July 1, 2014.

HPS1 Block 53, LLC anticipates that it will use financing sources similar to those used for the costs incurred to date for the remaining costs to develop Block 53.

Block 54. As of May 1, 2014, HPS1 Block 54, LLC, has expended approximately \$2.5 million on construction of its planned 66 units. HPS1 Block 54, LLC anticipates that it will cost approximately \$30 million to complete the construction, marketing, and selling of the 66 homes in Block 54. To date, HPS1 Block 54, LLC has financed construction of the residential units on Block 54 through sponsor equity and a related debt facility (i.e., funds derived from an EB-5 loan (described below) made to a parent of HPS1 Block 53, LLC; the five-year loan is not secured by property in the District) up to \$12,567,888 of the \$30 million East West Bank Loan (the "Block 54 Loan"). The Block 54 Loan has an outstanding balance of \$1,586,726.67 (as of April 29, 2014). The Block 54 Loan is secured by a deed of trust on the property owned by HPS1 Block 54, LLC in the District and on the Hillside property owned in the District by Master Developer. The deed of trust on the Hillside property will be released on completion of the new

homes on Block 54 and the deed of trust on Block 54 will be partially released in conjunction with the sale of a home in Block 54 to a homebuyer. The maturity date of the Block 54 Loan is December 16, 2018.

The Block 54 Loan is in good standing as of July 1, 2014.

HPS1 Block 54, LLC anticipates that it will use financing sources similar to those used for the costs incurred to date for the remaining costs to develop Block 54.

An EB-5 Loan (separate from the EB-5 Loan granted to the Master Developer) has been made to the parent company of the builders in Blocks 50, 51, 53, and 54 in the total amount of \$50 million. The proceeds of this loan may be used to pay for the costs of vertical development associated with development of property in Blocks 50, 51, 53, and 54. This EB-5 loan is made with proceeds obtained from individual investors in the applicable EB-5 lender. The United States Citizenship and Immigration Services (“USCIS”) must approve each individual investor. The USCIS process is ongoing for various applicants and no guarantee can be made that the applicants will be approved by USCIS, and therefore no guarantee can be made that the full amount of the loan will be funded to the applicable borrower and, if funded, that if the investor is subsequently denied that the loan proceeds advanced to the borrower in respect of such investor will not have to be returned by the borrower. As of June 1, 2014, approximately \$3 million under this EB-5 loan has been funded. The loan is a five-year unsecured loan.

*For each of Blocks 50, 51, 53, and 54, no assurance can be given that the sources of financing available to the homebuilders described above will be sufficient to complete property development in their respective blocks as currently anticipated and as described in this Official Statement. While the homebuilders have made such internal and external financing available in the past, there can be no assurance whatsoever of their willingness or ability to do so in the future. The homebuilders have no legal obligation of any kind to make any internal funds or proceeds of lot sales available or obtain loans. Other than pointing out the willingness of the homebuilders to provide internal financing in the past, neither the Master Developer nor the homebuilders have represented in any way that they will do so in the future.*

### **The Development Agreement**

This brief summary of certain provisions of the Development Agreement is subject in all respects to the full text thereof, which is available upon request to the Successor Agency. The Development Agreement and all amendments thereto are available at the following website: <http://www.sfredevelopment.org/index.aspx?page=160>. *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the internet site.*

**General.** The real property within the District is subject to the terms and provisions of the Disposition and Development Agreement Hunters Point Shipyard Phase 1 dated as of December 2, 2003, as amended (the “Development Agreement”), originally by and between the Former Agency and the Original Master Developer. The rights and obligations of the Original Master Developer under the Development Agreement were transferred to, and assumed by, the Master Developer as of August 29, 2008 with the consent of the Former Agency. The Successor Agency succeeded, by operation of law, to the Former Agency’s rights and obligations under the Development Agreement, without the necessity for any assignment or other action on the part of any person. Pursuant to the Development Agreement, the Master Developer is obligated to construct the infrastructure required for development to proceed within

the District, in accordance with the Development Agreement, including with its infrastructure plan, schedule of performance and transportation management plan.

The Development Agreement addresses only Parcel A out of the seven primary parcels (A through G) intended to be conveyed by the United States of America, acting through the Department of the Navy (the “Navy”) to the Former Agency or the Successor Agency, as applicable. Parcel A comprises the District. The Successor Agency and an affiliate of Master Developer are parties to a separate Disposition and Development Agreement for Parcels B through G (and other portions of the Shipyard not subject to the Development Agreement) and portions of the adjacent Candlestick Point. The entirety of the Shipyard is intended to be developed in accordance with the Redevelopment Plan for the Project Area.

The Development Agreement has been amended from time to time to reflect changes in the development plan for the District and changes to certain business terms between the Master Developer (and the Original Master Developer) and the Successor Agency. The most recent amendment is the Sixth Amendment dated as of December 12, 2012 (pursuant to which, among other things, the 50% BMR Units previously anticipated to be developed by the homebuilders were consolidated on Block 49 for development by the Successor Agency). The Successor Agency and the Master Developer may amend the Development Agreement in the future as development proceeds in the District. Such amendments may include swapping one or more Agency Housing Parcels for market-rate parcels, which is being considered for Hillside. The Rate and Method has provisions that allow the swapping of such parcels.

***Nature of Obligation.*** The Development Agreement is recorded in the real property records of the City and is intended to be an obligation that is binding upon future property owners, whether such owners acquire by purchase, foreclosure or otherwise, except as otherwise provided therein (e.g., the Development Agreement is anticipated to be released upon transfer of a Taxable Property to the applicable homebuilder and execution of a Vertical Development Agreement, as described below).

The lien created by the Development Agreement will be released with respect to developable parcels transferred to homebuilders. See “*Sales of Developable Parcels to Homebuilders: Vertical Development*” below.

***Security for Master Developer’s Obligations.*** Shipyard Communities has given a guaranty to the Successor Agency of all of the Master Developer’s obligations under the Development Agreement, including Master Developer’s obligations thereunder to complete the infrastructure in the District. Shipyard Communities’ maximum liability under such guaranty is \$5,000,000 (not including costs of collection described therein), with such cap increasing automatically by 10% upon each five year anniversary of June 3, 2010.

In addition, in connection with the City’s approval of final maps for the Hilltop and the Hillside neighborhoods and in accordance with the Development Agreement and state law, the Master Developer was required to assure lien-free completion of the infrastructure in the District. This requirement is set forth and more particularly described in the Hunters Point Shipyard Phase 1 Public Improvement Agreement (as amended, the “Public Improvement Agreement”) dated as of July 21, 2009 entered into by the Master Developer, the City, and the Agency. Pursuant to the Public Improvement Agreement and the Development Agreement, the Master Developer was required to provide to the City and the Former Agency certain Performance Bonds and Labor and Material Bonds in an amount collectively equal to 125% of the estimated cost (determined in 2009) of completing the infrastructure under the Development Agreement (the “Infrastructure Completion Bonds”). As of June 1, 2014, the aggregate penal sum under the Infrastructure Completion Bonds delivered to the City and the Successor Agency is approximately \$22,136,668.17.

### ***Sales of Developable Parcels to Homebuilders; Vertical Development***

**General.** The Development Agreement contemplates that the sale of developable parcels will be sold to homebuilders, which may include affiliates of the Master Developer, to construct vertical improvements thereon. The Development Agreement sets forth conditions for such transfers, including minimum purchase prices established by appraisal.

The Development Agreement requires that 30% of the developable parcels available to affiliates of the Master Developer be made available for participation by community builders selected under the Development Agreement through a selection process that includes the Master Developer and the Successor Agency. A community builder may participate in the development of certain parcels as a separate homebuilder, in a joint venture with the Master Developer or its affiliates or as a fee developer engaged by the applicable homebuilder. As of June 1, 2014, community builders are participating in the development of a portion of Blocks 53 and 54 as fee developers and community builders for Blocks 1 and 52 are in discussions with Master Developer regarding the participation model of the applicable community builder with respect to such Blocks. Parcels transferred to community builders are subject to the same Special Taxes and other requirements of the Development Agreement as other parcels.

Any transferee of parcels for vertical development is required to enter into a Vertical Disposition and Development Agreement with the Successor Agency with provisions prescribed by the Development Agreement (a "Vertical Development Agreement"). Each Vertical Development Agreement must, among other things, provide for the creation and, maintenance of any open space applicable to the transferred property and the provision and identification of affordable units required for such parcels.

Upon execution of a Vertical Development Agreement, the Development Agreement shall be modified to exclude the transferred parcels from the requirements thereof and the Successor Agency is required to release Master Developer from liability under the Development Agreement with respect to such property (other than indemnification provisions and certain provisions intended to survive such transfer).

Each Vertical Development Agreement includes a schedule of performance for commencement and completion of the improvements to be built thereon.

Each Vertical Development Agreement is to be released in connection with completion of the improvements to be built thereunder (other than certain provisions intended to survive).

**Application of Proceeds of Parcel Sales.** Proceeds from the sale of parcels in the District must be applied in the following order of priority: (i) to the Master Developer, certain amounts reimbursing the Master Developer for certain amounts advanced and for a designated rate of return; (ii) all amounts to the community benefits fund established under the Development Agreement until the amount therein reaches a specified level; and (iii) 50% of any remaining amount to each of the Master Developer and the Successor Agency.

**Defaults by Master Developer.** The Development Agreement sets forth certain events or circumstances that constitute an event of default thereunder, including, but not limited to transferring or allowing use of any parcels not permitted thereunder, failure to pay real estate taxes and assessments, failure to perform certain construction related activities within the permitted time frames, breach of certain related agreements, and any default in any guaranty of the Master Developer's obligations thereunder.

**Remedies.** Upon the occurrence and continuance of an event of default, the Successor Agency, in addition to all remedies available at law, may terminate the Development Agreement, seek liquidated damages, seek specific performance by the Master Developer of its obligations thereunder.

### **Environmental Matters and Hazardous Substances**

The District is located on Parcel A of the Shipyard which was closed in 1974. The historical use of Parcel A was non-industrial and primarily residential. In 1989, the United States Environmental Protection Agency (USEPA) listed the Shipyard on the National Priorities List, commonly known as “Superfund.” In 1999, Parcel A was “delisted” from the Superfund list based on the USEPA’s determination that no further environmental remediation was needed for this site. In 2004, the Navy issued, and the USEPA, the Department of Toxic Substances Control (“DTSC”), and the Regional Water Quality Control Board (“RWQCB”) concurred in a Finding of Suitability to Transfer for residential use for Parcel A, agreeing that the Navy has taken all remedial actions necessary to protect human health and the environment at Parcel A, and that none of the environmental conditions on adjacent parcels of the Shipyard rendered Parcel A unsuitable for residential use.

Neither the Successor Agency nor the Master Developer is aware of any existing environment contamination within the District that would delay development or cause development within the District not to occur as currently planned.

### **Utilities**

It is expected that utility services for the Taxable Property in the District will be provided by the following:

- Water: San Francisco Public Utilities Commission
- Sanitary Sewer: San Francisco Public Utilities Commission
- Stormwater Drainage: San Francisco Public Utilities Commission
- Electricity: San Francisco Public Utilities Commission
- Waste Disposal: Recology, San Francisco

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## Overlapping Taxes, Charges and Assessments

The base tax rate on property in the District is 1.0%. However, property in the District is also subject, or will be subject, to additional annual charges and assessments (which are billed to property owners on a semi-annual basis). The following table shows tax bill amounts for a representative sampling of property types in the District.

**Table 18**  
**Hypothetical Single Family Residential Tax Bill**

<u>Estimated Assessed Valuation and Property Taxes</u>	<u>Tax Rate</u>	<u>Hilltop<sup>(3)</sup></u>		<u>Hillside<sup>(4)</sup></u>	
		<u>MRU<sup>(5)</sup></u> <u>1,016 SF</u>	<u>BMR<sup>(6)</sup> 80</u> <u>1,014 SF</u>	<u>MRU</u> <u>1,155 SF</u>	<u>BMR 80</u> <u>1,154 SF</u>
Estimated Average Home Price <sup>(1)</sup>		\$601,167	\$244,800	\$620,490	\$244,800
Less: Homeowners Exemptions		<u>(\$7,000)</u>	<u>(\$7,000)</u>	<u>(\$7,000)</u>	<u>(\$7,000)</u>
Estimated Net Assessed Value		\$594,167	\$237,800	\$613,490	\$237,800
<u>Ad Valorem Property Taxes</u>					
General Purpose	1.0000%	\$5,942	\$2,378	\$6,135	\$2,378
Debt Service Fund	0.1195	710	284	733	284
San Francisco Unified School District	0.0429	255	102	263	102
San Francisco Community College District	0.0181	108	43	111	43
Bay Area Rapid Transit District	<u>0.0075</u>	<u>45</u>	<u>18</u>	<u>46</u>	<u>18</u>
<b>Total AD Valorem Property Taxes and Overrides</b>	<b>1.188%</b>	<b>\$7,059</b>	<b>\$2,825</b>	<b>\$7,288</b>	<b>\$2,825</b>
<u>Assessments, Special Taxes, and Parcel Charges<sup>(2)</sup></u>					
SFUSD Facilities District		\$34	\$34	\$34	\$34
SFCCD Parcel Tax		79	79	79	79
SF-Teacher Support		220	220	220	220
CFD No. 7 Maximum Special Tax		3,939	834	4,272	1,028
CFD No. 8 Maximum Special Tax		<u>1,451</u>	<u>291</u>	<u>1,564</u>	<u>364</u>
Total Assessments, Special Taxes, and Parcel Charges		\$5,722	\$1,458	\$6,168	\$1,725
Total Projected Annual Taxes and Assessments		\$12,781	\$4,283	\$13,456	\$4,550
<b>Projected Total Effective Tax Rate (as % of Assessed Value)</b>		<b>2.15%</b>	<b>1.80%</b>	<b>2.19%</b>	<b>1.91%</b>

(1) Based on sales price information from the June 13, 2014 Appraisal prepared by Seevers Jordan Ziegenmeyer.

(2) Based on a sample tax bill from the County Tax Collector's website.

(3) Assumes one bedroom unit, based on average unit size and sales price from the Appraisal.

(4) Assumes two bedroom unit, based on average unit size and sales price from the Appraisal.

(5) "MRU" means Market Rate Unit.

(6) "BMR" means Below Market Rate Unit.

Sources: San Francisco County Tax Collector's Office; Goodwin Consulting Group, Inc.



## Community Facilities District No. 8

The District boundaries are coterminous with the boundaries of the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 8 (Hunters Point Shipyard Phase One Maintenance) (“CFD No. 8”). Within CFD No. 8, a special tax is levied on all taxable property therein for ongoing maintenance of the improvements and open space serving the Hilltop and Hillside subdivisions. Following are the maximum special tax rates for CFD No. 8:

<b>Land Use</b>	<b>Base Special Tax Fiscal Year 2013-14<sup>†</sup></b>	<b>Incremental Special Tax Fiscal Year 2013-14<sup>†</sup></b>
Market Rate Units	\$628 per unit	\$0.81 per square foot
Required BMR 80% Units	\$218 per unit	\$73 per bedroom
Required BMR 50% Units	\$97 per unit	\$33 per bedroom
Agency Affordable Housing Units	\$218 per unit	N/A
Non-Residential Property	N/A	\$0.82 per square foot

<sup>†</sup> Beginning July 1, 2014 and each July 1 thereafter, the amounts shown above shall be increased by the lesser of (i) the percentage increase if any, in the Consumer Price Index (San Francisco-Oakland-San Jose, all urban consumers) since the prior July 1, and (ii) five and one-half percent (5 1/2 %) of the amount in affect in the prior Fiscal Year. Therefore, Fiscal Year 2014-15 rates cannot yet be determined.

## Special Tax Administration

Goodwin Consulting Group, Inc., Sacramento, California (“Goodwin”), has been retained by the Successor Agency to assist in the administration of the Special Tax calculations for the District. Goodwin provides special assessment district and community facilities district administration services for numerous California government entities. Goodwin currently provides administration services for all community facilities district which have been formed by the Successor Agency.

## SPECIAL RISK FACTORS

*The following is a description of certain risk factors affecting the District, the property owners in the District, the parcels subject to the levy of Special Taxes and the payment of and security for the Bonds. The following discussion of risks is not meant to be a complete list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the investment quality of the Bonds. There can be no assurance that other risk factors will not become material in the future.*

### Concentration of Property Ownership

Failure of the Master Developer or any other significant owner of Taxable Property to pay the annual Special Taxes when due could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of the property upon a foreclosure or otherwise or prior to delinquency redemption after a foreclosure sale, if any. In that event, there could be a default in payments of the principal of and interest on the Bonds.

A significant landowner may be more likely to default in the payment of Special Taxes on undeveloped real property.

See “THE DISTRICT” for information about property ownership and the status of development in the District.

### **Payment of the Special Taxes is not a Personal Obligation**

The owners of the Taxable Property in the District are not personally obligated to pay the Special Taxes. Rather, the Special Taxes are an obligation that is secured only by a lien against the Taxable Property on which it is levied. If the value of a Taxable Property is not sufficient to secure fully the payment of the Special Taxes, the Successor Agency has no recourse against the owner of the Taxable Property.

There is no assurance that the current owner or any subsequent owners of the Taxable Property in the District have the ability to pay the Special Taxes or that, even if they have the ability, they will choose to pay such taxes. Neither the Successor Agency nor any owner of the Bonds will have the ability at any time to seek payment directly from the owners of Taxable Property within the District of the Special Taxes or the principal or interest on the Bonds, or the ability to control who becomes a subsequent owner of any property within the District.

### **Property Value**

If an owner of Taxable Property defaults in the payment of the Special Taxes, the only legal remedy is the institution of a superior court action to foreclose on the delinquent taxable parcel in an attempt to obtain funds with which to pay the Special Taxes. The value of the Taxable Property in the District could be adversely affected by economic factors beyond the Successor Agency’s control, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of property in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, tsunamis, sea level rise, earthquakes and floods), which may result in uninsured losses. See “–Natural Disasters.”

Based on the Appraisal and assuming bond indebtedness is allocated based on a parcel’s share of the Maximum Special Taxes which would be levied within the District, a substantial majority of the parcels of Taxable Property within the District have a value-to-debt burden ratio of less than 3:1. See “PLAN OF FINANCE” and “THE District–Property Valuation–*Value-to-Debt Burden Ratio*.” No assurances can be given that any Taxable Property with delinquent Special Taxes and subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay the delinquent Special Taxes installment. Although the Act authorizes the Successor Agency to cause such an action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the Successor Agency with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale in any such action if there is no other purchaser at such sale. The Successor Agency is not obligated and does not expect to be a bidder at any such foreclosure sale. See “–Proceeds of Foreclosure Sales.”

### **Exempt Properties**

**General.** Certain properties are exempt from the Special Taxes in accordance with the Rate and Method. In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Taxes; provided, however, that property within the District acquired by a public entity through a negotiated transaction, or by gift or devise, that is not otherwise exempt from the

Special Taxes, will continue to be subject to the Special Taxes. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Taxes. In addition, the Act provides that if property subject to the Special Taxes is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Taxes with respect to that property, for outstanding Bonds only, is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Act have not been tested. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Special Taxes.”

In particular, insofar as the Act requires payment of the Special Taxes by a federal entity acquiring property within the District, it may be unconstitutional. If for any reason property within the District becomes exempt from taxation by reason of ownership by a nontaxable entity such as the federal government or another public agency, subject to the limitation of the maximum rate, the Special Taxes will be reallocated to the remaining Taxable Property within the District. This would result in the owners of such property paying a greater amount of the Special Taxes and could have an adverse impact upon the timely payment of the Special Taxes. Moreover, if a substantial portion of land within the District becomes exempt from the Special Taxes because of public ownership, or otherwise, the maximum rate that could be levied upon the remaining Taxable Property might not be sufficient to pay principal of and interest on the Bonds when due and a default would occur with respect to the payment of such principal and interest.

### **Parity Taxes and Special Assessments**

The Special Taxes and any penalties thereon will constitute liens against the Taxable Property in the District until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the taxable parcel. The Special Taxes have priority over all existing and future private liens imposed on the property. The Successor Agency, however, has no control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the Taxable Property within the District. In addition, the landowners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes or assessments, and any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes. The imposition of additional indebtedness could reduce the willingness and the ability of the owners of Taxable Property within the District to pay the Special Taxes when due.

### **Insufficiency of Special Taxes**

In order to pay debt service on the Bonds, it is necessary that the Special Taxes levied against Taxable Property within the District be paid in a timely manner. The Successor Agency has established the Reserve Fund in an amount equal to the Reserve Requirement to pay debt service on the Bonds and any Parity Bonds to the extent Special Taxes are not paid on time and other funds are not available. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Reserve Fund” and APPENDIX A–“SUMMARY OF THE FISCAL AGENT AGREEMENT.” Under the Fiscal Agent Agreement, the Successor Agency has covenanted to maintain in the Reserve Fund an amount equal to the Reserve Requirement; subject, however, to the limitations that (i) the Successor Agency may not levy the Special Taxes in any fiscal year at a rate in excess of the maximum Special Taxes rates permitted under the Rate and Method and (ii) per the Rate and Method, at no time will Special Taxes levied on property in residential use be increased by more than 10% of the amount levied in the prior Fiscal Year due to delinquencies or defaults of other property owners in the District. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Special Taxes.”

Clause (ii) of the preceding sentence is included in the Rate and Method by reason of Government Code Section 53321(d), which provides that in the case of any special tax to pay for public facilities and to be levied against any parcel used for private residential purposes, under no circumstances will the special tax levied in any fiscal year against a private residential parcel be increased as a consequence of delinquency or default by the owner or owners of any other parcel or parcels within the District by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. Accordingly, if Special Taxes are levied at less than the Maximum Special Tax rate on private developed residential property, the Successor Agency may not be able to receive the debt service coverage shown on Table 6.

The Successor Agency has made certain covenants regarding the institution of foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Covenant for Superior Court Foreclosure.” If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of delinquent Special Taxes to protect its security interest.

### **Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, currently are being billed to the Taxable Property within the District on the regular ad valorem real property tax bills sent to owners of the parcels. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of an owner of Taxable Property to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Reserve Fund” and “—Covenant for Superior Court Foreclosure” for a discussion of the provisions which apply, and procedures which the Successor Agency is obligated to follow under the Fiscal Agent Agreement, in the event of delinquency in the payment of Special Tax installments. See also “THE DISTRICT” for historical Special Tax delinquency history.

### **Adjustable Rate and Non-Conventional Mortgages**

Since the end of 2002, many individuals financed the purchase of new homes using loans with little or no down payment and with adjustable interest rates that start low and are subject to being reset at higher rates on a specified date or upon the occurrence of specified conditions. Many of these loans allow the borrower to pay interest only for an initial period, in some cases up to 10 years. The post-2008 period has shown that interest rate resets on adjustable rate loans can lead to defaults in loan payments, property tax delinquencies and declines in property values. These conditions have been aggravated since 2008 by high levels of unemployment.

Homeowners in the District that purchase their homes with adjustable rate and non-conventional loans with no or low down payments may experience difficulty in making their loan payments due to automatic mortgage rate increases and rising interest rates. This could result in an increase in the Special Tax delinquency rates in the District and draws on the Reserve Fund. If there were significant delinquencies in Special Tax collections in the District and the Reserve Fund were fully depleted, there could be a default in the payment of principal of and interest on the Bonds.

If mortgage loan defaults increase, bankruptcy filings by such homeowners could also increase. Bankruptcy filings by homeowners with delinquent Special Taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes. See “–Bankruptcy Delays.”

### **Bankruptcy Delays**

The payment of the Special Tax and the ability of the Successor Agency to commence a superior court action to foreclose the lien of a delinquent unpaid Special Tax, as discussed in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State of California relating to judicial foreclosure. Any legal opinion to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of an owner of Taxable Property or any other person claiming an interest in the property could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments not being paid in part or in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds.

### **Proceeds of Foreclosure Sales**

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax, the Successor Agency, may order that the Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. The Successor Agency has covenanted in the Fiscal Agent Agreement that it will, under certain circumstances, commence such a foreclosure action. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Covenant for Superior Court Foreclosure.”

No assurances can be given that a Taxable Property in the District that would be subject to a judicial foreclosure sale for delinquent Special Taxes will be sold or, if sold, that the proceeds of such sale will be sufficient to pay the delinquent Special Tax installment. Although the Act authorizes the Successor Agency to cause such an action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the Successor Agency with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale in any such action if there is no other purchaser at such sale and the Successor Agency has not in any way agreed nor does it expect to be such a bidder.

In a foreclosure proceeding, a judgment debtor (i.e., the property owner) has 140 days from the date of service of the notice of levy in which to redeem the property to be sold and may have other redemption rights afforded by law. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale if the purchaser at the sale was the judgment creditor. If a foreclosure sale is thereby set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made.

If foreclosure proceedings were ever instituted, any holder of a mortgage or deed of trust on the affected property could, but would not be required to, advance the amount of the delinquent Special Tax installment to protect its security interest.



In the event such superior court foreclosure or foreclosures are necessary, there could be a delay in principal and interest payments to the owners of the Bonds pending prosecution of the foreclosure proceedings and receipt by the District of the proceeds of the foreclosure sale, if any. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions and other factors beyond the control of the Successor Agency, including delay due to crowded local court calendars or legal tactics and, in any event could take several years to complete. In particular, bankruptcy proceedings involving an owner of a taxable parcel in the District could cause a delay, reduction or elimination in the flow of Special Tax Revenues to the Fiscal Agent. See “–Bankruptcy Delays.”

Much of the real property in the District is substantially undeveloped. See “THE DISTRICT–Status of Development.” All real property in the District is subject to the terms of the Development Agreement or a Vertical Development Agreement, each of which requires development in accordance with the Development Plan set forth therein. See “THE DISTRICT–The Development Agreement.” In addition, the real property is within the Hunters Point Naval Shipyard Project Area within the Project Area and development is required to be in compliance therewith. As such, the amounts received upon foreclosure of such parcels may be below the value which might otherwise be received.

### **Failure to Complete Development**

A substantial portion of the real property in the District is not fully developed with the infrastructure necessary for vertical development. There is no assurance that the Master Developer or, in the event of a foreclosure sale for delinquent Special Taxes, a subsequent property owner, will complete such infrastructure. See “THE DISTRICT–Status of Development.” In such event, ownership of Taxable Property in the District could remain concentrated. See “–Concentration of Property Ownership” above.

### **Natural Disasters**

Real estate values can be adversely affected by a variety of natural events and conditions, including earthquakes, tsunamis, sea level rise and floods. The Successor Agency expects that one or more of these conditions may occur from time to time, and such conditions may result in damage to property improvements. In addition, certain property within the District may be located on fill material, which could result in an increase in any damage occurring to property within the District as a result of an earthquake. Any damage resulting from a natural disaster may entail significant repair or replacement costs, and repair or replacement may never occur. Under any of these circumstances, the value of real estate within the District could depreciate substantially and owners of Taxable Property may be less willing or able to pay Special Taxes.

**Earthquake.** According to the Community Safety Element of the General Plan of the City and County of San Francisco (October 2012) (the “Community Safety Element”), a working group of earthquake scientists formed by the National Earthquake Prediction Evaluation Council concluded in 2008 that there is a 67% likelihood of one or more major earthquakes (magnitude 6.7 or greater and capable of resulting in substantial damage) occurring in the Bay Area in the next 30 years (<http://earthquake.usgs.gov/regional/nca/ucerf/>). This means that a major quake is twice as likely to occur as it is not to occur.

**Flood.** According to the Final Supplemental Environmental Impact Report, certain structures and roadways in the Shipyard, but not including the Taxable Property could be subject to tidal flooding during the 100-year flood event. Flooding would occur more frequently if sea levels were to rise, as they are currently expected to do. If sea levels were to rise, groundwater levels in the area could rise approximately the same amount.



***Sea Level Rise.*** Sea level rise can lead not only to permanent inundation of land but it can also expand the 100-year floodplain. Land composed of fill near San Francisco Bay – including property in Hunters Point -- is at risk for inundation because of low elevation and subsidence over time due to compaction from buildings and soil desiccation. The Community Safety Element notes that best available projections for California and the San Francisco Bay Area currently assume 12-18 inches of sea level rise by 2050 and 21-55 inches of sea level rise by 2100, given current carbon emissions trends, although it also notes that these projections are likely to change over time as climate science progresses.

***Tsunamis.*** Tsunamis are large waves in the ocean generated by earthquakes, coastal or submarine landslides, or volcanoes. Damaging tsunamis are not common on the California coast. Most California tsunami are associated with distant earthquakes (most likely those in Alaska or South America, and recently in Japan), not with local earthquakes. Devastating tsunamis have not occurred in historic times in the San Francisco Bay Area. The Community Safety Element states that, because of the lack of reliable information about the kind of tsunami runups that have occurred in the prehistoric past, there is considerable uncertainty over the extent of tsunami runup that could occur.

## **Hazardous Substances**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The property in the District was a former Superfund site. However, neither the Successor Agency nor the Master Developer is aware of any existing environment contamination within the District that would delay development or cause development within the District not to occur as currently planned. See “THE DISTRICT–Environmental Matters and Hazardous Substances.”

## **Disclosure to Future Purchasers**

The willingness or ability of an owner of a Taxable Property to pay the Special Tax, even if the value of the property is sufficient to justify payment, may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The Successor Agency caused a notice of the Special Tax to be recorded in the Office of the Recorder for the City and County of San Francisco against each parcel in the District. Although title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation when purchasing a property within the District or lending money thereon, as applicable.

California Civil Code Section 1102.6b requires that, in the case of transfers, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or

failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

### **FDIC/Federal Government Interests in Properties**

**General.** The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to Taxable Properties in which the Federal Deposit Insurance Corporation (the “FDIC”), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest.

The supremacy clause of the United States Constitution reads as follows: “This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in a Taxable Property and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association (“FNMA”) is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

The Successor Agency has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes within the District, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

**FDIC.** In the event that any financial institution making any loan which is secured by Taxable Property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement,

the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from special taxes.

The Successor Agency is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a Taxable Property within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed on at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, if enough Taxable Property was to become owned by the FDIC, a default in payment on the Bonds.

### **No Acceleration Provision**

The Bonds and the Fiscal Agent Agreement do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Fiscal Agent Agreement, or in the event interest on the Bonds becomes included in gross income for federal income tax purposes.

### **Taxability Risk**

As discussed in this Official Statement under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Successor Agency in violation of its covenants in the Fiscal Agent Agreement. There is no provision in the Bonds or the Fiscal Agent Agreement for special redemption or acceleration or for the payment of additional interest on the Bonds should such an event of taxability occur, and the Bonds will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Fiscal Agent Agreement.

In addition, as discussed under the caption "TAX MATTERS," Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax

legislation. The Successor Agency can provide no assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

### **Enforceability of Remedies**

The remedies available to the Fiscal Agent and the registered owners of the Bonds upon a default under the Fiscal Agent Agreement or any other document described in this Official Statement are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. Any legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified to the extent that the enforceability of the legal documents with respect to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Judicial remedies, such as foreclosure and enforcement of covenants, are subject to exercise of judicial discretion. A California court may not strictly apply certain remedies or enforce certain covenants if it concludes that application or enforcement would be unreasonable under the circumstances and it may delay the application of such remedies and enforcement.

### **Risk of Tax Audit**

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the “IRS”), the IRS commenced operation of its Tax Exempt and Government Entities Division (the “TE/GE Division”), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. There is no assurance that if an IRS examination of the Bonds was undertaken it would not adversely affect the market value of the Bonds. See “TAX MATTERS.” The Redevelopment Agency of the City and County of San Francisco Lease Revenue Refunding Bonds, Series 2002 (George R. Moscone Convention Center) are currently the subject of any ongoing IRS audit.

### **No Secondary Market**

No representation is made concerning any secondary market for the Bonds. There can be no assurance that any secondary market will develop for the Bonds. Investors should understand the long-term and economic aspects of an investment in the Bonds and should assume that they will have to bear the economic risks of their investment to maturity. An investment in the Bonds may be unsuitable for any investor not able to hold the Bonds to maturity.

### **Proposition 218**

An initiative measure entitled the “Right to Vote on Taxes Act” (the “Initiative”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIIIC and Article XIIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Provisions of the Initiative have been and will continue to be interpreted by the courts. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIIC states, "...the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." The Act provides for a procedure, which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, the Governor of the State signed a bill into law enacting Government Code Section 5854, which states that:

Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.

Accordingly, although the matter is not free from doubt, it is likely that Article XIIC has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the District or the Successor Agency Commission, acting as the legislative body of the District, to reduce the Special Taxes in a manner that does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses (as defined in the Fiscal Agent Agreement). Nevertheless, the Successor Agency has covenanted that it will not consent to, or conduct proceedings with respect to, a reduction in the maximum Special Taxes that may be levied in the District below an amount, for any Fiscal Year, equal to 110% of the aggregate of the debt service due on the Bonds in such Fiscal Year, plus a reasonable estimate of Administrative Expenses for each such Fiscal Year. However, no assurance can be given as to the enforceability of the foregoing covenant.

The interpretation and application of Article XIIC and Article XIID will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See "—Enforceability of Remedies."

## **Ballot Initiatives**

Articles XIIC and XIID of the California Constitution were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process, and the State Legislature has in the past enacted legislation that has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995 in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the Successor Agency, or local districts to increase revenues or to increase appropriations.



## **TAX MATTERS**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Successor Agency and the users of the facilities financed or refinanced from the proceeds of the Bonds comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Bonds (said term being the shorter of the applicable maturity date of the Bonds or the call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.



In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

The form of Bond Counsel's opinion to be delivered on the date of issuance of the Bonds is set forth in Appendix C hereto.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

## **LEGAL MATTERS**

Concurrently with the issuance of the Bonds, Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will render its opinion substantially in the form set forth in Appendix C to this Official Statement. Certain legal matters with respect to the Bonds will be passed upon for the Successor Agency and the District by the City Attorney of the City and County of San Francisco, and for the Successor Agency by Schiff Hardin LLP, San Francisco, California, acting as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, and for the Master Developer by its counsel Paul Hastings LLP, San Francisco, California, and Goodwin Procter LLP, Los Angeles, California.

Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent on the issuance of the Bonds.

## **FINANCIAL ADVISOR**

The Successor Agency has retained CSG Advisors Incorporated, San Francisco, California, as Financial Advisor for the sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CSG Advisors Incorporated is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

## **NO RATING**

The Successor Agency did not apply for or receive a rating for the Bonds.

## **LITIGATION**

At the time of delivery of the Bonds, the Successor Agency will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or regulatory agency, public board or body pending with respect to which the Successor Agency or the District has been served with process or threatened against the Successor Agency or the District affecting their existence, or the titles of their respective officers, or seeking to restrain or to enjoin the issuance, sale or delivery of the

Bonds, the application of the proceeds thereof in accordance with the Fiscal Agent Agreement, or the collection or application of the Special Tax to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds or the Fiscal Agent Agreement, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement hereto, or contesting the powers of the Successor Agency or the District with respect to the Bonds and, to the knowledge of the Successor Agency, there is no basis therefor.

## **UNDERWRITING**

The Bonds are being purchased through negotiation by Stifel, Nicolaus & Company, Incorporated (the “Representative”) and Backstrom McCarley Berry & Co., LLC (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (which is equal to the initial principal amount of the Bonds, [less a net original issue discount of \$\_\_\_\_\_,] and less an underwriter’s discount of \$\_\_\_\_\_). The purchase contract relating to the Bonds between the Successor Agency and the Representative provides that all of the Bonds will be purchased if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in said purchase contract, including, but not limited for the approval of certain legal matters by counsel.

The initial public offering prices set forth on the inside cover page may be changed by the Underwriters. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page of this Official Statement.

## **CONTINUING DISCLOSURE**

### **Successor Agency**

The Successor Agency has covenanted in a Continuing Disclosure Certificate for the benefit of the owners of the Bonds to provide certain annual financial information and operating data, and to provide notices of the occurrence of certain enumerated events. The Successor Agency agreed in its certificate to file, or cause to be filed, with the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access (EMMA) website of the MSRB (the “Repository”) such report and notices. See APPENDIX D—“FORMS OF CONTINUING DISCLOSURE CERTIFICATES—SUCCESSOR AGENCY CONTINUING DISCLOSURE CERTIFICATE” for the complete text of the Successor Agency’s Continuing Disclosure Certificate. The covenants of the Successor Agency have been made in order to assist the Underwriters in complying with the Rule.

In the past five years, the Former Agency and the Successor Agency have not failed to comply in any material respect with their obligation to file annual reports but did fail on occasion to file notices of bond insurer-related rating downgrades on a timely basis. Additionally, due to the dissolution of the Former Agency and delays in the preparation of audited financials for Fiscal Year ending 2012 for the Successor Agency, the Successor Agency and the Former Agency filed their respective audited financial statements approximately 30 days late. The Former Agency had, however, filed unaudited financial statements for the Former Agency for the first seven months of the fiscal year in a timely manner. Additionally, certain tabular information related to a merged project area was not aggregated as required by the continuing disclosure agreement, however, all of the required information was available for the component areas of such merged project area. The Successor Agency has filed notices of all bond rating downgrades. The Successor Agency has established procedures that it believes will be sufficient to ensure future compliance with its continuing disclosure undertakings.

## **Master Developer**

The Master Developer has covenanted for the benefit of the Owners to provide, on a semi-annual basis, certain information and material event notices relating to the property owned by the Master Developer and those affiliated builders that have not entered into a separate agreement by not later than March 31 and September 30 of each year, commencing March 31, 2015. The reports and material event notices will be filed with the Repository. The specific nature of the information to be contained in the semi-annual reports or the notices of material events is contained within APPENDIX D—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES—DEVELOPER CONTINUING DISCLOSURE CERTIFICATE."

The Master Developer has never previously entered into a continuing disclosure agreement.

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## MISCELLANEOUS

Included in this Official Statement are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Successor Agency or the District and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Successor Agency Commission.

SUCCESSOR AGENCY TO THE REDEVELOPMENT  
AGENCY OF THE CITY AND COUNTY OF SAN  
FRANCISCO

By: \_\_\_\_\_  
Leo Levenson  
Deputy Executive Director,  
Finance and Administration

## APPENDIX A

### SUMMARY OF THE FISCAL AGENT AGREEMENT

*The following is a summary of certain provisions of the Fiscal Agent Agreement. A copy of the Fiscal Agent Agreement is available from the Fiscal Agent upon written request.*

#### Certain Definitions

“AB 1484” means Assembly Bill 1484 adopted by the California Legislature in June of 2012, and as signed by the Governor of the State of California on June 27, 2012.

“AB 26” means Assembly Bill No. 1X26, as adopted by the California Legislature and codified as Chapter 5, Statutes of 2011-12, First Extraordinary Session.

“Act” means the Mello-Roos Community Facilities Act of 1982, as amended, being section 53311 *et seq.* of the California Government Code.

“Administrative Expenses” means costs directly related to the administration of the CFD consisting of: the actual costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by a Successor Agency employee or consultant or both) and the actual costs of collecting the Special Taxes (whether by the Successor Agency or otherwise); the actual costs of remitting the Special Taxes to the Fiscal Agent; actual costs of the Fiscal Agent (including its legal counsel) in the discharge of its duties under the Fiscal Agent Agreement; the actual costs of the Successor Agency or its designee of complying with the disclosure provisions of federal and state law, including but not limited to the Act, and the Fiscal Agent Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Owners of the Bonds and the Original Purchaser; the actual costs of the Successor Agency or its designee related to an appeal of the Special Tax; any amounts required to be rebated to the federal government; an allocable share of the salaries of the Successor Agency staff directly related to the foregoing and a proportionate amount of Successor Agency general administrative overhead related thereto. Administrative Expenses shall also include amounts advanced by the Successor Agency for any administrative purpose of the CFD, including costs related to prepayments of Special Taxes, recordings related to such prepayments and satisfaction of Special Taxes, amounts advanced to ensure maintenance of tax exemption, and the costs of prosecuting foreclosure of delinquent Special Taxes, which amounts advanced are subject to reimbursement from other sources, including proceeds of foreclosure.

“Administrative Expense Fund” means the fund designated the “Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Administrative Expense Fund” established and administered under the Fiscal Agent Agreement.

“Agreement” means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions of the Fiscal Agent Agreement.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking payment due in such Bond Year).

“Auditor” means the auditor/controller of the City and County, or such other official at the City and County who is responsible for preparing property tax bills.

“Authorized Officer” means the Executive Director, the Finance Director or the Secretary of the Successor Agency, or any other officer or employee authorized by the Successor Agency Commission or the Board of Supervisors of the City and County or by an Authorized Officer to undertake the action referenced in the Fiscal Agent Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means Jones Hall, A Professional Law Corporation or any other attorney or firm of attorneys acceptable to the Successor Agency and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond” or “Bonds” means the 2014 Bonds and, if the context requires, any Parity Bonds, at any time Outstanding under the Fiscal Agent Agreement or any Supplemental Agreement.

“Bond Fund” means the fund designated the “Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Bonds, Bond Fund” established and administered under the Fiscal Agent Agreement.

“Bond Year” means the one-year period beginning on August 2nd in each year and ending on August 1 in the following year, except that the first Bond Year shall begin on the Closing Date and shall end on August 1, 2014.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the state in which the Fiscal Agent has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

“Capitalized Interest Account” means the account by that name held by the Fiscal Agent and established and administered under the Fiscal Agent Agreement.

“CFD” means the “Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements)” formed under the Resolution of Formation.

“CFD Value” means the market value, as of the date of the appraisal described below and/or the date of the most recent City and County real property tax roll, as applicable, of all parcels of real property in the CFD subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such nondelinquent parcels the value of the then existing improvements and any facilities to be constructed or acquired with any amounts then on deposit in the Improvement Fund relating to the Prior Bonds and with the proceeds of any proposed series of Parity Bonds, as determined with respect to any parcel or group of parcels by reference to (i) an appraisal performed within ninety (90) days of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the “Appraiser”) selected by the Successor Agency, or (ii), in the alternative, the assessed value of all such nondelinquent parcels and improvements thereon as shown on the then current City and County real property tax roll available to the Finance Director. It is expressly acknowledged that, in determining the CFD Value, the Successor Agency may rely on an appraisal to determine the value of some or all of the parcels in the CFD and/or the most



recent City and County real property tax roll as to the value of some or all of the parcels in the CFD. Neither the Successor Agency nor the Finance Director shall be liable to the Owners, the Original Purchaser or any other person or entity in respect of any appraisal provided for purposes of this definition or by reason of any exercise of discretion made by any Appraiser pursuant to this definition.

“City” and “City and County” mean the City and County of San Francisco.

“City Attorney” means any attorney or firm of attorneys employed by the City in the capacity of city attorney.

“Closing Date” means the date upon which there is a physical delivery of the 2014 Bonds in exchange for the amount representing the purchase price of the 2014 Bonds by the Original Purchaser.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the Successor Agency and related to the authorization, sale, delivery and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, appraisal costs, filing and recording fees, fees and expenses of counsel to the Successor Agency, initial fees and charges of the Fiscal Agent including its first annual administration fees and its legal fees and charges, including the allocated costs of in-house attorneys, fees and expenses incurred by the Successor Agency, the Oversight Board, the City and any owner of property in the CFD in connection with the issuance of the Bonds, Bond (underwriter's) discount, legal fees and charges, including bond counsel and disclosure counsel, and counsel to any financial consultant, financial consultant's fees, charges for execution, authentication, transportation and safekeeping of the Bonds, fees of rating agencies, and other costs, charges and fees in connection therewith.

“Costs of Issuance Fund” means the fund designated the “Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Bonds, Costs of Issuance Fund” established and administered under Fiscal Agent Agreement.

“Dated Date” means the dated date of the 2014 Bonds, which is the Closing Date.

“Debt Service” means the scheduled amount of interest and amortization of principal payable on the 2014 Bonds and the scheduled amount of interest and amortization of principal payable on any Parity Bonds during the period of computation, in each case excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository for book-entry.

“Developer” means HPS Development Co., LP, a Delaware limited partnership, as successor-in-interest to Lennar/BVHP Partners, under the Development Agreement.

“Development Agreement” means the Disposition and Development Agreement (Hunters Point Shipyard Phase 1) dated as of December 2, 2003, by and between the Successor Agency, as successor-in-interest to the Former Agency, and the Developer, as amended from time to time in accordance with the terms thereof.

“Dissolution Act” means, collectively, AB 26, as amended by AB 1484.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Executive Director” means the Executive Director of the Successor Agency, or such official’s designee.

“Fair Market Value” means with respect to the Bonds the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Successor Agency and related parties do not own more than a ten percent (10%) beneficial interest if the return paid by such fund is without regard to the source of the investment.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Finance Director” means the Deputy Executive Director, Finance and Administration of the Successor Agency, or such official’s designee.

“Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., the Fiscal Agent appointed by the Successor Agency and acting as an independent fiscal agent with the duties and powers provided in the Fiscal Agent Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Fiscal Agent Agreement.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Former Agency” means the Redevelopment Agency of the City and County of San Francisco.

“Former Commission” means the Commission to the Former Agency.

“Improvement Fund” means the fund designated the “Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase

One Improvements) Special Tax Bonds, Improvement Fund” established and administered under the Fiscal Agent Agreement.

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by the Finance Director, and who, or each of whom: (i) is judged by the Finance Director to have experience in matters relating to the issuance and/or administration of bonds under the Act; (ii) is in fact independent and not under the domination of the Successor Agency or the City and County; (iii) does not have any substantial interest, direct or indirect, with or in the Successor Agency or the City and County, or any owner of real property in the CFD, or any real property in the CFD; and (iv) is not connected with the Successor Agency or the City and County as an officer or employee of the Successor Agency or the City and County, but who may be regularly retained to make reports to the Successor Agency or the City and County.

“Interest Payment Date” means each August 1 and February 1 of every calendar year, commencing with February 1, 2015.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Officer’s Certificate” means a written certificate of the Successor Agency signed by an Authorized Officer of the Successor Agency.

“Ordinance” means any ordinance of the Commission of the Former Agency or the Successor Agency Commission levying the Special Taxes, including but not limited to Ordinance No. 1-2014 introduced by the Commission on May 6, 2014 and adopted by the Successor Agency Commission on May 20, 2014.

“Original Purchaser” means, collectively, Stifel Nicolaus & Company, Incorporated, and Backstrom McCarley Berry, the first purchasers of the 2014 Bonds from the Successor Agency.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Fiscal Agent Agreement) all Bonds except (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of the provisions of the Fiscal Agent Agreement relating to discharge of the Bonds; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Successor Agency under the Fiscal Agent Agreement or any Supplemental Agreement.

“Oversight Board” means the Oversight Board of the Successor Agency established pursuant to Section 34179 of the Dissolution Act.

“Owner” or “Bondowner” means any person who shall be the registered owner of any Outstanding Bond.

“Parity Bonds” means additional bonds issued and payable on a parity with the Bonds under the Fiscal Agent Agreement.

“Permitted Investments” means the following, but only to the extent that the same are acquired at Fair Market Value:

- (a) Federal Securities.

(b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand or time deposits (including certificates of deposit) or deposit accounts in federal or state chartered savings and loan associations or in federal or State of California banks (including the Fiscal Agent, its parent, if any, and affiliates), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated in the highest short-term rating category by any Rating Agency, or (ii) such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated in the highest short-term rating category by any Rating Agency, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank, including its parent (if any), affiliates and subsidiaries, whose short-term obligations are rated in the highest short-term rating category by any Rating Agency, or whose long-term obligations are rated A or better by any Rating Agency, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by any Rating Agency, or (b) fully secured as to the payment of principal and interest by Federal Securities;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of Five Hundred Million (\$500,000,000), which obligations are rated A or better by any Rating Agency;

(h) money market funds (including money market funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services) which invest in Federal Securities or which are rated in the highest short-term rating category by any Rating Agency; and

(i) any investment agreement representing general unsecured obligations of a financial institution rated A or better by any Rating Agency, by the terms of which the Fiscal Agent is permitted to withdraw all amounts invested therein in the event any such rating falls below A.

(j) the Local Agency Investment Fund established pursuant to Section 16429.1 of the Government Code of the State of California, *provided, however*, that the Fiscal Agent shall be permitted to make investments and withdrawals in its own name and the Fiscal Agent may restrict investments in the such fund if necessary to keep moneys available for the purposes of the Fiscal Agent Agreement.

(k) the California Asset Management Program.

“Principal Office” means such corporate trust office of the Fiscal Agent as may be designated from time to time by written notice from the Fiscal Agent to the Successor Agency, or such other office designated by the Fiscal Agent from time to time; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Fiscal Agent at which, at any particular time, its corporate trust agency business shall be conducted.

“Prior Bonds” means the Former Agency’s \$34,500,000 initial principal amount Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Variable Rate Demand Special Tax Bonds, 2005 Series A.

“Proceeds” when used with reference to the Bonds, means the face amount of the Bonds, plus any accrued interest and premium, less any original issue and/or underwriter’s discount.

“Project” means those items described as the “Facilities” in the Resolution of Formation.

“Record Date” means the fifteenth day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day.

“Refunding Bonds” means bonds issued by the Successor Agency for the CFD, the net proceeds of which are used to refund all or a portion of the then-Outstanding Bonds; provided that the total interest cost to maturity on the proposed bonds plus the principal amount of the proposed bonds exceeds the total interest cost to maturity on the Bonds to be refunded plus the principal amount of the Bonds to be refunded and the final maturity of the proposed bonds is not later than the final maturity of the Bonds being refunded.

“Reserve Fund” means the fund designated the “Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements), Special Tax Bonds, Reserve Fund” established and administered under the Fiscal Agent Agreement.

“Reserve Requirement” means, as of the date of any calculation due to redemptions or issuance of Bonds, an amount equal to the least of (i) Maximum Annual Debt Service on the Outstanding Bonds that are secured by the Reserve Fund on such date, (ii) 125% of average Annual Debt Service on the Outstanding Bonds that are secured by the Reserve Fund on such date and (iii) 10% of the original principal amount of the Bonds that are secured on such date; provided, that the Reserve Requirement shall not exceed the sum of (A) the amount deposited in the Reserve Fund on the Closing Date with respect to the 2014 Bonds, and (B) with respect to each other series of Bonds that is secured by the Reserve Fund, the amount deposited in the Reserve Fund on the date each such series of Bonds is issued.

“Resolution of Formation” means Resolution No. 36-2005 adopted by the Former Commission on April 5, 2005, forming the CFD, as amended by the 2008 Resolution of Change and the 2014 Resolution of Change.

“Securities Depositories” means DTC and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Successor Agency may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Special Tax Fund” means the special fund designated “Redevelopment Agency for the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements), Special Tax Fund” established and administered under the Fiscal Agent Agreement.

“Special Tax Prepayments” means the proceeds of any Special Tax prepayments received by the Successor Agency, as calculated pursuant to the rate and method of apportionment of special taxes approved in the Resolution of Formation for the CFD, less any administrative fees or penalties collected as part of any such prepayment.

“Special Tax Prepayments Account” means the account by that name established within the Bond Fund by the Fiscal Agent Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the Successor Agency, including any scheduled payments thereof and any Special Tax Prepayments, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but shall not include any interest in excess of the interest due on the Bonds or any penalties collected in connection with any such delinquency.

“Special Taxes” means the special taxes levied by the Successor Agency within the CFD under the Act, the Ordinance and the Fiscal Agent Agreement

“Successor Agency” means the Successor Agency to the Redevelopment Agency of the City and County of San Francisco.

“Successor Agency Commission” means the Commission of the Successor Agency.

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution which has been duly adopted by the Successor Agency under the Act and the Dissolution Act (if applicable) and which agreement is amendatory of or supplemental to the Fiscal Agent Agreement, but only if and to the extent that such agreement is specifically authorized under the Fiscal Agent Agreement.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced in the Fiscal Agent Agreement) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code.

“Tax Consultant” means an independent financial or tax consultant retained by the Successor Agency for the purpose of computing the Special Taxes.



“2008 Resolution of Change” means Resolution No. 93-2008 adopted by the Former Commission on September 2, 2008.

“2014 Bonds” means the Bonds so designated and authorized to be issued under the Fiscal Agent Agreement.

“2014 Resolution of Change” means Resolution No. 37- 2014 adopted by the Successor Agency Commission on May 6, 2014.

### **Certain Provisions Relating to the Bonds**

**Interest.** The 2014 Bonds shall bear interest at the rates set forth in the Fiscal Agent Agreement payable on the Interest Payment Dates in each year. Interest on all Bonds shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Dated Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

**Method of Payment.** Interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds and, upon request of the Successor Agency, issue a certificate of destruction of such Bonds to the Successor Agency.

**Transfer or Exchange of Bonds** Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept under the provisions of the Fiscal Agent Agreement by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Fiscal Agent. Bonds may be exchanged at the Principal Office of the Fiscal Agent solely for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer or exchange shall be paid by the Successor Agency. The Fiscal Agent shall collect from the Owner requesting such transfer or exchange any tax or other governmental charge required to be paid with respect to such transfer or exchange. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the Successor Agency shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds, for a like aggregate principal amount. No

transfers or exchanges of Bonds shall be required to be made (i) 15 days prior to the date established by the Fiscal Agent for selection of Bonds for redemption or (ii) with respect to a Bond after such Bond has been selected for redemption; or (iii) between a Record Date and the succeeding Interest Payment Date.

**Bond Register.** The Fiscal Agent will keep, or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the Bonds which books shall show the series number, date, amount, rate of interest and last known owner of each Bond and shall at all times be open to inspection by the Successor Agency during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the Bonds as provided in the Fiscal Agent Agreement. The Successor Agency and the Fiscal Agent will treat the Owner of any Bond whose name appears on the Bond register as the absolute Owner of such Bond for any and all purposes, and the Successor Agency and the Fiscal Agent shall not be affected by any notice to the contrary. The Successor Agency and the Fiscal Agent may rely on the address of the Owner as it appears in the Bond register for any and all purposes.

### **Certain Provisions Relating to Security for the Bonds**

**Pledge of Special Tax Revenues.** The Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent in the Fiscal Agent Agreement provided) of all of the Special Tax Revenues and all moneys deposited in the Bond Fund (including the Capitalized Interest Account and the Special Tax Prepayments Account) and the Reserve Fund (but only if a series of Bonds is secured by the Reserve Fund, as set forth in the Fiscal Agent Agreement), and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. The Special Tax Revenues and all moneys deposited into such funds (except as otherwise provided in the Fiscal Agent Agreement) are by the Fiscal Agent Agreement dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under the provisions of the Fiscal Agent Agreement.

Amounts in the Costs of Issuance Fund and the Improvement Fund are not pledged to the repayment of the Bonds.

**Limited Obligation.** All obligations of the Successor Agency under the Fiscal Agent Agreement and the Bonds shall not be general obligations of the City and County or the Successor Agency, but shall be limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefore under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the Successor Agency (except to the limited extent set forth in the Fiscal Agent Agreement), the City and County or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

**No Acceleration.** The principal of the Bonds is not subject to acceleration.

**Parity Bonds.** In addition to the 2014 Bonds, the Successor Agency may issue Parity Bonds in such principal amount as shall be determined by the Successor Agency, under a Supplemental Agreement entered into by the Successor Agency and the Fiscal Agent. Any such Parity Bonds shall constitute Bonds under the Fiscal Agent Agreement and shall be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds

under the Fiscal Agent Agreement on a parity with all other Bonds Outstanding under the Fiscal Agent Agreement. The Successor Agency may issue such Parity Bonds subject to the following specific conditions precedent:

(A) Compliance. The Successor Agency shall be in compliance with all covenants set forth in the Fiscal Agent Agreement and all Supplemental Agreements, and issuance of the Parity Bonds shall not cause the Successor Agency to exceed the bonded indebtedness limit of the CFD.

(B) Same Payment Dates. The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on the Interest Payment Dates, and principal thereof shall be payable on the same date in any year in which principal is payable on the 2014 Bonds (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(C) Separate Funds; Reserve Fund Deposit. The Supplemental Agreement providing for the issuance of such Parity Bonds may provide for the establishment of separate funds and accounts. The Supplemental Agreement may (i) provide for a deposit to the Reserve Fund so that the amount on deposit therein, following the issuance of such Parity Bonds, is equal to the Reserve Requirement for all of the Bonds secured by the Reserve Fund, (ii) provide for the establishment of another reserve fund related to such Parity Bonds in an amount set forth in the Supplemental Agreement or (iii) provide that no debt service reserve fund will be funded or established for such Parity Bonds; provided, however, that if the Supplemental Agreement provides as set forth in the preceding clauses (ii) or (iii), then the Supplemental Agreement shall state that the Parity Bonds shall have no right to moneys on deposit at any time in the Reserve Fund. Such Supplemental Agreement may also provide for deposit of proceeds of such Parity Bonds into any of the fund and accounts established under the Fiscal Agent Agreement, including, but not limited to, the Improvement Fund.

(D) Value. The CFD Value shall be at least three (3) times the sum of: (i) the aggregate principal amount of all Bonds then Outstanding, plus (ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any fixed assessment liens on the parcels in the CFD subject to the levy of Special Taxes, plus (iv) a portion of the aggregate principal amount of any and all other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within the CFD (the "Other District Bonds") equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of land within the CFD, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land against which the special taxes are levied to pay the Other District Bonds (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent available Fiscal Year.

(E) Coverage. The amount of the Special Taxes that may be levied under the Ordinance, the Fiscal Agent Agreement and any Supplemental Agreement shall be at least (i) 110% of the total Annual Debt Service of the then Outstanding Bonds and the proposed Parity Bonds and (ii) 100% of the total Annual Debt Service of the then Outstanding Bonds and the proposed Parity Bonds and the amount of the levy for

Administrative Expenses in the current fiscal year, and the aggregate Special Tax Prepayments that could occur after the issuance of the Parity Bonds shall be not less than the principal amount of the Outstanding Bonds and the proposed Parity Bonds.

**(F) Certificates.** The Successor Agency shall deliver to the Fiscal Agent an Officer's Certificate certifying that the conditions precedent to the issuance of such Parity Bonds set forth in paragraphs (A), (B), (C), (D), and (E) above have been satisfied.

Notwithstanding the foregoing, the Successor Agency may issue Refunding Bonds as Parity Bonds without the need to satisfy the requirements of paragraphs (D) or (E) above, and, in connection therewith, the Officer's Certificate in paragraph (F) above need not make reference to paragraphs (D) and (E).

Nothing in the Fiscal Agent Agreement shall prohibit the Successor Agency from issuing any other bonds or otherwise incurring debt secured by a pledge of the Special Tax Revenues subordinate to the pledge thereof under the Fiscal Agent Agreement.

### **Certain Funds and Accounts**

#### **Reserve Fund.**

**Use of Reserve Fund.** Moneys in the Reserve Fund shall be held in trust by the Fiscal Agent for the benefit of the Owners of the Bonds as a reserve for the payment of the principal of, and interest and any premium on, the Bonds and shall be subject to a lien in favor of the Owners of the Bonds. All references to "Bonds" in the "Certain Fund and Accounts" shall refer to the 2014 Bonds and any Parity Bonds the proceeds of which, pursuant to a Supplemental Agreement, were deposited into the Reserve Fund in the amount contemplated by the Fiscal Agent Agreement. Except as otherwise provided in the provisions of the Fiscal Agent Agreement relating to the Reserve Fund, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the Bonds or, in accordance with the provisions of the Fiscal Agent Agreement relating to the Reserve Fund, for the purpose of redeeming Bonds from the Bond Fund. Whenever a transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund, the Fiscal Agent shall provide written notice thereof to the Finance Director specifying the amount withdrawn.

**Transfer of Excess of Reserve Requirement.** Whenever, on or before any Interest Payment Date, or on any other date at the request of the Finance Director, the amount in the Reserve Fund exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the Finance Director of the amount of the excess and shall transfer an amount equal to the excess from the Reserve Fund to the Bond Fund, to be used to pay interest on the Bonds on the next Interest Payment Date.

**Transfer for Rebate Purposes.** Amounts in the Reserve Fund shall be withdrawn for purposes of making rebate payments to the federal government, upon receipt by the Fiscal Agent of an Officer's Certificate specifying the amount to be withdrawn and to the effect that such amount is needed for rebate

purposes; *provided, however*, that no amounts in the Reserve Fund shall be used for rebate unless the amount in the Reserve Fund following such withdrawal equals the Reserve Requirement.

Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon the written request of the Finance Director, transfer any cash or Permitted Investments in the Reserve Fund to the Bond Fund to be applied, on the redemption date to the payment and redemption of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund shall be transferred to the Finance Director to be used by Successor Agency for any lawful purpose.

No amounts shall be transferred from the Reserve Fund until after: (i) the calculation of any amounts due to the federal government and withdrawal of any such amount for purposes of making such payment to the federal government; and (ii) payment of any fees and expenses due to the Fiscal Agent.

Transfer Upon Special Tax Prepayment. Whenever Special Taxes are prepaid and Bonds are to be redeemed with the proceeds of such prepayment pursuant to the Fiscal Agent Agreement, a proportionate amount in the Reserve Fund (determined on the basis of the principal of Bonds to be redeemed and the original principal of the Bonds, but in any event not in excess of the amount that will leave the balance in the Reserve Fund following the proposed redemption equal to the Reserve Requirement) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the Bonds pursuant to Fiscal Agent Agreement. The Finance Director shall deliver to the Fiscal Agent an Officer's Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer's Certificate.

## **Bond Fund.**

Establishment of Bond Fund. Moneys in the Bond Fund shall be held by the Fiscal Agent for the benefit of the Successor Agency and the Owners of the Bonds, and shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below.

Within the Bond Fund a separate account has been established under the Fiscal Agent Agreement designated as the "Capitalized Interest Account" to be held in trust by the Fiscal Agent for the benefit of the Successor Agency and the Owners of the Bonds into which shall be deposited the amount specified in the Fiscal Agent Agreement. Amounts on deposit in the Capitalized Interest Account shall be used and withdrawn by the Fiscal Agent solely for the payment of interest on the Bonds. When the amount in the Capitalized Interest Account is fully expended for the payment of interest, the account shall be closed.

There is also created in the Bond Fund a separate account to be held by the Fiscal Agent, designated the "Special Tax Prepayments Account," to the

credit of which deposits shall be made as provided in the Fiscal Agent Agreement.

Disbursements. At least 10 Business Days before each Interest Payment Date, the Fiscal Agent shall notify the Finance Director in writing as to the principal and premium, if any, and interest due on the Bonds on the next Interest Payment Date (whether as a result of scheduled principal of and interest on the Bonds, optional redemption of the Bonds or a mandatory sinking fund redemption). On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds.

At least 5 Business Days prior to each Interest Payment Date, the Fiscal Agent shall determine if the amounts then on deposit in the Bond Fund are sufficient to pay the debt service due on the Bonds on the next Interest Payment Date. In the event that amounts in the Bond Fund are insufficient for such purpose, the Fiscal Agent promptly shall notify the Finance Director by telephone (and confirm in writing) of the amount of the insufficiency.

In the event that amounts in the Bond Fund are insufficient for the purpose set forth in the preceding paragraph with respect to any Interest Payment Date, the Fiscal Agent shall withdraw from the Reserve Fund, in accordance with the provisions of the Fiscal Agent Agreement, and from any other reserve fund established pursuant to a Supplemental Agreement, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

If, after the foregoing transfers, there are insufficient funds in the Bond Fund to make the payments provided for in the Fiscal Agent Agreement, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the bonds by reason of sinking payments.

Disbursements from the Special Tax Payments Account. Moneys in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under the Fiscal Agent Agreement and shall be used (together with any amounts transferred pursuant to the Fiscal Agent Agreement) to redeem Bonds on the redemption date selected in accordance with the Fiscal Agent Agreement.

Investment. Moneys in the Bond Fund, the Capitalized Interest Account and the Special Tax Prepayments Account shall be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from such investment shall be retained in the Bond Fund.

Deficiency. If at any time it appears to the Fiscal Agent that there is a danger of deficiency in the Bond Fund and that the Fiscal Agent may be unable to pay Debt Service on the Bonds in a timely manner, the Fiscal Agent shall report to the Finance Director such fact. The Successor Agency covenants to



increase the levy of the Special Taxes in the next Fiscal Year (subject to the maximum amount authorized by the Resolution of Formation) in accordance with the procedures set forth in the Act for the purpose of curing Bond Fund deficiencies.

Excess. Any excess moneys remaining in the Bond Fund, following the payment of Debt Service on the Bonds on any August 1, shall be transferred to the Special Tax Fund.

### **Special Tax Fund**

Establishment of Special Tax Fund. The Special Tax Fund is established as a separate fund to be held by the Fiscal Agent, to the credit of which the Fiscal Agent shall deposit amounts received from or on behalf of the Successor Agency consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. The Successor Agency shall promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund.

Notwithstanding the foregoing,

(i) any Special Tax Revenues constituting payment of the portion of the Special Tax levy for Administrative Expenses shall be separately identified by the Finance Director and shall be deposited by the Fiscal Agent in the Administrative Expense Fund;

(ii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Finance Director and shall be disposed of by the Fiscal Agent first, for transfer to the Bond Fund to pay any past due debt service on the Bonds; second, for transfer to the Reserve Fund to the extent needed to increase the amount then on deposit in the Reserve Fund up to the then Reserve Requirement and to any other debt service reserve fund to increase the amount therein to the applicable requirement; and third, to be held in the Special Tax Fund for use as described in the Fiscal Agent Agreement; and

(iii) any proceeds of Special Tax Prepayments shall be separately identified by the Finance Director and shall be deposited by the Fiscal Agent as follows (as directed in writing by the Finance Director): (a) that portion of any Special Tax Prepayment constituting a prepayment of construction costs (which otherwise could have been included in the proceeds of Parity Bonds) shall be deposited by the Fiscal Agent to the Improvement Fund and (b) the remaining Special Tax Prepayment shall be deposited by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Fiscal Agent Agreement.

Disbursements. On the fifth Business Day prior to each Interest Payment Date, the Fiscal Agent shall withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority (i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Reserve Fund and the Capitalized Interest Account, any other debt service reserve fund established pursuant to a Supplemental Agreement and the Special Tax Prepayments Account to the Bond

Fund such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date and any past due principal or interest on the Bonds not theretofore paid from a transfer described in the Fiscal Agent Agreement, and (ii) to the Reserve Fund an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement, and to any other debt service fund established pursuant to a Supplemental Agreement to increase the amount therein to the applicable requirement.

### **Certain Covenants**

**Collection of Special Tax Revenues.** The Successor Agency shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

Processing. On or within 5 Business Days of each June 1, the Fiscal Agent shall provide the Finance Director with a notice stating the amount then on deposit in the Bond Fund and the Reserve Fund, and informing the Successor Agency that the Special Taxes need to be levied under the Ordinance as necessary to provide for Annual Debt Service and Administrative Expenses and replenishment (if necessary) of the Reserve Fund so that the balance therein equal the Reserve Requirement. The receipt of or failure to receive such notice by the Finance Director shall in no way affect the obligations of the Finance Director under the following two paragraphs and the Fiscal Agent shall not be liable for failure to provide such notices to the Finance Director. Upon receipt of such notice, the Finance Director shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits or combinations during the preceding and then current year.

Levy. The Finance Director shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 1 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within the CFD for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Finance Director shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

Computation. The Finance Director shall fix and levy the amount of Special Taxes within the CFD required for the payment of principal of and interest on any outstanding Bonds of the CFD becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the Reserve Fund for the Bonds and an amount estimated to be sufficient to pay the Administrative Expenses, including amounts necessary to discharge any rebate obligation, during such year, taking into account the balances in the applicable funds established under the Fiscal Agent Agreement and in the Special Tax Fund. The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings under the Resolution of Formation.

**Collection.** Except as set forth in the Ordinance, Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

**Covenant to Foreclose.** Under the Act, the Successor Agency by the Fiscal Agent Agreement covenants with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as provided in the Fiscal Agent Agreement, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following two paragraphs. The Finance Director shall notify the City Attorney of any such delinquency of which the Finance Director is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

On or about October 1 of each year, the Finance Director shall compare the amount of Special Taxes theretofore levied in the CFD to the amount of Special Tax Revenues theretofore received by the Successor Agency, and:

**Individual Delinquencies.** If the Finance Director determines that any single parcel subject to the Special Tax in the CFD is delinquent in the payment of Special Taxes in the aggregate amount of \$3,000 or more, then the Finance Director shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the Successor Agency within 90 days of such determination. Notwithstanding the foregoing, in its sole discretion, the Finance Director may defer such action if the amount in the Reserve Fund is at least equal to the Reserve Requirement.

**Aggregate Delinquencies.** If the Finance Director determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire CFD, (including the total of individual delinquencies), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, or (ii) there are ten (10) or fewer owners of real property within the CFD, determined by reference to the latest available secured property tax roll of the City and County, the Finance Director shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the CFD with a Special Tax delinquency.

Notwithstanding the foregoing provisions relating to individual delinquencies, the Finance Director may defer any such actions with respect to a delinquent parcel if (1) the CFD is then participating in the Alternative Method of Distribution of Tax Levies and Collections described in Revenue & Taxation Code Section 4701 et seq., or an equivalent procedure, (2) the amount in the Reserve Fund is at least equal to the Reserve Requirement and the amount in any other debt service reserve account established under a Supplemental Agreement is at least equal to its applicable requirement, and (3) the subject parcel is not delinquent with respect to more than \$5,000 of Special Taxes.

The Finance Director and the City Attorney, as applicable, are by the Fiscal Agent Agreement authorized to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel (including a charge for Successor Agency staff time) in conducting foreclosure proceedings shall be an Administrative Expense under the Fiscal Agent Agreement.

### **Books and Records.**

Successor Agency. The Successor Agency will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Successor Agency, in which complete and correct entries shall be made of all transactions relating to the Special Tax Revenues. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Fiscal Agent. The Fiscal Agent will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions made by it relating to the expenditure of amounts disbursed from the funds, and, if any, accounts in such funds held by the Fiscal Agent under the Fiscal Agent Agreement. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Successor Agency, the City and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing upon reasonable prior notice.

**Private Activity Bond Limitations.** The Successor Agency shall assure that the proceeds of the 2014 Bonds are not so used as to cause the 2014 Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Code.

**Federal Guarantee Prohibition.** The Successor Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the 2014 Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

**Rebate Requirement.** The Successor Agency shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2014 Bonds. The Finance Director shall take note of any investment of monies under the Fiscal Agent Agreement in excess of the yield on the 2014 Bonds, and shall take such actions as are necessary to ensure compliance with this covenant, such as increasing the portion of the Special Tax levy for Administration Expenses as appropriate to have funds available in the Administrative Expense Fund to satisfy any rebate liability. If necessary to satisfy its obligations under this covenant, the Successor Agency may use:

- (A) Earnings on the Reserve Fund if the amount on deposit in the Reserve Fund, following the proposed transfer, is equal to the Reserve Requirement;
- (B) Amounts on deposit in the Administrative Expense Fund; and

- (C) Any other funds available to the CFD, including amounts advanced by the Successor Agency, in its sole discretion, to be repaid by the CFD as soon as practicable from amounts described in the preceding clauses (A) and (B).

**No Arbitrage.** The Successor Agency shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the 2014 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2014 Bonds would have caused the 2014 Bonds to be “arbitrage bonds” within the meaning of section 148 of the Tax Code.

**Yield of the 2014 Bonds.** In determining the yield of the 2014 Bonds to comply with its federal tax law-related covenants under the Fiscal Agent Agreement, the Successor Agency will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the Successor Agency, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the 2014 Bonds, without regard to whether or not prepayments are received or 2014 Bonds redeemed.

**Maintenance of Tax-Exemption.** The Successor Agency shall take all actions necessary to assure the exclusion of interest on the 2014 Bonds from the gross income of the Owners of the 2014 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the 2014 Bonds.

**Limits on Special Tax Waivers and Bond Tenders.** The Successor Agency covenants not to exercise its rights under the Act to waive delinquency and redemption penalties related to the Special Taxes or to declare Special Tax penalties amnesty program if to do so would materially and adversely affect the interests of the Owners of the Bonds and further covenants not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the Successor Agency having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds, any Subordinate Bonds and any Parity Bonds remaining Outstanding following such tender.

**Successor Agency Bid at Foreclosure Sale.** The Successor Agency will not bid at a foreclosure sale of property in respect of delinquent Special Taxes, unless it expressly agrees to take the property subject to the lien for Special Taxes imposed by the CFD and that the Special Taxes levied on the property are payable while the Successor Agency owns the property.

**Limitation on Principal Amount of Parity Bonds.** Following issuance of the 2014 Bonds, the Successor Agency will not issue more than \$30,500,000 initial principal amount of Parity Bonds (exclusive of any Refunding Bonds).

**Amendment of Rate and Method.** The Successor Agency shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the Successor Agency shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

**Amendment of Approved Development Plan.** The Successor Agency shall not cause, consent or otherwise permit the Approved Development Plan (as such term is defined in the Rate and Method) to be amended or otherwise modified if such amendment or modification would cause the amount of the Special Taxes that may be levied under the Ordinance and the Rate and Method to be less than (i) 110% of the total Annual Debt Service of the then Outstanding Bonds and (ii) 100% of the total Annual Debt Service of the then Outstanding Bonds and the amount of the levy for Administrative Expenses in the current fiscal year. The coverage requirement described in clauses (i) and (ii) of the previous sentence constitutes the "Required Coverage" for purposes of the Rate and Method.

**Compliance with Dissolution Act.** The Successor Agency covenants and agrees to take all actions within its power and as otherwise may be required under the Dissolution Act to cause the Special Taxes to be used to timely pay the scheduled debt service on the Bonds.

**Tax Increment Revenues.** The Successor Agency covenants and agrees not to use any property tax revenues deposited into the Redevelopment Property Tax Trust Fund established pursuant to the Dissolution Act for the payment of the principal of, and interest and any premium on, the Bonds.

**Covenant Not to Enforce.** The Successor Agency covenants and agrees not to enforce the terms of the Development Agreement so long as any of the Bonds remain Outstanding.

#### **Investment of Moneys in Funds**

**General.** Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, which in any event by their terms mature prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least 2 Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in paragraph (h) of the definition thereof which by their terms mature prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement to the extent reasonably practicable, and if such investments can not be made shall hold such funds uninvested.

**Moneys in Funds.** Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Finance Director shall be invested by the Finance Director in any Permitted Investment or in any other lawful investment for Successor Agency or City funds, which in any event by its terms matures prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of the Fiscal Agent Agreement for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts. Whenever in the Fiscal Agent Agreement any moneys are required to be transferred by the Successor Agency to the Fiscal Agent, such transfer may be accomplished by transferring a like amount of Permitted Investments.

**Valuation of Investments.** Except as otherwise provided in the next sentence, all investments of amounts deposited in any fund or account created by or pursuant to the Fiscal Agent Agreement, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that



valuation is required by the Fiscal Agent Agreement or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under the applicable provisions of the Tax Code and (unless valuation is undertaken at least annually) investments in the subaccounts within the Reserve Fund shall be valued at their present value (within the meaning of section 148 of the Tax Code). The Fiscal Agent shall not be liable for verification of the application of such sections of the Tax Code or for any determination of Fair Market Value or present value and may conclusively rely upon an Officer's Certificate as to such valuations.

**Commingled Money.** Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions in the Fiscal Agent Agreement for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent or the Finance Director under the Fiscal Agent Agreement, provided that the Fiscal Agent or the Finance Director, as applicable, shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Fiscal Agent Agreement.

**Sale of Investments.** The Fiscal Agent or the Finance Director, as applicable, shall sell at Fair Market Value, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and neither the Fiscal Agent nor the Finance Director shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance herewith.

#### **Liability of Successor Agency**

**General.** The Successor Agency shall not incur any responsibility in respect of the Bonds or the Fiscal Agent Agreement other than in connection with the duties or obligations explicitly in the Fiscal Agent Agreement or in the Bonds assigned to or imposed upon it. The Successor Agency shall not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful default. The Successor Agency shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent in the Fiscal Agent Agreement or of any of the documents executed by the Fiscal Agent in connection with the Bonds, or as to the existence of a default or event of default thereunder.

**No General Liability.** No provision of the Fiscal Agent Agreement shall require the Successor Agency to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

### **Certain Provisions Relating to the Fiscal Agent**

**Merger.** Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the following paragraph shall be the successor to such Fiscal Agent without the execution or filing of any paper or any further act, anything in the Fiscal Agent Agreement to the contrary notwithstanding. The Fiscal Agent shall give the Finance Director written notice of any such succession under the Fiscal Agent Agreement.

**Removal.** Upon 30 days written notice, the Successor Agency may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

**Resignation.** The Fiscal Agent may at any time resign by giving written notice to the Successor Agency by certified mail return receipt requested, and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the Successor Agency shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective upon acceptance of appointment by the successor Fiscal Agent.

**No Successor.** If no appointment of a successor Fiscal Agent shall be made within 45 days after the Fiscal Agent shall have given to the Successor Agency written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent, at the expense of the Successor Agency, or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

**Court Order.** If, by reason of the judgment of any court, the Fiscal Agent is rendered unable to perform its duties under the Fiscal Agent Agreement, all such duties and all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement shall be assumed by and vest in the Finance Director of the Successor Agency in trust for the benefit of the Owners. The Successor Agency covenants for the direct benefit of the Owners that its Finance Director in such case shall be vested with all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement, and shall assume all of the responsibilities and perform all of the duties of the Fiscal Agent under the Fiscal Agent Agreement, in trust for the benefit of the Owners of the Bonds.

#### **Liability of Fiscal Agent.**

**General.** The Fiscal Agent shall not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful misconduct.

No Expenditures. No provision of the Fiscal Agent Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers.

No Action. The Fiscal Agent shall be under no obligation to exercise any of the rights or powers vested in it by the Fiscal Agent Agreement at the request or direction of any of the Owners under the Fiscal Agent Agreement unless such Owners shall have offered to the Fiscal Agent reasonable security or indemnity satisfactory to the Fiscal Agent against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

### **Amendments Permitted**

**With Consent.** The Fiscal Agent Agreement and the rights and obligations of the Successor Agency and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the Successor Agency to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the Successor Agency of any pledge or lien upon the Special Taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Fiscal Agent Agreement), or reduce the percentage of Bonds required for the amendment of the Fiscal Agent Agreement.

**Without Consent.** The Fiscal Agent Agreement and the rights and obligations of the Successor Agency and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Successor Agency in the Fiscal Agent Agreement, other covenants and agreements thereafter to be observed, or  
(b) to limit or surrender any right or power in the Fiscal Agent Agreement reserved to or conferred upon the Successor Agency;

(ii) to make modifications not adversely affecting any Outstanding Bonds in any material respect, including, but not limited to, amending the Rate and Method, so long as the amendment does not result in coverage less than set forth in clause (E) of the Parity Bonds test;

(iii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Fiscal Agent Agreement, or in regard to questions arising under the Fiscal Agent Agreement, as the Successor Agency and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Fiscal Agent Agreement, and which shall not adversely affect the rights of the Owners of the Bonds;

(iv) to make such additions, deletions or modifications as may be necessary or desirable to assure exclusion from gross income for federal income tax purposes of interest on the Bonds;

(v) in connection with the issuance of any Parity Bonds.

**Fiscal Agent's Consent.** Any amendment of the Fiscal Agent Agreement may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the Successor Agency and the Fiscal Agent complies with the provisions of the Fiscal Agent Agreement and the Fiscal Agent may conclusively rely on such opinion and shall be absolutely protected in so relying.

**Procedure for Amendment with Written Consent of Owners.** The Successor Agency and the Fiscal Agent may at any time adopt a Supplemental Agreement amending the provisions of the Bonds or of the Fiscal Agent Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Fiscal Agent Agreement, to take effect when and as provided in the Fiscal Agent Agreement. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Fiscal Agent, at the expense of the Successor Agency), to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as provided in the Fiscal Agent Agreement.

Such Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement) and a notice shall have been mailed provided in the Fiscal Agent Agreement. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Fiscal Agent Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice provided for in the Fiscal Agent Agreement has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the Successor Agency shall mail a notice to the Owners in the manner provided in the Fiscal Agent Agreement for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in the Fiscal Agent Agreement (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the papers required by the Fiscal Agent Agreement to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise provided in the Fiscal Agent Agreement) upon the Successor Agency and the Owners of all Bonds at the expiration of 60 days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

**Discharge of Agreement.** If the Successor Agency shall pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways:

(A) by paying or causing to be paid the principal of, and interest and any premium on, all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds and accounts provided for in the Bond Fund and the Reserve Fund of the Fiscal Agent Agreement, is fully sufficient to pay all Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and/or Federal Securities in such amount as the Successor Agency shall determine, as confirmed by an independent certified public accountant, will, together with the interest to accrue thereon and moneys then on deposit in the fund and accounts provided for in the Bond Fund and the Reserve Fund (to the extent invested in Federal Securities), be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the Successor Agency shall have taken any of the actions specified in (A), (B) or (C) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Fiscal Agent Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the Successor Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Special Taxes and other funds provided for in the Fiscal Agent Agreement and all other obligations of the Successor Agency under the Fiscal Agent Agreement with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Fiscal Agent.

Notwithstanding the foregoing, the following obligations and pledges of the Successor Agency shall continue in any event: (i) the obligation of the Successor Agency to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, (ii) the obligation of the Successor Agency to pay amounts owing to the Fiscal Agent pursuant to the Fiscal Agent Agreement, and (iii) the obligation of the Successor Agency to assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Upon compliance by the Successor Agency with the foregoing with respect to all Bonds Outstanding, any funds held by the Fiscal Agent after payment of all fees and expenses of the Fiscal Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the Successor Agency and any Special Taxes thereafter received by the Successor Agency shall not be remitted to the Fiscal Agent but shall be retained by the Successor Agency to be used for any purpose permitted under the Act and the Resolution of Formation.

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## **APPENDIX B**

### **SECOND AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX**

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## EXHIBIT A

### REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 7 (HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)

#### SECOND AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

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A Special Tax applicable to each Assessor's Parcel in the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) [herein "CFD No. 7"] shall be levied and collected according to the tax liability determined by the Administrator through the application of the appropriate amount or rate for Taxable Property, as described below. All of the property in CFD No. 7, unless exempted by law or by the provisions of Section G below, shall be taxed for the purposes, to the extent, and in the manner herein provided.

#### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

**"Act"** means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, (commencing with Section 53311), Division 2 of Title 5 of the California Government Code.

**"Administrative Expenses"** means any or all of the following: the fees and expenses of any fiscal agent or trustee (including any fees or expenses of its counsel) employed in connection with any Bonds, and the expenses of the Agency carrying out its duties with respect to CFD No. 7 and the Bonds, including, but not limited to, levying and collecting the Special Tax, the fees and expenses of legal counsel, charges levied by the County Auditor's Office, Tax Collector's Office, and/or Treasurer's Office, costs related to property owner inquiries regarding the Special Tax, amounts needed to pay rebate to the federal government with respect to the Bonds, costs associated with complying with any continuing disclosure requirements for the Bonds and the Special Tax, and all other costs and expenses of the Agency in any way related to the establishment or administration of CFD No. 7.

**"Administrator"** means the Deputy Executive Director, Finance and Administration, of the Agency or such other person or entity designated by the Executive Director of the Agency to administer the Special Tax according to this RMA.

**"Affordable Housing Program"** means the Affordable Housing Program which is attached to and made a part of the Disposition and Development Agreement.

**“Agency”** means the Redevelopment Agency of the City and County of San Francisco or any successor agency thereto.

**“Agency Affordable Housing Unit”** means a Residential Unit constructed on an Agency Housing Parcel. If the Agency acquires a Parcel within CFD No. 7 that is not designated as an Agency Housing Parcel in Attachment 3, the Residential Units constructed on such Parcel shall not be categorized as Agency Affordable Housing Units and shall be taxed as Market Rate Units pursuant to Section C below, unless a prepayment is made to release the Parcel from all or a portion of the Special Tax lien.

**“Agency Housing Parcel”** means a Parcel owned by the Agency and designated as an “Agency Housing Parcel” in Attachment 3 of this RMA.

**“Airspace Parcel”** means a parcel with an assigned Assessor’s parcel number that constitutes vertical space of an underlying land parcel.

**“Approved Development Plan”** means the most current Final Map, condominium plan, or other such approved or recorded map or plan provided by Lennar or a Subsequent Owner that identifies the type of structure, acreage, square footage, number of Bedrooms, and/or the number of Residential Units that are approved to be developed on Parcels of Taxable Property.

**“Assessor’s Parcel”** or **“Parcel”** means a lot or parcel, including an Airspace Parcel, shown on an Assessor’s Parcel Map with an assigned Assessor’s Parcel number.

**“Assessor’s Parcel Map”** means an official map of the County Assessor designating Parcels by Assessor’s Parcel number.

**“Authorized Facilities”** means those public facilities authorized to be funded by CFD No. 7 as set forth in the formation documents of CFD No.7.

**“Base Special Tax”** means the Special Tax that is levied on property on a per-Residential Unit basis and, when combined with the Incremental Special Tax, makes up the Designated Special Tax for a Residential Unit, as identified in Section C.2.a below.

**“Bedrooms”** means the number of bedrooms within a Required BMR Unit as shown on an Approved Development Plan or building permit issued for new construction.

**“Bonds”** means bonds or other debt (as defined in the Act), whether in one or more series, issued, insured or assumed by CFD No. 7 related to the Authorized Facilities.

**“Capitalized Interest”** means funds in any capitalized interest account available to pay debt service on Bonds.

**“CFD Update”** means the date on which the Resolution Declaring Completion of Change Proceedings was adopted by the Commission as part of the 2014 change proceedings.

**“City”** means the City and County of San Francisco.

**“Commission”** means the Commission of the Agency, acting as the legislative body of CFD No. 7.

**“County”** means the City and County of San Francisco.

**“Designated Special Tax”** means the sum of the Base Special Tax and the Incremental Special Tax for a Parcel of Taxable Property, as determined pursuant to Section C.2.a below.

**“Developed Property”** means, in any Fiscal Year, all Assessor’s Parcels of Taxable Property in CFD No. 7 for which a building permit for new construction of a residential or non-residential structure was issued prior to June 1 of the proceeding Fiscal Year.

**“Disposition and Development Agreement”** means the Disposition and Development Agreement for the Hunters Point Shipyard, Phase 1 by and between the Agency and Lennar, as approved by the Commission on December 2, 2003, and as amended from time to time.

**“Expected Maximum Special Tax”** means the aggregate Special Tax for each Sub-Block based on the Expected Land Uses at the time of the CFD Update. The Expected Maximum Special Tax for each Sub-Block is shown in Attachment 2 of this RMA and may be revised pursuant to Sections C and D below. The Expected Maximum Special Tax may also be adjusted if a property owner prepays all or a portion of the Maximum Special Tax assigned to a Parcel.

**“Expected Land Uses”** means the total number of Residential Units, amount of Square Footage, and number of Bedrooms expected within each Sub-Block. The Expected Land Uses at the time of the CFD Update are identified in Attachment 2 of this RMA and may be revised pursuant to Sections C and D below.

**“Final Map”** means a final map, or portion thereof, recorded by the County pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) that creates individual lots on which building permits for new construction may be issued without further subdivision.

**“Fiscal Year”** means the period starting July 1 and ending on the following June 30.

**“Fixed Rate Bonds”** means Bonds that pay a fixed rate of interest until the principal of such Bonds has been fully repaid.

**“Incremental Special Tax”** means the Special Tax levied on property on a Square Footage or per-Bedroom basis as identified in Section C.2.a below.

**“Indenture”** means the indenture, fiscal agent agreement, resolution, or other instrument pursuant to which CFD No. 7 Bonds are issued, as modified, amended, and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**“Lennar”** means HPS Development Co., LP, HPS1 Block 50, LLC, HPS1 Block 51, LLC, HPS1 Block 53, LLC, and HPS1 Block 54, LLC, and their respective successors and assigns.

**“Market Rate Unit”** means a Residential Unit that is not an Agency Affordable Housing Unit or a Required BMR Unit.

**“Maximum CFD Revenues”** means the aggregate Maximum Special Tax that can be levied on all Parcels of Taxable Property within CFD No. 7 in any given Fiscal Year.

**“Maximum Special Tax”** means the greatest amount of Special Tax that can be levied on an Assessor’s Parcel in any Fiscal Year determined in accordance with Section C below.

**“Non-Residential Property”** means, in any Fiscal Year, all Parcels of Taxable Property for which building permits were issued, or based on an Approved Development Plan, are expected to be issued for construction of a structure that includes Square Footage designated for non-residential land uses.

**“Proportionately”** means, for Developed Property, that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor’s Parcels of Developed Property, and for Undeveloped Property that the ratio of the actual Special Tax to the Maximum Special Tax is equal for all Assessor’s Parcels of Undeveloped Property.

**“Public Property”** means any property within the boundaries of CFD No. 7 that is owned by the federal government, the Agency, the State of California, the County, or other public agency, including Agency Affordable Housing Units. Notwithstanding the foregoing, any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall not be considered Public Property and shall be taxed and classified according to the use on the Parcel(s) unless such Parcel is an Agency Housing Parcel.

**“Required BMR Units”** means all Required BMR 80% Units and Required BMR 50% Units within CFD No. 7. Any units within CFD No. 7 that are not Required BMR Units or Agency Affordable Housing Units, as defined herein, shall be taxed as Market Rate Units pursuant to Section C below.

**“Required BMR 80% Unit”** means a Residential Unit within CFD No. 7 that is required pursuant to the Disposition and Development Agreement and is approved by the Agency as an affordable housing unit priced for sale or lease to households earning no more than 80% of the area median income (as defined in the Affordable Housing Program). Required BMR 80% Units shall be taxed at the Maximum Special Tax rates identified in Section C below.

**“Required BMR 50% Unit”** means a Residential Unit within CFD No. 7 that is required pursuant to the Disposition and Development Agreement and is approved by the Agency as an affordable housing unit priced for sale or lease to households earning no more than 50% of the area median income (as defined in the Affordable Housing Program). Required BMR 50% Units shall be taxed at the Maximum Special Tax rates identified in Section C below.



**“Required Coverage”** means the amount by which the Maximum CFD Revenues must exceed the Bond debt service and required Administrative Expenses, as set forth in the Indenture.

**“Residential Property”** means, in any Fiscal Year, all Parcels of Taxable Property for which building permits were issued, or based on an Approved Development Plan, are expected to be issued for construction of a structure that includes one or more Residential Units.

**“Residential Unit”** means an individual residential dwelling unit within CFD No. 7.

**“RMA”** means this Second Amended and Restated Rate and Method of Apportionment of Special Tax.

**“Special Tax”** means a special tax levied in any Fiscal Year to pay the Special Tax Requirement.

**“Special Tax Requirement”** means the amount necessary in any Fiscal Year to: (i) pay principal and interest on Fixed-Rate Bonds which is due in the calendar year that begins in such Fiscal Year; (ii) pay debt service on all Variable Rate Bonds estimated for the calendar year that begins in such Fiscal Year, assuming a seven and one-half percent (7 ½ %) interest rate for all Variable Rate Bonds, (iii) pay periodic costs on the Bonds, including but not limited to, credit enhancement, liquidity support and rebate payments on the Bonds, (iv) create and/or replenish reserve funds for the Bonds; (v) cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year or, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the Fiscal Year in which the tax will be collected; (vi) pay Administrative Expenses; and (vii) pay directly for Authorized Facilities. The amounts referred to in clauses (i), (ii) and (iii) of the preceding sentence may be reduced in any Fiscal Year by: (i) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against debt service pursuant to the Indenture; (ii) proceeds received by CFD No. 7 from the collection of penalties associated with delinquent Special Taxes; and (iii) any other revenues available to pay debt service on the Bonds as determined by the Administrator.

**“Square Foot”** or **“Square Footage”** means the square footage of a Residential Unit or non-residential structure reflected on a condominium plan, site plan, building permit for new construction, or other such document. If the Square Footage shown on a site plan or condominium plan is inconsistent with the Square Footage reflected on the building permit issued for construction of the Residential Unit or non-residential building, the greater of the two numbers shall be used to calculate the Maximum Special Tax pursuant to Section C below.

**“Sub-Block”** means a specific geographic area within CFD No. 7 for which an Expected Maximum Special Tax has been identified. Sub-Blocks expected within CFD No. 7 at the time of the CFD Update are identified in Attachment 1 of this RMA.

**“Subsequent Owner”** means any owner of Undeveloped Property within CFD No. 7 that is not Lennar.

**“Subsequent Owner Property”** means, in any Fiscal Year, all Parcels of Undeveloped Property within CFD No. 7 that are owned by a Subsequent Owner.

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of CFD No. 7 which are not exempt from the Special Tax pursuant to law or Section G below.

**“Taxable Public Property”** means, in any Fiscal Year, all Parcels of Public Property within CFD No. 7 that, based on an Approved Development Plan, were expected to be Taxable Property and, based on this expectation, had Maximum Special Taxes assigned to them in prior Fiscal Years.

**“Undeveloped Property”** means, in any Fiscal Year, all Parcels of Taxable Property within CFD No. 7 that are not Developed Property or Taxable Public Property.

**“Variable Rate Bonds”** means any Bonds issued for CFD No. 7 that are not Fixed Rate Bonds.

## **B. DATA FOR CFD ADMINISTRATION**

On or about July 1 of each Fiscal Year, the Administrator shall identify the current Assessor’s Parcel numbers for all Parcels of Taxable Property. The Administrator shall also determine: (i) whether each Parcel of Taxable Property is Developed Property or Undeveloped Property, (ii) within which Sub-Block each Assessor’s Parcel is located, (iii) for Developed Property, which Parcels are Residential Property and Non-Residential Property, (iv) for Residential Property, which units are Market Rate Units, Required BMR 80% Units, and Required BMR 50% Units, (v) for Market Rate Units, the Square Footage of each unit, (vi) for Required BMR Units, the number of Bedrooms within each unit, (vii) the Square Footage within each building of Non-Residential Property, and (viii) the Special Tax Requirement for the Fiscal Year.

The Administrator shall coordinate with the Agency, Lennar, and/or Subsequent Owners to identify the Required BMR 80% Units and Required BMR 50% Units within each Approved Development Plan. If there are transfers between Required BMR Units and Market Rate Units, the Administrator shall refer to Section D.2 to determine the Maximum Special Tax for each Parcel after such transfer.

If a building permit for new construction has been issued for development of a structure on an Assessor’s Parcel, and additional structures are anticipated to be built on the Parcel as shown on the Approved Development Plan, a portion of the acreage of the Assessor’s Parcel shall be taxed as Undeveloped Property if building permits for all of the structures in the Approved Development Plan were **not** issued as of June 1 of the Fiscal Year prior to the Fiscal Year in which the Special Taxes are being levied. If the acreage assigned to each building anticipated on the Assessor’s Parcel is not clearly delineated on the Approved Development Plan, the acreage of the portion of the Assessor’s Parcel to be taxed as Developed Property shall be estimated by the Administrator. The remaining acreage within the Assessor’s Parcel shall be taxed as Undeveloped Property. Determination of the amount of Developed Property and Undeveloped Property on an Assessor’s Parcel shall be at the discretion of the Agency.

In any Fiscal Year, if it is determined that (i) a parcel map or condominium plan for a portion of property in CFD No. 7 was recorded after January 1 of the prior Fiscal Year (or any other date after which the Assessor will not incorporate the newly-created parcels into the then current tax roll), (ii) because of the date the map or plan was recorded, the Assessor does not yet recognize the newly-created parcels, and (iii) one or more of the newly-created parcels meets the definition of Developed Property, the Administrator shall calculate the Special Tax for the property affected by recordation of the map or plan by determining the Special Tax that applies separately to each newly-created parcel, then applying the sum of the individual Special Taxes to the Assessor's Parcel that was subdivided by recordation of the parcel map or condominium plan.

In addition to the tasks set forth above, the Administrator shall, upon the sale of a Parcel(s) to any Subsequent Owner, update Attachment 2 to reflect the then-current Expected Land Uses on, and Expected Maximum Special Tax for, the Parcel(s) being sold. Prior to or concurrent with the sale of the Parcel(s), Lennar shall provide written confirmation to the Administrator as to the Expected Land Uses and Expected Maximum Special Tax that should apply to the Parcel(s). If a sale occurs and no such confirmation has been provided to the Administrator, the Expected Maximum Special Tax that had applied to the Parcel(s) prior to the sale shall continue to apply to the Parcel(s). To the extent the Expected Maximum Special Tax reflected in a written confirmation from Lennar is less than the Expected Maximum Special Tax that had previously applied to the Parcel(s) and this results in insufficient Maximum CFD Revenues to meet the Required Coverage, such confirmation shall also identify to which Assessor's Parcel in CFD No. 7 the difference in the Expected Maximum Special Tax has been transferred unless a prepayment is made by Lennar or the Subsequent Owner in an amount that ensures that the Required Coverage is maintained. The Parcel(s) to which the difference in Expected Maximum Special Tax has been shifted must be owned by Lennar.

## **C. MAXIMUM SPECIAL TAX**

### ***1. Property Without an Approved Development Plan***

The Maximum Special Tax for property in CFD No. 7 without an Approved Development Plan shall be the Expected Maximum Special Tax shown in Attachment 2 of this RMA. If, in any Fiscal Year, separate Assessor's Parcels have not yet been created for property within each Sub-Block, the Administrator shall sum the Expected Maximum Special Tax for all Sub-Blocks within an Assessor's Parcel to determine the Maximum Special Tax that shall apply to the Parcel in such Fiscal Year.

If an Assessor's Parcel contains a portion of one or more Sub-Blocks, the Maximum Special Tax shall be determined by allocating the Expected Maximum Special Tax for each Sub-Block proportionately among such Assessor's Parcels based on the estimated acreage of the portion of the Sub-Block that falls within each Parcel, as determined by the Administrator. The Maximum CFD Revenue after such allocation shall not be less than the Maximum CFD Revenue prior to this allocation.

## **2. *Property Within an Approved Development Plan***

The Maximum Special Tax for a Parcel within an Approved Development Plan shall be the greater of the Designated Special Tax or the Back-Up Special Tax determined pursuant to this Section C.2. When a development plan is approved, the Administrator shall calculate the Designated Special Tax pursuant to Section C.2.a below for each Parcel of Taxable Property based on the land uses reflected in the Approved Development Plan. If it is determined that only a portion of a Sub-Block is included within an Approved Development Plan, the Administrator shall refer to Attachments 1 and 2 to estimate the Expected Land Uses and Expected Maximum Special Taxes that should be assigned to the portion of the Sub-Block that does not yet have an Approved Development Plan. The Administrator shall confirm this determination with the Agency, Lennar, and/or a Subsequent Owner of the property.

The Administrator shall then calculate the amount that could be levied if the Designated Special Tax was applied to the land uses proposed on Taxable Property within the Approved Development Plan. This “Total Designated Special Tax” shall be compared to the Expected Maximum Special Tax for that Sub-Block or portion of Sub-Block included within the Approved Development Plan, and the Administrator shall apply one of the following:

- *If the Total Designated Special Tax is equal to the Expected Maximum Special Tax*, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the amount determined by applying the Designated Special Tax.
- *If the Total Designated Special Tax is greater than the Expected Maximum Special Tax*, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the amount determined by applying the Designated Special Tax. The Administrator shall revise Attachment 2 to reflect the increased Expected Maximum Special Tax for the Sub-Block and the increased Maximum CFD Revenues.
- *If the Total Designated Special Tax is less than the Expected Maximum Special Tax but the Maximum CFD Revenues are still sufficient to provide the Required Coverage*, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the Designated Special Tax. The Administrator shall revise Attachment 2 to reflect the decreased Expected Maximum Special Tax for the Sub-Block and the decreased Maximum CFD Revenues.
- *If the Total Designated Special Tax is less than the Expected Maximum Special Tax and such reduction causes the Maximum CFD Revenues to be insufficient to provide the Required Coverage*, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the Back-Up Special Tax determined pursuant to Section C.2.b below. If applicable, the Administrator shall revise Attachment 2 to reflect the decreased Expected Maximum Special Tax for the Sub-Block and the decreased Maximum CFD Revenues after the Back-Up Special Tax has been determined.

***Until individual Assessor's Parcels are created for each Residential Unit and Non-Residential Property within an Approved Development Plan, the Administrator shall sum the Maximum Special Tax for all land uses on a Parcel and levy the aggregate Maximum Special Tax on the Parcel.***

***a. Designated Special Tax***

The Designated Special Tax for each Residential Unit built or expected to be built on Taxable Property shall be the sum of the Base Special Tax and the Incremental Special Tax as identified in Table 1 below. The Designated Special Tax for each Parcel of Non-Residential Property built or expected to be built on Taxable Property shall be determined by multiplying the Square Footage of the non-residential structure(s) by the Incremental Special Tax shown for Non-Residential Property in Table 1 below.

**Table 1  
Base Special Tax and Incremental Special Tax**

<b>Land Use</b>	<b>Base Special Tax Fiscal Year 2013-14*</b>	<b>Incremental Special Tax Fiscal Year 2013-14*</b>
Market Rate Units	\$1,474 per unit	\$2.35 per Square Foot
Required BMR 80% Units	\$628 per unit	\$190 per Bedroom
Required BMR 50% Units	\$352 per unit	\$90 per Bedroom
Non-Residential Property	N/A	\$1.41 per Square Foot

***\* Beginning July 1, 2014 and each July 1 thereafter, the amounts shown in Table 1 above shall be increased by two percent (2%) of the amount in effect in the prior Fiscal Year.***

***b. Back-Up Special Tax***

As set forth above, if the Administrator determines that the Total Designated Special Tax calculated for an Approved Development Plan is less than the Expected Maximum Special Tax and such reduction causes the Maximum CFD Revenues to be insufficient to provide the Required Coverage, then the Administrator shall apply one of the following:

- (i) The landowner of the property within the Approved Development Plan may make a prepayment to the Agency in an amount sufficient to reduce the annual debt service on the Bonds so that the Required Coverage can be maintained with the reduced Maximum CFD Revenues that will result from the Approved Development Plan. If such prepayment occurs, the Maximum Special Tax for land uses in the Approved Development Plan shall be the Designated Special Tax determined pursuant to Section C.2.a above.

- (ii) If the owner of property within the Approved Development Plan does not make a prepayment to offset the reduction in Maximum CFD Revenues, the Maximum Special Tax for land uses in the Approved Development Plan shall be determined as follows:

- Step 1.** Calculate the total Maximum Special Tax revenues that must be generated from property within the Approved Development Plan in order to maintain the Required Coverage.
- Step 2.** Confirm the Designated Special Tax for each Residential Unit and Non-Residential Property and the Total Designated Special Tax that could be collected within the Approved Development Plan.
- Step 3.** Divide the Maximum Special Tax revenues from Step 1 by the Total Designated Special Tax from Step 2.
- Step 4.** Multiply the quotient determined in Step 3 by the Designated Special Tax for each Residential Unit and Non-Residential Property from Step 2, and the amount determined shall be the Maximum Special Tax for each Residential Unit and Non-Residential Property within the Approved Development Plan. Until individual Assessor's Parcels are created for each Residential Unit and Non-Residential Property, the Administrator shall sum the Maximum Special Tax for all land uses on a Parcel and levy the aggregate Maximum Special Tax on the Parcel.

## **D. CHANGES TO THE MAXIMUM SPECIAL TAX**

### ***1. Annual Escalation of Special Tax***

Beginning July 1, 2014 and each July 1 thereafter, the Expected Maximum Special Tax for each Sub-Block and the Maximum Special Tax assigned to each Parcel of Taxable Property within CFD No. 7 shall be increased by two percent (2%) of the amount in effect in the prior Fiscal Year.

### ***2. Required BMR Unit and Market Rate Unit Transfers***

If, in any Fiscal Year, the Administrator determines that a Residential Unit that had previously been designated as a Required BMR Unit no longer qualifies as such, the Maximum Special Tax on the Residential Unit shall be increased to the Maximum Special Tax that would be levied on a Market Rate Unit of the same Square Footage. If a Market Rate Unit becomes a Required BMR Unit after it has been taxed in prior Fiscal Years as a Market Rate Unit, the Maximum Special Tax on such Residential Unit shall not be decreased unless a Required BMR Unit is simultaneously redesignated as a Market Rate Unit.



## **E. METHOD OF LEVY OF THE SPECIAL TAX**

Each Fiscal Year, the Special Tax shall be levied according to the steps outlined below:

- Step 1:*** The Special Tax shall be levied Proportionately on each Parcel of Developed Property within CFD No. 7 up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year until the amount levied on Developed Property is equal to the Special Tax Requirement prior to applying Capitalized Interest that is available under the applicable Indenture;
- Step 2:*** If additional revenue is needed after Step 1 in order to meet the Special Tax Requirement after Capitalized Interest has been applied to reduce the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Subsequent Owner Property within CFD No. 7, up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year;
- Step 3:*** If additional revenue is needed after Step 2 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property that is not Subsequent Owner Property, up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year;
- Step 4:*** If additional revenue is needed after Step 3 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property, up to 100% of the Maximum Special Tax assigned to each Parcel.

## **F. COLLECTION OF SPECIAL TAX**

The Special Taxes for CFD No. 7 shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that prepayments are permitted as set forth in Section H below and provided further that the Agency may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

The Special Tax shall be levied and collected until principal and interest on Bonds have been repaid, the Agency's costs of constructing or acquiring Authorized Facilities from Special Tax proceeds have been paid, and all Administrative Expenses have been reimbursed. However, in no event shall a Special Tax be levied after Fiscal Year 2055-56. Pursuant to Section 53321 (d) of the Act, the Special Tax levied against a Parcel used for private residential purposes shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels and shall, in no event, exceed the Maximum Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

## **G. EXEMPTIONS**

Notwithstanding any other provision of this RMA, no Special Tax shall be levied on: (i) Public Property, except Taxable Public Property, (ii) Parcels that have prepaid the Special Tax obligation and had a Release of Special Tax Lien recorded against the property, (iii) Agency Affordable Housing Units, (iv) Parcels that are intended to be, or are, Public Property used as streets, walkways, alleys, rights of way, parks, or open space, and (v) Parcels that are private streets, walkways, alleys, rights of way, common area, open space, or owned by, or dedicated to, a property owner's association.

## **H. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section H:

**“Construction Fund”** means the account (regardless of its name) identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

**“Outstanding Bonds”** means all Previously Issued Bonds which remain outstanding, with the following exception: if a Special Tax has been levied against, or already paid by, an Assessor's Parcel making a prepayment, and a portion of such Special Tax will be used to pay a portion of the next principal payment on the Bonds that remain outstanding (as determined by the Administrator), that next principal payment shall be subtracted from the total Bond principal that remains outstanding, and the difference shall be used as the amount of Outstanding Bonds for purposes of this prepayment formula.

**“Previously Issued Bonds”** means all Bonds that have been issued on behalf of CFD No.7 prior to the date of prepayment.

**“Public Facilities Requirements”** means either \$51,000,000 in 2014 dollars, which shall increase on January 1, 2015, and on each January 1 thereafter by the percentage increase, if any, in the construction cost index for the San Francisco region for the prior twelve (12) month period as published in the Engineering News Record or other comparable source if the Engineering News Record is discontinued or otherwise not available, or such other number as shall be determined by the Agency to be an appropriate estimate of the net construction proceeds that will be generated from all Bonds that have been and are expected to be issued on behalf of CFD No. 7. The Public Facilities Requirements shown above may be increased if there is a substantial increase in the Maximum CFD Revenues due to a change in density on property within CFD No. 7. The adjusted Public Facilities Requirement shall be calculated by (i) dividing the increased Maximum CFD Revenues that can be collected after the change in density is approved by the Maximum CFD Revenues that were in place prior to the density change, and (ii) multiplying the quotient by the Public Facilities Requirement that was in place prior to approval of the change in density.

**“Remaining Facilities Costs”** means the Public Facilities Requirements (as defined above), minus public facility costs funded by Outstanding Bonds (as defined above), developer equity, and/or any other source of funding.

*1. Full Prepayment*

The Special Tax obligation applicable to an Assessor’s Parcel in CFD No. 7 may be prepaid and the obligation of the Assessor’s Parcel to pay the Special Tax permanently satisfied as described herein, provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor’s Parcel at the time of prepayment. An owner of an Assessor’s Parcel intending to prepay the Special Tax obligation shall provide the Agency with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Agency or its designee shall notify such owner of the prepayment amount for such Assessor’s Parcel. Prepayment must be made not less than 75 days prior to any redemption date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes. Attachment 4 herein provides a sample prepayment calculation for a Parcel. The Prepayment Amount shall be calculated as follows: (capitalized terms as defined below):

Bond Redemption Amount	
plus	Remaining Facilities Amount
plus	Redemption Premium
plus	Defeasance Requirement
plus	Administrative Fees and Expenses
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount shall be determined by application of the following steps:

- Step 1.** Compute the total Maximum Special Tax that could be collected from the Assessor’s Parcel prepaying the Special Tax in the Fiscal Year in which prepayment would be received by the Agency. If this Section H is being applied to calculate a prepayment pursuant to Section C.2.b above, use, for purposes of this Step 1, the amount by which the Maximum CFD Revenues have been reduced below the amount needed to maintain the Required Coverage due to the change in land use that necessitated the prepayment.
- Step 2.** Divide the amount from Step 1 by the Maximum CFD Revenues for that same Fiscal Year.
- Step 3.** Multiply the quotient computed pursuant to Step 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (*the “Bond Redemption Amount”*).
- Step 4.** Compute the current Remaining Facilities Costs (if any).

- Step 5.** Multiply the quotient computed pursuant to Step 2 by the amount determined pursuant to Step 4 to compute the amount of Remaining Facilities Costs to be prepaid (the “**Remaining Facilities Amount**”).
- Step 6.** Multiply the Bond Redemption Amount computed pursuant to Step 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the “**Redemption Premium**”).
- Step 7.** Compute the amount needed to pay interest on the Bond Redemption Amount starting with the first Bond interest payment date after which the prepayment has been received until the earliest redemption date for the Outstanding Bonds.
- Step 8.** Compute the amount of interest the Agency reasonably expects to derive from reinvestment of the Bond Redemption Amount plus the Redemption Premium from the first Bond interest payment date after which the prepayment has been received until the redemption date for the Outstanding Bonds.
- Step 9.** Take the amount computed pursuant to Step 7 and subtract the amount computed pursuant to Step 8 (the “**Defeasance Requirement**”).
- Step 10.** Determine the costs of computing the prepayment amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the “**Administrative Fees and Expenses**”).
- Step 11.** If and to the extent so provided in the Indenture pursuant to which the Outstanding Bonds to be redeemed were issued, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (the “**Reserve Fund Credit**”).
- Step 12.** The Special Tax prepayment is equal to the sum of the amounts computed pursuant to Steps 3, 5, 6, 9, and 10, less the amount computed pursuant to Step 11 (the “**Prepayment Amount**”).
- Step 13.** From the Prepayment Amount, the amounts computed pursuant to Steps 3, 6, and 9 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to Step 5 shall be deposited into the Construction Fund. The amount computed pursuant to Step 10 shall be retained in the account or fund that is established to pay administrative expenses of CFD No. 7.

## 2. *Partial Prepayment*

A partial prepayment may be made in an amount equal to any percentage of full prepayment desired by the party making a partial prepayment, except that the full amount of administrative fees and expenses determined in Step 10 shall be included in the partial prepayment. The Maximum Special Tax that can be levied on a Parcel after a partial prepayment is made shall be determined as follows:

- Step 1.** Calculate the full prepayment (not including the amount collected for administrative fees and expenses) that would be due from the Parcel if the entire Special Tax obligation were being prepaid pursuant to Section H.1 above.
- Step 2.** Divide the partial prepayment amount for the Parcel (not including the amount collected for administrative fees and expenses) by the amount computed in Step 1 to determine a percentage.
- Step 3.** Subtract the percentage computed in Step 2 from 100% to determine the “Remaining Percentage.”
- Step 4.** Multiply the Remaining Percentage from Step 3 by the Maximum Special Tax for the Parcel to determine the new Maximum Special Tax that will be in effect for the Parcel after the partial prepayment is applied.

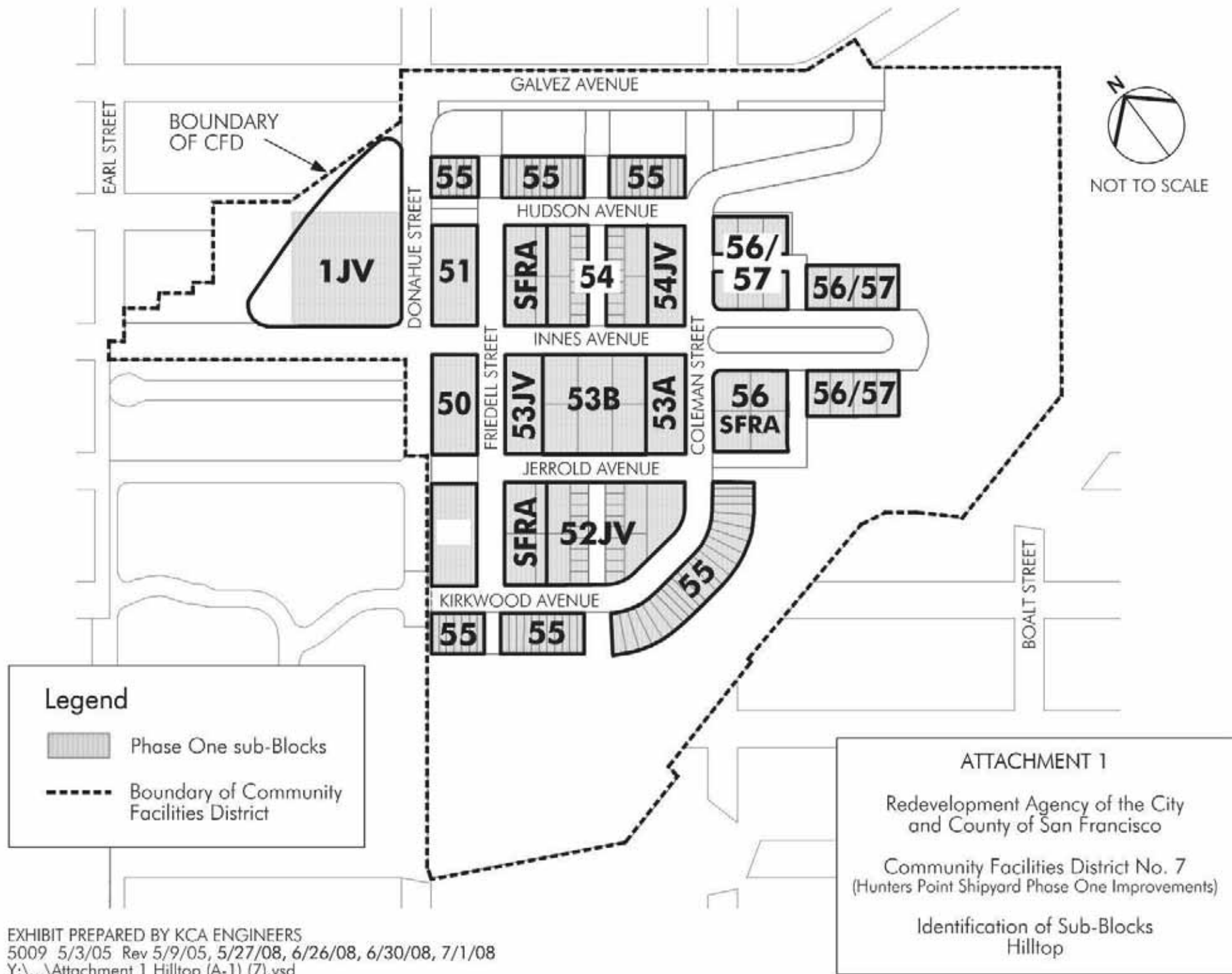
## **I. INTERPRETATION OF SPECIAL TAX FORMULA**

Any taxpayer who feels that the amount or formula of the Special Tax is in error may file an application with the Administrator contesting the levy of the Special Tax. The Agency shall promptly review the application. If the findings of the Agency verify that the Special Tax should be modified or changed, a recommendation to that effect shall be made to the Commission, and as appropriate, the Special Tax levy shall be corrected and, if applicable in any case, a refund shall be granted. If the Agency denies the application, the taxpayer may appeal that determination within 14 days of the mailing of notification of denial, to the Commission under such procedures as the Commission shall establish. The determination of the Commission on the appeal shall be final for all purposes. The filing of an application or an appeal shall not relieve the taxpayer of the obligation to pay the Special Tax when due.

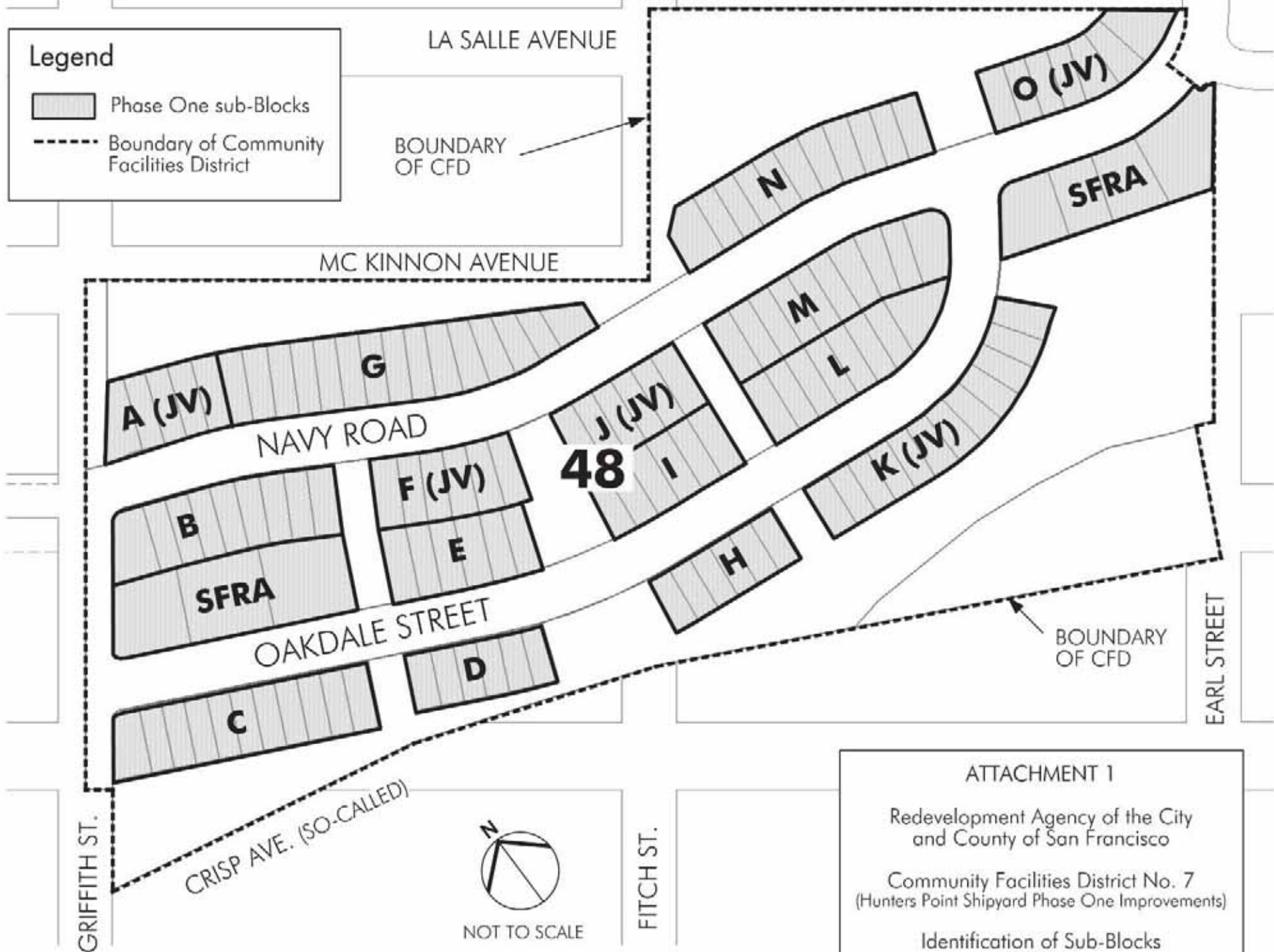
# **ATTACHMENT 1**

## **REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 7 (HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)**

### **IDENTIFICATION OF SUB-BLOCKS**







## **ATTACHMENT 2**

### **REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 7 (HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)**

#### **EXPECTED LAND USES AND EXPECTED MAXIMUM SPECIAL TAX BY SUB-BLOCK**

**ATTACHMENT 2**

**Redevelopment Agency of the City and County of San Francisco  
Community Facilities District No. 7  
(Hunters Point Shipyard Phase One Improvements)**

**Expected Land Uses and Expected Maximum Special Tax by Sub-Block**

<b>Sub-Block /1</b>	<b>Expected Land Use</b>	<b>Expected Number of Residential Units</b>	<b>Expected Sq. Ft. or Bedrooms per Unit</b>	<b>Total Base Special Tax (FY 2013-14)</b>	<b>Total Incremental Special Tax (FY 2013-14)</b>	<b>Expected Maximum Special Tax (FY 2013-14) /2</b>
1JV	Market Rate Unit	21	700	\$30,954	\$34,545	\$65,499
	Market Rate Unit	38	825	\$56,012	\$73,673	\$129,685
	Market Rate Unit	27	1,000	\$39,798	\$63,450	\$103,248
	Market Rate Unit	15	1,150	\$22,110	\$40,538	\$62,648
	Market Rate Unit	18	625	\$26,532	\$26,438	\$52,970
	Market Rate Unit	38	750	\$56,012	\$66,975	\$122,987
	Market Rate Unit	24	875	\$35,376	\$49,350	\$84,726
	Market Rate Unit	18	1,025	\$26,532	\$43,358	\$69,890
	Required BMR 80% Unit	3	1	\$1,884	\$570	\$2,454
	Required BMR 80% Unit	5	1.5	\$3,140	\$1,425	\$4,565
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Required BMR 80% Unit	2	2.5	\$1,256	\$950	\$2,206
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	5	1	\$3,140	\$950	\$4,090
	Required BMR 80% Unit	3	1	\$1,884	\$570	\$2,454
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Non-Residential Property	N/A	9,000	N/A	\$12,690	<u>\$12,690</u>
	Total					\$726,786
48A JV	Market Rate Unit	9	1,183	\$13,266	\$25,020	\$38,286
	Market Rate Unit	4	1,400	\$5,896	\$13,160	\$19,056
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$59,548
48B	Market Rate Unit	5	908	\$7,370	\$10,669	\$18,039
	Market Rate Unit	5	968	\$7,370	\$11,374	\$18,744
	Market Rate Unit	16	1,050	\$23,584	\$39,480	\$63,064
	Market Rate Unit	3	1,280	\$4,422	\$9,024	\$13,446
	Market Rate Unit	3	1,500	\$4,422	\$10,575	\$14,997
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	2	2	\$1,256	\$760	<u>\$2,016</u>
	Total					\$132,132
48C	Market Rate Unit	10	1,000	\$14,740	\$23,500	\$38,240
	Market Rate Unit	10	1,290	\$14,740	\$30,315	\$45,055
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$85,501
48D	Market Rate Unit	3	1,000	\$4,422	\$7,050	\$11,472
	Market Rate Unit	4	1,290	\$5,896	\$12,126	\$18,022
	Market Rate Unit	2	828	\$2,948	\$3,892	\$6,840
	Market Rate Unit	4	1,000	\$5,896	\$9,400	\$15,296
	Required BMR 80% Unit	1	2	\$628	\$380	<u>\$1,008</u>
	Total					\$52,638

<b>Sub-Block /1</b>	<b>Expected Land Use</b>	<b>Expected Number of Residential Units</b>	<b>Expected Sq. Ft. or Bedrooms per Unit</b>	<b>Total Base Special Tax (FY 2013-14)</b>	<b>Total Incremental Special Tax (FY 2013-14)</b>	<b>Expected Maximum Special Tax (FY 2013-14) /2</b>
48E	Market Rate Unit	11	1,183	\$16,214	\$30,581	\$46,795
	Market Rate Unit	5	1,400	\$7,370	\$16,450	\$23,820
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$72,821
48F JV	Market Rate Unit	4	908	\$5,896	\$8,535	\$14,431
	Market Rate Unit	3	968	\$4,422	\$6,824	\$11,246
	Market Rate Unit	11	1,050	\$16,214	\$27,143	\$43,357
	Market Rate Unit	2	1,280	\$2,948	\$6,016	\$8,964
	Market Rate Unit	2	1,500	\$2,948	\$7,050	\$9,998
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	<u>\$1,008</u>
	Total					\$90,012
48G	Market Rate Unit	24	1,183	\$35,376	\$66,721	\$102,097
	Market Rate Unit	13	1,400	\$19,162	\$42,770	\$61,932
	Market Rate Unit	1	828	\$1,474	\$1,946	\$3,420
	Market Rate Unit	2	1,000	\$2,948	\$4,700	\$7,648
	Required BMR 80% Unit	4	2	\$2,512	\$1,520	\$4,032
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$180,327
48H	Market Rate Unit	3	1,000	\$4,422	\$7,050	\$11,472
	Market Rate Unit	4	1,290	\$5,896	\$12,126	\$18,022
	Market Rate Unit	2	828	\$2,948	\$3,892	\$6,840
	Market Rate Unit	4	1,000	\$5,896	\$9,400	\$15,296
	Required BMR 80% Unit	1	2	\$628	\$380	<u>\$1,008</u>
	Total					\$52,638
48I	Market Rate Unit	11	1,183	\$16,214	\$30,581	\$46,795
	Market Rate Unit	5	1,400	\$7,370	\$16,450	\$23,820
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$72,821
48J JV	Market Rate Unit	4	908	\$5,896	\$8,535	\$14,431
	Market Rate Unit	3	968	\$4,422	\$6,824	\$11,246
	Market Rate Unit	11	1,050	\$16,214	\$27,143	\$43,357
	Market Rate Unit	2	1,280	\$2,948	\$6,016	\$8,964
	Market Rate Unit	2	1,500	\$2,948	\$7,050	\$9,998
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	<u>\$1,008</u>
	Total					\$90,012
48K JV	Market Rate Unit	10	828	\$14,740	\$19,458	\$34,198
	Market Rate Unit	21	1,000	\$30,954	\$49,350	\$80,304
	Required BMR 80% Unit	2	1.5	\$1,256	\$570	\$1,826
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	<u>\$3,024</u>
	Total					\$119,352

<b>Sub-Block /1</b>	<b>Expected Land Use</b>	<b>Expected Number of Residential Units</b>	<b>Expected Sq. Ft. or Bedrooms per Unit</b>	<b>Total Base Special Tax (FY 2013-14)</b>	<b>Total Incremental Special Tax (FY 2013-14)</b>	<b>Expected Maximum Special Tax (FY 2013-14) /2</b>
48L	Market Rate Unit	14	1,183	\$20,636	\$38,921	\$59,557
	Market Rate Unit	7	1,400	\$10,318	\$23,030	\$33,348
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$96,119
48M	Market Rate Unit	18	1,183	\$26,532	\$50,041	\$76,573
	Market Rate Unit	9	1,400	\$13,266	\$29,610	\$42,876
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$122,663
48N	Market Rate Unit	20	1,183	\$29,480	\$55,601	\$85,081
	Market Rate Unit	10	1,400	\$14,740	\$32,900	\$47,640
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$135,935
48O JV	Market Rate Unit	13	1,183	\$19,162	\$36,141	\$55,303
	Market Rate Unit	6	1,400	\$8,844	\$19,740	\$28,584
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$86,093
50	Market Rate Unit	15	859	\$22,110	\$30,280	\$52,390
	Market Rate Unit	4	1,478	\$5,896	\$13,893	\$19,789
	Market Rate Unit	3	1,426	\$4,422	\$10,053	\$14,475
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Total					\$89,678
51	Market Rate Unit	1	457	\$1,474	\$1,074	\$2,548
	Market Rate Unit	13	665	\$19,162	\$20,316	\$39,478
	Market Rate Unit	13	741	\$19,162	\$22,638	\$41,800
	Market Rate Unit	29	975	\$42,746	\$66,446	\$109,192
	Market Rate Unit	1	1,158	\$1,474	\$2,721	\$4,195
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	1	1.5	\$628	\$285	\$913
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Total					\$202,786
52JV	Market Rate Unit	9	1,172	\$13,266	\$24,788	\$38,054
	Market Rate Unit	7	1,359	\$10,318	\$22,356	\$32,674
	Market Rate Unit	6	757	\$8,844	\$10,674	\$19,518
	Market Rate Unit	20	829	\$29,480	\$38,963	\$68,443
	Market Rate Unit	21	867	\$30,954	\$42,786	\$73,740
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Total					\$239,105

<b>Sub-Block /1</b>	<b>Expected Land Use</b>	<b>Expected Number of Residential Units</b>	<b>Expected Sq. Ft. or Bedrooms per Unit</b>	<b>Total Base Special Tax (FY 2013-14)</b>	<b>Total Incremental Special Tax (FY 2013-14)</b>	<b>Expected Maximum Special Tax (FY 2013-14) /2</b>
53A	Market Rate Unit	4	1,087	\$5,896	\$10,218	\$16,114
	Market Rate Unit	7	1,340	\$10,318	\$22,043	\$32,361
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$49,673
53B	Market Rate Unit	23	624	\$33,902	\$33,727	\$67,629
	Market Rate Unit	11	1,019	\$16,214	\$26,341	\$42,555
	Market Rate Unit	13	1,099	\$19,162	\$33,574	\$52,736
	Market Rate Unit	11	1,304	\$16,214	\$33,708	\$49,922
	Market Rate Unit	4	1,257	\$5,896	\$11,816	\$17,712
	Required BMR 80% Unit	3	1	\$1,884	\$570	\$2,454
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$237,231
53JV	Market Rate Unit	4	1,120	\$5,896	\$10,528	\$16,424
	Market Rate Unit	7	1,347	\$10,318	\$22,158	\$32,476
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$50,098
54	Market Rate Unit	7	1,117	\$10,318	\$18,375	\$28,693
	Market Rate Unit	9	1,417	\$13,266	\$29,970	\$43,236
	Market Rate Unit	4	555	\$5,896	\$5,217	\$11,113
	Market Rate Unit	14	797	\$20,636	\$26,221	\$46,857
	Market Rate Unit	14	963	\$20,636	\$31,683	\$52,319
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	2	2	\$1,256	\$760	<u>\$2,016</u>
	Total					\$188,075
54JV	Market Rate Unit	4	1,116	\$5,896	\$10,490	\$16,386
	Market Rate Unit	7	1,337	\$10,318	\$21,994	\$32,312
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$49,896
55	Market Rate Unit	47	1,686	\$69,278	\$186,219	\$255,497
	Market Rate Unit	12	1,829	\$17,688	\$51,578	\$69,266
	Required BMR 80% Unit	6	3	\$3,768	\$3,420	\$7,188
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$333,149

<b>Sub-Block /1</b>	<b>Expected Land Use</b>	<b>Expected Number of Residential Units</b>	<b>Expected Sq. Ft. or Bedrooms per Unit</b>	<b>Total Base Special Tax (FY 2013-14)</b>	<b>Total Incremental Special Tax (FY 2013-14)</b>	<b>Expected Maximum Special Tax (FY 2013-14) /2</b>
56 & 57	Market Rate Unit	7	625	\$10,318	\$10,281	\$20,599
	Market Rate Unit	7	680	\$10,318	\$11,186	\$21,504
	Market Rate Unit	2	740	\$2,948	\$3,478	\$6,426
	Market Rate Unit	4	745	\$5,896	\$7,003	\$12,899
	Market Rate Unit	5	915	\$7,370	\$10,751	\$18,121
	Market Rate Unit	11	1,081	\$16,214	\$27,944	\$44,158
	Market Rate Unit	21	1,100	\$30,954	\$54,285	\$85,239
	Market Rate Unit	14	1,250	\$20,636	\$41,125	\$61,761
	Market Rate Unit	13	1,350	\$19,162	\$41,243	\$60,405
	Market Rate Unit	4	1,500	\$5,896	\$14,100	\$19,996
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$360,998

**Total Maximum CFD Revenue, Fiscal Year 2013-14**

**\$3,976,084**

/1 See Attachment 1 for the geographic area associated with each Sub-Block.

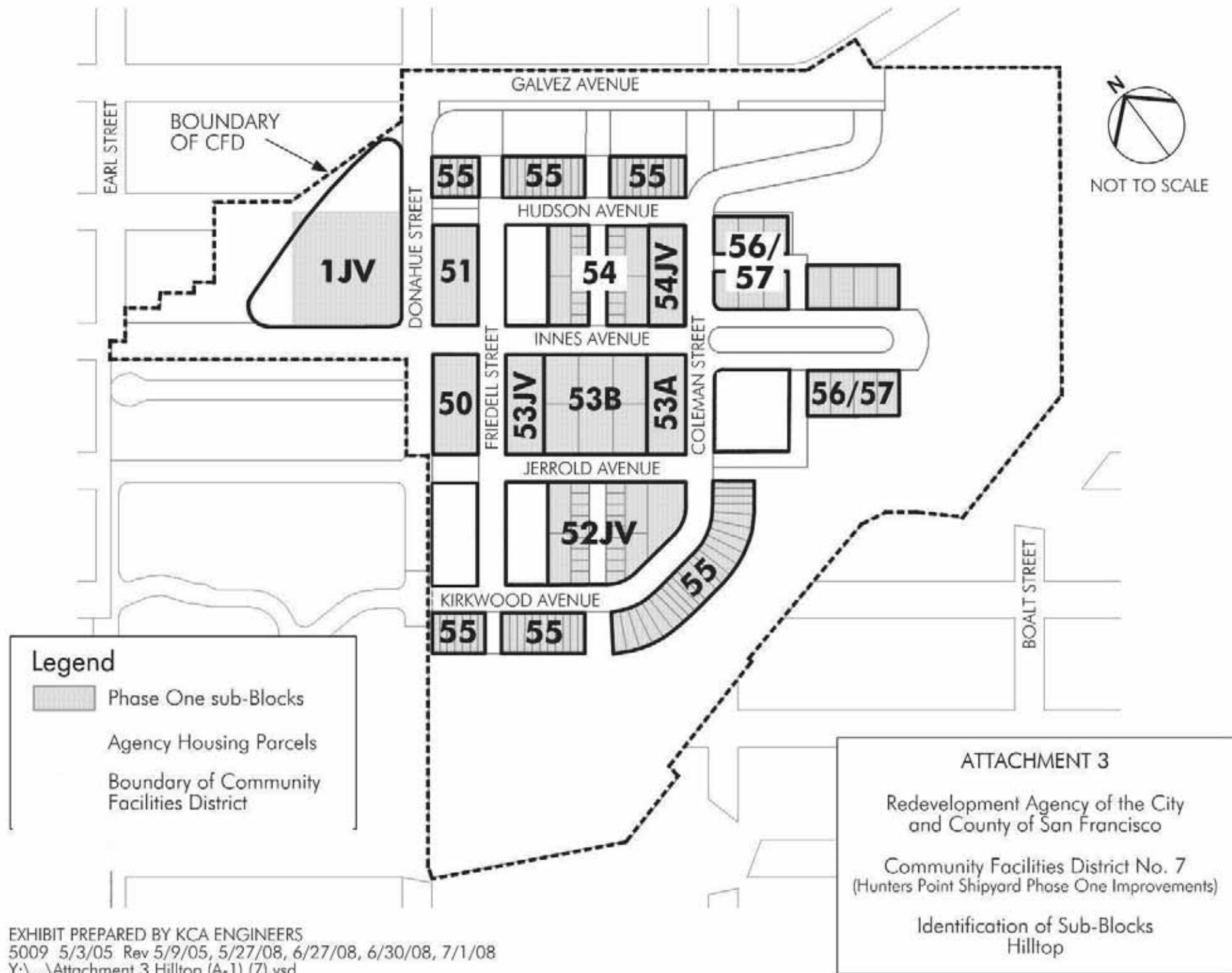
/2 Beginning July 1, 2014 and each July 1 thereafter, the Expected Maximum Special Taxes shown above shall be increased by an amount equal to 2.0% of the amount in effect for the prior Fiscal Year.






## **ATTACHMENT 3**

### **REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 7 (HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)**

#### **IDENTIFICATION OF AGENCY HOUSING PARCELS**



# Legend

-  Phase One sub-Blocks
-  Agency Housing Parcels
-  Boundary of Community Facilities District

LA SALLE AVENUE

BOUNDARY OF CFD

MC KINNON AVENUE

A (JV)

G

NAVY ROAD

B

SFRA

F (JV)

E

OAKDALE STREET

C

D

48

J (JV)

H

M

L

K (JV)

N

O (JV)

SFRA

BOUNDARY OF CFD

EARL STREET

GRIFFITH ST.

CRISP AVE. (SO-CALLED)



NOT TO SCALE

FITCH ST.

## ATTACHMENT 3

Redevelopment Agency of the City and County of San Francisco

Community Facilities District No. 7  
(Hunters Point Shipyard Phase One Improvements)

Identification of Sub-Blocks  
Hillside

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## APPENDIX C

### FORM OF BOND COUNSEL OPINION

\_\_\_\_\_, 2014

Successor Agency to the Redevelopment Agency  
of the City and County of San Francisco  
1 South Van Ness Avenue, 5th Floor  
San Francisco, California 94103

*OPINION:* \$\_\_\_\_\_ Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014

Members of the Successor Agency:

We have acted as bond counsel in connection with the issuance by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the "Successor Agency") of \$\_\_\_\_\_ Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014 (the "Bonds"), pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (section 53311 *et seq.* of the California Government Code) (the "Act"), Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Refunding Law") and a Fiscal Agent Agreement, dated as of July 1, 2014, by and between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent Agreement"). We have examined the Act, the Refunding Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Successor Agency contained in the Fiscal Agent Agreement, and in certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Successor Agency is duly created and validly existing as a public entity, with the power to enter into the Fiscal Agent Agreement, perform the agreements on its part contained therein, and issue the Bonds.

2. The Fiscal Agent Agreement has been duly approved by the Successor Agency, and constitutes a valid and binding obligation of the Successor Agency, enforceable upon the Successor Agency.

3. Pursuant to the Act, the Fiscal Agent Agreement creates a valid lien on the funds pledged by the Fiscal Agent Agreement for the security of the Bonds, subject to no prior lien granted under the Act.

4. The Bonds have been duly authorized, executed and delivered by the Successor Agency, and are valid and binding special obligations of the Successor Agency, payable solely from the sources provided therefor in the Fiscal Agent Agreement.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; although for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds, and the enforceability of the Bonds and the Fiscal Agent Agreement, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

## APPENDIX D

### FORMS OF CONTINUING DISCLOSURE CERTIFICATES

#### SUCCESSOR AGENCY CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the “Successor Agency”) with respect to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014 (the “Bonds”). The Bonds are being issued pursuant to a Fiscal Agent Agreement dated as of July 1, 2014 (the “Fiscal Agent Agreement”), by and between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). The Successor Agency hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Successor Agency for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Successor Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Successor Agency’s fiscal year (currently March 31 based on the Successor Agency’s fiscal year end of June 30).

“*Dissemination Agent*” means Digital Assurance Certification, LLC, or any successor Dissemination Agent designated in writing by the Successor Agency and which has filed with the Successor Agency a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Successor Agency in connection with the issuance of the Bonds.

“*Participating Underwriter*” means collectively, Stifel, Nicolaus & Company, Incorporated and Backstrom McCarley Berry & Co., LLC, the original Underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.



### Section 3. Provision of Annual Reports.

(a) The Successor Agency shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2014 with the report for the 2013-14 fiscal year (provided that the first Annual Report may consist of the Official Statement and the Successor Agency's audited financial statements), provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the Successor Agency shall provide the Annual Report to the Dissemination Agent (if other than the Successor Agency). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Successor Agency) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Successor Agency to determine if the Successor Agency is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Successor Agency may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Successor Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The Successor Agency shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Successor Agency hereunder.

(b) If the Successor Agency does not provide, or cause the Dissemination Agent to provide, an Annual Report by the Annual Report Date, the Successor Agency shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached hereto as Exhibit A.

(c) With respect to the Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports and disclosure reports; and

(ii) if the Dissemination Agent is other than the Successor Agency, file a report with the Successor Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The Successor Agency's Annual Report shall contain or incorporate by reference the following:

(a) The Successor Agency's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Successor Agency's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Successor Agency for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement.

The financial statements required by this subsection (a) shall be accompanied by the following statement:

THE SUCCESSOR AGENCY'S ANNUAL FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15C2-12. NO FUNDS OR ASSETS OF THE SUCCESSOR AGENCY ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS, AND THE SUCCESSOR AGENCY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE SUCCESSOR AGENCY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS.

- (b) Principal amount of Bonds outstanding.
- (c) Balance in the Reserve Fund for the Bonds.
- (d) Total assessed value of all parcels subject to the Special Taxes and the value-to-debt-burden for the District.
- (e) A completed table for the then-current fiscal year, as follows:

<u>Land Uses</u>	<u># of Parcels</u>	<u>Fiscal Year 20__-__ Maximum Special Tax</u>	<u>Fiscal Year 20__-__ Special Tax Levy</u>	<u>% of Total</u>	<u>Pro-Rata Share of Outstanding Bonds</u>	<u>Value-to- Burden Ratio</u>
Developed Property						
Residential Property						
Non-Residential Property						
Subtotal Developed Property						
Undeveloped Property						
Residential Property						
Non-Residential Property						
Subtotal Undeveloped Property						
Total						

- (f) A table setting forth the names of each property owner responsible for payment of more than 5% of the Special Tax, the Special Tax payable by such owner and the percentage such Special Taxes comprise of total Special Taxes payable in the District.
- (g) Special Tax and property tax delinquency rate for parcels in the District.
- (h) Concerning delinquent parcels:
  - number of parcels delinquent in payment of Special Tax,
  - amount of total delinquency and as a percentage of total Special Tax levy, and
  - status of the District's actions on covenants to pursue foreclosure proceedings upon delinquent properties.

(i) Identity of any delinquent taxpayer obligated for more than 10% of the annual Special Tax levy and:

- assessed value of applicable properties, and
- summary of results of foreclosure sales, if available.

(j) Significant amendments to land use entitlements for property in the District since the last Annual Report which are known to the Successor Agency's chief financial officer, including but not limited to any rezoning of the property or the adoption of any amendment or other change to the specific plan for the area that includes the District, which may materially adversely affect Special Tax Revenues.

(k) Status of any significant legislative, administrative, and judicial challenges to the construction of the development in the District since the last Annual Report which are known to the Successor Agency's chief financial officer, without independent inquiry, but only for Annual Reports for years in which construction activity has occurred in the District; such as any lawsuit challenging the land use entitlements for the District, or any voter or legislative initiative to curtail or impede development in the District.

(l) To the extent not otherwise provided pursuant to the preceding items 1-10, annual information required to be filed with respect to the District since the last Annual Report with the California Debt and Investment Advisory Commission pursuant to Sections 50075.1, 50075.3, 53359.5(b), 53410(d) or 53411 of the California Government Code.

(m) In addition to any of the information expressly required to be provided under paragraphs (a) through (l) of this Section, the Successor Agency shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Successor Agency or related public entities, which have been filed with the MSRB. If the document included by reference is a final official statement, it must be available from the MSRB. The Successor Agency shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

(a) The Successor Agency shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other

material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the Successor Agency or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the Successor Agency or an obligated person, or the sale of all or substantially all of the assets of the Successor Agency or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Successor Agency obtains knowledge of the occurrence of a Listed Event, the Successor Agency shall, or shall cause the Dissemination Agent (if not the Successor Agency) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event.

(c) Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Trust Agreement.

(d) The Successor Agency acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material," and subparagraph (a)(6) contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The Successor Agency shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the Successor Agency determines the event's occurrence is material for purposes of U.S. federal securities law.

(e) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Successor Agency in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Successor Agency, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental

authority having supervision or jurisdiction over substantially all of the assets or business of the Successor Agency.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Successor Agency's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Successor Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

Section 8. Dissemination Agent. The Successor Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Digital Assurance Certification, LLC. Any Dissemination Agent may resign by providing 30 days' written notice to the Successor Agency.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Successor Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of the Fiscal Agent or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Successor Agency to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Successor Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Successor Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Successor Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the Successor Agency fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Successor Agency to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Successor Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities and Fees of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Successor Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the Successor Agency, any land owners in the District, the Fiscal Agent, the Bond owners or any other party. The obligations of the Successor Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Successor Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer:

Successor Agency to the Redevelopment Agency of  
the City and County of San Francisco  
One South Van Ness Avenue, 5th Floor  
San Francisco, California 94103  
Attention: Executive Director

To the Fiscal Agent:	The Bank of New York Mellon Trust Company, N.A. 100 Pine Street, Suite 2100 San Francisco, California 94111
To the Dissemination Agent:	Digital Assurance Certification, LLC 390 North Orange Avenue Orlando, Florida 32801-1674
To the Participating Underwriter:	Stifel, Nicolaus & Company, Incorporated One Montgomery Street, 37th Floor San Francisco, California 94104 Attention: Municipal Research Department  Backstrom McCarley Berry & Co., LLC 115 Sansome Street, Mezzanine A San Francisco, CA 94104

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Successor Agency, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.



Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: \_\_\_\_\_, 2014

SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY AND  
COUNTY OF SAN FRANCISCO

By: \_\_\_\_\_  
Executive Director

AGREED AND ACCEPTED:

DIGITAL ASSURANCE CERTIFICATION, LLC, as Dissemination Agent

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Successor Agency to the Redevelopment Agency of City and County of San Francisco (the "Successor Agency")

Name of Bond Issue: Successor Agency to the Redevelopment Agency of City and County of San Francisco the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014

Date of Issuance: \_\_\_\_\_, 2014

NOTICE IS HEREBY GIVEN that the Successor Agency has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated \_\_\_\_\_, 2014, executed by the Successor Agency and countersigned by Digital Assurance Certification, LLC, as dissemination agent. The Successor Agency anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated:

DISSEMINATION AGENT:

DIGITAL ASSURANCE CERTIFICATION, LLC

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**DEVELOPER CONTINUING DISCLOSURE CERTIFICATE  
(HPS DEVELOPMENT CO., LP)**

This Continuing Disclosure Certificate (HPS Development Co., LP) (this “Disclosure Certificate”) is executed and delivered by the undersigned (the “Master Developer”) in connection with the issuance by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the “Successor Agency”) of the Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014 (the “Bonds”) with respect to the Redevelopment Agency of City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) (the “District”). The Bonds are being issued pursuant to a Fiscal Agent Agreement dated as of July 1, 2014 (the “Fiscal Agent Agreement”), by and between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”).

The Master Developer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Master Developer for the benefit of the Holders and Beneficial Owners of the Bonds.

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Affiliated Builder” means the purchaser of any portion of the Property owned by the Master Developer that is affiliated with the Master Developer and who does not enter into a separate continuing disclosure certificate in accordance with Section 8 herein. As of the date of this Disclosure Certificate, the Affiliated Builders are HPS1 Block 50, LLC; HPS1 Block 51, LLC; HPS1 Block 53, LLC; and HPS1 Block 54, LLC.

“Beneficial Owner” means any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” means Digital Assurance Certification, LLC, or any successor Dissemination Agent designated in writing by the Master Developer, and which has filed with the Master Developer, the Successor Agency and the Fiscal Agent a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Certificate.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Holders” means either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system that has an ownership interest in the Bonds.

“Listed Events” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“Participating Underwriter” means Stifel, Nicolaus & Company, Incorporated and Backstrom McCarley Berry & Co., LLC, the original Underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Property” means the property within the District that is then owned by the Master Developer or any Affiliated Builders.

“Repository” means the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Semi-Annual Report” means any Semi-Annual Report provided by the Master Developer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“State” means the State of California.

### SECTION 3. Provision of Semi-Annual Reports.

(a) The Master Developer shall, not later than March 31 and September 30 of each year, commencing March 31, 2015, provide to the Repository a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If, in any year, March 31 or September 30 falls on a Saturday, Sunday or a holiday on which the Fiscal Agent’s offices are closed for business, such deadline shall be extended to the next following day on which the Fiscal Agent’s offices are open for business. The Semi-Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information.

(b) If the Master Developer is unable to provide a Semi-Annual Report to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Semi-Annual Report the name and address of the Repository;

(ii) by the date required therefor by Section 3(a), file, or confirm the filing of, the Semi-Annual Report with each Repository and deliver, or confirm delivery of, a copy to the Successor Agency;

(iii) as soon as practicable following receipt from the Master Developer of a request, file, or confirm the filing of, any notice of a Listed Event and deliver, or confirm the delivery of, a copy to the Successor Agency; and

(iv) if the Dissemination Agent files the Semi-Annual Report, it shall file a report with the Master Developer certifying that the Semi-Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and the Repository to which it was provided.

SECTION 4. Content of Semi-Annual Reports. The Master Developer's Semi-Annual Report shall contain or incorporate by reference the following information with respect to the Property only, in each case, absent extraordinary circumstances, as of the date that is no greater than thirty days prior to the date of the Semi-Annual Report:

(a) Any significant changes (as enumerated in Section 5 or which could materially affect the security for the Bonds) in the information contained in the Official Statement dated \_\_\_\_\_, 2014 relating to the Bonds (the "Official Statement") under the caption "THE DISTRICT-The Master Developer;"

(b) Any change in the legal structure of the Master Developer or in the composition of the Master Developer;

(c) Any denial of credit, lines of credit, loans or loss of source of capital that could have a significant impact on the ability of the Master Developer or Affiliated Builders to make Special Tax payments on the Property or to comply with its obligation under any development agreement entered into with the Successor Agency;

(d) A description of the status of development on each parcel of Property still subject to the Special Tax owned by the Master Developer and Affiliated Builders within the District, including: the status of construction and the number of homes completed (i.e., for which certificates of occupancy have been issued) and the number of homes sold;

(e) Any significant changes in the information set forth in the Official Statement regarding the Property, the Master Developer, and the Affiliated Builders under the caption "THE DISTRICT" with the following exceptions:

(i) no report need be provided as to changes in the information set forth under the captions (and any subcaptions thereunder): "-Property Valuation;" "-Environmental Matters and Hazardous Substances;" "-Utilities;" "-Overlapping Taxes, Charges and Assessments;" "-Community Facilities District No. 8;" and "-Special Tax Administration."

(ii) the Master Developer's obligation to provide information on Tables 11 and 12 shall be limited to significant changes to the total estimated costs and the total estimated cost to complete.

(iii) the Master Developer's obligation to provide information on Table 14 shall terminate when substantially all of the infrastructure for the District has been completed.

(f) The assumption of disclosure obligations with respect to property transferred to an Affiliated Builder, as described in Section 8(b) herein.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, until termination of this Disclosure Certificate, the Master Developer shall give, or cause to be given, within fifteen (15) days of the occurrence, of any of the following events:

(i) Transfer of Property within the District to another developer or builder that is not an Affiliated Builder if the portion of the Property acquired by such developer or builder is responsible for 20% or more of the special taxes levied in the fiscal year in which the portion of the Property is acquired;

(ii) Any failure of the Master Developer and any Affiliated Builders to make general property tax, special assessments or Special Tax payments when due with respect to the Property;

(iii) Initiation of bankruptcy proceedings (whether voluntary or involuntary) by the Master Developer or any general partner of the Master Developer, or any Affiliated Builders; and

(iv) Any significant changes to any government imposed preconditions, or any significant legislative, administrative and/or judicial challenges to the commencement or continuation of development of the Property known to the Master Developer without any independent inquiry.

(v) The termination of the Master Developer's obligations under this Disclosure Certificate.

[SECTION 6. Reserved.]

SECTION 7. Termination of Reporting Obligation. The Master Developer's obligations under this Disclosure Certificate to prepare and file a Semi-Annual Report or notices of Listed Events with respect to the Property shall terminate upon the earliest to occur of the following: (a) the legal defeasance, prior redemption or payment in full of all of the Bonds; (b) the Master Developer and all Affiliated Builders shall own Property responsible for less than twenty percent (20%) of the Special Tax in the District, in any Fiscal Year; or (c) all of the Master Developer's and Affiliated Builders' Property is no longer subject to the Special Tax. If such termination occurs prior to the final maturity of the Bonds, the Master Developer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. Subsequent Developers.

(a) The Master Developer agrees to require, as a condition of sale of any portion of the Property within the District which the Master Developer sells while any Bonds remain outstanding, that any purchaser who, as result of such sale, would own property responsible for 20% or more of the special taxes levied in the fiscal year in which the portion of the Property is acquired (the "Purchaser") execute a certificate substantially similar to this Disclosure Certificate, but applying only to the property acquired by the Purchaser within the District. Upon execution of the separate certificate, the Master Developer's obligations under this Disclosure Certificate with respect to the property acquired by the Purchaser shall terminate.

(b) Notwithstanding Section 8(a) above, if the Master Developer sells any portion of the Property within the District to an Affiliated Builder who does not enter into a separate disclosure certificate, then the Master Developer shall continue to provide information pursuant to this Disclosure Certificate with respect to the property acquired by the Affiliated Builder. If the Master Developer is to report on the property owned by an Affiliated Builder, the Master Developer shall disclose this arrangement in the next Semi-Annual Report (it shall not be considered a significant event under Section 5). The Affiliated Builder may, at any time, execute a separate disclosure certificate substantially similar to this Disclosure Certificate pertaining to the property acquired by the Affiliated Builder, in which case the Master Developer's obligations under this Disclosure Certificate with respect to the property acquired by the Affiliated Builder shall terminate.

SECTION 9. Dissemination Agent. The Master Developer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Digital Assurance Certification, LLC. The Dissemination

Agent shall not be responsible in any manner for the content of any notice or report prepared by the Master Developer pursuant to this Disclosure Certificate.

SECTION 10. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Master Developer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Master Developer shall describe such amendment in the next Semi-Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of information being presented by the Master Developer.

SECTION 11. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Master Developer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Semi-Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Master Developer chooses to include any information in any Semi-Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Master Developer shall have no obligation under this Certificate to update such information or include it in any future Semi-Annual Report or notice of occurrence of a Listed Event.

SECTION 12. Default. In the event of a failure of the Master Developer to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Master Developer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Master Developer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 13. Duties, Immunities and Liabilities and Fees of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and if the Master Developer is not the Dissemination Agent, the Master Developer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys'



fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or wilful misconduct. The obligations of the Master Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Successor Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Master Developer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2014

HPS DEVELOPMENT CO., LP,  
a Delaware limited partnership

By: CP/HPS Development Co. GP, LLC,  
a Delaware limited liability company,  
its General Partner

By: \_\_\_\_\_  
Kofi Bonner  
President

AGREED AND ACCEPTED:

DIGITAL ASSURANCE CERTIFICATION, LLC, as Dissemination Agent

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**  
**NOTICE OF FAILURE TO FILE SEMI-ANNUAL REPORT**

Name of Issuer: Successor Agency to the Redevelopment Agency of City and County of San Francisco (the "Successor Agency")

Name of Bond Issue: Successor Agency to the Redevelopment Agency of City and County of San Francisco the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014

Date of Issuance: \_\_\_\_\_, 2014

NOTICE IS HEREBY GIVEN that HPS Development Co., LP (the "Master Developer") has not provided a Semi-Annual Report with respect to the above-named Bonds as required by that certain Continuing Disclosure Certificate (HPS Development Co., LP) dated \_\_\_\_\_, 2014. The Master Developer anticipates that the Semi-Annual Report will be filed by \_\_\_\_\_.

Dated:

DIGITAL ASSURANCE CERTIFICATION, LLC, as  
Dissemination Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

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## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC

system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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**APPENDIX F**  
**THE APPRAISAL REPORT**

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# Appraisal Report

## Hunters Point Shipyard (Phase I) Hilltop & Hillside Subdivisions

Southeastern terminus of Innes Avenue, south of  
Galvez Avenue and north of Spear Avenue  
San Francisco, California 94124



**Date of Report:** June 13, 2014

### Prepared For:

Mr. Thor Kaslofsky  
Project Manager, Hunters Point Shipyard  
Successor Agency to the Redevelopment Agency  
of the City and County of San Francisco  
One South Van Ness, 5<sup>th</sup> Floor  
San Francisco, California 94103

### Prepared By:

Eric A. Segal, Appraiser



Seevers  
Jordan  
Ziegenmeyer

Real Estate Appraisal & Consultation

June 13, 2014

Mr. Thor Kaslofsky  
Project Manager, Hunters Point Shipyard  
Successor Agency to the Redevelopment Agency  
of the City and County of San Francisco  
One South Van Ness, 5<sup>th</sup> Floor  
San Francisco, California 94103

RE: Hunters Point Shipyard (Phase I)  
Hilltop & Hillside Subdivisions  
San Francisco, California 94124

Dear Mr. Kaslofsky:

At your request and authorization, Seevers • Jordan • Ziegenmeyer has analyzed market data and prepared an appraisal report for the purpose of estimating the market values (*fee simple estate*) of the subject property, which comprises the Hilltop and Hillside portions (Phase I) of the Hunters Point Shipyard redevelopment, under the conditions and assumptions set forth in the attached report (*please refer to the Hilltop and Hillside site plans on page 23 for visual reference*).

The appraisal report has been conducted in accordance with appraisal standards and guidelines found in the Uniform Standards of Professional Appraisal Practice (USPAP) and the Appraisal Standards for Land Secured Financing published by the California Debt and Investment Advisory Commission (2004). This document is an Appraisal Report, which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the 2014-2015 edition of USPAP.

The appraised property comprises the taxable portion of Phase I of the Hunters Point Shipyard redevelopment area, which is commonly referred to as the Hilltop and Hillside subdivisions. The Hilltop subdivision is located at the southeastern terminus of Innes Avenue, south of Galvez Avenue and north of Spear Avenue, within the city and county of San Francisco, California. The Hillside subdivision is located west of the Hilltop subdivision, north of Crisp Road and south of Kirkwood Avenue. Phase I of the Hunters Point Shipyard redevelopment area totals approximately 75.55 gross acres of land. The subject property comprises the taxable portion of the Hilltop subdivision, being developed by Lennar Corporation which contains 12.58± acres of land to be developed with 705 residential units, and the Hillside development contains 6.64± acres to be developed with 374 single-family residential units. The subject property excludes Block 49 (0.52 acre) and 4.21 acres to be developed by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco for low income housing. In total, the subject property is proposed for the construction of 1,079 residential units in a variety of attached single-family products. In addition, Phase I will include 36.0± acres dedicated to parks and open space and 15.6± acres of streets and rights-of-way.

As a result of the analysis herein, it is our opinion the market values of the appraised property, subject to the Lien of (i) Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) and (ii) Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 8 (Hunters Point Shipyard Phase One Maintenance) issued by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (the "Successor Agency") or the former Redevelopment Agency of the City and County of San Francisco with respect to CFD No. 7 (Hunters Point Shipyard), in accordance with the definitions, certifications, general and extraordinary assumptions, limiting conditions and hypothetical conditions set forth in the attached document (please refer to pages 7 through 9), as of May 30, 2014, are...

**Market Value of Hunters Point Shipyard Redevelopment:**

**Phase 1 – Hilltop Subdivision**

<b>Under Development Portion – Blocks 50, 51, 53 and 54</b>	<b>\$46,320,000</b>
-------------------------------------------------------------	---------------------

<b>Undeveloped Portion</b>	<b>\$47,480,000</b>
----------------------------	---------------------

<b>Phase 1 – Hillside Subdivision</b>	<b><u>\$33,850,000</u></b>
---------------------------------------	----------------------------

<b>Total Market Value of Hunters Point Shipyard Redevelopment Phase 1</b>	<b>\$127,650,000</b>
---------------------------------------------------------------------------	----------------------

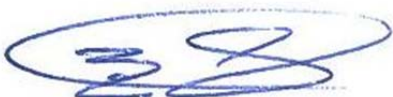
The value estimates assume a transfer that reflects a cash transaction or terms considered to be equivalent to cash. The estimates are also premised on an assumed sale after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, for their own self-interest and assuming neither is under duress.

This letter must remain attached to the report, which contains 95 pages plus related tables, exhibits and Addenda, in order for the value opinions set forth herein to be considered valid.

We hereby certify the subject property has been inspected and we have impartially considered all data collected in the investigation. Further, we have no past, present or anticipated future interest in the property. The subject property does not have any significant natural, cultural, recreational or scientific value. The appraiser certifies this appraisal assignment was not based on a requested minimum valuation, a specific valuation or the approval of a loan.

Thank you for the opportunity to work with your office on this assignment.

Sincerely,



Eric A. Segal, Appraiser  
State Certification No.: AG026558  
Expires: February 18, 2015  
/mlm

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## **SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

<b>Property Name:</b>	The appraised property comprises Phase I of the Hunters Point Shipyard redevelopment area, which is commonly referred to as the Hilltop and Hillside subdivisions.
<b>Property Location:</b>	The subject property is located at the southeastern terminus of Innes Avenue, south of Galvez Avenue and north of Spear Avenue, within the city and county of San Francisco, California. The Hillside subdivision is located west of the Hilltop subdivision, north of Crisp Road and south of Kirkwood Avenue.
<b>Assessor's Parcel Numbers (Taxable):</b>	The appraised property is identified by the following Assessor's parcel numbers:
<i><b>Hilltop Subdivision</b></i>	
Block 1JV	4591C-222
Block 50	4591C-093
Block 51	4591C-042
Block 52JV	4591C-106 and -107, -216, -226 and -228
Block 53A, 53B and 53JV	4591C-094, -098, -213 and -214
Block 54 & 54JV	4591C-045, -046, -068 thru -070, -223 and -225
Block 55E	4591C-011 thru -020; -022 thru -032, -034 thru -039
Block 55W	4591C-132 thru -142; -144 thru -164, -166 thru -172
Block 56	4591C-218
Block 57	4591C-219 thru -221
<i><b>Hillside Subdivision</b></i>	4591D-001 through -007; -009 through -048; -050 through -055; -057 through -062; -064 through -093 and -097 through -131
<b>Owner of Record:</b>	The following ownerships are all related entities of Lennar Corporation
<i><b>Hilltop Subdivision</b></i>	
Block 1JV	HPS Development Co., LP, a Delaware (DE) limited partnership
Block 50	HPS1 Block 50, LLC, a DE limited liability company
Block 51	HPS1 Block 51, LLC, a DE limited liability company
Block 52JV	HPS Development Co., LP, a DE limited partnership
Block 53A, 53B and 53JV	HPS1 Block 53, LLC, a DE limited liability company
Block 54 & 54JV	HPS1 Block 54, LLC, a DE limited liability company
Block 55E	HPS Development Co., LP, a DE limited partnership
Block 55W	HPS Development Co., LP, a DE limited partnership
Block 56	HPS Development Co., LP, a DE limited partnership
Block 57	HPS Development Co., LP, a DE limited partnership
<i><b>Hillside Subdivision</b></i>	HPS Development Co., LP, a DE limited partnership



**Property Type/Current Use:**

In total, Phase I of the Hunters Point Shipyard redevelopment comprises approximately 75.55 gross acres of land, which includes 23.95± developable acres (including the 0.52-acre Block 49 and 4.21 acres to be developed by the Successor Agency to the San Francisco Redevelopment Agency as low income housing and are excluded from the valuation) proposed for the construction of 1,079 residential units in a variety of attached single-family products, townhouse and stacked residential units. The subject property comprises the taxable portion of the Hilltop subdivision, which contains 12.58± acres of land to be developed with 705 residential units, and the Hillside development contains 6.64± acres to be developed with 374 single-family residential units. The non-taxable portions of Phase I of the Hunters Point Shipyard redevelopment include parcels owned by the SFRA and Block 49, which are to be developed as low income housing, as well as streets, alleyways and open space.

**Zoning/Land Use:**

In conjunction with the Disposition and Development Agreement, the subject property is zoned RM-1, residential-mixed, low density, and HP-RA, Hunters Point Redevelopment Plan

**Flood Zone:**

No areas within the City and County of San Francisco, which includes the subject property, are located within a flood hazard zone as designated by the Federal Emergency Management Agency (FEMA). According to a San Francisco Planning Department Planning Bulletin, dated April 1, 2007, "Development in the City and County of San Francisco must account for flooding potential. Areas located on fill or bay mud can subside to a point at which the sewers do not drain freely during a storm (and sometimes dry weather) and there can be backups or flooding near these street and sewers." "Applicants for building permits for either new construction, change of use (Planning) or change of occupancy (Building Inspection), or for major alterations or enlargements shall be referred to the San Francisco Public Utilities Commission (SFPUC) at the beginning of the process, for a review to determine whether the project would result in ground level flooding during storms."

**Earthquake Zone:**

According to the Seismic Safety Commission, the subject is located within Zone 4, which is assigned to areas near major faults. The location within this zone does not prevent development. There are only two zones

in California. Zone 4 is assigned to areas of major faults. Zone 3 is assigned to areas with more moderate seismic activity. In addition, the subject is located within a Fault-Rupture Hazard Zone (formerly referred to as an Alquist-Priolo Special Study Zone), as defined by Special Publication 42 (revised January 1994) of the California Department of Conservation, Division of Mines and Geology.

**Land Area by Land Use:**

Developable – Hilltop Residential	<b>12.58± acres</b>
<i>Developable – SFRA Component*</i>	<i>3.05± acres</i>
<i>Developable – Block 49*</i>	<i>0.52± acres</i>
Developable – Hillside Residential	<b>6.64± acres</b>
<i>Developable – SFRA Component*</i>	<i>1.16± acres</i>
Total Developable	23.95± acres
<b><i>Total Net Developable (Taxable)</i></b>	<b><i>19.22± acres**</i></b>
Open Space/Parks	36.00± acres
Streets/Right-of-Way	<u>15.60± acres</u>
<i>Total Public Space</i>	<u><i>51.60± acres</i></u>
Total Gross Land Area	75.55± acres

\* SFRA parcels and Block 49 are not appraised in this report

\*\* Excludes SFRA parcels and Block 49 (4.73 ac), which are not appraised in this report

**Highest and Best Use:**

Residential development in accordance with the approved entitlements

**Date of Inspection:**

May 30, 2014

**Effective Date of Value:**

May 30, 2014

**Date of Report:**

June 13, 2014

**Property Rights Appraised:**

Fee simple estate

**Conclusions of Market Value, Subject to the Hunters Point Shipyard Phase One CFDs:**

The conclusions of value are subject to the General and Extraordinary Assumptions, and Hypothetical and Limiting Conditions set forth on pages 7 through 9 of this report.

<b><i>Market Value of Hilltop Subdivision</i></b> <b><i>(Blocks 50, 51, 53 &amp; 54):</i></b>	<b>\$ 46,320,000</b>
<b><i>Market Value of Hilltop Subdivision</i></b> <b><i>(Blocks 1JV, 52JV, 55, 56 &amp; 57):</i></b>	<b>\$ 47,480,000</b>
<b><i>Market Value of Hillside Subdivision:</i></b>	<b><u>\$ 33,850,000</u></b>

**Total Market Value: \$127,650,000**

## **CLIENT, INTENDED USER AND INTENDED USE**

The client and intended user of this appraisal report is the Successor Agency to the Redevelopment Agency of the City and County of San Francisco and the associated Finance Team. The appraisal report is intended for use as an aid in bond underwriting. Seevers • Jordan • Ziegenmeyer authorizes the reproduction of this appraisal report for inclusion in the Preliminary Official Statement (POS) and Official Statement (OS) for the express purpose of marketing the Bonds.

## **APPRAISAL REPORT FORMAT**

This document is an Appraisal Report, intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the 2014-15 edition of the Uniform Standards of Professional Appraisal Practice (USPAP). This appraisal report is also prepared in accordance with the Appraisal Standards for Land Secured Financing published by the California Debt and Investment Advisory Commission (2004).

## **TYPE AND DEFINITION OF VALUE**

The purpose of this appraisal is to estimate the market value of the subject property, subject to the Lien of the Special Tax securing the Bonds. Market value is defined as follows:

*Market value:* The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) Buyer and seller are typically motivated;
- (2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
- (3) A reasonable time is allowed for exposure in the open market;
- (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.<sup>1</sup>

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<sup>1</sup> Code of Federal Regulations, Title 12, Section 34.42 (55 Federal Register 34696, Aug. 24, 1990; as amended at 57 Federal Register 12202, Apr. 9, 1992; 59 Federal Register 29499, June 7, 1994).

## **PROPERTY RIGHTS APPRAISED**

The market values estimated herein are for the fee simple estate, defined as follows:

*Fee Simple Estate:* absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.<sup>2</sup>

The rights appraised are also subject to the *Extraordinary Assumptions, Hypothetical and Limiting Conditions*, and *General Assumptions* contained in this report, as well as any exceptions, encroachments, easements and rights-of-way recorded.

## **DATES OF INSPECTION, VALUE AND REPORT**

An inspection of the subject property was completed on May 30, 2014, which represents the effective date of market value reported. This appraisal report was completed and assembled on June 13, 2014.

## **SCOPE OF WORK**

This appraisal report has been prepared in accordance with 2014/2015 edition of the Uniform Standards of Professional Appraisal Practice (USPAP). This analysis is intended to be an “appraisal assignment,” as defined by USPAP; the intention is the appraisal service be performed in such a manner that the result of the analysis, opinions, or conclusion be that of a disinterested third party.

Several legal and physical aspects of the subject property were researched and documented. A physical inspection of the property was completed and serves as the basis for the site description contained in this report. Interviews were conducted with Mr. Gregory Glenn, Vice President of Finance, Lennar, Bay Area Urban Division, regarding project information, infrastructure costs and fees, vertical construction costs, forecasted absorption schedules and the project history. The sales history was verified by consulting public records. We were also provided several documents for use in this appraisal, including final subdivision maps, architectural renderings and documents describing the special tax lien of the Bonds, which encumber the subject property, and. Zoning and entitlement information was collected from the City and County of San Francisco Office of the Assessor-Recorder, and other on-line resources. The subject’s earthquake zones, flood zones and utilities were also obtained from on-line resources.

Data relating to the subject’s neighborhood and surrounding market area were analyzed and documented. This information was obtained through personal inspections of portions of the neighborhood and market area; newspaper articles; real estate conferences; and interviews with various market participants, including property owners, brokers, developers and local government agencies.

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<sup>2</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> ed. (Chicago: Appraisal Institute, 2010), 78.

In this appraisal, the highest and best use of the subject property as though vacant and improved (proposed) was determined based on the four standard tests (legal permissibility, physical possibility, financial feasibility and maximum productivity).

The market value of the subject property, subject to the Lien of the Special Tax securing the Bonds, for each subdivision, was estimated by employing the use of a discounted cash flow analysis (DCF) via the land residual analysis. Under the land residual analysis, the expected revenue, absorption period, expenses and discount rate associated with the development and sell-off of the residential units to individual homebuyers are utilized. A DCF analysis is a procedure in which a yield (discount) rate is applied to a projected revenue stream generated from the sale of individual components of a project. In this method of valuation, the appraiser specifies the quantity, variability, timing and duration of the revenue streams and discounts each to its present value at a specified yield rate. With the land residual analysis, the revenue component of the DCF was based on the probable sales price for the average, proposed residential units within both the Hilltop and Hillside subdivisions, by Block. In this valuation approach, a number of assumptions were made in the discounted cash flow analysis, not the least of which is the forecast of absorption, or disposition, of the individual residential units comprising the subject property. In light of the fact four of the Blocks (Blocks 50, 51, 53 and 54) comprising 247 units are currently under construction, with vertical improvements well underway on Blocks 50 and 51, the contributory value of the partial improvements for these Blocks was considered, and the market value of these Blocks was analyzed separately. As a supporting indicator of the estimated value derived via the land residual analysis, the sales comparison approach to value was employed analyzing recent land sales from the southeast San Francisco market areas.

This appraisal report has been conducted in accordance with appraisal standards and guidelines found in the Uniform Standards of Professional Appraisal Practice (USPAP) and the Appraisal Standards for Land Secured Financing, published by the California Debt and Investment Advisory Commission (2004).

I, Eric A. Segal, Appraiser, inspected the subject property; collected and confirmed data related to the subject property, comparables and the neighborhood/market area; analyzed market data; and prepared an appraisal report with estimates of value described above.

## **EXTRAORDINARY ASSUMPTIONS & HYPOTHETICAL CONDITIONS**

It is noted the use of an extraordinary assumption or hypothetical condition can impact the results of an appraisal.

### **Extraordinary Assumptions**

1. In light of the former activities at the Hunters Point Shipyard, which generated a variety of hazardous materials, in 1989 the U.S. Environmental Protection Agency placed the Shipyard on the National Priorities List as a Superfund site, with the U.S. Navy remaining obligated for the cost to remediate the property. In April 2004 the U.S. Navy and the Redevelopment Agency of the City and County of San Francisco entered into a Conveyance Agreement to set forth the process of conveying Hunters Point Shipyard parcels to the Redevelopment Agency, which requires certification by the federal and state regulators that any such parcels be remediated of hazardous contaminants to a level suitable for their intended uses. The remediation of parcels within the Shipyard may be completed on a parcel-by-parcel basis, with facilitation of the remediation process done by subdividing the site into six parcels, identified as Parcels A, B, C, D, E and F, with Parcel A (comprising the Hunters Point Shipyard Phase I [subject property]), being removed from the National Priorities Superfund list in 1999. It is assumed there are no adverse soil conditions, toxic substances or other environmental hazards that may interfere or inhibit development of the subject property. If, at some future date, environmental issues are discovered that are determined to have a detrimental impact on value, the appraiser reserves the right to amend the opinion of value stated herein.
2. Copies of the Final Maps for Hunters Point Shipyard and a table depicting the individual lot sizes for each corresponding Assessor's parcel were provided to us for use in the appraisal and were prepared by KCA Engineers, dated March 31, 2009, a copy of which is appended hereto. We have relied upon these maps/site plans and parcel sizes to determine the land values for each land use component of the subject. It is assumed these plans are true and accurate.
3. While the City and County of San Francisco Assessor's Office doesn't currently reflect the changes to the Assessor's parcel map, since new Assessor's parcel numbers have been assigned to each developable lot comprising the subject property, it is assumed the developable lots (Blocks) referenced herein for the Hilltop and Hillside subdivisions are legally transferrable.

### **Hypothetical Conditions**

None

## **GENERAL ASSUMPTIONS AND LIMITING CONDITIONS**

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. No responsibility is assumed for matters of law or legal interpretation.
3. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
4. The information and data furnished by others in preparation of this report is believed to be reliable, but no warranty is given for its accuracy.
5. It is assumed there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
6. It is assumed the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
7. It is assumed the property conforms to all applicable zoning and use regulations and restrictions unless nonconformity has been identified, described and considered in the appraisal report.
8. It is assumed all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
9. It is assumed the use of the land and improvements is confined within the boundaries or property lines of the property described and there is no encroachment or trespass unless noted in the report.
10. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user of this report is urged to retain an expert in this field, if desired.
11. The Americans with Disabilities Act (ADA) became effective January 26, 1992. I (we) have not made a specific survey or analysis of this property to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines. Since compliance matches each owner's financial ability with the cost-to cure the property's potential physical characteristics, the real estate appraiser cannot comment on compliance with ADA. A brief summary of the subject's physical aspects is included in this report. It in no way suggests ADA compliance by



the current owner. Given that compliance can change with each owner's financial ability to cure non-accessibility, the value of the subject does not consider possible non-compliance. Specific study of both the owner's financial ability and the cost-to-cure any deficiencies would be needed for the Department of Justice to determine compliance.

12. The appraisal is to be considered in its entirety and use of only a portion thereof will render the appraisal invalid.
13. Possession of this report or a copy thereof does not carry with it the right of publication nor may it be used for any purpose by anyone other than the client without the previous written consent of Seevers • Jordan • Ziegenmeyer.
14. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or any other media without the prior written consent and approval of Seevers • Jordan • Ziegenmeyer. Seevers • Jordan • Ziegenmeyer authorizes the reproduction of this appraisal report for inclusion in the Preliminary Official Statement (POS) and Official Statement (OS) for the express purpose of marketing the Bonds
15. The liability of Seevers • Jordan • Ziegenmeyer and its employees/subcontractors for errors/omissions, if any, in this work is limited to the amount of its compensation for the work performed in this assignment.
16. Acceptance and/or use of the appraisal report constitutes acceptance of all assumptions and limiting conditions stated in this report.
17. An inspection of the subject property revealed no apparent adverse easements, encroachments or other conditions, which currently impact the subject. However, the exact locations of typical roadway and utility easements, or any additional easements, which would be referenced in a preliminary title report, were not provided to the appraiser. The appraiser is not a surveyor nor qualified to determine the exact location of easements. It is assumed typical easements do not have an impact on the opinion (s) of value as provided in this report. If, at some future date, these easements are determined to have a detrimental impact on value, the appraiser reserves the right to amend the opinion (s) of value.
18. This appraisal report is prepared for the exclusive use of the appraiser's client. No third parties are authorized to rely upon this report without the express consent of the appraiser.
19. The appraiser is not qualified to determine the existence of mold, the cause of mold, the type of mold or whether mold might pose any risk to the property or its inhabitants. Additional inspection by a qualified professional is recommended.

## **CERTIFICATION STATEMENT**

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed appraisal services regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment, including for purposes of lender financing, establishment of strike prices for specific Blocks within the HPS development for the master developer and the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, as well as consulting services.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- I have made an inspection of the property that is the subject of this report.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I certify that my State of California real estate appraiser license has never been revoked, suspended, cancelled, or restricted.
- I have the knowledge and experience to complete this appraisal assignment. Please see the Qualifications of Appraiser(s) portion of the Addenda to this report for additional information.
- As of the date of this report, I have completed the Standards and Ethics Education Requirement for Practicing Affiliates of the Appraisal Institute.



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Eric A. Segal, Appraiser  
State Certification No.: AG026558 (February 18, 2015)

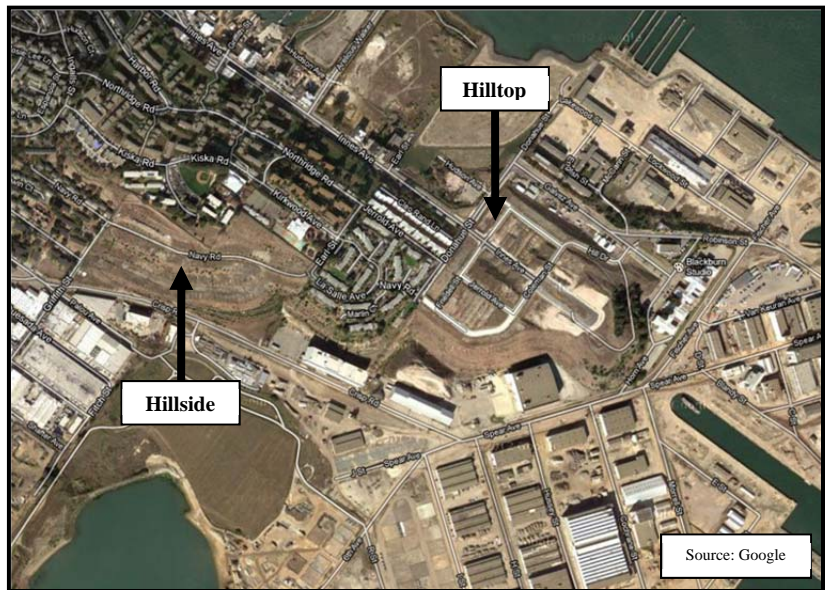
June 13, 2014

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DATE

## **PROPERTY DESCRIPTION AND HISTORY**

The property comprises Phase I of the Hunters Point Shipyard redevelopment area, which is commonly referred to as the Hilltop and Hillside subdivisions. The Hilltop subdivision is located at the southeastern terminus of Innes Avenue, south of Galvez Avenue and north of Spear Avenue. The Hillside subdivision is located west of the Hilltop subdivision, north of Crisp Road and south of Kirkwood Avenue,



within the city and county of San Francisco, California. Phase I of the Hunters Point Shipyard redevelopment area totals approximately 75.55 gross acres of land. The subject property comprises the taxable portion of the Hilltop subdivision, which contains 12.58± acres of land to be developed with 705 residential units, and the Hillside development contains 6.64± acres to be developed with 374 single-family residential units. The subject property excludes the 0.52-acre Block 49 and 4.21 acres to be developed by the Successor Agency to the San Francisco Redevelopment Agency (SFRA) as low income housing. In total, the subject property is proposed for the construction of 1,079 residential units in a variety of attached single-family products. In addition, Phase I will include 36.0± acres dedicated to parks and open space and 15.6± acres of streets and rights-of-way. Of the 1,079 residential units comprising the District, Block 1JV of the Hilltop subdivision contains 3.21± acres designated for residential development and will also include 9,000 square feet of ground floor retail space; however, as discussed in the *Highest and Best Use* section, it is anticipated there will be insufficient demand for retail space until there is an ample supply of residential development completed within the Hunters Point Shipyard redevelopment area. Consequently, the commercial component of the subject site offers nominal, if any, enhancement to the underlying land value.

The tables on the following page show the developable land areas and proposed unit counts for each Block comprising the Hilltop and Hillside subdivisions.

Hilltop	Parcel Size (acres)	Total Unit Count	Density (units/acre)	BMR Units	Average Unit Size (sf)
Block 1JV*	3.21	224	69.78	25	857
Block 50	0.51	25	49.02	3	1,147
Block 51	0.51	63	123.53	6	834
Block 52JV	1.12	70	62.50	7	945
Block 53A	0.41	12	29.27	1	1,193
Block 53B	1.13	69	61.06	7	901
Block 53JV	0.41	12	29.27	1	1,160
Block 54	0.90	54	60.00	6	1,007
Block 54JV	0.41	12	29.27	1	1,193
Block 55	2.43	66	27.16	7	1,714
Block 56&57	<u>1.54</u>	<u>98</u>	<u>63.64</u>	<u>10</u>	<u>1,068</u>
<b>Total</b>	12.58	705	56.04	74	1,016

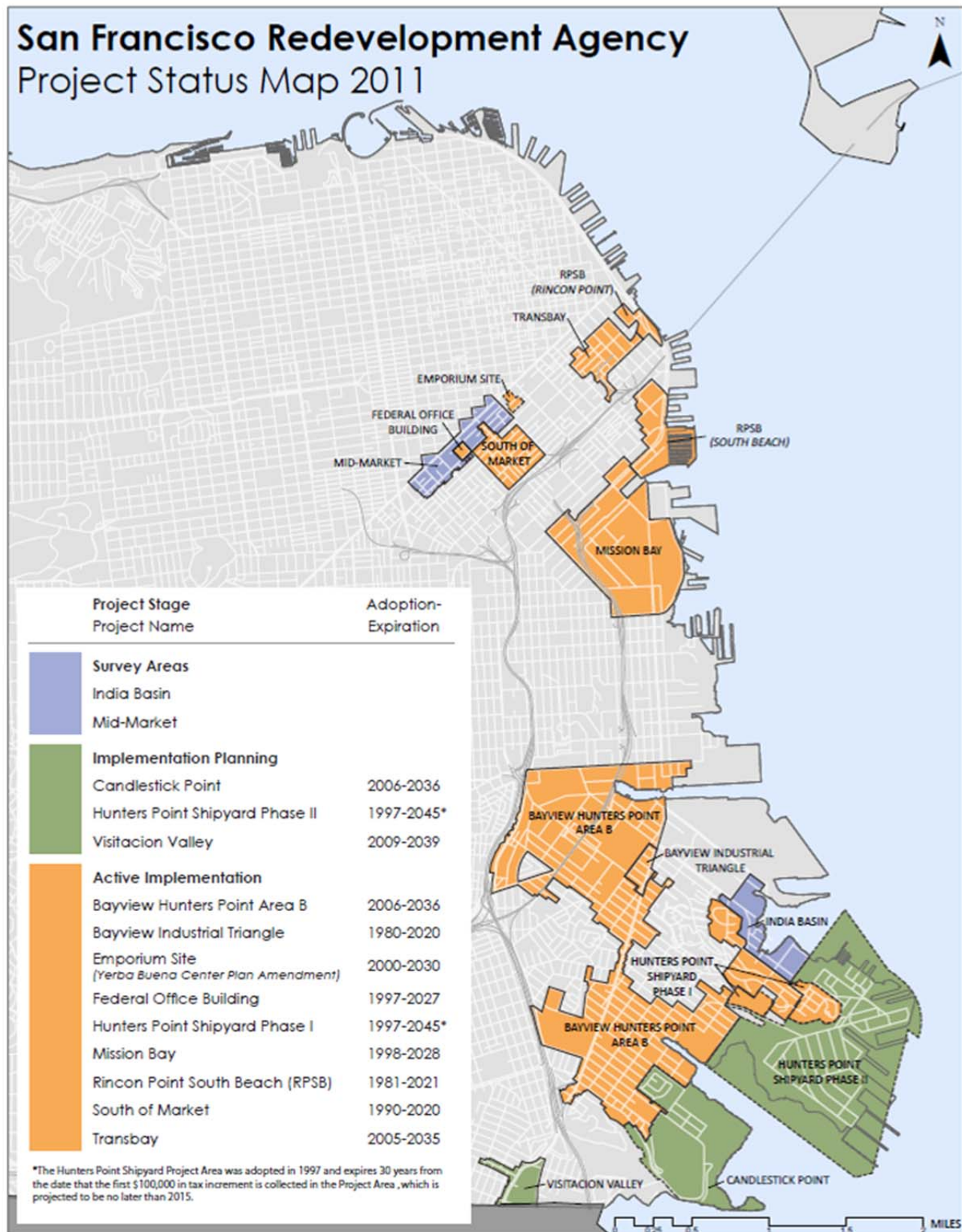
\* Block 1JV may be developed as a for-rent project with higher unit count; also includes 9,000 sf of ground floor retail

Hillside	Parcel Size (acres)	Total Unit Count	Density (units/acre)	BMR Units	Average Unit Size (sf)
Block 48A JV	0.299	15	50.17	2	1,255
Block 48B	0.516	36	69.77	4	1,058
Block 48C	0.576	22	38.19	2	1,145
Block 48D	0.274	14	51.09	1	1,046
Block 48E	0.342	18	52.63	2	1,255
Block 48F JV	0.335	24	71.64	2	1,058
Block 48G	0.819	45	54.94	5	1,235
Block 48H	0.274	14	51.09	1	1,046
Block 48I	0.335	18	53.73	2	1,255
Block 48J JV	0.324	24	74.07	2	1,058
Block 48K JV	0.584	36	61.64	5	933
Block 48L	0.449	24	53.45	3	1,255
Block 48M	0.569	30	52.72	3	1,248
Block 48N	0.564	33	58.51	3	1,255
Block 48O JV	<u>0.384</u>	<u>21</u>	<u>54.69</u>	<u>2</u>	<u>1,255</u>
<b>Total</b>	6.64	374	56.29	39	1,155

In terms of property history, the subject property is a portion of the Hunters Point Shipyard, which encompasses 936 acres, with 493 acres of dry land and 443 acres of submerged land. The Shipyard was owned and operated by the U.S. Navy from 1939 until 1974, and during that timeframe it was used for ship building, repair and maintenance. Deactivated in 1974, the Shipyard was leased in 1976 to a private ship repair firm. In 1986, the U.S. Navy reoccupied the property and proceeded to undergo remediation of environmental contamination of the area. In July 1997, SFRA and the City and County of San Francisco Board of Supervisors adopted the Hunters Point Shipyard Redevelopment Plan for conversion of the Shipyard to urban use. In 1999/2000 the San Francisco Redevelopment Agency partnered with Lennar Corporation to complete extensive infrastructure improvements and develop housing units in conjunction with the U.S. Navy's remediation of the land. The subject property is part of several areas targeted by the SFRA for redevelopment, and is subject to a Disposition and Development Agreement.



A map depicting such redevelopment areas is shown below.



To the best of our knowledge, there have been no sales of the subject property within the previous three years; though, certain Blocks are reportedly being marketed for sale to community builders per the Development Agreement with the City and County of San Francisco.

## **PROPERTY IDENTIFICATION AND LEGAL DATA**

### **Location**

The appraised property comprises Phase I of the Hunters Point Shipyard redevelopment area, which is commonly referred to as the Hilltop and Hillside subdivisions, located at the southeastern terminus of Innes Avenue, south of Galvez Avenue and north of Spear Avenue, within the city and county of San Francisco, California. The Hillside subdivision is located west of the Hilltop subdivision, north of Crisp Road and south of Kirkwood Avenue.

### **Assessor's Parcel Number**

The subject property is presently identified by the following City and County of San Francisco Assessor's parcel numbers:

#### ***Hilltop Subdivision***

Block 1JV	4591C-222
Block 50	4591C-093
Block 51	4591C-042
Block 52JV	4591C-106 and -107, -216, -226 and -228
Block 53A, 53B and 53JV	4591C-094, -098, -213 and -214
Block 54 & 54JV	4591C-045, -046, -068 thru -070, -223 and -225
Block 55E	4591C-011 thru -020; -022 thru -032, -034 thru -039
Block 55W	4591C-132 thru -142; -144 thru -164, -166 thru -172
Block 56	4591C-218
Block 57	4591C-219 thru -221

#### ***Hillside Subdivision***

4591D-001 through -007; -009 through -048; -050 through -055; -057 through -062; -064 through -093 and -097 through -131

### **Owner of Record**

Title to the subject property is presently vested with the following entities, which are all related to Lennar Corporation, the master developer:

#### ***Hilltop Subdivision***

Block 1JV	HPS Development Co., LP, a Delaware (DE) limited partnership
Block 50	HPS1 Block 50, LLC, a DE limited liability company
Block 51	HPS1 Block 51, LLC, a DE limited liability company
Block 52JV	HPS Development Co., LP, a DE limited partnership
Block 53A, 53B and 53JV	HPS1 Block 53, LLC, a DE limited liability company
Block 54 & 54JV	HPS1 Block 54, LLC, a DE limited liability company



Block 55E	HPS Development Co., LP, a DE limited partnership
Block 55W	HPS Development Co., LP, a DE limited partnership
Block 56	HPS Development Co., LP, a DE limited partnership
Block 57	HPS Development Co., LP, a DE limited partnership

**Hillside Subdivision** HPS Development Co., LP, a DE limited partnership

## Legal Description

A complete legal description of the subject property, which would be contained in a preliminary title report, was not provided for use in this analysis.

## Property Taxes (*Ad Valorem Taxes*)

The property tax system in California was amended in 1978 by Article XIII to the State Constitution, commonly referred to as Proposition 13. It provides for a limitation on property taxes and for a procedure to establish the current taxable value of real property by reference to a base year value, which is then modified annually to reflect inflation (if any). Annual inflationary increases cannot exceed 2% per year. The base year was set at 1975-76 or any year thereafter in which the property is substantially improved or changes ownership. When either of these two conditions occurs, the property is to be re-appraised at market value, which becomes the new base year assessed value. Proposition 13 also limits the maximum tax rate to 1% of the value of the property, exclusive of bonds and supplemental assessments. Bonded indebtedness approved prior to 1978, and any bonds subsequently approved by a two-thirds vote of the political jurisdiction in which the property is located, can be added to the 1% tax rate.

## Special Taxes

The appraised property is situated within the boundaries of CFD No. 7. The special tax obligations for CFD No. 7 are presented in the following table.

Land Use	Base Special Tax Fiscal year 2013-14*	Incremental Special Tax Fiscal year 2013-14*
Market Rate Units	\$1,474 per unit	\$2.35 per Square Foot
Required BMR 80% Units	\$628 per unit	\$190 per Bedroom
Non-Residential Property	N/A	\$1.41 per Square Foot

\* Beginning July 1, 2014 and each July 1 thereafter, the amounts shown above shall be increased by two percent (2%) of the amount in effect in the prior Fiscal Year.

The appraised property is also situated within the boundaries of Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 8, which is a maintenance district, which is subject to the following charges:

<b>Land Use</b>	<b>Base Special Tax Fiscal year 2013-14*</b>	<b>Incremental Special Tax Fiscal year 2013-14*</b>
Market Rate Units	\$628 per unit	\$0.81 per Square Foot
Required BMR 80% Units	\$218 per unit	\$73 per Bedroom
Non-Residential Property	N/A	\$0.82 per Square Foot

*\* Beginning July 1, 2014 and each July 1 thereafter, the amounts shown above shall be increased by the lesser of (i) the percentage increase, if any, in the Consumer Price Index (San Francisco-Oakland-San Jose, all urban consumers) since the prior July 1, and (ii) five and one-half percent (5 ½%) of the amount in effect in the prior Fiscal Year.*

These figures were provided by the Second Amended and Restated Rate and Method of Apportionment for CFD No. 7 and the Amended and Restated Rate and Method of Apportionment for CFD No. 8. The principal amount of the outstanding Bonds was \$34,500,000. In general, the Bond proceeds were used for the acquisition of infrastructure improvements completed by the master developer (Lennar). The facilities consist of roadway improvements, wastewater system improvements, water system improvements, drainage system improvements, parks and landscaping improvements and retention improvements. As noted above, CFD No. 8 is an ongoing maintenance district.

The appraised property is also subject to direct levies. The bond indebtedness and direct levies will be considered in the valuation portion of this analysis. As reported by the master developer, the total ad valorem taxes, direct levies and special taxes for the subject property will be based on the maximum rate of 2.0%.

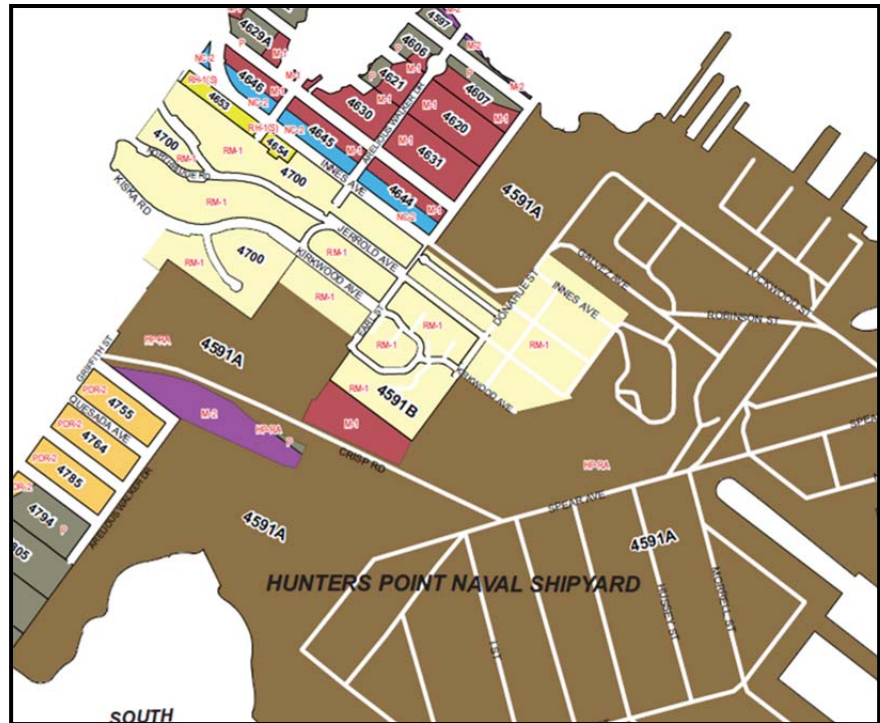
### **Conditions of Title**

A preliminary title report was not provided for this analysis. It is assumed there are no adverse conditions on title. The appraiser assumes no negative title restrictions and accepts no responsibility for matters pertaining to title.

### **Zoning**

Source: City and County of San Francisco Community Development Department

## Zoning Map:



## Zoning:

RM-1– Low Density Residential

HP-RA – Hunters Pointe Redevelopment Area

## Description/Entitlements:

The RM-1 districts contain a mixture of the dwelling types found in RH (Residential House) Districts, but in addition have a significant number of apartment buildings that broaden the range of unit sizes and the variety of structures. A pattern of 25-foot to 35-foot building widths is retained, however, and structures rarely exceed 40 feet in height. The overall density of units remains low, buildings are moderately scaled and segmented, and units or groups of units have separate entrances. Outdoor space tends to be available at ground and upper levels regardless of the age and form of structures. Shopping facilities and transit lines may be found within a short distance of these districts. Nonresidential uses are often present to provide for the needs of residents. Specifically, as previously noted, Block 1JV of the subject property (Hilltop subdivision) is to include 9,000 square feet of ground floor retail space.

## Inclusionary Housing Requirement:

The California Redevelopment Law requires that at least 15 percent of all new or rehabilitated dwelling units developed by public entities other than the Agency or by private entities in a redevelopment project area to be affordable to low- and moderate-income households, of which at least 40 percent shall be available to very low-income households. According to the Hunters Point Shipyard Implementation Plan 2008-2012, the SFRA intends to exceed such minimum affordable housing production goal for the Shipyard and achieve a 27 percent to 40 percent overall affordability ratio. To that

end, 100 percent of all new and rehabilitated dwelling units developed by others with SFRA assistance shall be affordable to low- and moderate-income households.

The original Disposition and Development Agreement (DDA) requiring 15 percent of the units be set aside for below-market rate (BMR) purchasers meeting the 50% and 80% of AMI requirements was amended by the Sixth Amendment to the Phase I DDA. This provision allows the 50% of annual median income (AMI) requirements for BMR units be reallocated to Block 49 for the entire Phase I development, which includes both the Hilltop and Hillside subdivisions, and allows the balance of the development be developed with only 10% BMR requirements for each Block set aside for buyers meeting the 80% AMI requirement. Therefore, Phase I will contain approximately 59 affordable residential units (plus one manager's unit) in the Hilltop subdivision dedicated to lower, 50% of AMI households. These units will all be on Block 49, which is not a part of the subject property. Additionally, 74 affordable residential units will be set aside for moderate (80% AMI) income households on part of the taxable property. The Hillside subdivision will contain 39 affordable residential units set aside for moderate (80% AMI) income households. The preceding BMR units are to be spread throughout the project.

**Conclusion:**

The subject property consists of 19.22± net developable acres (excluding 4.21 acres of land to be developed by the SFRA as low income housing, which are excluded from the valuation, and Block 49) comprising Phase I of the Hunters Point Shipyard redevelopment, which is commonly referred to as the Hilltop and Hillside subdivisions. The proposed development conforms to the zoning designation.

**Flood Zone**

No areas within the city and county of San Francisco, which includes the subject property, are located within a flood hazard zone as designated by the Federal Emergency Management Agency (FEMA). According to a San Francisco Planning Department Planning Bulletin, dated April 1, 2007, "Development in the City and County of San Francisco must account for flooding potential. Areas located on fill or bay mud can subside to a point at which the sewers do not drain freely during a storm (and sometimes dry weather) and there can be backups or flooding near these street and sewers." "Applicants for building permits for either new construction, change of use (Planning) or change of occupancy (Building Inspection), or for major alterations or enlargements shall be referred to the San Francisco Public Utilities Commission (SFPUC) at the beginning of the process, for a review to determine whether the project would result in ground level flooding during storms."

## **Earthquake Zone**

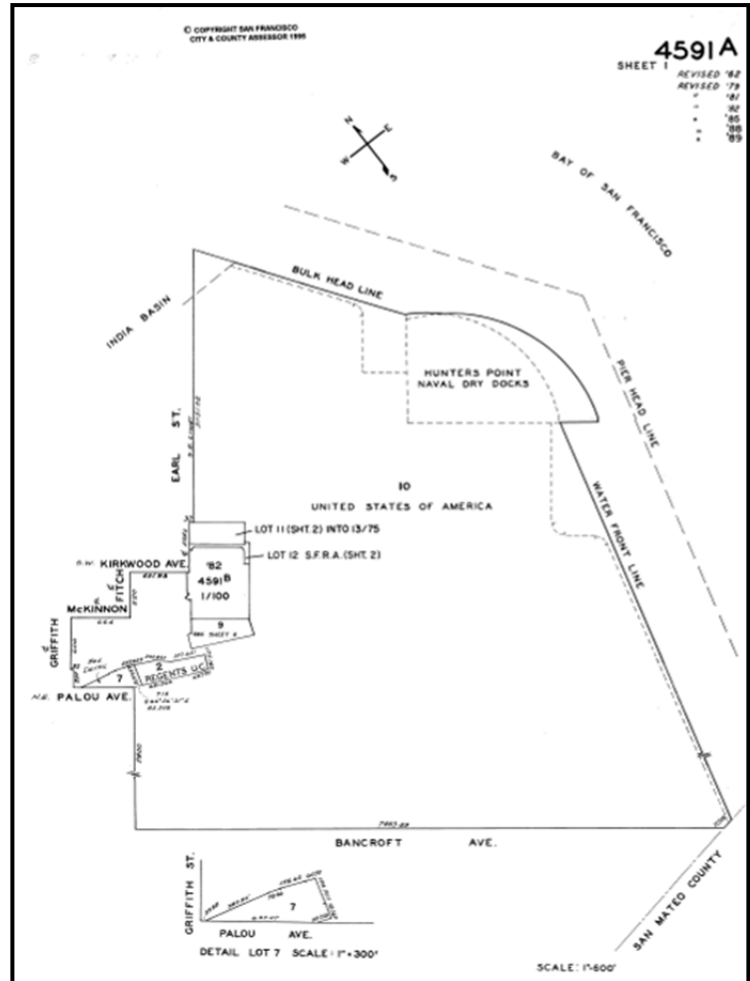
According to the Seismic Safety Commission, the subject is located within Zone 4, which is assigned to areas near major faults. The location within this zone does not prevent development. There are only two zones in California. Zone 4 is assigned to areas of major faults. Zone 3 is assigned to areas with more moderate seismic activity. In addition, the subject is located within a Fault-Rupture Hazard Zone (formerly referred to as an Alquist-Priolo Special Study Zone), as defined by Special Publication 42 (revised January 1994) of the California Department of Conservation, Division of Mines and Geology. Earthquake insurance may be necessary for vertical improvements.

## **Easements**

An inspection of the subject property revealed no apparent adverse easements, encroachments or other conditions currently impacting the subject. There is reportedly a utility easement traversing Block 1JV; though, this will be moved as part of vertical construction and is not considered to adversely impact use or development of the site. Please refer to a preliminary title report for information regarding potential easements, as the appraiser is not a surveyor nor qualified to determine the exact location of any easements. It is assumed any easements noted in a preliminary title report do not have an impact on the opinion of value set forth in this report. If at some future date, any easements are determined to have a detrimental impact on value, the appraiser reserves the right to amend the opinion of value contained herein.

## SITE DESCRIPTION

### Assessor's Parcel Map:



\* Please refer to Extraordinary Assumption No. 3

### Size and Shape:

In total, the land areas comprising the Hilltop and Hillside subdivisions contain a gross land area of approximately 75.55 gross acres of land. The subject property comprises the taxable portion of the Hilltop subdivision, which contains 12.58± acres of land to be developed with 705 residential units, and the Hillside development contains 6.64± acres to be developed with 374 single-family residential units. The subject property excludes the 0.52-acre Block 49 and 4.21 acres to be developed by the SFRA as low income housing. In total, the subject property is proposed for the construction of 1,079 residential units in a variety of attached single-family products. In addition, Phase I will include 36.0± acres dedicated to parks and open space and 15.6± acres of streets and rights-of-way. The parcels within each subdivision are contiguous and boundaries are irregularly shaped, but not so irregular as to inhibit development.

### Assessor's Parcel Numbers (Taxable):

The appraised property is identified by the following

### ***Hilltop Subdivision***

Block 1JV  
Block 50  
Block 51  
Block 52JV  
Block 53A, 53B and 53JV  
Block 54 & 54JV  
Block 55E  
Block 55W  
Block 56  
Block 57

Assessor's parcel numbers:

4591C-222  
4591C-093  
4591C-042  
4591C-106 and -107, -216, -226 and -228  
4591C-094, -098, -213 and -214  
4591C-045, -046, -068 thru -070, -223 and -225  
4591C-011 thru -020; -022 thru -032, -034 thru -039  
4591C-132 thru -142; -144 thru -164, -166 thru -172  
4591C-218  
4591C-219 thru -221

### ***Hillside Subdivision***

4591D-001 through -007; -009 through -048; -050 through -055; -057 through -062; -064 through -093 and -097 through -131

### **Topography:**

The topography of the subdivisions varies from generally level, to sloping to undulating.

### **Land Area by Land Use:**

Developable – Hilltop Residential	<b>12.58± acres</b>
<i>Developable – SFRA Component*</i>	<i>3.05± acres</i>
<i>Developable – Block 49*</i>	<i>0.52± acres</i>
Developable – Hillside Residential	<b>6.64± acres</b>
<i>Developable – SFRA Component*</i>	<i>1.16± acres</i>
Total Developable	23.95± acres
<b><i>Total Net Developable (Taxable)</i></b>	<b><i>19.22± acres**</i></b>
Open Space/Parks	36.00± acres
Streets/Right-of-Way	<u>15.60± acres</u>
<i>Total Public Space</i>	<u>51.60± acres</u>
Total Gross Land Area	75.55± acres

\* SFRA parcels and Block 49 are not appraised in this report

\*\* Excludes SFRA parcels and Block 49 (4.73 ac), which are not appraised in this report

### **Drainage:**

Based on the development plan, our physical inspection of the subject property and assuming typical grading and paving work will be completed, upon completion of the proposed development, adequate drainage appears to be provided.

### **Frontage/Visibility:**

The Hilltop subdivision has frontage and visibility along a network of interior streets, including Innes Avenue, Fridell Street, Jerrold Avenue, Kirkwood Avenue, Coleman Street, Hudson Avenue, Donahue Street and Innes Court. The Hillside subdivision will have frontage and visibility along Navy Road, which will connect with the southern terminus of Earl Street, Oakdale Avenue and Griffith Street. Portions of the subject property offer San Francisco Bay and downtown views.



<b>Access:</b>	Primary access to the subject neighborhood from U.S. Highway 101 is provided from Cesar Chavez Street and Third Street. The Hunters Point Shipyard redevelopment area is primarily accessible from Innes Avenue.										
<b>Utilities:</b>	<p>All public utilities and services are available to the subject property. Services are furnished by the following providers:</p> <table> <tr> <td>Water:</td><td>City of San Francisco</td></tr> <tr> <td>Sewage Disposal:</td><td>City of San Francisco</td></tr> <tr> <td>Refuse:</td><td>Recology San Francisco</td></tr> <tr> <td>Electricity:</td><td>PUC</td></tr> <tr> <td>Gas:</td><td>PG&amp;E</td></tr> </table>	Water:	City of San Francisco	Sewage Disposal:	City of San Francisco	Refuse:	Recology San Francisco	Electricity:	PUC	Gas:	PG&E
Water:	City of San Francisco										
Sewage Disposal:	City of San Francisco										
Refuse:	Recology San Francisco										
Electricity:	PUC										
Gas:	PG&E										
<b>Soil:</b>	Based on the existence of residential and commercial structures on surrounding and nearby parcels, it appears the subject property possesses adequate load-bearing capacity for development.										
<b>Environmental Issues:</b>	<p>At the time of inspection, the appraiser did not observe the existence of hazardous material, which may or may not be present, on the subject property. The appraiser has no knowledge of the existence of such materials on the properties. However, the appraiser is not qualified to detect such substances. The presence of potentially hazardous materials could affect the value of the property. The value estimate is predicated on the assumption there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.</p> <p>In light of the former activities at the Hunters Point Shipyard, which generated a variety of hazardous materials, in 1989 the U.S. Environmental Protection Agency placed the Shipyard on the National Priorities List as a Superfund site, with the U.S. Navy remaining obligated for the cost to remediate the property. In April 2004 the U.S. Navy and the SFRA entered into a Conveyance Agreement to set forth the process of conveying Hunters Point Shipyard parcels to the SFRA, which requires certification by the federal and state regulators that any such parcels be remediated of hazardous contaminants to a level suitable for their intended uses. The remediation of parcels within the Shipyard may be completed on a parcel-by-parcel basis, with facilitation of the remediation process done by</p>										

subdividing the site into six parcels, identified as Parcels A, B, C, D, E and F, with Parcel A (comprising the Hunters Point Shipyard Phase I [subject property]), being removed from the National Priorities Superfund list in 1999.

**Adjacent Uses:**

North	Indian Basin
South	South Basin/Candlestick Point State Recreation Area
East	San Francisco Bay
West	Residential development

**Functional Adequacy/Site Influences:**

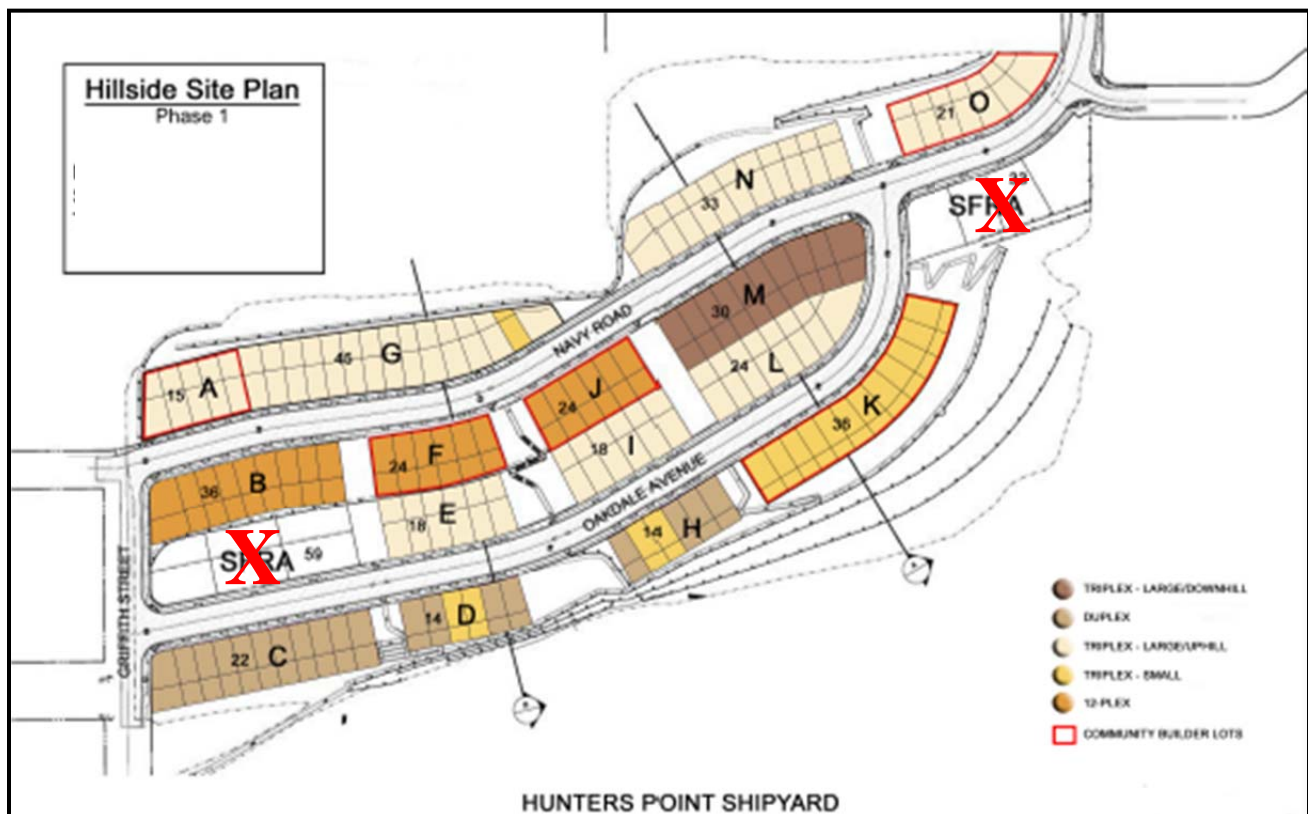
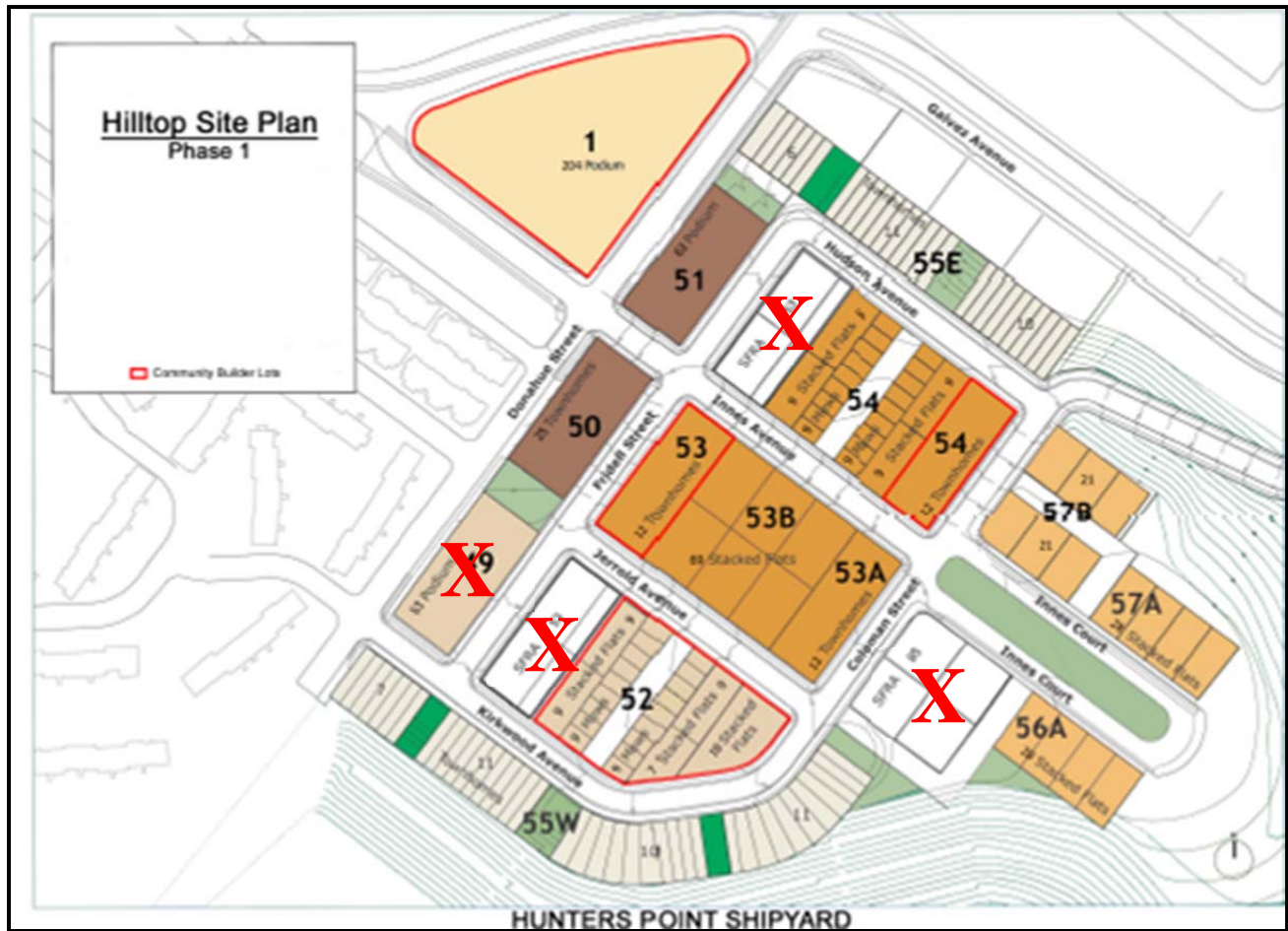
Based on the subject’s existing physical attributes and infrastructure improvements, the overall functional utility of the subject property is expected to be good for the proposed development.

In terms of site influences outside of the confines of the appraised property, a substantial portion of the former Shipyard to the north and east of the Hilltop subdivision is currently referred to as The Point (Hunters Point Studios), which was transformed from several of the neglected former naval buildings into affordable workspaces for artists, and offers studio space for painting, drawing, mixed media, and metal arts, including welding, blacksmithing and metal crafts. The Point is now home to some 300 artists. As part of Phase II of the Hunters Point Redevelopment, a significant amount of clean tech business incubator space will be constructed on the Shipyard, as well as new and renovated space for the existing artists that currently occupy the Shipyard.

**Conclusion:**

The configuration and size of the subject is considered adequate for development.

## Hilltop and Hillside Site Plans:



## IMPROVEMENT DESCRIPTION – BLOCKS 50, 51, 53 & 54

### Block 50

Block 50 is a 0.51-acre site located along the south line of Innes Avenue, east of Donahue Street, west of Fridell Street, approved for the development of 25 attached, for-sale residential units ranging in size from 948 to 1,587 square feet, with an average unit size of 1,147 square feet.

Plan / bedroom count	Market Rate	BMR	Total	Size
2 Br. / 2 Ba.	2		2	948
2 Br. / 2 Ba.	1		1	992
2 Br. / 2 Ba.		1	1	992
2 Br. / 2 Ba.	1		1	1,012
2 Br. / 2 Ba.	6		6	1,013
2 Br. / 2 Ba.		2	2	1,013
2 Br. / 2 Ba.	1		1	1,024
2 Br. / 2 Ba.	2		2	1,055
2 Br. / 2 Ba.	2		2	1,172
3 Br. / 2 Ba.	2		2	1,418
3 Br. + Den / 2 Ba.	3		3	1,426
3 Br. / 3 Ba.	1		1	1,490
3 Br. / 3 Ba.	1		1	1,587
<b>Total</b>	<b>22</b>	<b>3</b>	<b>25</b>	<b>1,147</b>

### Block 51

Block 51 is located along the north line of Innes Avenue, east of Donahue Street, west of Fridell Street. Block 51 is a 0.51-acre site approved for the development of 63 attached, for-sale residential units ranging in size from 457 to 1,158 square feet, with an average unit size of 834 square feet.

Floor	Plan / bedroom count	Market Rate	BMR	Total	Size	Floor	Plan / bedroom count	Market Rate	BMR	Total	Size
2	2 Br. / 2 Ba.	1		1	1,027	3	2 Br. / 2 Ba.	1		1	1,021
2	2 Br. / 2 Ba.		1	1	922	3	2 Br. / 2 Ba.	1		1	922
2	1 Br. + Study / 1 Ba.	1		1	738	3	1 Br. + Study / 1 Ba.	1		1	738
2	2 Br. / 2 Ba.	1		1	921	3	2 Br. / 2 Ba.	1		1	921
2	1 Br. + Study / 1 Ba.	1		1	744	3	1 Br. + Study / 1 Ba.	1		1	744
2	2 Br. / 2 Ba.	1		1	933	3	2 Br. / 2 Ba.	1		1	1,015
2	1 Br. / 1 Ba.	1		1	691	3	1 Br. / 1 Ba.	1		1	691
2	3 Br. / 2 Ba.	1		1	1,158	3	1 Br. / 1 Ba.	1		1	691
2	0 Br. / 1 Ba.		1	1	457	3	1 Br. / 1 Ba.	1		1	595
2	1 Br. / 1 Ba.	1		1	691	3	1 Br. / 1 Ba.	1		1	595
2	1 Br. / 1 Ba.	1		1	691	3	1 Br. / 1 Ba.		1	1	691
2	2 Br. / 2 Ba.	1		1	933	3	1 Br. / 1 Ba.	1		1	691
2	1 Br. + Study / 1 Ba.	1		1	744	3	2 Br. / 2 Ba.	1		1	1,015
2	2 Br. / 2 Ba.	1		1	935	3	1 Br. + Study / 1 Ba.	1		1	744
2	1 Br. + Study / 1 Ba.	1		1	738	3	2 Br. / 2 Ba.		1	1	935
2	2 Br. / 2 Ba.	1		1	922	3	1 Br. + Study / 1 Ba.	1		1	738
2	2 Br. / 2 Ba.	1		1	1,027	3	2 Br. / 2 Ba.	1		1	922
						3	2 Br. / 2 Ba.	1		1	1,021
<b>Floor Total</b>		<b>15</b>	<b>2</b>	<b>17</b>	<b>840</b>	<b>Floor Total</b>		<b>16</b>	<b>2</b>	<b>18</b>	<b>816</b>

Floor	Plan / bedroom count	Market Rate	BMR	Total	Size	Floor	Plan / bedroom count	Market Rate	BMR	Total	Size
4	2 Br. / 2 Ba.	1		1	1,025	5	2 Br. / 2 Ba.	1		1	1,025
4	2 Br. / 2 Ba.	1		1	1,013	5	2 Br. / 2 Ba.	1		1	1,013
4	1 Br. + Study / 1 Ba.	1		1	738	5	1 Br. + Study / 1 Ba.	1		1	738
4	2 Br. / 2 Ba.	1		1	921	5	2 Br. / 2 Ba.	1		1	921
4	1 Br. + Study / 1 Ba.	1		1	144	5	2 Br. / 2 Ba.	1		1	964
4	2 Br. / 2 Ba.	1		1	1,015	5	2 Br. / 2 Ba.	1		1	953
4	1 Br. / 1 Ba.	1		1	691	5	2 Br. / 2 Ba.	1		1	935
4	1 Br. / 1 Ba.	1		1	691	5	1 Br. + Study / 1 Ba.	1		1	738
4	1 Br. / 1 Ba.	1		1	595	5	2 Br. / 2 Ba.	1		1	1,013
4	1 Br. / 1 Ba.		1	1	595	5	2 Br. / 2 Ba.	1		1	1,025
4	1 Br. / 1 Ba.	1		1	691						
4	1 Br. / 1 Ba.	1		1	691						
4	2 Br. / 2 Ba.	1		1	1,015						
4	1 Br. + Study / 1 Ba.	1		1	744						
4	2 Br. / 2 Ba.		1	1	935						
4	1 Br. + Study / 1 Ba.	1		1	738						
4	2 Br. / 2 Ba.	1		1	1,013						
4	2 Br. / 2 Ba.	1		1	1,025						
<i>Floor Total</i>		16	2	18	793	<i>Floor Total</i>		10	0	10	933
<i>Floor Total</i>		16	2	18	793	<i>Project Total</i>		57	6	63	834

## Block 53

Block 53 is located along the south line of Innes Avenue, east of Fridell Street, north of Jerrold Avenue and west of Coleman Street. Block 53 is subdivided into three developable sub-Blocks identified as sub-Block 53A, which is 0.41-acre proposed for 12 townhouse units, sub-Block 53B, which is 1.126 acres proposed for the development of 69 condominium units, and sub-Block 53JV, which is 0.41-acre proposed for 12 townhouse units. The unit mix for each sub-Block is presented in the following tables:

<u>sub-Block 53A</u>						<u>sub-Block 53JV</u>					
Bldg.	Bed / bathroom count	Market Rate	BMR	Total	Size	Bldg.	Bed / bathroom count	Market Rate	BMR	Total	Size
1	3 Br. / 2.5 Ba.	1		1	1,437	2	3 Br. / 2.5 Ba.	1		1	1,437
1	2 Br. / 2 Ba.	1		1	1,398	2	2 Br. / 2 Ba.	1		1	1,073
1	2 Br. / 2 Ba.	1		1	1,427	2	2 Br. / 2 Ba.	1		1	1,167
1	2 Br. / 2 Ba.	1		1	1,427	2	2 Br. / 2 Ba.	1		1	1,167
1	2 Br. / 2 Ba.	1		1	1,398	2	2 Br. / 2 Ba.	1		1	1,073
1	3 Br. / 2.5 Ba.	1		1	1,399	2	3 Br. / 2 Ba.		1	1	1,318
1	3 Br. / 2.5 Ba.	1		1	1,399	2	3 Br. / 2 Ba.	1		1	1,318
1	3 Br. / 2.5 Ba.		1	1	1,211	2	3 Br. / 2.5 Ba.	1		1	1,204
1	3 Br. / 2.5 Ba.	1		1	1,288	2	3 Br. / 2.5 Ba.	1		1	1,341
1	3 Br. / 2.5 Ba.	1		1	1,288	2	3 Br. / 2.5 Ba.	1		1	1,341
1	3 Br. / 2.5 Ba.	1		1	1,211	2	3 Br. / 2.5 Ba.	1		1	1,204
1	3 Br. / 2.5 Ba.	1		1	1,437	2	3 Br. / 2.5 Ba.	1		1	1,615
<i>Total</i>		11	1	12	1,360	<i>Total</i>		11	1	12	1,272

<u>sub-Block 53B</u>											
Bldg.	Bed / bathroom count	Market Rate	BMR	Total	Size	Bldg.	Bed / bathroom count	Market Rate	BMR	Total	Size
4	1 Br. / 1 Ba.		1	1	656	5	1 Br. / 1 Ba.	1		1	634
4	2 Br. + Study / 2 Ba.	1		1	1,089	5	2 Br. / 2 Ba.	1		1	1,086
4	2 Br. / 2 Ba.	1		1	1,023	5	2 Br. / 2 Ba.	1		1	1,023
4	2 Br. / 2 Ba.	1		1	1,023	5	2 Br. / 2 Ba.	1		1	1,023
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.	1		1	603
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.	1		1	603
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.	1		1	603
4	3 Br. / 2 Ba.		1	1	1,283	5	1 Br. / 1 Ba.	1		1	603
4	2 Br. / 2 Ba.	1		1	1,156	5	1 Br. / 1 Ba.		1	1	655
4	2 Br. / 2 Ba.	1		1	1,015	5	2 Br. / 2 Ba.	1		1	1,156
4	3 Br. / 2 Ba.	1		1	1,251	5	2 Br. / 2 Ba.		1	1	1,009
4	2 Br. + Study / 2 Ba.	1		1	1,089	5	3 Br. / 2 Ba.	1		1	1,235
4	2 Br. / 2 Ba.	1		1	1,027	5	2 Br. / 2 Ba.	1		1	1,086
4	2 Br. / 2 Ba.	1		1	1,027	5	2 Br. / 2 Ba.	1		1	1,027
4	1 Br. / 1 Ba.	1		1	611	5	2 Br. / 2 Ba.	1		1	1,027
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.		1	1	611
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.	1		1	611
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.	1		1	611
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.	1		1	790
4	1 Br. / 1 Ba.	1		1	611	5	1 Br. / 1 Ba.	1		1	611
4	1 Br. / 1 Ba.	1		1	655	5	1 Br. / 1 Ba.	1		1	611
4	2 Br. / 2 Ba.	1		1	1,156	5	1 Br. / 1 Ba.	1		1	655
4	2 Br. / 2 Ba.		1	1	1,015	5	2 Br. / 2 Ba.	1		1	1,156
4	3 Br. / 2 Ba.	1		1	1,283	5	2 Br. / 2 Ba.		1	1	1,009
4	2 Br. / 2 Ba.	1		1	1,027	5	3 Br. / 2 Ba.	1		1	1,235
4	1 Br. / 1 Ba.	1		1	611	5	2 Br. / 2 Ba.	1		1	1,027
4	2 Br. / 2 Ba.	1		1	1,285	5	1 Br. / 1 Ba.	1		1	611
4	2 Br. / 2 Ba.	1		1	1,285	5	2 Br. / 2 Ba.	1		1	1,212
4	2 Br. / 2 Ba.	1		1	1,340	5	2 Br. / 2 Ba.	1		1	1,212
4	2 Br. / 2 Ba.	1		1	1,342	5	2 Br. / 2 Ba.	1		1	1,318
4	2 Br. / 2 Ba.	1		1	1,342	5	2 Br. / 2 Ba.	1		1	1,319
4	2 Br. / 2 Ba.	1		1	1,238	5	2 Br. / 2 Ba.	1		1	1,376
4	2 Br. / 2 Ba.	1		1	1,156	5	2 Br. / 2 Ba.	1		1	1,379
4	2 Br. / 2 Ba.	1		1	1,015	5	2 Br. / 2 Ba.	1		1	1,156
sub-Total		31	3	34	967	5	2 Br. / 2 Ba.	1		1	1,009
sub-Total								31	4	35	940
Project (Block 53B) Total								62	7	69	953

## Block 54

Block 54 is located along the north line of Innes Avenue, east of Fridell Street, south of Hudson Avenue and west of Coleman Street. Block 54 is subdivided into two developable sub-Blocks, excluding the sub-Block set aside for the SFRA, identified as sub-Block 54, which is 0.90-acre proposed for 54 condominium and townhouse units, and sub-Block 54JV, which is 0.41-acre proposed for 12 townhouse units. The unit mix for each sub-Block is presented in the following tables:

<b>sub-Block 54JV</b>					
<b>Bldg.</b>	<b>Bed/ bathroom count</b>	<b>Market Rate</b>	<b>BMR</b>	<b>Total</b>	<b>Size</b>
3	3 Br. / 2.5 Ba.	1		1	1,436
3	2 Br. / 2 Ba.	1		1	1,077
3	2 Br. / 2 Ba.	1		1	1,155
3	2 Br. / 2 Ba.	1		1	1,155
3	2 Br. / 2 Ba.	1		1	1,077
3	3 Br. / 2.5 Ba.	1		1	1,399
3	3 Br. / 2.5 Ba.	1		1	1,399
3	3 Br. / 2.5 Ba.		1	1	1,212
3	3 Br. / 2.5 Ba.	1		1	1,302
3	3 Br. / 2.5 Ba.	1		1	1,302
3	3 Br. / 2.5 Ba.	1		1	1,212
3	3 Br. / 2.5 Ba.	1		1	1,431
<i>Project (Block 54JV) Total</i>		11	1	12	1,263

<b>sub-Block 54</b>											
<b>Bldg.</b>	<b>Bed/ bathroom count</b>	<b>Market Rate</b>	<b>BMR</b>	<b>Total</b>	<b>Size</b>	<b>Bldg.</b>	<b>Bed/ bathroom count</b>	<b>Market Rate</b>	<b>BMR</b>	<b>Total</b>	<b>Size</b>
6	1 Br. / 1 Ba.		1	1	551	9	1 Br. / 1 Ba.	1		1	558
6	1 Br. + Study / 1 Ba.	1		1	760	9	2 Br. / 2 Ba.	1		1	957
6	2 Br. / 2 Ba.	1		1	956	9	1 Br. + Study / 1 Ba.	1		1	764
6	1 Br. + Study / 1 Ba.	1		1	811	9	1 Br. + Study / 1 Ba.		1	1	811
6	2 Br. / 2 Ba.	1		1	970	9	2 Br. / 2 Ba.	1		1	970
6	1 Br. + Study / 1 Ba.	1		1	802	9	2 Br. / 2 Ba.	1		1	957
6	2 Br. / 2 Ba.	1		1	956	9	1 Br. + Study / 1 Ba.	1		1	806
6	1 Br. + Study / 1 Ba.	1		1	811	9	1 Br. + Study / 1 Ba.	1		1	811
6	2 Br. / 2 Ba.	1		1	970	9	2 Br. / 2 Ba.	1		1	970
<i>Sub-Total</i>		8	1	9	843	<i>Sub-Total</i>		8	1	9	845
7	1 Br. / 1 Ba.	1		1	551	10	3 Br. / 2.5 Ba.	1		1	1,412
7	2 Br. / 2 Ba.	1		1	970	10	2 Br. / 2 Ba.	1		1	1,177
7	1 Br. + Study / 1 Ba.		1	1	811	10	3 Br. / 2.5 Ba.	1		1	1,415
7	2 Br. / 2 Ba.	1		1	956	10	2 Br. / 2 Ba.	1		1	1,177
7	1 Br. + Study / 1 Ba.	1		1	760	10	3 Br. / 2.5 Ba.	1		1	1,415
7	2 Br. / 2 Ba.	1		1	970	10	2 Br. / 2 Ba.	1		1	1,177
7	1 Br. + Study / 1 Ba.	1		1	811	10	3 Br. / 2.5 Ba.	1		1	1,415
7	2 Br. / 2 Ba.	1		1	956	10	2 Br. / 2 Ba.	1		1	1,177
7	1 Br. + Study / 1 Ba.		1	1	802	10	3 Br. / 2.5 Ba.	1		1	1,427
<i>Sub-Total</i>		7	2	9	843	<i>Sub-Total</i>		9	0	9	1,310
8	1 Br. / 1 Ba.	1		1	558	11	3 Br. / 2.5 Ba.	1		1	1,427
8	1 Br. + Study / 1 Ba.	1		1	764	11	2 Br. / 2 Ba.	1		1	1,177
8	2 Br. / 2 Ba.		1	1	957	11	3 Br. / 2.5 Ba.	1		1	1,415
8	1 Br. + Study / 1 Ba.	1		1	811	11	2 Br. / 2 Ba.		1	1	1,177
8	2 Br. / 2 Ba.	1		1	970	11	3 Br. / 2.5 Ba.	1		1	1,415
8	1 Br. + Study / 1 Ba.	1		1	806	11	2 Br. / 2 Ba.	1		1	1,177
8	2 Br. / 2 Ba.	1		1	957	11	3 Br. / 2.5 Ba.	1		1	1,415
8	1 Br. + Study / 1 Ba.	1		1	811	11	2 Br. / 2 Ba.	1		1	1,177
8	2 Br. / 2 Ba.	1		1	970	11	3 Br. / 2.5 Ba.	1		1	1,412
<i>Sub-Total</i>		8	1	9	845	<i>Sub-Total</i>		8	1	9	1,310
						<i>Project (Block 54) Total</i>		48	6	54	999

A general description of the proposed improvements is presented on the following pages, based on information provided by the developer.



## Structural Description

Foundation:	Reinforced concrete
Structure:	Steel frame
Exterior Walls:	Stucco with accents
Roof:	Built-up composition (assumed)
Doors:	Metal doors and sliding glass doors to patios with aluminum frames
Windows:	The units will have dual pane clear glass windows with aluminum frames.
Number of Stories:	All of the residential buildings are two or three-story buildings above garages.
HVAC:	“In unit” Central HVAC

## Interiors

Floors:	Hardwood flooring throughout; stone tile in the bathrooms
Walls:	Taped, textured and painted drywall
Ceilings:	Taped, textured and painted drywall
Lighting:	Incandescent and affixed lighting fixtures
Kitchens:	Each unit will contain a full kitchen with GE stainless steel appliances with Caesar stone counter tops.
Plumbing/Bathrooms:	All of the subject’s units will contain one, two or two and one half bathrooms. The bathrooms will contain pedestal sinks and acrylic tub/shower combinations. Additionally, all of the units will have a laundry area equipped for full size washers and dryers, and the buildings will have a wet fire sprinkler system.
Other:	All of the units will have at least one-car garage parking (some offer two-car parking spaces), 9’ ceilings and fireplaces. Selected units will have private balcony/patios and/or private rear yards.

**Age/Condition**

Chronological Age: New

Effective Age: New

Condition: Good

Quality: Good

**Conclusion**

The proposed and partially improved residential units are expected to appeal to a broad range of potential buyers. The improvements are consistent with market standards and similar to existing and recently completed residential projects north of the subject's location in the Dogpatch, Mission Bay and SOMA neighborhoods of San Francisco.

**SUBJECT PHOTOGRAPHS (HILLTOP SUBDIVISION)**



Looking southwest across Block 56A from Innes Court



Looking southwest across Block 56A from Innes Court



Looking across Block 53



Looking west along Innes Court



Looking north across Block 57A from Innes Court



Looking north across Block 57B from Innes Court

**SUBJECT PHOTOGRAPHS (HILLTOP SUBDIVISION)**



Looking north across Block 57B from Innes Court



Northwesterly view across Block 55E



Looking south across Block 54 from Hudson Avenue



Looking southwest across Block 54 from Hudson Avenue



Southeasterly view of Block 51 from Donahue Street



Looking south along Coleman Street



**SUBJECT PHOTOGRAPHS (HILLTOP SUBDIVISION)**



Block 54



Northerly view across Block 54



Block 53



Block 50



Southerly view from Kirkwood Avenue across  
Block 55W



Northerly view along Coleman Street

**SUBJECT PHOTOGRAPHS (HILLTOP SUBDIVISION)**



Westerly view across Block 1JV from Donahue Street



Looking south along Donahue Street – Block 51 on the left, Block 1JV on the right



Looking north along Donahue Street – Block 1JV on the left



Looking east from Coleman Street towards Block 56A



**SUBJECT PHOTOGRAPHS (HILLSIDE SUBDIVISION)**



Southerly view across subject property from Earl  
Street



Westerly view across subject property from Earl  
Street



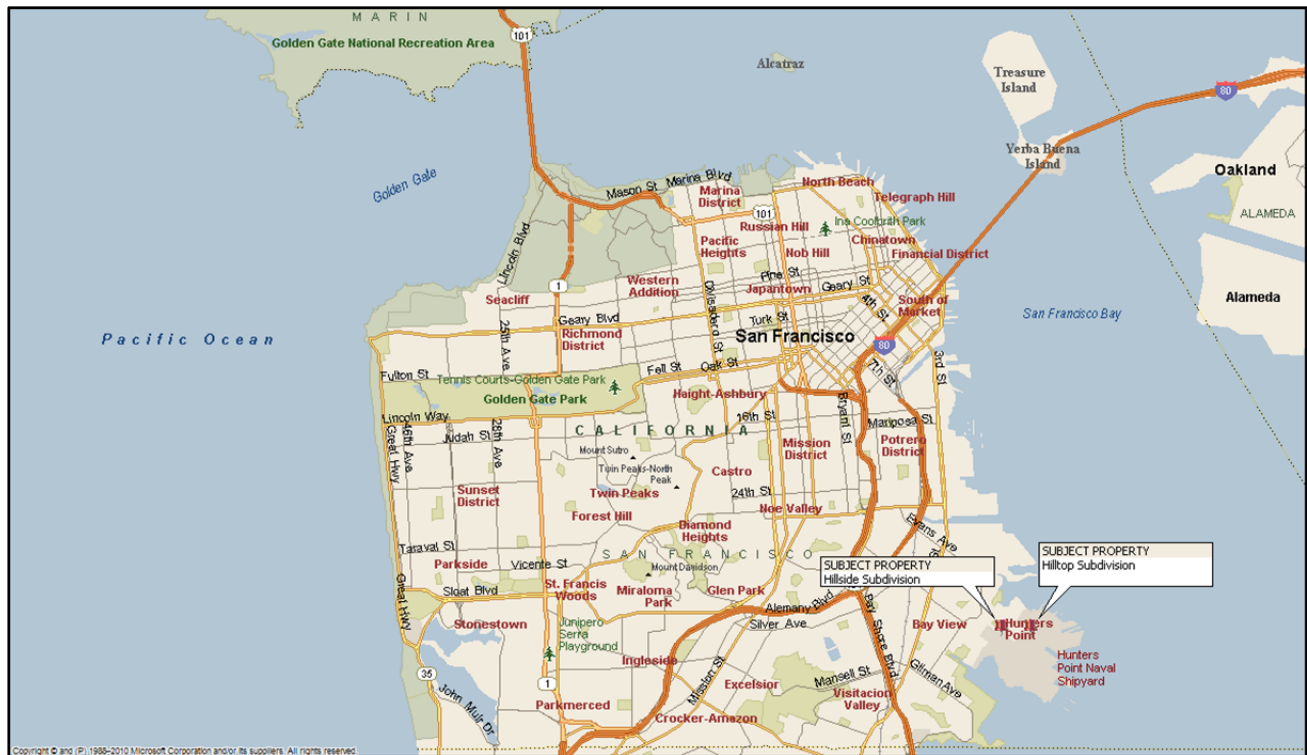
Westerly view of subject property from Earl  
Street



North view of Earl Street



## SAN FRANCISCO CITY & COUNTY



### **Introduction**

San Francisco is one of nine counties that comprise the greater San Francisco Bay Area. Spanning 47 square miles of peninsula land between the Pacific Ocean and San Francisco Bay, San Francisco County is unique in that it also defines the boundaries of the city of San Francisco. San Mateo County lies directly to the south, Marin County lies to the north, across the Golden Gate Bridge, and Alameda County lies to the east, across the Bay Bridge. San Francisco is the geographic and economic center of the Bay Area. Each day more than 400,000 workers commute to the city.

The topography of the city/county consists generally of rolling hills. The peninsula that San Francisco County rests on is surrounded by three bodies of water – the Pacific Ocean, the Golden Gate strait, and the San Francisco Bay. The area has a fairly mild climate, with a relatively comfortable temperature range year-round. Earthquakes are a common occurrence in the Bay Area due to the proximity to the San Andreas and Hayward Faults. The last major earthquake occurred in 1989 and measured 7.1 on the Richter scale.

### **Population**

The nine-county Bay Area is home to more than 7 million residents, and has shown moderate growth over the past five years with an average annual growth rate of 0.8%. The table on the following page shows recent population trends for the Bay Area's nine counties.

POPULATION TRENDS							
County	2008	2009	2010	2011	2012	2013	%/Yr
Alameda	1,484,085	1,497,799	1,509,240	1,517,756	1,530,176	1,548,681	0.9%
Contra Costa	1,027,264	1,038,390	1,047,948	1,056,306	1,066,602	1,074,702	0.9%
Marin	249,546	250,760	252,279	253,040	253,374	254,007	0.4%
Napa	133,969	135,225	136,316	137,232	137,731	138,383	0.7%
<b>San Francisco</b>	<b>795,002</b>	<b>800,239</b>	<b>804,989</b>	<b>808,768</b>	<b>816,311</b>	<b>825,111</b>	<b>0.8%</b>
San Mateo	707,820	713,818	718,614	722,372	727,795	735,678	0.8%
Santa Clara	1,747,912	1,767,204	1,781,427	1,794,337	1,813,696	1,842,254	1.1%
Solano	412,908	412,832	413,268	413,391	415,787	418,387	0.3%
Sonoma	474,819	478,622	482,961	485,082	487,672	490,423	0.7%
<b>Total</b>	<b>7,033,325</b>	<b>7,094,889</b>	<b>7,147,042</b>	<b>7,188,284</b>	<b>7,249,144</b>	<b>7,327,626</b>	<b>0.8%</b>
Source: California Department of Finance							

San Francisco's relatively moderate growth rate is to be expected, given the city's substantial build-out and little available land left for development. The city's high cost of housing relative to other parts of the Bay Area and California is also a constraint on growth.

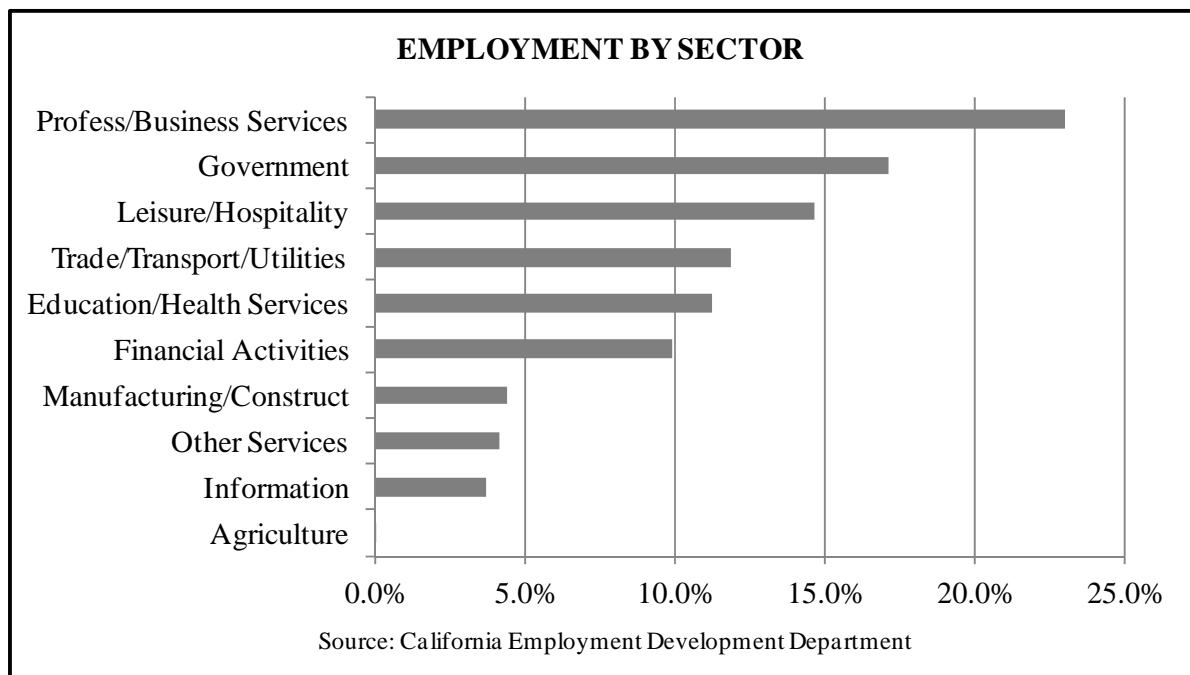
## Employment & Economy

The California Employment Development Department has reported the following employment data for the city/county of San Francisco in the recent past.

EMPLOYMENT TRENDS						
	2008	2009	2010	2011	2012	2013
Labor Force	457,800	459,500	457,000	465,300	477,600	487,200
Employment	433,900	418,700	413,300	425,500	442,800	459,300
Job Growth	-	(15,200)	(5,400)	12,200	17,300	16,500
Unemployment Rate	5.2%	8.9%	9.6%	8.6%	7.3%	5.7%
Source: California Employment Development Department						

The unemployment rate in San Francisco was 5.7% as of the end of 2013, with a decrease to 5.3% in January 2014, which compares favorably to rates of 8.5% for California and 6.7% for the U.S. For most areas within the state and nation, including San Francisco, unemployment declined from 2004-2006, increased from 2007-2010, and declined during 2011-2013. Employment conditions should continue to improve over the next few years. A forecast by Beacon Economics predicted that over 300,000 jobs would be created in the greater San Francisco Bay Area region from 2012 through 2015 – including 78,000 jobs in San Francisco and San Mateo Counties.

San Francisco has a diverse economy, with no one sector accounting for a majority of the employment in the region. The following chart indicates the percentage of total employment for each sector within the city/county.



As can be seen in the chart above, San Francisco's largest employment sectors are Professional and Business Services, Government, and Leisure and Hospitality. Major employers include city and state government, education institutions, health care facilities and financial services companies. The largest private employers are Safeway, AT&T, Wells Fargo Bank, Kaiser Permanente, Gap Inc., ABM Industries, Catholic Healthcare West, Macy's West, and PG&E Corp.

## Transportation

Main access to and through San Francisco is provided by Interstate 280, U.S. Highway 101 and State Highway 1. Interstate 280 runs northeast to Interstate 80, which traverses the Bay Bridge, connecting to Oakland (Alameda County) in the East Bay and heading north through Solano County and the city of Sacramento before continuing on through the Sierra Nevada Mountains and Reno, Nevada. Interstate 280 and U.S. Highway 101 run relatively parallel south of San Francisco along the peninsula through San Mateo County and Silicon Valley to San Jose (Santa Clara County). U.S. Highway 101 runs north along the eastern side of San Francisco and connects to Interstate 80 at the Bay Bridge. U.S. Highway 101 also leads from the northern edge of the county over the Golden Gate Bridge into Marin County and beyond. State Highway 1 travels along the Pacific coast of California from southern California to northern California where it merges with U.S. Highway 101 in Mendocino County.

As indicated above, vehicular access to the city/county of San Francisco is provided by the Golden Gate Bridge from the north, the Bay Bridge from the east, and the southern peninsula (San Mateo and Santa Clara Counties) to the south. Public transportation is provided by Amtrak trains, bus service and the Bay Area Rapid Transit (BART), which links Pittsburg/Bay Point and Richmond

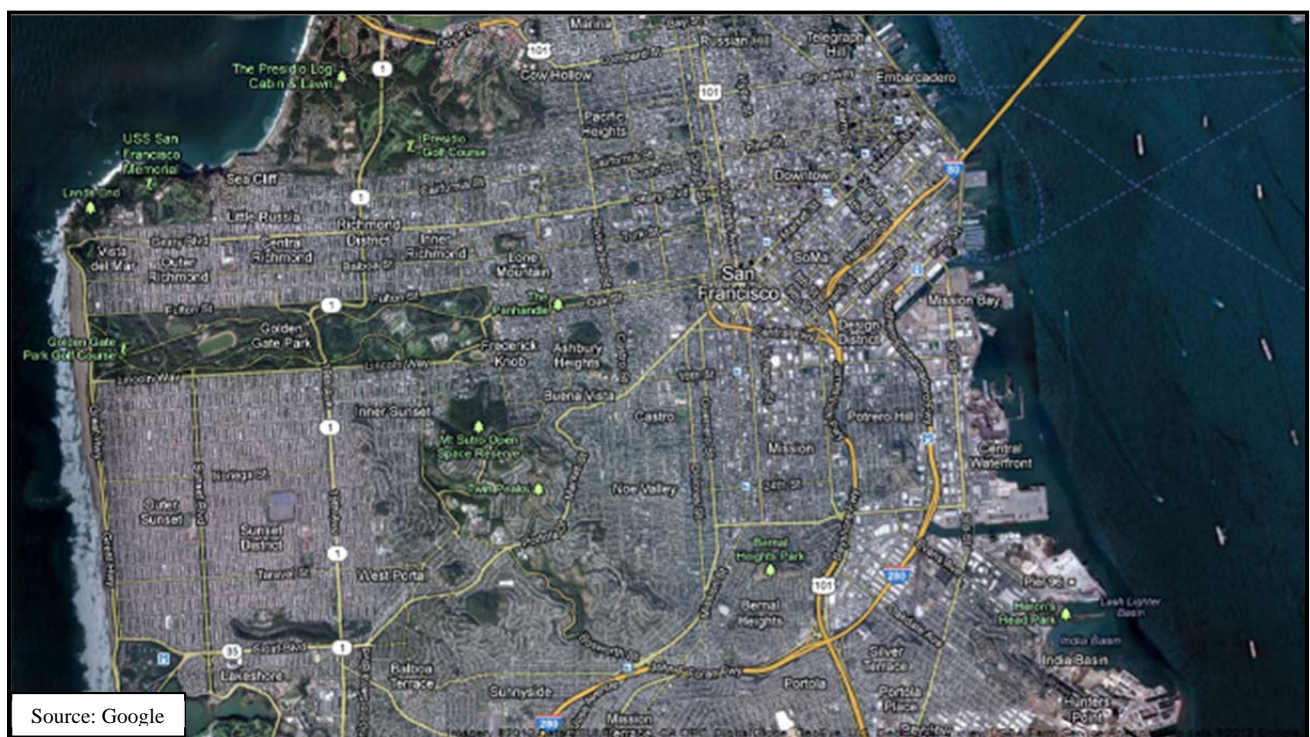
(Contra Costa County), Dublin/Pleasanton and Fremont (Alameda County) and Millbrae and the San Francisco International Airport (San Mateo County) to the city/county of San Francisco. Cable-car, Muni (trains, buses and street cars) and BART service provide public transportation within the city. BART and County Connection buses shuttle commuters to and from outlying areas. The area is also served by Bay ferries from surrounding counties. The aforementioned San Francisco International Airport lies about 12 miles south of the city.

## Household Income

Median household income represents a broad statistical measure of well-being or standard of living in a community. The median income level divides households into two equal segments with one half of households earning less than the median and the other half earning more. The median income is considered to be a better indicator than the average household income as it is not dramatically affected by unusually high or low values. In the year 2012 (most recent data available from the U.S. Census), San Francisco County's median household income was \$72,093, which was significantly higher than the state of California's median income of \$58,322. The county's income is the sixth highest among California counties.

## Neighborhoods

San Francisco is identified by many smaller submarkets or neighborhoods. The main neighborhoods are described in the following paragraphs based on information from [onlyinsanfrancisco.com](http://onlyinsanfrancisco.com) and Urban Bay Properties.



**Castro/Upper Market:** San Francisco's historic F-Line streetcars are one of the best ways to reach the Castro and Upper Market areas. The Castro, and nearby Noe Valley, offer village-like amenities including pedestrian-friendly streets, Victorian homes in historic Eureka Valley, an array of trendy stores and outdoor cafes for the "see and scene" crowd. The upper stretch of Market Street coils around the lower reaches of Twin Peaks. Noted for their sweeping vistas of the Bay Area, these crests are popular with sightseers. Glen Park on the lower slopes of Diamond Heights has a canyon park and is near a BART station.

**Chinatown:** The entrance to Chinatown at Grant Avenue and Bush Street is called the "Dragon's Gate." Inside are 24 blocks of hustle and bustle, most of it taking place along Grant, the oldest street in San Francisco. This city within a city is best explored on foot; exotic shops, food markets, temples and small museums comprise its boundaries. The former central telephone exchange of the Pacific Telephone and Telegraph Company stands at 743 Washington Street. Now a bank, it is the first Chinese-style building constructed in San Francisco, and the exact site where California's first newspaper was printed.

**Civic Center:** San Francisco's widest street, Van Ness Avenue, runs down the middle of Civic Center. A short distance from Civic Center is Hayes Valley, which boasts galleries, antique shops, restaurants and book nooks. A stretch of Larkin Street starting just beyond the Asian Art Museum's front door at Larkin and McAllister up to O'Farrell has been designated Little Saigon. Some 250 Vietnamese-owned businesses are concentrated in this and the nearby Tenderloin areas. The Polk Street district parallels Van Ness Avenue and extends all the way to Fisherman's Wharf, where it terminates in front of the historic Maritime Museum. Catering to a diverse population, Polk Street is one of the oldest shopping districts in San Francisco.

**Embarcadero/Financial District:** Lined with deep-water piers, The Embarcadero is literally where one embarks. At the foot of Market Street is the Ferry Building, which houses a food hall, restaurants and a farmers market. The Ferry Building is also the terminal for ferries to Marin County, Vallejo, Oakland and Alameda. Across the bay is Treasure Island, a man-made island that was the site of the 1939 Golden Gate International Exposition. Much of Jackson Square, one of 11 historic districts, has many buildings dating from the mid-1800s.

**Fisherman's Wharf:** Fisherman's Wharf is home to fishing boats, seafood stalls, steaming crab cauldrons, seafood restaurants and sourdough French bread bakeries, as well as souvenir shops and museums. The historic F-Line streetcar and two cable car lines terminate in the area and sightseeing boats and boat charters link to Alcatraz and Angel Island and other points around San Francisco Bay.

**Haight-Ashbury:** One of the most photographed scenes in San Francisco, Alamo Square's famous "postcard row" at Hayes and Steiner streets is a tight formation of Victorian houses back-dropped by downtown skyscrapers. The corner of Haight and Ashbury streets still has its tie-dyed roots; vintage clothing, books and records are abundant here and along lower Haight Street. Locals will point out Buena Vista Park, with its city views; and, for architectural highlights, Masonic, Piedmont and Delmar Streets. Parnassus Heights is home to the University of California, San Francisco.

**Japantown/Fillmore:** Founded in 1906, Japantown is the oldest Japanese district in the United States and one of only three remaining. This small slice of Japanese life is near the Fillmore, the "Harlem of the West," which is witnessing a revival of its jazz heritage and is the setting for an annual open-air jazz festival.

**Marina/Presidio:** The Golden Gate Bridge is one of the world's most famous landmarks. Its southern approach via State Highway 1/U.S. Highway 101 traverses some of the city's most scenic and historic areas including the Presidio of San Francisco and the Marina, site of the 1915 Panama-Pacific International Exposition. The outdoor cafes of Union Street in Cow Hollow, former dairy land, are ideal spots for people watching and gazing up at the mansions of Pacific Heights. Outer Sacramento Street and Laurel Heights contain a variety of shopping areas.

**Mission District:** Boasting some of the best weather in the city, the Mission District, Bernal Heights and Potrero Hill take advantage of an abundance of fog-free days. New restaurants and night spots are a draw while Mission Dolores, located at 16th and Dolores streets, is the oldest structure in San Francisco. Many of the city's pioneers are buried in an adjacent cemetery. The largest concentration of murals in the city adorns buildings, fences and walls throughout the District. Potrero Hill's Dogpatch neighborhood is one of 11 historic Districts in the city.

**Nob Hill:** Once the home of the silver kings and railroad barons, the "nabobs," Nob Hill's noble tenants include Grace Cathedral, a replica of Notre Dame in Paris; Huntington Park, site of many art shows and graced by a replica of a 16th century Roman fountain; Nob Hill Masonic Center, an architectural dazzler hosting various musical events; the Cable Car Barn, where the cable cars are stored when not in service, and grand hotels, including the Mark Hopkins (Intercontinental Hotel) and the famous Top Of The Mark restaurant/bar and the Fairmont. Russian Hill, named for burial sites of Russian hunters who were active in California waters in the early 1800s, is most famous for the winding curves of Lombard Street.

**North Beach:** North Beach is transformed into one of San Francisco's most electric playgrounds with live music and dancing. Many local residents practice tai chi in Washington Square. Coit Tower atop Telegraph Hill offers marvelous views of the city. Thirty local artists painted murals on its ground floor walls in 1933.

**Richmond District:** Laid out in a grid of multifamily houses all the way to the Great Highway and Ocean Beach, the area is bordered by Golden Gate Park, Lincoln Park/Presidio and Lone Mountain. Shopping is concentrated along major thoroughfares, including Geary Boulevard and Clement Street. The Richmond District sprouted a second Chinatown along Clement Street in the early 1970s thanks to the numerous Asian restaurants and retail stores.

**Soma/Yerba Buena:** Yerba Buena Gardens, “the largest concentration of art west of the Hudson River,” is an oasis in the heart of the city. Moscone Center and more than a dozen museums are located here as well as a memorial to Dr. Martin Luther King, Jr. The South Beach area, recently transformed into a mixed-use waterfront neighborhood, includes the restored warehouses in the South End Historic District and several marinas.

**Union Square:** Virtually every fashion label in the world has set up shop in and around Union Square, a landmark park in the heart of the downtown shopping and hotel district. Granite plazas, a stage, a café and four grand entrance corner plazas bordered by the park’s signature palms, pay tribute to the Square’s distinctive history and offer a forum for civic celebrations. The cable cars head up Powell Street from here and flower stands populate every corner. Thousands originally from Laos, Cambodia and Vietnam have given the Tenderloin, a 20-square-block district west of Union Square, new life. A landmark church, an experimental theatre house, jazz and blues clubs, restaurants and cafes point to a neighborhood renaissance.

**Mission Bay:** Established as a redevelopment area by the City and County of San Francisco in 1998, the neighborhood was primarily undeveloped for several years, with warehouses, shipping yards and factories the primary land uses in the area. Now, since the construction of AT&T Park, home to the San Francisco Giants baseball team, the Mission Bay and Central Waterfront area of San Francisco is now developing as a biotech research hub for the Bay Area. California’s Stem Cell Research headquarters is located in Mission Bay, as is a new University of California San Francisco (UCSF) Mission Bay campus. Newly constructed and proposed residential lofts and condos are also part of the neighborhood resurgence.

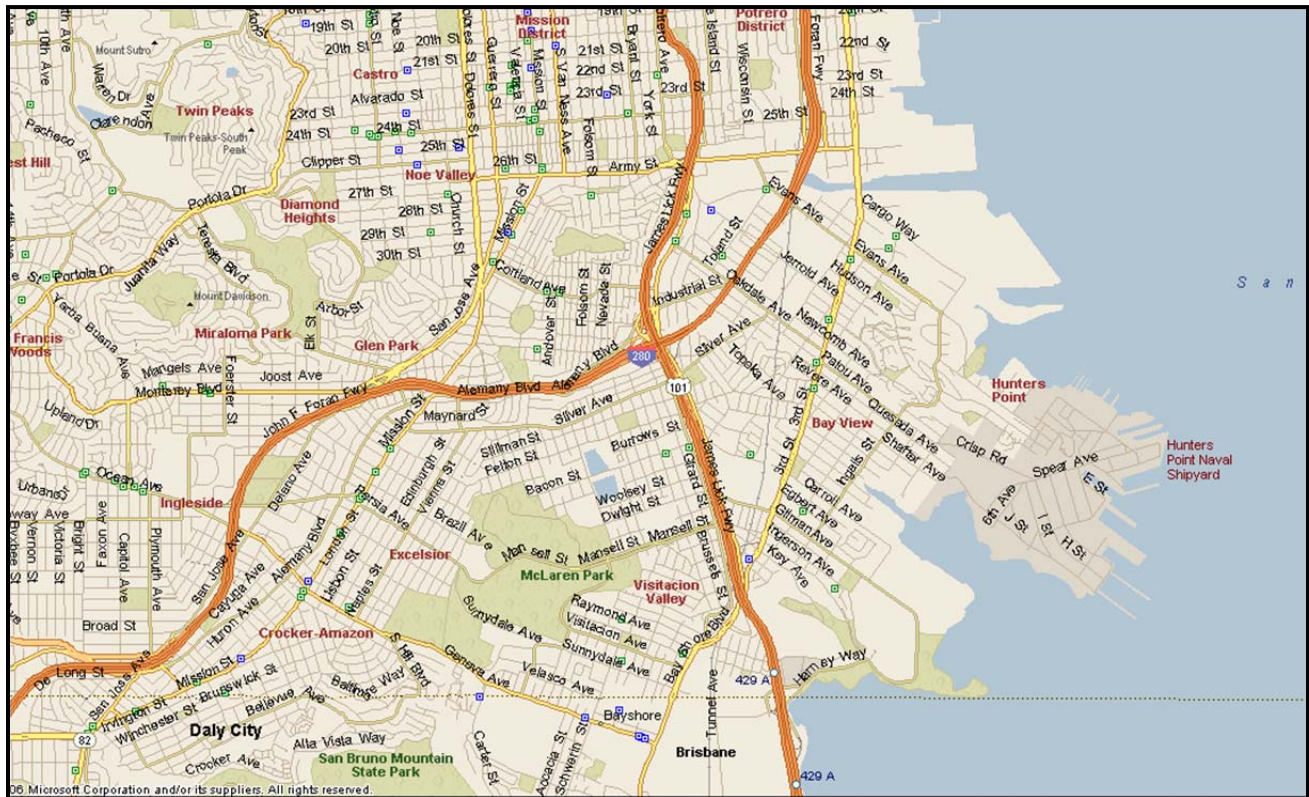
**Bayview/Candlestick Point/Hunters Point (Subject Neighborhood):** This area is primarily south of Interstate 280 and is home to the former Hunters Point shipyard. The Point, located within the former shipyard, is hyped as “America’s largest art colony,” and hosts several open art events and exhibitions during the year. The Bayview Opera House is the city’s first opera house. Candlestick Point is the present home of Candlestick Park (home to the San Francisco 49ers football team).

## **Conclusion**

San Francisco is one of the largest metropolitan areas in the U.S. and serves as a hub for international commerce, technology, financial services and tourism. The city is densely built-out with a limited supply of developable land. After a period of contraction in the economy and real estate markets around 2008-2010, the region has seen improvement in employment and economic conditions over the past few years. The near-term outlook is for continued recovery and growth.



## NEIGHBORHOOD OVERVIEW



### Introduction

This section of the report provides an analysis of the observable data that indicate patterns of growth, structure and/or change that may enhance or detract from property values. For the purpose of this analysis, a neighborhood is defined as “a group of complementary land uses; a congruous grouping of inhabitants, buildings or business enterprises.”<sup>3</sup>

### Neighborhood Boundaries

The boundaries of a neighborhood identify the physical area that influences the value of the subject property. These boundaries may coincide with observable changes in prevailing land use or occupant characteristics. Physical features such as the type of development, street patterns, terrain, vegetation and parcel size tend to identify neighborhoods. Roadways, waterways and changing elevations can also create neighborhood boundaries.

The subject property is located in the Bayview-Hunters Point neighborhood, which lies in the southeastern part of San Francisco between the city’s Financial District, Mission Bay areas and San Francisco International Airport. The neighborhood boundaries can generally be described as Cesar Chavez Boulevard to the north, U.S. Highway 101 to the west, Bayview Hill to the south, and the San Francisco Bay to the east. Smaller neighborhoods within the area include Hunters Point, India Basin, Bayview, Silver Terrace, Bret Harte, Islais Creek Estuary and South Basin.

<sup>3</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> ed. (Chicago: Appraisal Institute, 2010), 133.

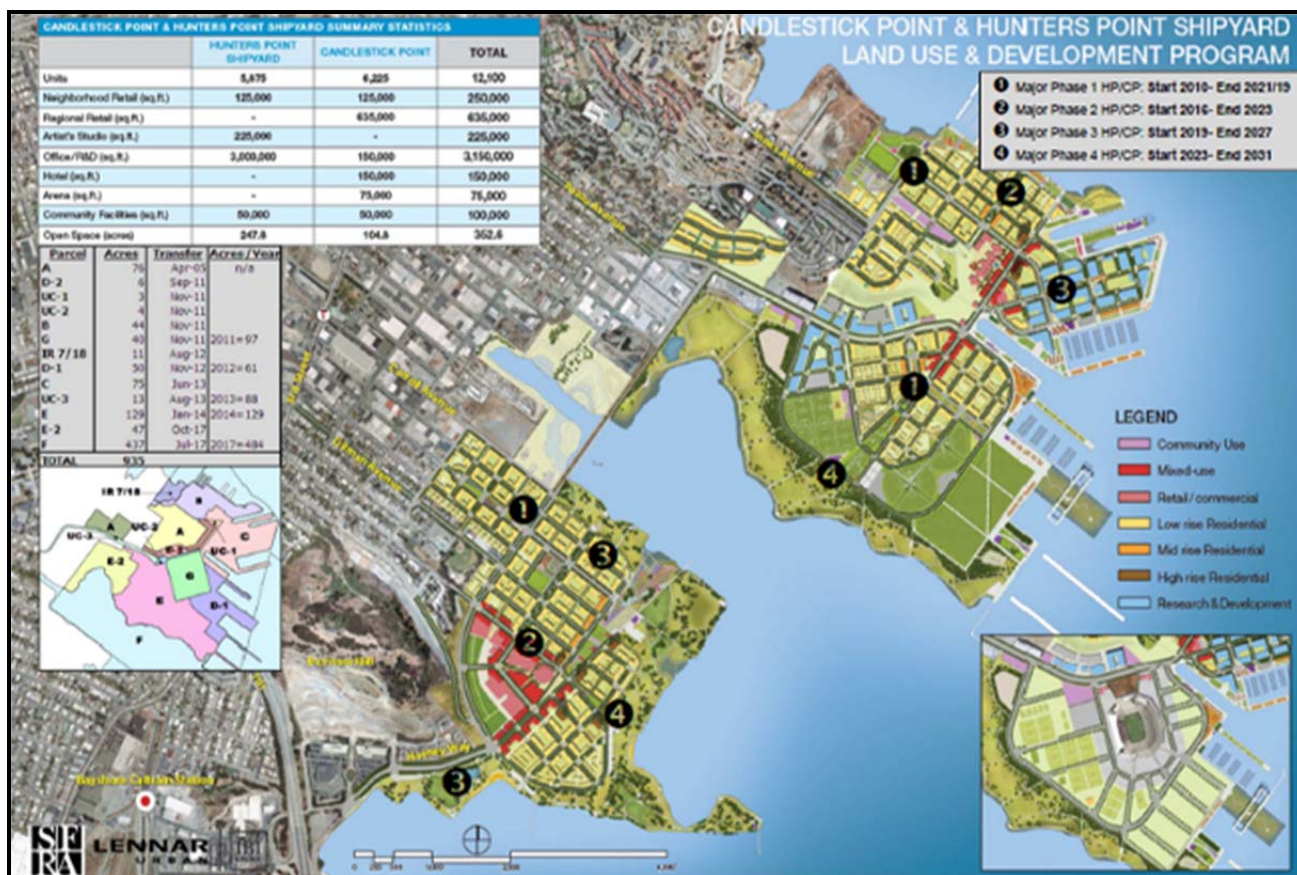
## **Demographics**

According to Site To Do Business (STDB), the subject zip code (94124) has a population of 34,371 persons as of 2013, with a projected increase to 36,949 in 2018. About 53% of the housing units in the neighborhood are renter-occupied. As of March 2014, the median home price in the 94124 zip code was \$480,000, up 19.7% from the prior year, according to DataQuick Information Systems. Home prices in the zip code are by far the lowest in the city/county of San Francisco. The overall median price for San Francisco County was \$935,000 in March 2014.

## **Land Uses**

As noted, the subject is located in the Bayview-Hunters Point neighborhood, situated along the San Francisco Bay in the southeastern part of the city. More specifically, the subject is located within the former Hunters Point Naval Shipyard. From World War II until the 1970s, the 500-acre Shipyard was a major source of jobs for the community, employing up to 17,000 people at its peak. After the Shipyard closed in 1974, the neighborhood went into a long period of decline and was blighted with abandoned warehouses and railroad tracks. Various revitalization efforts have been planned over the decades, but none have been fulfilled until now. In 1993 Congress authorized the transfer of the Shipyard to the City and County of San Francisco. In 1999-2000, a preliminary development concept was created and Lennar was selected as the primary developer. Grading and infrastructure work began in 2006.

The current redevelopment project is designed to transform the Hunters Point Shipyard into a thriving community with residential, commercial and recreational areas. The predominantly flat peninsula is punctuated by Hunters Point Hill, which will offer scenic views for future residential development. The Hunters Point Shipyard (HPS) Redevelopment Plan was adopted by the Board of Supervisors in 1997 and amended in 2010 to provide for the integrated planning and development of the Shipyard and the Candlestick Point portion (approximately 280 acres) of the Bayview Hunters Point Redevelopment Area. At build-out, Phase I, which is being developed by Lennar Corporation, will include up to 1,600 housing units (including SFRA parcels), 27% to 40% of which will be affordable; 36 acres of parks and open space; 10,000 square feet of commercial space and various community facilities.



Phase II, which Lennar Corporation is also developing, will include the remaining portions of the Shipyard and the Candlestick Point area as one development project. At build-out, Phase II will include 10,500 housing units, 32% of which will be affordable; over 300 acres of parks and open space, including a complete renovation of the Candlestick Point State Recreation area, which is presently the site of the Candlestick Park football stadium (former home to the San Francisco 49ers NFL team); approximately 125,000 square feet of neighborhood-serving retail on the Shipyard; approximately three million square feet of “clean” technology research and development space, a clean tech business incubator and the headquarters for the UN Global Compact Sustainability Center located in Building 813 on the Shipyard; permanent new and renovated space for the existing Shipyard artists; a rebuilt Alice Griffith public housing development consistent with the City’s HOPE SF program; 675,000± square feet of regional and neighborhood-serving retail; and a 200-room hotel.

To the west of Hunters Point is the Bayview neighborhood, which is also seeing revitalization after many years of decline and blight. The MUNI T-Third Street light rail project was completed in 2007 through the neighborhood, replacing an aging bus line with several new stations, street lamps and landscaping. A \$75 million mixed-use project was completed at 5800 Third Street, and all 137 residential condominium units have sold out.

The Bayview area has also seen the arrival of new food-related retailers, including the popular area restaurants Limon Rotisserie and Brown Sugar Kitchen. The 3rd Street Corridor Project is a collaborative effort to revitalize the commercial, civic, and cultural center of the Bayview-Hunters Point community, and included the Third Street Light Rail Project. According to the Renaissance Entrepreneurship Center, the goal of the 3rd Street Corridor Project is for the 3rd Street corridor to become a place where local residents find essential goods and services, earn their livelihood as business owners and employees, access cultural and social resources, and meet and mix with neighbors.

Just north of the Bayview-Hunters Point neighborhood is the Mission Bay district. This neighborhood has seen significant redevelopment in recent years. Notable land uses in and around this area include the Port of San Francisco; AT&T Park, which is home to the San Francisco Giants major league baseball team; the Mission Bay campus of the University of California San Francisco; and San Francisco General Hospital. Within the boundaries of the subject neighborhood, there are several neighborhood parks and the Evans Campus of City College of San Francisco.

## **Conclusion**

In summary, the subject property is located in the Bayview-Hunters Point neighborhood in southeastern San Francisco, an area that has been declining since the decommissioning of the Naval Shipyard in the 1970s, but is now in the early stages of what is expected to be an era of major redevelopment. The main disadvantages of the neighborhood are its low income levels, high unemployment and blighted buildings. The Hunters Point Shipyard (HPS) Redevelopment is a collaboration with a national developer (Lennar) and the SFRA. Among the area's advantages are its proximity to employment centers in San Francisco and San Mateo Counties, location on the waterfront of the San Francisco Bay, and government support for redevelopment. The area is expected to see improvement in economic conditions over the next several years as redevelopment plans proceed and the overall regional economy grows.



## **HIGHEST AND BEST USE ANALYSIS**

The term “highest and best use,” as used in this report, is defined as follows:

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property – specific with respect to the user and timing of the use – that is adequately supported and results in the highest present value.<sup>4</sup>

Two analyses are typically required for highest and best use. The first analysis is highest and best use of the land as though vacant. The second analysis is the highest and best use of the land as improved (proposed). (Definitions of these terms are provided in the *Glossary of Terms* in the Addenda to this report.)

### **Highest and Best Use as Vacant**

In accordance with the definition of highest and best use, it is appropriate to analyze the subject site as though vacant as it relates to legal permissibility, physical possibility, financial feasibility and maximum productivity.

### ***Legal Permissibility***

The legal factors influencing the highest and best use of the subject property are primarily government regulations such as zoning and building codes. The subject is zoned RM-1 – Low Density Residential and HP-RA – Hunters Point Redevelopment Area, which was established to guide redevelopment of the former Hunters Point Shipyard. The Hunters Point Redevelopment Area Phase I development consists of 19.22± developable acres commonly referred to as the Hilltop and Hillside subdivisions. At completion, the subject property (Phase I) is proposed for the construction of 1,079 residential units in a variety of attached single-family, e.g., townhouse and stacked residential units. Of the 1,079 residential units comprising the District, Block 1JV of the Hilltop subdivision contains 3.21± acres designated for residential development and will also include 9,000 square feet of ground floor retail space. According to the Specific Development Guidelines by Sub-Area, presented within the Hunters Point Shipyard Redevelopment Project Phase I Design for Development, Block 1 will serve as the emblematic gateway to the Hilltop Sub-Area, incorporating retail uses along Innes Avenue and/or Donahue Street, defining an urban edge for the open space parcels to the east, and providing a network of pedestrian alleys to the open spaces envisioned in the Candlestick Point/Hunters Point Shipyard Phase II Urban Design. According to the master developer, Block 1JV is being considered for multifamily residential (for-rent) development as a 255-unit apartment project instead of the 224 unit for-sale development currently entitled. The legally permissible use is to develop the subject property in accordance with the existing entitlements for attached, single-family residential development, with complementary retail use.

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<sup>4</sup> The Dictionary of Real Estate Appraisal, 5<sup>th</sup> ed. (Chicago: Appraisal Institute, 2010), 93.

### ***Physical Possibility***

The physical characteristics of the subject including shape, size, topography, accessibility and availability of utilities were all given consideration. The subject's physical orientation was also considered. At this point in the analysis the physical characteristics are examined to see if they are suited for the legally permissible uses.

Based on our physical inspection of the subject property, we know of no reason why the property would not support any legal development. The property is located within Earthquake Zone 4, which is assigned to areas near major faults. However, the location within this zone does not prevent development. Evidence of residential and commercial construction in the immediate area provides additional support for the possibility of development. Typical roadway and utility easements exist, or will exist upon completion of the infrastructure to be completed, but are not known to be unusual in any way. It is assumed any easements do not adversely affect the subject's potential for development.

At the time of inspection, the appraiser did not observe the existence of hazardous material, which may or may not be present on the property. The appraiser has no knowledge of the existence of such materials on the property. However, the appraiser is not qualified to detect such substances. The presence of potentially hazardous materials could affect the value of the property. The value estimate herein is predicated on the assumption that there is no material on or in the property that would cause a loss of value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them.

In light of the former activities at the Hunters Point Shipyard, which generated a variety of hazardous materials, in 1989 the U.S. Environmental Protection Agency placed the Shipyard on the National Priorities List as a Superfund site, with the U.S. Navy remaining obligated for the cost to remediate the property. In April 2004 the U.S. Navy and SFRA entered into a Conveyance Agreement to set forth the process of conveying Hunters Point Shipyard parcels to the SFRA, which requires certification by the federal and state regulators that any such parcels be remediated of hazardous contaminants to a level suitable for their intended uses. The remediation of parcels within the Shipyard may be completed on a parcel-by-parcel basis, with facilitation of the remediation process done by subdividing the site into six parcels, identified as Parcels A, B, C, D, E and F, with Parcel A (comprising the Hunters Point Shipyard Phase I [subject property]), being removed from the National Priorities Superfund list in 1999.

In conclusion, it appears as if the legally permissible uses of the subject property are physically possible.

## ***Financial Feasibility***

The feasibility of residential development is dependent on the area supply and demand conditions. As of December 2013, the San Francisco Association of Realtors reports new listings for attached residential properties (condominium, tenants in common and coop properties) are up 6.9% year over year, and pending sales are up 6.0% over 2012. The median sales price increased 15.7% from 2012 to 2013, with the median sale price for Condo/TIC/Coop properties increasing from \$709,000 in 2012 to \$820,000 in 2013. The median sales price for single-family homes increased 20.4% from \$760,000 in 2012 to \$915,000 in 2013. The Monthly Indicators report for December 2013, prepared by the San Francisco Association of Realtors, indicates the subject's Southeast market area, which includes the following communities: Outer Mission, Mission Terrace, Excelsior, Portola, Bayview, Silver Terrace, Hunters Point, Candlestick Point, Bayview Heights, Little Hollywood, Visitation Valley and Crocker Amazon, saw the median sales price for single-family homes (\$592,000) increase 10.4% over the past year (up from \$536,500). The Condo/TIC/Coop median sales price increased 83% (\$499,500) during the same period, up from \$273,000 in December 2012; though, this is to be expected in light of the limited supply of product in the submarket area, making data subject to big swings. It's worth noting there is very little comparable product to that proposed for the Hunters Point Shipyard redevelopment in the market.

According to Pacific Union International, sales of new homes in the subject's Bayview/Hunters Point market area have been healthy during the past 12 months, with the average sales price increasing from \$460,380 in January 2013 to \$480,732 in January 2014. Sales prices as a percent of asking price have remained above 100% since July 2012. According to Pacific Union International, average days on market have dropped to 33 days, which is down significantly over the year from 96 days in January 2013. More importantly, the average number of properties listed stands at nine.

Located within the Bayview/Hunters Point market area, just south of the subject property and west of Candlestick Park, is the Candlestick Cove townhome project, which was developed by Signature Homes. This project is a 64-unit townhome condominium project developed with "green" building construction; units range from 1,455 to 1,930 square feet and offer up to four-bedroom floor plans, with prices in the \$700,000s. This project opened for sale in 2010.

In the city of San Mateo, the Bay Meadows Phase II redevelopment was approved through the site plan and architectural review (SPAR) process for residential housing units under both for-sale and for-rent product type. Several of the buildings planned for Bay Meadows Phase II are of a mixed-use design with ground floor retail space. In total, Phase II of the Bay Meadows Racetrack will contain 1,121 residential housing units, with 832 residential housing units being developed on the residential land component and the balance (289 units) to be developed as part of a mixed-use component. Shea Homes acquired land within the Phase II development and is presently marketing attached homes in the Landsdown project. There are five base floor plans ranging from 1,237 to 2,353 square feet in size, with current prices ranging from \$848,000 to \$1,183,000 (\$502.76 to \$685.53 per square foot) as of the end of the First Quarter 2014.



Of the 93 units planned, 73 units have been offered and all have sold since opening June 15, 2013, indicating an absorption rate of just over nine units per month. Adjacent to Landsdown, Tri Pointe Homes is developing Amelia at Bay Meadows, a 63-unit attached project with an average home size of 1,557 square feet and an average price of \$927,900. As of the end of the First Quarter 2014, all 63 units were sold, indicating an absorption rate of just over ten homes per month. It's worth noting the units within the Landsdown project, and all developments within the Bay Meadows Phase II project, are subject to an annual Special Tax of \$3,492±, plus an HOA of \$250 per month, or \$3,000 per year.

According to DataQuick Information Systems (May 14, 2014 report), home sales in the Bay Area were relatively flat year-over-year, with the exception of San Mateo County, which experienced a year-over-year increase of 14.0% in sales volume; though, the median home price in April 2014 for the nine County Bay Area region rose to the highest post-recession level of \$610,000, up 19.6% from a year ago (\$510,000). In San Francisco, there were 612 home sales in April 2014, and the year-over-year change in median home price increased 13.2% (\$815,000 to \$922,500). In the subject's submarket (94124 zip code), the median home price, as of April 2014, was up another 41.5% from a year ago, with a median price of \$518,750 – the highest price achieved was \$785,000. The following chart shows the year-over-year change in home prices and sales in the city of San Francisco.

Community	Zip	Sales	Yr over Yr % Chg	Median Price	Yr over Yr % Chg	High Price	Average \$/SqFt	Yr over Yr % Chg
San Francisco	94102	65	550.0%	\$746,000	41.3%	\$1,395,000	\$1,232	n/a
San Francisco	94103	21	23.5%	\$850,000	11.8%	\$1,500,000	\$701	n/a
San Francisco	94105	37	2.8%	\$915,000	-28.5%	\$3,500,000	n/a	n/a
San Francisco	94107	38	-26.9%	\$1,083,500	46.4%	\$2,650,000	\$1,742	99.3%
San Francisco	94108	5	0.0%	\$1,250,000	92.3%	\$2,425,000	n/a	n/a
San Francisco	94109	48	33.3%	\$1,021,250	15.8%	\$5,500,000	n/a	n/a
San Francisco	94110	53	35.9%	\$975,000	11.9%	\$2,200,000	\$894	34.2%
San Francisco	94111	7	40.0%	\$825,000	-3.8%	\$975,000	n/a	n/a
San Francisco	94112	38	-13.6%	\$715,000	16.3%	\$1,388,000	\$550	12.4%
San Francisco	94114	28	-20.0%	\$1,282,500	6.9%	\$4,200,000	\$1,095	8.8%
San Francisco	94115	21	-34.4%	\$1,135,000	13.3%	\$10,117,500	\$1,070	22.1%
San Francisco	94116	34	30.8%	\$961,000	19.4%	\$1,539,000	\$634	13.0%
San Francisco	94117	17	-10.5%	\$1,340,000	36.2%	\$3,700,000	\$1,032	-2.5%
San Francisco	94118	21	-16.0%	\$1,515,000	5.4%	\$8,400,000	\$856	14.8%
San Francisco	94121	24	14.3%	\$1,020,000	-7.3%	\$6,500,000	\$710	0.0%
San Francisco	94122	24	9.1%	\$978,500	15.7%	\$2,600,000	\$746	32.8%
San Francisco	94123	14	-50.0%	\$1,912,550	35.4%	\$3,150,000	\$1,475	11.2%
<b>San Francisco</b>	<b>94124</b>	<b>21</b>	<b>-16.0%</b>	<b>\$518,750</b>	<b>41.5%</b>	<b>\$785,000</b>	<b>\$432</b>	<b>23.7%</b>
San Francisco	94127	11	-42.1%	\$1,310,000	19.0%	\$2,353,000	\$779	15.4%
San Francisco	94131	39	18.2%	\$1,100,000	0.0%	\$5,250,000	\$1,088	41.0%
San Francisco	94132	15	50.0%	\$690,000	1.3%	\$1,560,000	\$687	8.6%
San Francisco	94133	10	-23.1%	\$1,540,000	20.1%	\$3,625,000	\$1,270	n/a
San Francisco	94134	14	-36.4%	\$695,000	46.3%	\$956,000	\$520	26.9%

As is shown in the previous chart, several areas of the city experienced positive increases in median pricing from a year ago. While there may still be risk associated with introducing a new project to the market, the limited supply of product in the area, especially new home product, suggests there may be positive acceptance by the market. A strategic, phased development of the subject's residential parcels is considered ideal in order to achieve market balance with supply and demand.

As noted in the *Legal Permissibility* discussion, Block 1JV is being considered by the master developer for development as a 255-unit for-rent apartment project rather than a 224 unit for-sale development. According to Cassidy Turley's *Apartment Market Report, San Francisco, First Quarter 2014*, the overall apartment market vacancy rate as of 1<sup>st</sup> Quarter 2014 was 3.8%, down from 5.1% a year ago, and down from 4.5% in fourth quarter of 2013. Rental rates have been on an upward trend for over five years in San Francisco, the average rental rate for an apartment in San Francisco, as of the first quarter of 2014, was \$3, 057, which has increased by 11.5% over the past year and has climbed by 37.8% since 2010. While sales prices have been increasing for multifamily projects in San Francisco, most of the sale activity within the marketplace has focused on older and smaller Class B/C projects. Nevertheless, the overall capitalization rates, which is the ratio between the net operating income as of the date of value and a property's cash equivalent sales price, for sales in the San Francisco market averaged 5.1% as of the 1<sup>st</sup> Quarter 2014, which is up approximately 60 basis points from the 4<sup>th</sup> Quarter 2013; though, this is likely due to the increased number of Class B and C properties transacting.

Either for-sale single-family residential development or for-rent multifamily residential development is considered financially feasible on the subject property. However, it's worth noting, a for-rent multifamily development on the subject property would not compete with existing (under construction) and proposed for-sale single-family residential development on the balance of the Hunters Point Shipyard redevelopment. For purposes of this analysis, Block 1JV of the subject property will be analyzed based on the existing entitlements, which are 224 for-sale residential units.

Based on the preceding discussion, it appears for sale residential development, consistent with the entitlements approved for the Hunters Point Shipyard Redevelopment plan, is financially feasible. With demand for residential product in the city, development is considered financially feasible, as long as it is phased properly with an aggressive and active sales and marketing team. The subject property's proximity to the developing 3<sup>rd</sup> Street Corridor Project, which is attempting to revitalize the commercial, civic, and cultural center of the Bayview-Hunters Point community, and the 3<sup>rd</sup> Street Light Rail Project is expected to bode well for new residential development. The subject property's location proximate to transportation links and the employment centers of the city, including the Financial District and the nearby, developing Mission Bay, should also bode well for the subject property. While the plan for Block 1JV of the Hilltop subdivision is to incorporate approximately 9,000 square feet of ground floor retail space into the development, pursuant to the Specific

Development Guidelines in the Hunters Point Shipyard Redevelopment Project Phase I Design for Development, it is anticipated there will be insufficient demand for retail space until there is an ample supply of residential development completed within the Hunters Point Shipyard redevelopment area. Consequently, the commercial component of the subject site offers nominal, if any, enhancement to the underlying land value. This opinion is supported by the fact a 12-unit mixed use development located along Innes Avenue, west of the subject property, includes ground floor retail space that remains vacant.

### ***Maximum Productivity – Conclusion***

Legal, physical and market conditions have been analyzed to evaluate the highest and best use of the subject property. The analysis is presented to evaluate the type of use(s) that will generate the greatest level of future benefits possible to the property. Based on the zoning and entitlements approved for the subject property residential development, with complementary public areas, is the only land use that is legally permissible, physically possible and financially feasible. The maximally productive use of the subject is for development commensurate with the Hunters Point Redevelopment plan.

### ***Probable Buyer***

The most probable buyer of the subject is a home builder familiar with the regional market area. In light of the fact several Blocks are under construction with housing commensurate with the Development Agreement and consistent with the highest and best use, the probable buyer of these Blocks would be a merchant builder familiar with the Bay Area housing market.

## **APPROACHES TO VALUE**

The valuation process is a systematic procedure used in the valuation of real property.<sup>5</sup> This process involves the investigation, organization and analysis of pertinent market data and other related factors that affect the market value of real estate. The market data is analyzed in terms of any one or all of the three traditional approaches to estimating real estate value. These are the cost, sales comparison, and income capitalization approaches. One additional analysis—a discounted cash flow analysis—is also applicable. Each approach to value is briefly discussed and defined as follows:

### **Cost Approach**

The cost approach is based on the premise that no prudent buyer would pay more for a particular property than the cost to acquire a similar site and construct improvements of equivalent desirability and utility. Thus, this approach to value relates directly to the economic principle of substitution, as well as supply and demand. The cost approach is most applicable when valuing properties where the improvements are new or suffer only a minor amount of accrued depreciation, and is especially persuasive when the site value is well supported. The cost approach is also highly relevant when valuing special-purpose or specialty properties and other properties that are not frequently exchanged in the market.

The definition of the cost approach is offered as follows:

A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.<sup>6</sup>

### **Sales Comparison Approach**

The sales comparison approach is based on the premise that the value of a property is directly related to the prices being generated for comparable, competitive properties in the marketplace. Similar to the cost approach, the economic principles of substitution, as well as supply and demand are basic to the sales comparison approach. This approach has broad applicability and is particularly persuasive when there has been an adequate volume of recent, reliable transactions of similar properties that indicate value patterns or trends in the market. When sufficient data are available, this approach is the most direct and systematic approach to value estimation. Typically, the sales comparison approach is most pertinent when valuing land, single-family homes and small, owner-occupied commercial and office properties.

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<sup>5</sup> *The Dictionary of Real Estate Appraisal*, 5<sup>th</sup> ed. (Chicago: Appraisal Institute, 2010), 205.

<sup>6</sup> *The Dictionary of Real Estate Appraisal*, 47.

The definition of the sales comparison approach is offered as follows:

The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.<sup>7</sup>

### **Income Capitalization Approach**

The income capitalization approach is based on the premise that income-producing real estate is typically purchased as an investment. From an investor's point of view, the potential earning power of a property is the critical element affecting value. The concepts of anticipation and change, as they relate to supply and demand issues and substitution, are fundamental to this valuation approach. These concepts are important because the value of income-producing real estate is created by the expectation of benefits (income) to be derived in the future, which is subject to changes in market conditions. Value may be defined as the present worth of the rights to these future benefits.

Within the income capitalization approach there are two basic techniques that can be utilized to estimate market value. These techniques of valuation are direct capitalization and yield capitalization.

*Direct Capitalization:* A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only a single year's income is used. Yield and value changes are implied but not identified.<sup>8</sup>

*Yield Capitalization:* A method used to convert future benefits into present value by 1) discounting each future benefit at an appropriate yield rate, or 2) developing an overall rate that explicitly reflects the investment's income pattern, holding period, value change, and yield rate.<sup>9</sup>

The definition of the income capitalization approach is offered as follows:

A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.<sup>10</sup>

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<sup>7</sup> *The Dictionary of Real Estate Appraisal*, 5<sup>th</sup> ed. (Chicago: Appraisal Institute, 2010), 175.

<sup>8</sup> *The Dictionary of Real Estate Appraisal*, 58.

<sup>9</sup> *The Dictionary of Real Estate Appraisal*, 211.

<sup>10</sup> *The Dictionary of Real Estate Appraisal*, 99.

## **Discounted Cash Flow Analysis**

A discounted cash flow analysis is a procedure in which a discount rate is applied to a projected revenue stream generated from the sale of individual components of a project. In this method of valuation, the appraiser/analyst specifies the quantity, variability, timing and duration of the revenue streams and discounts each to its present value at a specified yield rate. The Land Residual Analysis will be relied upon in the estimation of value for the subject property, which is defined below.

*Land Residual Analysis:* This analysis considers the residual value of the subject land by deducting costs from home prices over a projected absorption period, with the result representing the value of land.

## **APPRAISAL METHODOLOGY**

The market value of the subject property, subject to the Lien of the Special Tax securing the Bonds, for each subdivision, will be estimated by employing the use of a discounted cash flow analysis (DCF) via the land residual analysis. Under the land residual analysis, the expected revenue, absorption period, expenses and discount rate associated with the development and sell-off of the residential units to individual homebuyers are utilized. A DCF analysis is a procedure in which a yield (discount) rate is applied to a projected revenue stream generated from the sale of individual components of a project. In this method of valuation, the appraiser specifies the quantity, variability, timing and duration of the revenue streams and discounts each to its present value at a specified yield rate. With the land residual analysis, the revenue component of the DCF will be based on the probable sales price for the average, proposed residential units within both the Hilltop and Hillside subdivisions, by Block. In this valuation approach, a number of assumptions will be made in the discounted cash flow analysis, not the least of which is the forecast of absorption, or disposition, of the individual residential units comprising the subject property. In light of the fact four of the Blocks (Blocks 50, 51, 53 and 54) comprising 247 units are currently under construction, with vertical improvements well underway on Blocks 50 and 51, the contributory value of the in place improvements for these Blocks will be considered, and the market value of these Blocks will be analyzed separately. As a supporting indicator of the estimates of value derived via the land residual analysis, the sales comparison approach to value will be employed analyzing recent land sales from the southeast San Francisco market areas.



## **MARKET VALUATION**

In this analysis, market logic is employed in the valuation of each subdivision in its as-is condition, in bulk, which will be estimated by employing the use of a discounted cash flow analysis (DCF) under the land residual analysis approach to value.

### **LAND RESIDUAL ANALYSIS**

The land residual analysis is used in estimating land value when subdivision and development are the highest and best use of the land being appraised. All direct and indirect costs are deducted from an estimate of the anticipated gross sales revenue of the improved product; the resultant net sales proceeds are then discounted to present value at an anticipated rate over the development and absorption period to indicate the value of the land. The land residual analysis is conducted on a quarterly basis. As a discounted cash flow analysis, the land residual analysis consists of four primary components—revenue, expenses, absorption and discount—each of which are described in this section.

#### **Revenue (Unit Sales)**

The revenue consists of the retail value of completed single-family residences. The valuation of a potential, typical floor plan on the subject property must be performed to arrive at an estimate of the revenue component of the land residual analysis. The master developer has provided a segmentation of the developable parcels with a proposed, and approved, product line for each sub-block within both the Hilltop and Hillside subdivisions, which are presented in the following tables:

<b>Hilltop</b>	<b>Parcel Size (acres)</b>	<b>Total Unit Count</b>	<b>Density (units/acre)</b>	<b>BMR Units</b>	<b>Average Unit Size (sf)</b>
Block 1JV*	3.21	224	69.78	25	857
Block 50	0.51	25	49.02	3	1,147
Block 51	0.51	63	123.53	6	834
Block 52JV	1.12	70	62.50	7	945
Block 53A	0.41	12	29.27	1	1,193
Block 53B	1.13	69	61.06	7	901
Block 53JV	0.41	12	29.27	1	1,160
Block 54	0.90	54	60.00	6	1,007
Block 54JV	0.41	12	29.27	1	1,193
Block 55	2.43	66	27.16	7	1,714
Block 56&57	<u>1.54</u>	<u>98</u>	<u>63.64</u>	<u>10</u>	<u>1,068</u>
<b>Total</b>	<b>12.58</b>	<b>705</b>	<b>56.04</b>	<b>74</b>	<b>1,016</b>

\* Block 1JV may be developed as a for-rent project with higher unit count; also includes 9,000 sf of ground floor retail

Hillside	Parcel Size (acres)	Total Unit Count	Density (units/acre)	BMR Units	Average Unit Size (sf)
Block 48A JV	0.299	15	50.17	2	1,255
Block 48B	0.516	36	69.77	4	1,058
Block 48C	0.576	22	38.19	2	1,145
Block 48D	0.274	14	51.09	1	1,046
Block 48E	0.342	18	52.63	2	1,255
Block 48F JV	0.335	24	71.64	2	1,058
Block 48G	0.819	45	54.94	5	1,235
Block 48H	0.274	14	51.09	1	1,046
Block 48I	0.335	18	53.73	2	1,255
Block 48J JV	0.324	24	74.07	2	1,058
Block 48K JV	0.584	36	61.64	5	933
Block 48L	0.449	24	53.45	3	1,255
Block 48M	0.569	30	52.72	3	1,248
Block 48N	0.564	33	58.51	3	1,255
Block 48O JV	<u>0.384</u>	<u>21</u>	<u>54.69</u>	<u>2</u>	<u>1,255</u>
<b>Total</b>	6.64	374	56.29	39	1,155

Based on a survey of other attached residential projects in the subject's Bayview/Hunters Point neighborhood, the proposed unit sizes appear generally consistent with the market and will be utilized in the land residual analyses.

As noted previously, the San Francisco market as a whole has experienced ongoing expansion in the housing market, both for sale and for rent; thus, it is anticipated, given the size of Phase I of the Hunters Point Shipyard redevelopment, the housing units should enjoy project identity and synergy, which in turn will appeal to a broad spectrum of buyers, especially given the proximity to downtown, public transportation and view amenities. The One Marina project in Redwood City, in San Mateo County, has sold attached homes ranging from 1,287 to 1,538 square feet, and prices at the project range from \$783,209 to \$875,000, or approximately \$569 to \$608 per square foot, with the upper end of the range per square foot indicative of the smaller floor plan. Shea Homes acquired land within Phase II of the Bay Meadows Racetrack redevelopment in San Mateo and is presently marketing five attached floor plans in the Landsdown subdivision ranging from 1,237 to 2,353 square feet in size, with prices ranging from \$809,000 to \$1,095,000 (\$465.36 to \$654.00 per square foot). Tri Pointe Homes is developing the Amelia at Bay Meadows attached single-family development adjacent to Landsdown and offers homes ranging in size from 1,256 to 1,882 square feet, with base prices ranging from \$825,900 to \$980,000 (\$520.72 to \$657.56 per square foot).

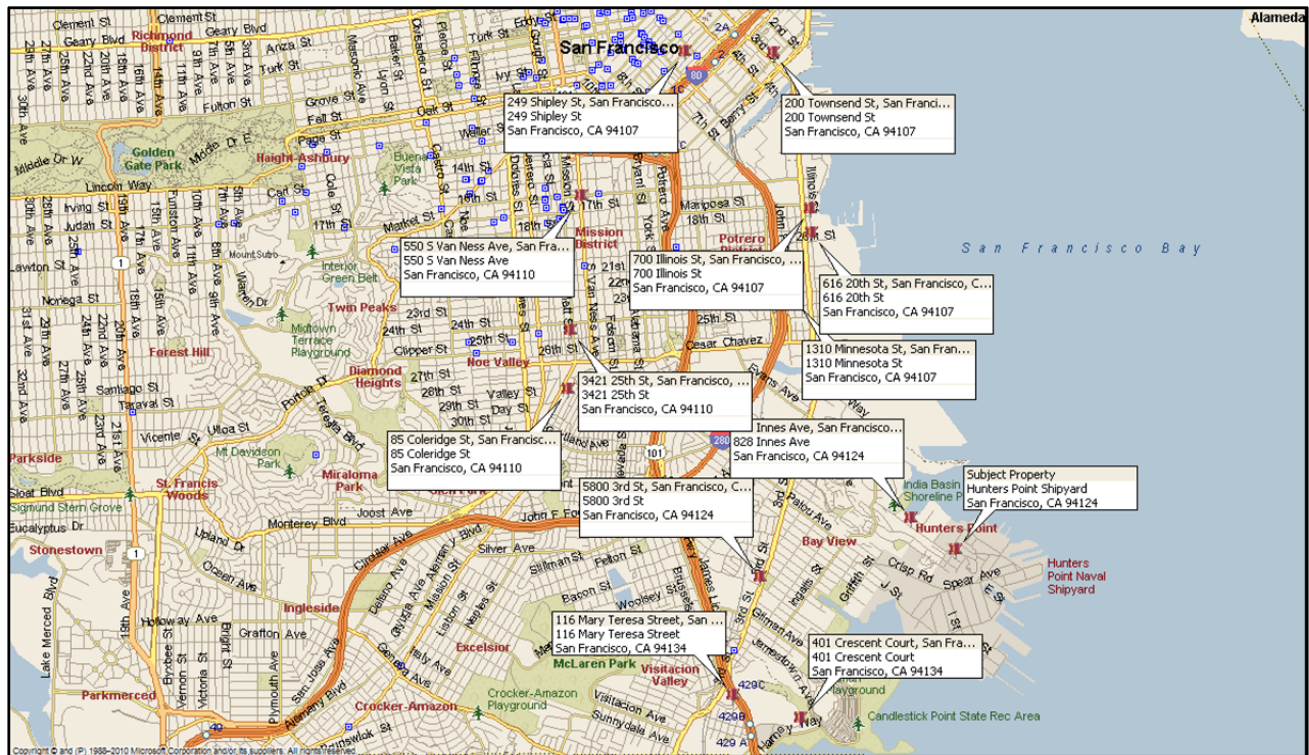
An April 2014 survey of condominium and loft sales in the Central East San Francisco submarket via the multiple listing service (MLS), which includes the neighborhoods of Yerba Buena, South Beach, South of Market, Mission Bay, Inner Mission, Potrero Hill, Central Waterfront/Dogpatch and Bernal Heights, and the Southeast submarket, which includes the neighborhoods of Outer Mission, Mission Terrace, Excelsior, Portola, Bayview, Silver Terrace, Hunters Point, Candlestick Point, Bayview Heights, Little Hollywood, Visitation Valley and Crocker Amazon, generally report price

per square foot ranging from \$400 to over \$1,000. Several recent condominium and loft sales reported by MLS were relied upon for estimating retail values for the subject's proposed average unit sizes within each block. A table summarizing the pertinent information from each sale, along with a location map, is presented below and on the following page.

### RECENT IMPROVED SALES SUMMARY

No.	Property Identification	Sale Date	Sale Price / List Price	Unit Size (SF)	Bed/Bath Parking	\$/SF	Year Built	HOAs/ Month	Days on Market
1	5800 3rd Street #1414 San Francisco (Bayview neighborhood)	Apr-14	<u>\$572,500</u> \$569,999	1,035	2 Br. / 1 Ba. 1 space	<b>\$553.14</b>	2010	\$412	9
2	401 Crescent Court #4407 San Francisco (Candlestick Point neighborhood)	Apr-14	<u>\$520,000</u> \$528,000	935	2 Br. / 1 Ba. 2 spaces	<b>\$556.15</b>	2007	\$371	70
3	249 Shipley Street #9 San Francisco (SOMA neighborhood)	Mar-14	<u>\$750,000</u> \$649,000	892	1 Br. / 1.5 Ba. 1 space	<b>\$840.81</b>	1999	\$378	1
4	828 Innes Avenue #104 San Francisco (Hunters Point neighborhood)	Mar-14	<u>\$470,000</u> \$469,000	1,147	1 Br. / 2 Ba. 1 space	<b>\$409.76</b>	2001	\$423	1
5	200 Townsend Street #13 San Francisco (South Beach neighborhood)	Mar-14	<u>\$679,000</u> \$649,000	734	1 Br. / 2 Ba. 1 space	<b>\$925.07</b>	N/Av	\$496	7
6	3421 25th Street #7 San Francisco (Inner Mission neighborhood)	Mar-14	<u>\$805,000</u> \$769,000	900	2 Br. / 1 Ba. 1 space	<b>\$894.44</b>	1980	\$308	31
7	401 Crescent Court #4206 San Francisco (Candlestick Point neighborhood)	Mar-14	<u>\$499,000</u> \$499,000	935	2 Br. / 2 Ba. 1 space	<b>\$533.69</b>	2007	\$352	32
8	1310 Minnesota Street #207 San Francisco (Dogpatch neighborhood)	Feb-14	<u>\$755,000</u> \$695,000	932	1 Br. / 2 Ba. 1 space	<b>\$810.09</b>	2002	\$370	25
9	5800 3rd Street #1311 San Francisco (Bayview neighborhood)	Feb-14	<u>\$451,000</u> \$409,000	817	1 Br. / 1 Ba. 1 space	<b>\$552.02</b>	2010	\$374	27
10	828 Innes Avenue #101 San Francisco (Hunters Point neighborhood)	Feb-14	<u>\$442,500</u> \$429,000	1,030	1 Br. / 2 Ba. 1 space	<b>\$429.61</b>	2001	\$427	52
11	85 Coleridge Street #A San Francisco (Bernal Heights neighborhood)	Feb-14	<u>\$700,000</u> \$575,000	739	2 Br. / 1 Ba. No Parking	<b>\$947.23</b>	1914	\$292	13
12	550 South Van Ness Avenue #304 San Francisco (Inner Mission neighborhood)	Feb-14	<u>\$587,500</u> \$569,000	734	1 Br. / 1 Ba. 1 space	<b>\$800.41</b>	1992	\$309	20
13	616 20th Street #304 San Francisco (Dogpatch neighborhood)	Jan-14	<u>\$699,000</u> \$699,000	770	1 Br. / 1 Ba. No Parking	<b>\$907.79</b>	2013	\$442	70
14	700 Illinois Street #3 San Francisco (Dogpatch neighborhood)	Jan-14	<u>\$630,000</u> \$499,000	723	1 Br. / 2 Ba. 1 space	<b>\$871.37</b>	2004	\$500	13
15	116 Mary Teresa Street San Francisco (Little Hollywood neighborhood)	May-14 (pending)	<u>\$589,000</u> Pending	1,196	2 Br. / 2.5 Ba. 1 space	<b>\$492.47</b>	2008	\$234	22

## RECENT IMPROVED SALES MAP



The recent improved sales indicate a price per square foot ranging from \$409.76 to \$947.23 per square foot, with the low end of the range indicative of a small, 12-unit mixed-use project constructed in 2001 west of the subject development. Excluding these sales, which are considered inferior to the subject in terms of age, quality achievable premiums and project identity, the range further narrows to \$492.47 to \$947.23 per square foot. The subject property is located in the Hunters Point area of the city of San Francisco, which has a limited supply of existing, market rate developments. Consequently, there have been few sales within the subject's market area from which to extract sufficient conclusions about the subject's proposed residential development. Several recent sales presented in the table on the previous page are located proximate to the subject, but in superior submarkets of San Francisco; namely, SOMA (south of market), Inner Mission, South Beach, Bernal Heights and Dogpatch neighborhoods. The subject property is expected to achieve price points approximately 25% less than these superior submarkets (South Beach and SOMA). The Dogpatch neighborhood is most proximate to the subject property; however, this neighborhood is significantly built out with supporting commercial, restaurant and transportation services the subject property does not offer. Overall, it is expected the subject units will realize sale prices in the range of \$533.69 to \$710.42 per square foot, which is 25% below the upper end of the range.

Factors considered in the estimate of average sale price per unit include unit size, project configuration (stacked versus townhouse), Block location and external influences, and anticipated unit premiums. Generally, there is an inverse relationship between unit size and price per square foot; whereby, smaller units tend to sell for a higher price per square foot than larger units, all else

being equal. Many of the subject Blocks are also designed with private parking, either garage or stall, which is also considered in the concluded price per square foot. Of the 705 units in the Hilltop subdivision, 74 units will be set aside for BMR (below market rate) units meeting the 80% of AMI (average median income) requirements, with a sales price preset at approximately \$244,800 based on current income and financing parameters. Of the 374 units in the Hillside subdivision, 39 units will be set aside for BMR buyers. These BMR units will also be factored into this analysis. Considering the preceding discussion, the total revenue from the sales of homes for each subdivision is estimated as follows:

**HILLTOP SUBDIVISION – Blocks 50, 51, 53 and 54 (Under Construction)**

<b>Block</b>	<b>No. of Units</b>	<b>Average Unit Size</b>	<b>Average Sale \$/SF</b>	<b>Average Value Per Unit</b>	<b>Total Sales</b>
Block 50	22	1,147	\$550	\$630,850	\$13,878,700
Block 50 - BMR	3	1,147		\$244,800	\$734,400
Block 51	57	834	\$600	\$500,400	\$28,522,800
Block 51 - BMR	6	834		\$244,800	\$1,468,800
Block 53A	11	1,193	\$585	\$697,905	\$7,676,955
Block 53A - BMR	1	1,193		\$244,800	\$244,800
Block 53B	62	901	\$650	\$585,650	\$36,310,300
Block 53B - BMR	7	901		\$244,800	\$1,713,600
Block 53JV	11	1,160	\$550	\$638,000	\$7,018,000
Block 53JV - BMR	1	1,160		\$244,800	\$244,800
Block 54	48	1,007	\$600	\$604,200	\$29,001,600
Block 54 - BMR	6	1,007		\$244,800	\$1,468,800
Block 54JV	11	1,193	\$585	\$697,905	\$7,676,955
Block 54JV - BMR	<u>1</u>	<u>1,193</u>		<u>\$244,800</u>	<u>\$244,800</u>
<b>Total</b>	<b>247</b>	<b>973</b>	<b>\$567</b>	<b>\$551,439 (Avg)</b>	<b>\$136,205,310</b>

**HILLTOP SUBDIVISION – Blocks 1JV, 52JV, 55, 56 and 57**

<b>Block</b>	<b>No. of Units</b>	<b>Average Unit Size</b>	<b>Average Sale \$/SF</b>	<b>Average Value Per Unit</b>	<b>Total Sales</b>
Block 1JV	199	857	\$600	\$514,200	\$102,325,800
Block 1JV - BMR	25	857		\$244,800	\$6,120,000
Block 52JV	63	945	\$550	\$519,750	\$32,744,250
Block 52JV - BMR	7	945		\$244,800	\$1,713,600
Block 55	59	1,714	\$525	\$899,850	\$53,091,150
Block 55 - BMR	7	1,714		\$244,800	\$1,713,600
Block 56&57	88	1,068	\$650	\$694,200	\$61,089,600
Block 56&57 - BMR	<u>10</u>	<u>1,068</u>		<u>\$244,800</u>	<u>\$2,448,000</u>
<b>Total</b>	<b>458</b>	<b>1,039</b>	<b>\$549</b>	<b>\$570,406 (Avg)</b>	<b>\$261,246,000</b>

## HILLSIDE SUBDIVISION

<b>Block</b>	<b>No. of Units</b>	<b>Average Unit Size</b>	<b>Average Sale \$/SF</b>	<b>Average Sale \$/ Unit</b>	<b>Total Sales</b>
Block 48A JV	13	1,255	\$525	\$658,875	\$8,565,387
Block 48A JV - BMR	2	1,255		\$244,800	\$489,600
Block 48B	32	1,058	\$550	\$581,900	\$18,620,800
Block 48B - BMR	4	1,058		\$244,800	\$979,200
Block 48C	20	1,145	\$540	\$618,300	\$12,366,000
Block 48C - BMR	2	1,145		\$244,800	\$489,600
Block 48D	13	1,046	\$550	\$575,300	\$7,478,904
Block 48D - BMR	1	1,046		\$244,800	\$244,800
Block 48E	16	1,255	\$525	\$658,875	\$10,542,014
Block 48E - BMR	2	1,255		\$244,800	\$489,600
Block 48F JV	22	1,058	\$550	\$581,900	\$12,801,800
Block 48F JV - BMR	2	1,058		\$244,800	\$489,600
Block 48G	40	1,235	\$525	\$648,375	\$25,935,000
Block 48G - BMR	5	1,235		\$244,800	\$1,224,000
Block 48H	13	1,046	\$550	\$575,300	\$7,478,900
Block 48H - BMR	1	1,046		\$244,800	\$244,800
Block 48I	16	1,255	\$525	\$658,875	\$10,542,014
Block 48I - BMR	2	1,255		\$244,800	\$489,600
Block 48J JV	22	1,058	\$550	\$581,900	\$12,801,800
Block 48J JV - BMR	2	1,058		\$244,800	\$489,600
Block 48K JV	31	933	\$585	\$545,805	\$16,919,955
Block 48K JV - BMR	5	933		\$244,800	\$1,224,000
Block 48L	21	1,255	\$525	\$658,875	\$13,836,396
Block 48L - BMR	3	1,255		\$244,800	\$734,400
Block 48M	27	1,248	\$525	\$655,200	\$17,690,400
Block 48M - BMR	3	1,248		\$244,800	\$734,400
Block 48N	30	1,255	\$525	\$658,875	\$19,766,260
Block 48N - BMR	3	1,255		\$244,800	\$734,400
Block 48O JV	19	1,255	\$525	\$658,875	\$12,518,641
Block 48O JV - BMR	<u>2</u>	<u>1,255</u>		<u>\$244,800</u>	<u>\$489,600</u>
<b>Total</b>	<b>374</b>	<b>1,155</b>	<b>\$502</b>	<b>\$580,005</b> (Avg)	<b>\$216,921,873</b>

### *Closing Projections*

The typical time required for the construction of units is estimated at approximately 12 to 18 months from start to closing. It is assumed that closings will occur within six months of the date of sale. These assumptions are reflected in the projected construction schedules shown in the land residual model's project activity table in the section titled direct construction and phasing. Since the land residual analyses are conducted on a quarterly basis, closings are reflected in the following period, as most construction will be completed prior to initiation of sales.

### *Changes in Market Conditions (Price Increases or Decreases)*

The San Francisco market area and the Peninsula in particular is enjoying market appreciation in home prices. While, based on market surveys, most merchant builders do not appreciate or

depreciate revenues and expenses in land residual analysis, preferring to account for the risk in the selected internal rate of return (IRR), it is expected that over the course of the development period home prices will experience continued appreciation. As noted in the *Highest and Best Use* section presented earlier, the median sale price in the Bayview/Hunters Point neighborhood increased 35.1% from December 2012 to December 2013. Considering the length of the total absorption period, which is anticipated to be as long as six and a half years and could likely encounter additional real estate cycles during the development and sell off of the units, the anticipated appreciations in prices during the build-out of the residential projects will be trended at an average annual rate of 5.0%, or 1.25% per period (quarterly).

## **Absorption**

In order to estimate the absorption rate for the subject property, absorption rates for similar attached residential projects were surveyed. As previously discussed in the Highest and Best Use section, Shea Homes is currently selling attached homes in the Landsdown development within Phase II of the Bay Meadows Racetrack redevelopment in San Mateo. Landsdown is a 93-unit attached project offering five floor plans ranging from 1,237 to 2,353 square feet, and prices ranging from \$848,000 to \$1,183,000 (\$502.76 to \$685.53 per square foot) as of the end of the First Quarter 2014. Of the 93 units planned, 73 units have been offered and all have sold since opening June 15, 2013, indicating an absorption rate of just over nine units per month. Adjacent to Landsdown, Tri Pointe Homes is developing Amelia at Bay Meadows, a 63-unit attached project with an average home size of 1,557 square feet and an average price of \$927,900. As of the end of the First Quarter 2014, all 63 units were sold, indicating an absorption rate of just over ten homes per month. It's also worth noting the units within the Landsdown project, and all developments within the Bay Meadows Phase II project, are subject to an annual Special Tax of \$3,492±, plus an HOA of \$250 per month, or \$3,000 per year.

Based on the attributes of the Hilltop and Hillside subdivisions, the configuration of the parcels and the capacity to provide and offer a wide range of product type targeting the entry level and move-up homebuyer segments of the market, it is estimated for this analysis that multiple, generally non-competing product lines could be offered at the Hilltop and Hillside subdivisions to initiate development of the project under current market conditions. With multiple product lines being offered, an initial absorption rate of 20 units per month (four projects each achieving an initial sales rate of five sales per month), or 60 sales per period is considered reasonable for the Hilltop subdivision, gradually increasing to 24 sales per month (eight per project, assuming four projects marketing concurrently) and ultimately 30 sales per month as the project develops and new, non-competing product lines come on line. With as many as four or five product lines marketing simultaneously, there is potential for cannibalization of homebuyers between projects; however, a sustainable absorption schedule appears achievable with an active sales and marketing effort.



Considering the fact the Hillside subdivision will generally be built out with the same product line, with, perhaps, two segments targeting either entry level or move-up buyers, it is estimated the subdivision will achieve an initial average absorption rate of 48 units per period, or 16 sales per month, divided between as many as three or four projects. It is anticipated this subdivision will benefit from the identity and synergy created by the Hilltop subdivision.

For purposes of this analysis, disposition of units within the subject subdivisions will be analyzed on a quarterly basis (or period).

In light of the fact the construction will consist of attached residential product, sales and close of escrow for the Hilltop subdivision, which is currently under construction on Blocks 50, 51, 53 and 54, is anticipated to begin in Period 1 (months 1 – 3), since construction is already 65% complete on Block 50 and 65% complete on Block 51, 17% on Block 53 and 20% on Block 54). For the Hillside subdivision, sales are not initiated until Period 4 (months 10 – 12), allowing for 12 months of construction before closings occur in Period 5 (months 13 – 15).

### **Expense Projections**

A deduction will be made for expenses attributable to the project over the holding period. They are estimated below and on the following pages.

#### ***General and Administrative***

These expenses consist of management fees, liability and fire insurance, inspection fees, appraisal fees, legal and accounting fees and copying or publication costs. This expense category typically ranges from 2.0% to 4.0%, depending on length of project and if all of the categories are included in a builder's budget. We have used 3.0% for general and administrative expenses. This expense category is spread evenly over the entire sellout period.

#### ***Marketing and Sale***

These expenses typically consist of advertising and promotion, closing costs, sales operations, and sales commissions. The expenses are expressed as a percentage of the gross sales revenue. The range of marketing and sales expenses typically found in projects within the subject's market area is 5.0% to 6.5%. For purposes of this analysis, a figure of 5.0%, or 3.0% for marketing and 2.0% for sales, is used in the marketing and sales expense category.

### ***Ad Valorem Taxes and Special Taxes (CFDs No. 7 and No. 8)***

Interim ad valorem taxes, direct levies and special taxes associated with the Bonds are assumed to be taxed at the maximum rate of 2.0%. As units are sold, total taxes are reduced on a pro-rata basis in the analysis. The property tax estimates are annual and increase at a rate of 2% per year (every two periods). For instance, with respect to Blocks 50, 51, 53 and 54, the resultant market value in bulk (\$35,860,000) is multiplied by the tax rate (2.0%), or \$717,200, and divided by the number of units to estimate the first year property taxes, or \$2,904. The total taxes are estimated similarly for the balance of the subject property. The estimates are applied in the respective land residual analyses on a quarterly basis.

It should also be noted the subject subdivisions are expected to have a homeowner's association (HOA); though, no budget is currently available. Based on information from the master developer, for purposes of this analysis, HOA dues are estimated at \$300 per unit per month, which is generally consistent with other newly developed projects in the redeveloped areas of San Francisco. There is not anticipated to be any HOA costs during the initial construction period; thus, HOA expenses begin in Period 2 for the Hilltop subdivision and Period 4 for the Hillside subdivision, commensurate with the first sales, and will be based on the combined sales and interim construction units.

### ***Direct and Indirect Construction Costs***

Construction costs are generally classified into two groups, direct and indirect costs. Direct costs reflect the cost of labor and materials to build the project. Indirect items are the carrying costs and fees incurred in developing the project and during the construction cycle. A developer's construction budget was provided for this appraisal for all of the Blocks comprising the subject property. Updated budgets were available for Blocks 53 and 54 and indicated significant increases in direct construction costs over the past year. As the construction budgets provided for this analysis for the balance of the development do not account for the recent increases in construction costs, an inflation factor is applied to the initial construction budgets. The magnitude of the inflation factor is based on information from the master developer with respect to the development nuances of each Block. The adjusted direct construction costs considered in this analysis are reflected in the tables below and on the following page.

Hilltop	Size	Unit Count	Density	Average Unit Size	Costs/Unit	Costs/SF	Cost Inflation	Adjusted Costs	Permits & Fees/Unit
Block 1JV	3.21	224	69.78	857	\$277,154	\$323	15%	\$372	\$10,076
Block 50	0.51	25	49.02	1,147	\$334,418	\$292	15%	\$335	\$10,076
Block 51	0.51	63	123.53	834	\$267,324	\$321	15%	\$369	\$10,076
Block 52JV	1.12	70	62.50	945	\$252,418	\$267	15%	\$307	\$10,076
Block 53A	0.41	12	29.27	1,193	\$393,513	\$330		\$330	\$5,705
Block 53B	1.13	69	61.06	901	\$331,319	\$368		\$368	\$1,899
Block 53JV	0.41	12	29.27	1,160	\$407,544	\$351		\$351	\$5,324
Block 54	0.90	54	60.00	1,007	\$345,755	\$343		\$343	\$4,480
Block 54JV	0.41	12	29.27	1,193	\$395,125	\$331		\$331	\$5,282
Block 55	2.43	66	27.16	1,714	\$381,928	\$223	5%	\$234	\$10,076
Block 56&57	<u>1.54</u>	<u>98</u>	<u>63.64</u>	<u>1,068</u>	<u>\$290,216</u>	<u>\$272</u>	5%	<u>\$285</u>	<u>\$10,076</u>
<b>Total/Avg.</b>	12.58	705	56.04	1,016	\$334,247	\$311		\$330	\$7,559

Hillside	Size	Unit Count	Density	Average Unit Size	Costs/Unit	Costs/SF	Cost Inflation	Adjusted Costs	Permits & Fees/Unit
Block 48A JV	0.299	15	50.17	1,255	\$324,933	\$259	15%	\$298	\$11,176
Block 48B	0.516	36	69.77	1,058	\$264,892	\$250	5%	\$263	\$11,176
Block 48C	0.576	22	38.19	1,145	\$308,578	\$270	5%	\$283	\$11,176
Block 48D	0.274	14	51.09	1,046	\$290,496	\$278	5%	\$292	\$11,176
Block 48E	0.342	18	52.63	1,255	\$324,933	\$259	5%	\$272	\$11,176
Block 48F JV	0.335	24	71.64	1,058	\$264,892	\$250	15%	\$288	\$11,176
Block 48G	0.819	45	54.94	1,235	\$319,738	\$259	5%	\$272	\$11,176
Block 48H	0.274	14	51.09	1,046	\$290,496	\$278	5%	\$292	\$11,176
Block 48I	0.335	18	53.73	1,255	\$324,933	\$259	5%	\$272	\$11,176
Block 48J JV	0.324	24	74.07	1,058	\$264,892	\$250	15%	\$288	\$11,176
Block 48K JV	0.584	36	61.64	933	\$266,385	\$286	15%	\$328	\$11,176
Block 48L	0.449	24	53.45	1,255	\$325,237	\$259	5%	\$272	\$11,795
Block 48M	0.569	30	52.72	1,248	\$324,933	\$260	5%	\$273	\$11,176
Block 48N	0.564	33	58.51	1,255	\$323,260	\$258	5%	\$270	\$11,176
Block 48O JV	<u>0.384</u>	<u>21</u>	<u>54.69</u>	<u>1,255</u>	<u>\$325,628</u>	<u>\$259</u>	15%	<u>\$298</u>	<u>\$12,590</u>
<b>Total/Avg.</b>	6.64	374	56.29	1,155	\$302,948	\$262		\$284	\$11,312

As previously noted, Blocks 50, 51, 53A, 53JV, 53B, 54 and 54JV are currently under construction, with significant vertical construction completed on Blocks 50 and 51 and site development currently under way on Blocks 53A, 53JV, 53B, 54 and 54JV. As previously noted, approximately 65% of the total construction costs for Block 50 are complete, 65% for Block 51, 17% for Blocks 53A, 53JV and 53B, and 20% for Blocks 54 and 54JV. The incurred costs to date will be accounted for in the land residual analysis.

In light of the location of the subject property in San Francisco, as well as recent increases in construction costs, the developer's direct costs appear reasonable. The list below itemizes some of the typical components that generally comprise indirect costs:

- Architectural and engineering fees for plans, plan checks, surveys and environmental studies

- Appraisal, consulting, accounting and legal fees;
- The cost of carrying the investment in land and contract payments during construction. If the property is financed, the points, fees or service charges and interest on construction loans are considered;
- All-risk insurance;
- The cost of carrying the investment in the property after construction is complete, but before sell-out is achieved;
- Developer fee earned by the project coordinator;

Indirect costs can generally range anywhere from 5% to above 30% of the direct costs, with the upper end of the range inclusive of site costs, permits and fees, building shell and tenant improvements. The developer's budget segregates permits and fees and site costs from the indirect costs, all of which will be considered in the valuation analysis. In light of the fact a significant amount of engineering and architectural costs have already been incurred over the past few years as the construction plan for the Hunters Point Shipyard has developed commensurate with the development agreement, a factor of **8%** is selected for indirect costs, exclusive of the additional indirect expenses that are accounted for separately. The direct and indirect expenses will be distributed over each period of the cash flow analyses commensurate with the direct construction costs. Thus, direct (and indirect) construction costs in Period 1 represent the proportionate share of the total development costs (not accounting for inflation, which is estimated at 2% every year, as the construction costs per Block or building are expected to be in contract and less susceptible to increases) associated with the initial sales shown in Period 1 (Hilltop) and 4 (Hillside).

### ***Model Complex***

As part of a strategic marketing effort, the developer will likely construct model units, which will also serve as an interim sales office. A projected cost of \$250,000 for each project (Hilltop and Hillside) is considered reasonable for purposes of analysis.

### ***Permits and Fees***

Permits and fees represent all fees payable upon obtaining building permit for the construction of the proposed units and include school fees and any impact fees, which were included in the previous table of construction costs.

### ***Remaining Infrastructure Development Costs***

According to the developer's budgets provided, remaining infrastructure work for the Hilltop subdivision is \$10,550,749, which is allocated primarily to the onsite park system, and will be deducted. Since the Hilltop subdivision will be analyzed in two components (partially improved and unimproved), the remaining infrastructure costs will be proportioned based on the total unit count.

Total infrastructure work for the Hillside subdivision, which includes parks, roadways and potential redesign of the subdivision for higher density is estimated at \$10,894,840, which will also be accounted for in this analysis. The in-tract improvements for the Hilltop subdivision were substantially completed and financed by the CFD No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Bonds issued in 2005.

## Summary

The following charts summarize the revenue and expenses discussed on the preceding pages.

REVENUE SUMMARY						HILLTOP SUBDIVISION (Blocks 50, 51, 53 and 54)	
Block	No. of Units	Average Unit Size	Average Sale \$/SF	Average Value Per Unit	Total Sales		
Block 50	22	1,147	\$550	\$630,850	\$13,878,700		
Block 50 - BMR	3	1,147		\$244,800	\$734,400		
Block 51	57	834	\$600	\$500,400	\$28,522,800		
Block 51 - BMR	6	834		\$244,800	\$1,468,800		
Block 53A	11	1,193	\$585	\$697,905	\$7,676,955		
Block 53A - BMR	1	1,193		\$244,800	\$244,800		
Block 53B	62	901	\$650	\$585,650	\$36,310,300		
Block 53B - BMR	7	901		\$244,800	\$1,713,600		
Block 53JV	11	1,160	\$550	\$638,000	\$7,018,000		
Block 53JV - BMR	1	1,160		\$244,800	\$244,800		
Block 54	48	1,007	\$600	\$604,200	\$29,001,600		
Block 54 - BMR	6	1,007		\$244,800	\$1,468,800		
Block 54JV	11	1,193	\$585	\$697,905	\$7,676,955		
Block 54JV - BMR	1	1,193		\$244,800	\$244,800		
<b>Total</b>	<b>247</b>	<b>973</b>	<b>\$567</b>	<b>\$551,439 (Avg)</b>	<b>\$136,205,310</b>	(without appreciation)	

EXPENSES SUMMARY							
<b>General and Administrative</b>		3.0% of total revenue		\$4,287,365		<b>Site Development Costs (Proportionate)</b>	
<b>Marketing and Sales</b>		5.0% of total revenue		\$7,145,609			
<b>Ad Valorem and Special Taxes (CFDs 7 and 8)</b>		2.000000% - Tax Rate		\$926,400		<b>Estimated Permits and Fees at Building Permit/Occupancy</b>	
÷ Total Number of Units		247		\$3,751 /unit		Average Permits and Fees/Unit	\$6,120
						x Number of Units	247
						Total Permits and Fees	\$1,511,711
<b>Construction Costs</b>	<u>SF</u>	<u>Units</u>	<u>Cost/SF</u>	<u>Total Direct Costs</u>	<u>Indirects</u>		
Typical Floor Plan	973	247	\$232.31	\$55,826,732	\$4,466,139		
Average Direct Construction Costs per Unit				\$226,019 /unit			
Average Indirect Costs @		8% of Direct Costs		\$18,082 /unit			
<b>Model Complex</b>				\$125,000			

## REVENUE SUMMARY

## HILLTOP SUBDIVISION (Blocks 1JV, 52JV, 55, 56 and 57)

<u>Block</u>	<u>No. of Units</u>	<u>Average Unit Size</u>	<u>Average Sale \$/SF</u>	<u>Average Value Per Unit</u>	<u>Total Sales</u>
Block 1JV	199	857	\$600	\$514,200	\$102,325,800
Block 1JV - BMR	25	857		\$244,800	\$6,120,000
Block 52JV	63	945	\$550	\$519,750	\$32,744,250
Block 52JV - BMR	7	945		\$244,800	\$1,713,600
Block 55	59	1,714	\$525	\$899,850	\$53,091,150
Block 55 - BMR	7	1,714		\$244,800	\$1,713,600
Block 56&57	88	1,068	\$650	\$694,200	\$61,089,600
Block 56&57 - BMR	10	1,068		\$244,800	\$2,448,000
<b>Total</b>	<b>458</b>	<b>1,039</b>	<b>\$549</b>	<b>\$570,406 (Avg)</b>	<b>\$261,246,000</b>

(without appreciation)

## EXPENSES SUMMARY

<b>General and Administrative</b>			<b>Site Development Costs</b>		
	3.0%	of total revenue		\$8,605,289	\$6,854,245
<b>Marketing and Sales</b>					
	5.0%	of total revenue		\$14,342,149	
<b>Ad Valorem and Special Taxes (CFDs 7 and 8)</b>			<b>Estimated Permits and Fees at Building Permit/Occupancy</b>		
2.000000% - Tax Rate				\$949,600	Average Permits and Fees/Unit \$10,076
÷ Total Number of Units		458		\$2,073 /unit	x Number of Units <u>458</u>
					Total Permits and Fees \$4,614,808
<b>Construction Costs</b>	<u>SF</u>	<u>Units</u>	<u>Cost/SF</u>	<u>Total Sales</u>	<u>Indirects</u>
Typical Floor Plan	1,039	458	\$311.08	\$148,045,356	\$11,843,628
Average Direct Construction Costs per Unit				\$323,243.14 /unit	
Average Indirect Costs @		8%	of Direct Costs	\$25,859 /unit	
<b>Model Complex</b>				\$125,000	

## REVENUE SUMMARY

## Hillside Subdivision

<u>Block</u>	<u>No. of Units</u>	<u>Average Unit Size</u>	<u>Average Sale \$/SF</u>	<u>Average Sale \$/ Unit</u>	<u>Total Sales</u>
Block 48A JV	13	1,255	\$525	\$658,875	\$8,565,387
Block 48A JV - BMR	2	1,255		\$244,800	\$489,600
Block 48B	32	1,058	\$550	\$581,900	\$18,620,800
Block 48B - BMR	4	1,058		\$244,800	\$979,200
Block 48C	20	1,145	\$540	\$618,300	\$12,366,000
Block 48C - BMR	2	1,145		\$244,800	\$489,600
Block 48D	13	1,046	\$550	\$575,300	\$7,478,904
Block 48D - BMR	1	1,046		\$244,800	\$244,800
Block 48E	16	1,255	\$525	\$658,875	\$10,542,014
Block 48E - BMR	2	1,255		\$244,800	\$489,600
Block 48F JV	22	1,058	\$550	\$581,900	\$12,801,800
Block 48F JV - BMR	2	1,058		\$244,800	\$489,600
Block 48G	40	1,235	\$525	\$648,375	\$25,935,000
Block 48G - BMR	5	1,235		\$244,800	\$1,224,000
Block 48H	13	1,046	\$550	\$575,300	\$7,478,900
Block 48H - BMR	1	1,046		\$244,800	\$244,800
Block 48I	16	1,255	\$525	\$658,875	\$10,542,014
Block 48I - BMR	2	1,255		\$244,800	\$489,600
Block 48J JV	22	1,058	\$550	\$581,900	\$12,801,800
Block 48J JV - BMR	2	1,058		\$244,800	\$489,600
Block 48K JV	31	933	\$585	\$545,805	\$16,919,955
Block 48K JV - BMR	5	933		\$244,800	\$1,224,000
Block 48L	21	1,255	\$525	\$658,875	\$13,836,396
Block 48L - BMR	3	1,255		\$244,800	\$734,400
Block 48M	27	1,248	\$525	\$655,200	\$17,690,400
Block 48M - BMR	3	1,248		\$244,800	\$734,400
Block 48N	30	1,255	\$525	\$658,875	\$19,766,260
Block 48N - BMR	3	1,255		\$244,800	\$734,400
Block 48O JV	19	1,255	\$525	\$658,875	\$12,518,641
Block 48O JV - BMR	2	1,255		\$244,800	\$489,600
<b>Total</b>	<b>374</b>	<b>1,155</b>	<b>\$502</b>	<b>\$580,005</b> (Avg)	<b>\$216,921,873</b> (without appreciation)

## EXPENSES SUMMARY

<b>General and Administrative</b>			3.0% of total revenue	\$7,157,114		<b>Site Development Costs</b>	\$10,894,840
<b>Marketing and Sales</b>			5.0% of total revenue	\$11,928,523			
<b>Ad Valorem and Special Taxes (CFDs 7 and 8)</b>						<b>Estimated Permits and Fees at Building Permit/Occupancy</b>	
2.000000% - Tax Rate					\$677,000	Average Permits and Fees/Unit	\$11,312
÷ Total Number of Units				374		x Number of Units	<u>374</u>
					\$1,810 /unit	Total Permits and Fees	\$4,230,515
<b>Construction Costs</b>	<u>SF</u>	<u>Units</u>	<u>Cost/SF</u>	<u>Total Sales</u>	<u>Indirects</u>		
Typical Floor Plan	1,155	374	\$282	\$121,823,437	\$9,745,875		
Average Direct Construction Costs					\$325,731		
Average Indirect Costs @			8% of Direct Costs		\$26,058		
<b>Model Costs per Model</b>					\$250,000		

## Discount Rate

Information from a developing in-house database of project yield rates is presented in the following table.



<b>Data Source</b>	<b>Yield / IRR Expectations (Inclusive of Profit)</b>
PwC Real Estate Investor Survey - Fourth Quarter 2013 (updated semi-annually)	Range of 10.0% to 25.0%, with an average of 18.31%, inclusive of profit and assuming entitlements in place, for land development (national average)
Josh Roden - Meritage (2013)	20% to 25% for entitled lots
Jeb Elmore - Lewis Operating Corp (2013)	18% to 25%. Longer term, higher risk projects on higher side of the range, shorter term, lower risk projects on the lower side of the range. Long term speculation properties (10 to 20 years out) often closer to 30%.
Greg Ackerman - Pulte (2010)	18% minimum, 20% target
Chris Downey - Hon Development	Minimum IRR of 20-25%; for an 8 to 10 year cash flow, mid to upper 20% range
Gary Gorian - Dale Poe Development	25% IRR for land development is typical (no entitlements); slightly higher for properties with significant infrastructure costs
David Pitts - Newhall Land and Farming	20% to 30% IRR for land development deals on an unleveraged basis
Mark Palkowitsh - MSP California, LLC	35% for large land deals from raw unentitled to tentative map stage, unleveraged or leveraged. 25% to 30% from tentative map to pad sales to merchant builders, unleveraged
Rick Nieman - GFC	18% to 22% for land with some entitlements, unleveraged. 30% for raw unentitled
Lin Stinson - Providence Realty Group	Low 20% range yield rate required to attract capital to longer-term land holdings
Dan Boyd - ESE Land Company	Merchant builder yield requirements in the 20% range for traditionally financed tract developments. Larger land holdings would require 25% to 30%. Environmentally challenged or politically risky development could well run in excess of 35%.
Tulare Windmill Ventures, LLC	10% discount rate excluding profit for single-family subdivisions
David Jacobsen - Ridgcrest Homes	10% to 40% for single-family residential subdivisions with 1-2 year development timelines
Mike Grant - Premier Homes	15% to 20% IRR
Lyle McCullogh - California Pacific Homes	No less than 20% IRR for land development, either entitled or unentitled
Roy Robertson - Ekotec	20% to 30% for an unentitled property; the lower end of the range would reflect those properties close to tentative maps
Gordon MacKenzie - Brookfield Development	No less than 30% when typical entitlement risk exists

As reflected by the survey above, developers typically have IRR (internal rates of return) expectations of 10% to 30% for subdivisions under stabilized market conditions. The subject's price points are indicative of entry level and move-up housing in the San Francisco area. With respect to Blocks 50, 51, 53 and 54 of the Hilltop subdivision, construction is well underway with the absorption estimated to be completed within two years. In light of the fact a significant amount of costs pertaining to Blocks 50 and 51 have already been incurred, the internal rate of return based on the survey above becomes less applicable, as these rates apply primarily to undeveloped land. Whereas, in the case of partially improved developments, the developer's incentive, or anticipated profit, becomes much more relevant.

Therefore, for purposes of this analysis, an IRR of 25.0%, inclusive of developer's incentive (profit), is considered reasonable. Using a bifurcated rate, separating the discount rate (cost of borrowed funds), which is estimated at 8.0%, implies a developer's incentive of approximately 8.885% for the Hilltop subdivision (Blocks 50, 51, 53 and 54). With a disposition period of just under three years for the balance of the Hilltop subdivision (Blocks 1JV, 52JV, 55, 56 and 57), and considering its location and targeted market segments, an IRR of 20% is considered reasonable, which, on a bifurcated basis, implies a developer's incentive of 8.17%. With fewer developable units, but site development yet to be initiated, an IRR of 24.0% is considered reasonable for the Hillside subdivision which, on a bifurcated basis, implies a developer's incentive of 9.65%. These IRRs

consider the limited supply of developable land in the subject's market area. The anticipated profit expectations above are considered reasonable in light of the fact the subject subdivisions comprise significant urban, infill residential developments in San Francisco, and relative to the survey of static profit expectations below.

Data Source	Profit Expectations
Josh Roden - Meritage (2013)	8% to 10% net profit, regardless on product type, market area or lot condition
Jeb Elmore - Lewis Operating Corp (2013)	8% to 10%, with better located projects with less uncertainty regarding pricing and absorption at the lower end of the range and higher risk projects nearer the high end of the range.
Greg Ackerman - Pulte (2010)	9% profit, 18+% gross margin (5% for marketing/sales, 4% for G&A)
Steve Schnable - JMC Homes (2008)	15% line item profit expectation with two to three home sales per month at current home prices
Tulare Windmill Ventures, LLC (2007)	15% typical profit factor for single-family subdivisions
Mike Grant - Premier Homes (2007)	12% static profit
John Bacigalupi - Beazer Homes (2007)	Static profit expectation was 20% during the period of expansion (2000-2005), but it is now 10% to 15% given the recent moderation/stabilization in the residential market
David Jacobsen - Ridgecrest Homes (2007)	10% for typical single-family projects, up to a maximum of 35%
Mike Winn - Reynen & Bardis (2005)	12% to 25% profit pre-tax; typical development timeline of 5 to 8 years
Doug Eikenbary - William Lyon Homes (2005)	8% to 10% target profit for both single-family subdivisions and master-planned communities; typical development timeline of 1 to 2 years

## Conclusion

The land residual analyses are presented on the following pages, beginning with the Hilltop Subdivision, followed by the Hillside Subdivision.

# REVENUE AND SALES SUMMARY

# HILLTOP SUBDIVISION (Blocks 50, 51, 53 and 54)

End of Period

Period (3 months):	1	2	3	4	5	6	7	Total
Sales - Begin Construction		60	36	44	44	44	11	247
Interim Construction Period		70	75	37	0	0	0	247
Complete Construction - Close of Escrow (COE)			36	44	44	44	11	247
Unsold Inventory	239	179	143	99	55	11	0	100.00%
Percentage of Construction	26.32%	28.34%	30.36%	14.98%	0.00%	0.00%	0.00%	
<b>Total Sales</b>	\$ 4,411,508	\$ 33,086,310	\$ 19,851,786	\$ 24,263,294	\$ 24,263,294	\$ 24,263,294	\$ 6,065,824	\$136,205,310
<b>Inflation (Appreciation) Factor</b>	1.25%	2.50%	3.75%	5.00%	6.25%	7.50%	8.75%	
<b>Total Sales Revenue</b>	\$ 4,466,652	\$ 33,913,468	\$ 20,596,228	\$ 25,476,459	\$ 25,779,750	\$ 26,083,041	\$ 6,596,583	\$142,912,181

# EXPENSES AND CASH FLOW SUMMARY

Period (3 months):	1	2	3	4	5	6	7	Total
General and Administrative	(\$612,481)	(\$612,481)	(\$612,481)	(\$612,481)	(\$612,481)	(\$612,481)	(\$612,481)	(\$4,287,365)
Marketing and Sales	(\$223,333)	(\$1,695,673)	(\$1,029,811)	(\$1,273,823)	(\$1,288,987)	(\$1,304,152)	(\$329,829)	(\$7,145,609)
Ad Valorem Real Estate Taxes	(\$128,030)	(\$123,883)	(\$92,783)	(\$74,123)	(\$52,342)	(\$29,079)	(\$5,816)	(\$506,056)
HOA Fees / Month	\$0	(\$117,000)	(\$99,900)	(\$72,900)	(\$39,600)	(\$39,600)	(\$9,900)	(\$378,900)
Remaining Site Development Costs	(\$528,072)	(\$528,072)	(\$528,072)	(\$528,072)	(\$528,072)	(\$528,072)	(\$528,072)	(\$3,696,504)
Direct Construction Costs	(\$14,691,245)	(\$15,821,341)	(\$16,951,437)	(\$8,362,709)	\$0	\$0	\$0	(\$55,826,732)
Indirect Construction Costs	(\$1,175,300)	(\$1,265,707)	(\$1,356,115)	(\$669,017)	\$0	\$0	\$0	(\$4,466,139)
Model Costs	(\$125,000)	\$0	\$0	\$0	\$0	\$0	\$0	(\$125,000)
Building Permits	(\$48,962)	(\$367,217)	(\$220,330)	(\$269,293)	(\$269,293)	(\$443,344)	(\$110,836)	(\$1,729,275)
<b>Total Expenses</b>	<u>\$17,532,423</u>	<u>\$20,531,375</u>	<u>\$20,890,929</u>	<u>\$11,862,417</u>	<u>\$2,290,775</u>	<u>\$2,956,728</u>	<u>\$1,596,934</u>	<u>\$78,161,580</u>
<b>NET INCOME BEFORE DEVELOPER'S INCENTIVE</b>	\$ (13,065,771)	\$ 13,382,093	\$ (294,701)	\$ 13,614,042	\$ 22,988,975	\$ 23,126,313	\$ 4,999,649	\$64,750,601

<b>Present Value Factor</b>								
Internal Rate of Return	25.00%	0.94118	0.88581	0.83371	0.78466	0.69507	0.65418	
Discounted Cash Flow		(\$12,297,196)	\$11,854,034	(\$245,694)	\$10,682,462	\$16,977,546	\$16,074,326	\$46,316,149
Net Present Value		<u>\$46,316,149</u>						

# CONCLUSION OF VALUE BY DISCOUNTED CASH FLOW ANALYSIS (RD)

\$46,320,000

<b>NET INCOME BEFORE DEVELOPER'S INCENTIVE</b>	(\$13,065,771)	\$13,382,093	(\$294,701)	\$13,614,042	\$22,988,975	\$23,126,313	\$4,999,649	\$64,750,601
Total Developer's Incentive	<u>8.885%</u>	<u>\$396,862</u>	<u>\$1,829,975</u>	<u>\$2,263,583</u>	<u>\$2,290,531</u>	<u>\$2,317,478</u>	<u>\$586,106</u>	<u>\$12,697,747</u>
<b>NET INCOME (BEFORE DISCOUNTING)</b>		(\$13,462,633)	(\$2,124,676)	\$11,350,459	\$20,698,444	\$20,808,835	\$4,413,543	\$52,052,854
<b>Present Value Factor</b>								
Discount Rate (Cost of Borrowed Funds)	8.00%	0.98039	0.94232	0.92385	0.90573	0.88797	0.87056	
Discounted Cash Flow		(\$13,198,660)	\$9,966,245	(\$2,002,130)	\$10,486,070	\$18,747,219	\$18,477,650	\$46,318,649
Net Present Value		<u>\$46,318,649</u>						

## HILLTOP SUBDIVISION (Blocks 1J, 52JV, 55, 56 and 57)

**Period (3 months):**

Sales - Begin Construction	0	0	24	28	28	28	28	53	90	90	90	27	458			
Interim Construction Period	0	20	40	75	60	38	75	75	75	75	75	0	458			
Complete Construction - Close of Escrow (COE)	0	0	24	28	28	28	28	53	90	90	90	27	458			
Unsold Inventory	458	458	434	406	378	350	297	207	117	27	0	0				
Percentage of Construction	0.00%	4.37%	8.73%	13.10%	16.38%	16.38%	16.38%	16.38%	8.30%	0.00%	0.00%	0.00%				
Total Sales																
Initial (Appreciation) Factor	\$	-	\$	13,689,747	\$	15,971,371	\$	15,971,371	\$	15,971,371	\$	51,336,550	\$	51,336,550	\$	15,400,965
Total Sales Revenue	\$	1.25%	2.50%	3.75%	5.00%	6.25%	7.50%	8.75%	10.00%	11.25%	12.50%	13.75%	\$261,246,000			
	\$	-	\$	14,203,112	\$	16,769,940	\$	16,969,582	\$	17,169,224	\$	57,111,912	\$	57,753,619	\$	17,518,598
													\$286,842,974			

**Period (3 months):**[illegible]

**\$47,480,000**

<b>NET INCOME BEFORE DEVELOPER'S INCENTIVE</b>					
	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Total Developer's Incentive					
<b>NET INCOME (BEFORE DISCOUNTING)</b>					
<b>Present Value Factor</b>					
Discount Rate (Cost of Borrowed Funds)					
Discounted Cash Flow					
Net Present Value					

## End of Period

## End of Period

	Period (3 months):	1	2	3	4	5	6	7	8	9	10	11	Total
Sales - Begin Construction		0	0	0	48	48	60	60	60	60	38	0	374
Interim Construction Period		0	0	0	48	48	60	60	60	60	38	0	374
Complete Construction - Close of Escrow (COE)		0	0	0	0	48	48	60	60	60	60	38	374
Unsold Inventory		374	374	374	326	278	218	158	98	38	0	0	
Percentage of Construction		0.00%	0.00%	0.00%	12.83%	12.83%	16.04%	16.04%	16.04%	16.04%	10.16%	0.00%	100.00%
Total Sales		\$0	\$0	\$0	\$27,840,230	\$27,840,230	\$34,800,287	\$34,800,287	\$34,800,287	\$34,800,287	\$34,800,287	\$22,040,182	\$216,921,791
Total Sales Revenue		\$	- \$	- \$	- \$	- \$	29,580,244	\$ 29,928,247	\$ 37,845,312	\$ 38,280,316	\$ 38,715,320	\$ 39,190,323	\$ 238,570,469

100

[illegible]

ACCEPTED MANUSCRIPT

<b>NET INCOME BEFORE DEVELOPER'S INCENTIVE</b>										
Total Developer's Incentive	9.650%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>NET INCOME (BEFORE DISCOUNTING)</b>										
<b>Present Value Factor</b>										
Discount Rate (Cost of Borrowed Funds)	8.00%	0.98039	0.96117	0.94232	0.92385	0.90573	0.88797	0.87056	0.85349	0.83676
Discounted Cash Flow		(\$2,584,023)	(\$2,533,356)	(\$2,719,263)	(\$18,887,449)	\$4,139,039	\$440,528	\$7,961,521	\$8,192,019	\$8,049,361
Net Present Value		\$33,854,904								

The land residual analysis was utilized in estimating the market value of the subject property. Indicators from this approach are reiterated below.

	<b>Hilltop Subdivision (Blocks 50, 51, 53 &amp; 54)</b>	<b>Hilltop Subdivision (Remainder)</b>	<b>Hillside Subdivision</b>
<b>Approach to Value</b>	<b>Value Indication</b>	<b>Value Indication</b>	<b>Value Indication</b>
Land Residual Analysis	\$46,320,000	\$47,480,000	\$33,850,000
Per Unit	\$187,530	\$103,668	\$90,508

The land residual analysis deducts all costs of production, including profit, from anticipated gross revenues resulting in the underlying land value. Although it is performed in today's dollars, holding costs incurred over the sellout period are accounted for. This is a common method employed by merchant builders/developers when determining how much to pay for land. The projections used in this analysis are market supported. The indicators of underlying land value, per unit, are shown above.

## SALES COMPARISON APPROACH

As a supporting indicator of value for the underlying land, the sales comparison approach will be employed. The underlying premise of the sales comparison approach is the market value of a property is directly related to the price of comparable, competitive properties in the marketplace. In the sales comparison approach, the market value of the subject property will be estimated by a comparison to similar properties that have recently sold, are listed for sale or are under contract.

This approach is based on the economic principle of substitution. According to *The Appraisal of Real Estate*, 14<sup>th</sup> Edition (Chicago: Appraisal Institute, 2013), “*The principle of substitution holds that the value of property tends to be set by the cost of acquiring a substitute or alternative property of similar utility and desirability within a reasonable amount of time.*” The sales comparison approach is applicable when there are sufficient recent, reliable transactions to indicate value patterns or trends in the market.

The proper application of this approach requires obtaining recent sales data for comparison with the subject property. In order to assemble the comparable sales, we searched public records and other data sources for leads, then confirmed the raw data obtained with parties directly related to the transactions (primarily brokers, buyers and sellers).

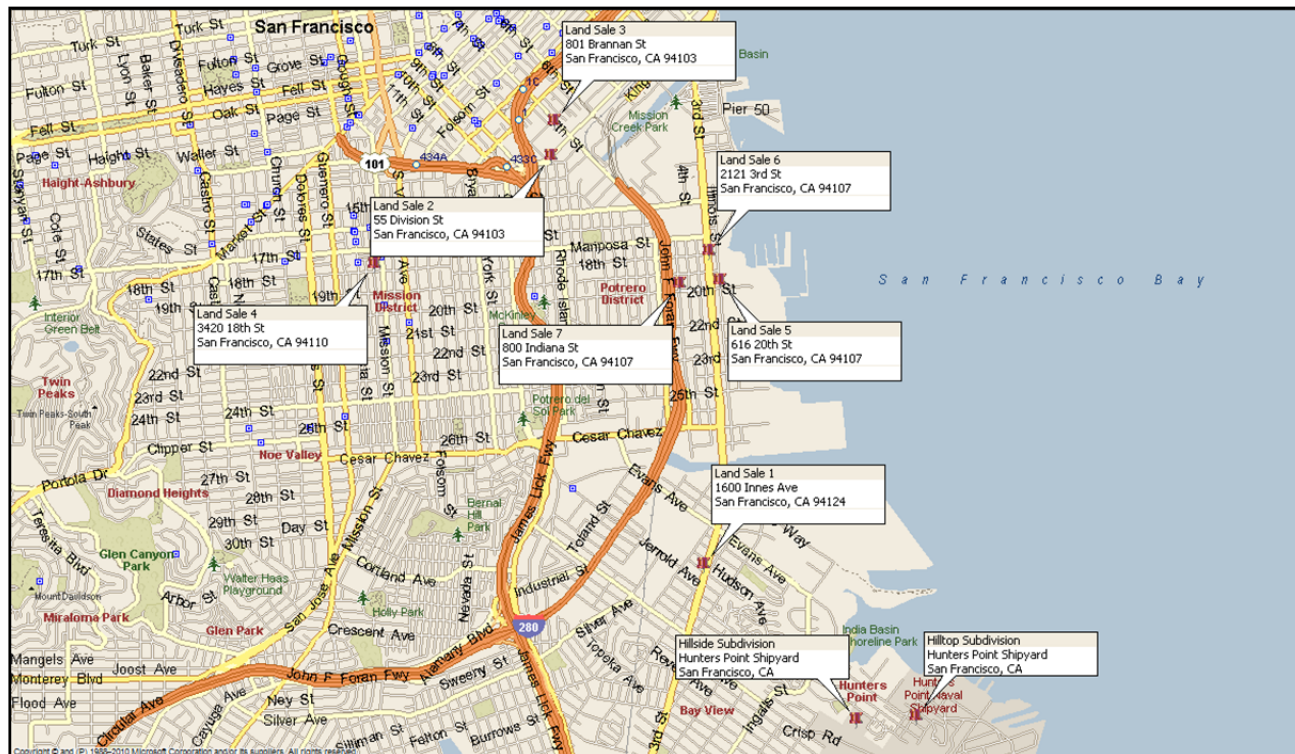
Consideration is given to factors such as property rights conveyed, financing, conditions of sale, and market appreciation or depreciation since the date of sale. Differences in physical characteristics, such as location, visibility/accessibility, density, offsite improvements, site utility, project premiums and inclusionary housing requirements are considered in the analysis. Seven sales have been identified as being representative of the market and it is believed the sales data collected is sufficient for comparison to the subject property and pertinent to the valuation of the subject property. The data from the comparable sales is summarized in the table on the following page, along with a location map.



## RESIDENTIAL LAND SALES SUMMARY

No.	Property Identification	Sale Date	Sale Price	Land Area (Acre / SF)	Price per SF	No. of Units Units / Acre	Price per Potential Unit	Zoning
1	1600 Innes Avenue/4132 3rd Street San Francisco (Bayview neighborhood) APN: 5260-002	Jul-13	\$425,000	0.13 5,465	\$77.77	7 55.8	<b>\$60,714</b>	M-1
2	55 Division Street San Francisco (SOMA neighborhood) APN: 3911-001	Feb-13	\$30,000,000	5.21 226,948	\$132.19	239 45.9	<b>\$125,523</b>	UMU
3	801 Brannan Street San Francisco (SOMA neighborhood) APN: 3783-001	Feb-13	\$44,000,000	1.65 71,874	\$612.18	432 261.8	<b>\$101,852</b>	UMU
4	3420 18th Street San Francisco (Mission neighborhood) APN: 3576-090	Nov-12	\$1,700,000	0.11 4,674	\$363.72	16 149.1	<b>\$106,250</b>	NCT
5	616-624 20th Street San Francisco (Dogpatch neighborhood) APN: 4058-008	Apr-12	\$1,750,000	0.13 5,663	\$309.03	17 130.8	<b>\$102,941</b>	UMU
6	2121 3rd Street San Francisco (Dogpatch neighborhood) APN: 4045-002	Feb-12	\$6,900,500	0.46 19,892	\$346.90	70 153.3	<b>\$98,579</b>	UMU
7	800 Indiana Street San Francisco (Dogpatch neighborhood) APN: 4105-009	Pending	\$26,000,000	2.67 116,305	\$223.55	340 127.3	<b>\$76,471</b>	UMU

## RESIDENTIAL LAND SALES MAP



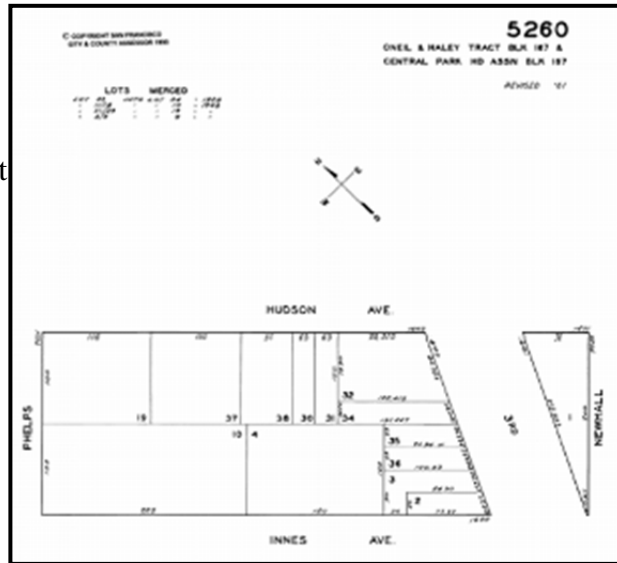
## RESIDENTIAL LAND SALE 1

### Property Identification

Residential Land

1600 Innes Avenue/4132V 3<sup>rd</sup> Street  
San Francisco, CA 94124  
San Francisco County

APN: 5260-002



### Sale Data

Grantor	Paradigm Hegenberger
Grantee	4132 Third St LLC
Sale Date	July 11, 2013
Deed Book Page	K939-209
Property Rights	Fee Simple
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	\$425,000
PV of Bonds	\$0

### Land Data

Land Area (SF)	5,465 SF
Land Area (Acres)	0.13 acre
Zoning	M-1, Light Industrial
Proposed Units	7
Proposed Density	55.8 units per acre
Shape	Generally Rectangular
Corner Orientation	Yes
Street Frontage	Innes Avenue; 3 <sup>rd</sup> Street
Topography	Generally level
Off-Site Improvements	All to site
On-Site Improvements	None

### Indicators

Sale Price per SF	\$77.77
Sale Price per Unit	\$60,714

### Remarks

This property is a recent sale for land proposed for a three story over garage mixed-use project, with ground level commercial space and seven large townhouse style residential units above. The property was listed for \$599,000 and sold for \$425,000, a 29% discount from the list price.

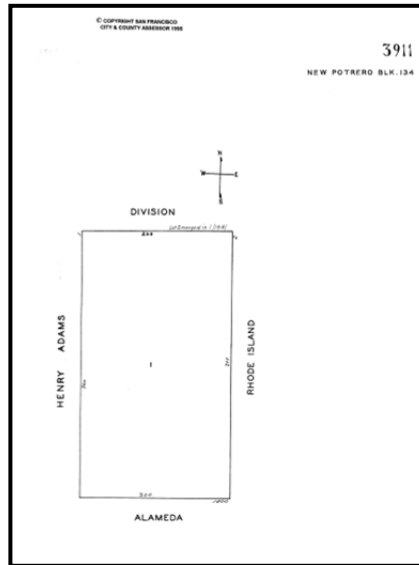
## RESIDENTIAL LAND SALE 2

### Property Identification

Residential Land

55 Division Street  
San Francisco, CA 94103  
San Francisco County

APN: 3911-001



### Sale Data

Grantor	Bay West Garden Court LLC
Grantee	Archstone Showplace Square LLC
Sale Date	February 26, 2013
Deed Book Page	K841-333
Property Rights	Fee Simple
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	\$30,000,000
PV of Bonds	\$0

### Land Data

Land Area (SF)	226,948 SF
Land Area (Acres)	5.21 acre
Zoning	UMU, Urban Mixed Use
Proposed Units	239
Proposed Density	45.9 units per acre
Shape	Rectangular
Corner Orientation	Yes
Street Frontage	Division; Henry Adams; Alameda and Rhode Island Streets
Topography	Generally level
Off-Site Improvements	All to site
On-Site Improvements	Industrial building

### Indicators

Sale Price per SF	\$132.19
Sale Price per Unit	\$125,523

### Remarks

This property was acquired by Archstone and contained an existing industrial building, which is to be demolished and replaced with a 6-story, mixed-se building, with 239 apartment units above ground floor retail. There was no contributory value to the existing improvements.

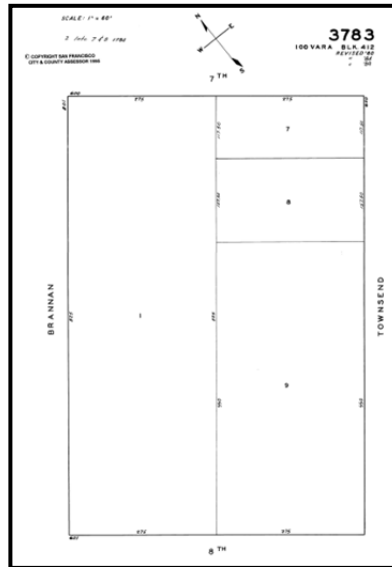
## RESIDENTIAL LAND SALE 3

### Property Identification

Residential Land

801 Brannan Street  
San Francisco, CA 94103  
San Francisco County

APN: 3783-001



### Sale Data

Grantor	BW Brannan St LLC
Grantee	Archstone Concourse LLC
Sale Date	February 26, 2013
Deed Book Page	K841-334
Property Rights	Fee Simple
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	\$44,000,000
PV of Bonds	\$0

### Land Data

Land Area (SF)	71,874 SF
Land Area (Acres)	1.65 acres
Zoning	UMU, Urban Mixed Use
Proposed Units	432
Proposed Density	261.8 units per acre
Shape	Rectangular
Corner Orientation	Yes
Street Frontage	Brannan Street, 7 <sup>th</sup> and 8 <sup>th</sup> Streets
Topography	Generally level
Off-Site Improvements	All to site
On-Site Improvements	Industrial building

### Indicators

Sale Price per SF	\$612.18
Sale Price per Unit	\$101,852

### Remarks

This property was acquired by Archstone and contained an existing industrial building, which is to be demolished and replaced with a 432 apartment project. There was no contributory value to the existing improvements.

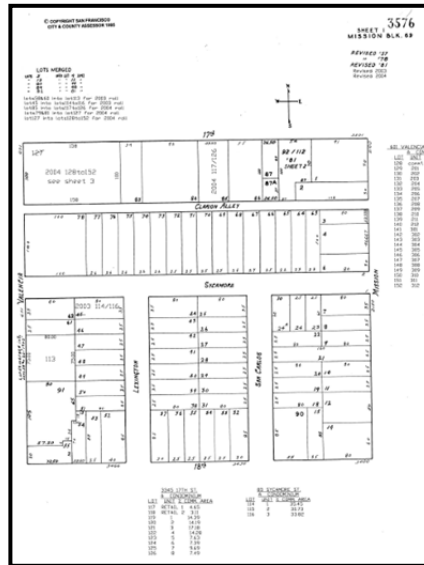
## RESIDENTIAL LAND SALE 4

### Property Identification

Residential Land

3420 18<sup>th</sup> Street  
San Francisco, CA 94110  
San Francisco County

APN: 3576-090



### Sale Data

Grantor	Ernest G. Batchelor Jr.
Grantee	David N. Sternberg Trust
Sale Date	November 6, 2012
Deed Book Page	K773-115
Property Rights	Fee Simple
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	\$1,700,000
PV of Bonds	\$0

### Land Data

Land Area (SF)	4,674 SF
Land Area (Acres)	0.11 acre
Zoning	NCT, Neighborhood Commercial Transit
Proposed Units	16
Proposed Density	149.1 units per acre
Shape	Rectangular
Corner Orientation	Yes
Street Frontage	18 <sup>th</sup> Street and San Carlos Street
Topography	Generally level
Off-Site Improvements	All to site
On-Site Improvements	Commercial building

### Indicators

Sale Price per SF	\$363.79
Sale Price per Unit	\$106,250

### Remarks

The buyer plans to demolish the existing commercial building and construct a five-story residential building containing 16 units on four floors above ground floor garage. The proposed development was not fully approved at the time of sale, but was in the process of getting approvals.

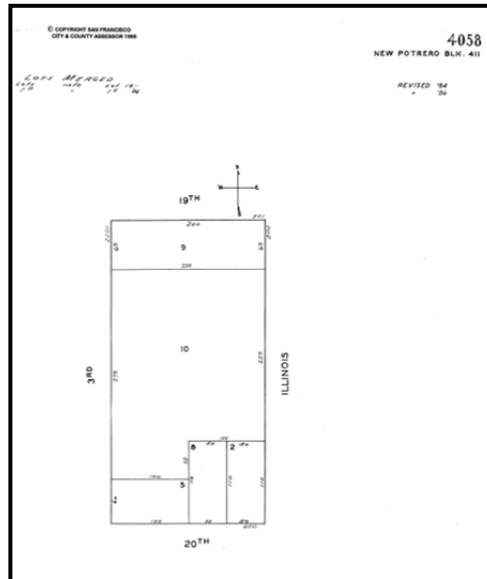
## RESIDENTIAL LAND SALE 5

### Property Identification

Residential Land

616-624 20<sup>th</sup> Street  
San Francisco, CA 94107  
San Francisco County

APN: 4058-008



### Sale Data

Grantor	Full Time Partners LLC
Grantee	616 20 <sup>th</sup> Street Homes LLC
Sale Date	April 5, 2012
Deed Book Page	K622-220
Property Rights	Fee Simple
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	\$1,750,000
PV of Bonds	\$0

### Land Data

Land Area (SF)	5,663 SF
Land Area (Acres)	0.13 acre
Zoning	UMU, Urban Mixed Use
Proposed Units	17
Proposed Density	130.8 units per acre
Shape	Rectangular
Corner Orientation	No
Street Frontage	20 <sup>th</sup> Street
Topography	Generally level
Off-Site Improvements	All to site
On-Site Improvements	Restaurant/bar

### Indicators

Sale Price per SF	\$309.03
Sale Price per Unit	\$102,941

### Remarks

This property is located in the Dogpatch neighborhood between 3<sup>rd</sup> Street and Illinois. The site is improved with an older restaurant planned for demolition. The property sold with entitlements for a five-story mixed-use building with 16 residential units above a 3,500 square foot retail unit. The site will also provide nine off-street parking spaces.

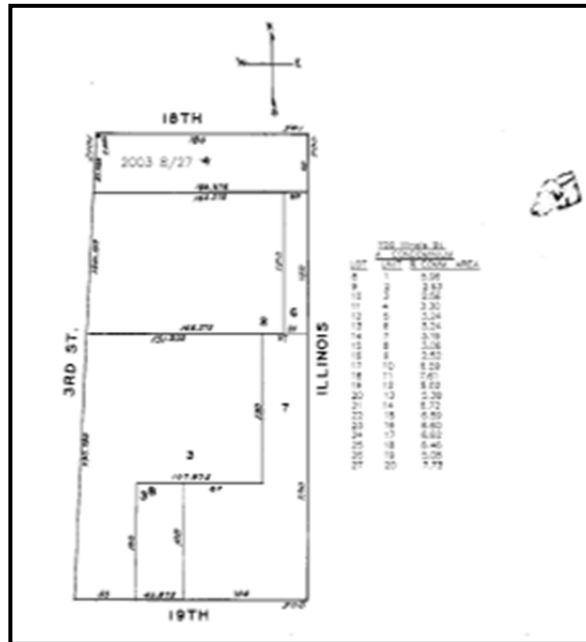
## RESIDENTIAL LAND SALE 6

### Property Identification

Residential Land

2121 3<sup>rd</sup> Street  
San Francisco, CA 94107  
San Francisco County

APN: 4045-002



### Sale Data

Grantor	Richard K Pooler, Inc.
Grantee	Mission Piers Development LLC
Sale Date	February 1, 2012
Deed Book Page	K574-69
Property Rights	Fee Simple
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	\$6,900,500
PV of Bonds	\$0

### Land Data

Land Area (SF)	19,892 SF
Land Area (Acres)	0.46 acre
Zoning	UMU, Urban Mixed Use
Proposed Units	70
Proposed Density	153.3 units per acre
Shape	Generally Rectangular
Corner Orientation	No
Street Frontage	3 <sup>rd</sup> Street
Topography	Generally level
Off-Site Improvements	All to site
On-Site Improvements	Partial

### Indicators

Sale Price per SF	\$346.90
Sale Price per Unit	\$98,579

### Remarks

This property is the February 2012 sale of a 0.46-acre site along 3<sup>rd</sup> Street, north of the subject property, proposed for the re-development of a 70-unit multifamily project.



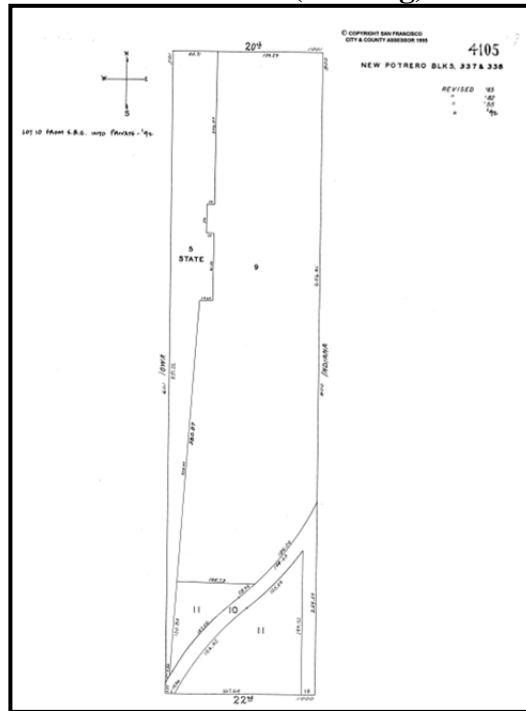
## RESIDENTIAL LAND SALE 7 (Pending)

### Property Identification

Residential Land

800 Indiana Street  
San Francisco, CA 94107  
San Francisco County

APN: 4105-009



### Sale Data

Grantor	San Francisco Opera Association
Grantee	Archstone
Sale Date	Pending as of January 2012
Deed Book Page	Pending
Property Rights	Fee Simple
Conditions of Sale	Market
Financing Terms	Cash Equivalent
Sale Price	\$26,000,000
PV of Bonds	\$0

### Land Data

Land Area (SF)	116,305 SF
Land Area (Acres)	2.67 acres
Zoning	UMU, Urban Mixed Use
Proposed Units	340
Proposed Density	127.3 units per acre
Shape	Irregular, generally rectangular
Corner Orientation	Yes
Street Frontage	20 <sup>th</sup> and Indiana Streets
Topography	Generally level
Off-Site Improvements	All to site
On-Site Improvements	Existing warehouse

### Indicators

Sale Price per SF	\$223.55
Sale Price per Unit	\$76,471

### Remarks

This property is the pending sale of an existing warehouse facility owned by the San Francisco

Opera as its set-construction warehouse. According to the San Francisco Business Journal, Archstone, which has acquired numerous properties throughout the Mission Bay area, is in contract on this Dogpatch neighborhood property for approximately \$26,000,000.

## Analysis and Conclusion

The comparable sales collected for this analysis are considered sufficient for purposes of estimating market value for the subject's underlying residential land component. Based on the data analyzed herein, and the correlation of sale price to the primary value influencing characteristics, e.g., land area, number of units and density, the unit of comparison used for this analysis is the sale price per unit. In order to value the subject's subdivisions, the comparable transactions were adjusted based on the profile of the subject property with regard to categories that affect market value. If a comparable has an attribute that is considered superior to that of the subject, it is adjusted downward to negate the effect the item has on the price of the comparable. The opposite is true of categories that are considered inferior to the subject and are adjusted upward.

The total consideration for each sale, inclusive of bonds, is analyzed. In order to isolate and quantify the adjustments on the comparable sales data, percentage or dollar adjustments are considered appropriate. At a minimum, the appraiser considers the need to make adjustments for the following items:

- Property Rights Conveyed
- Financing Terms
- Conditions of Sale (motivation)
- Market Conditions (time)
- Expenditures After Sale
- Location
- Physical Features

A paired sales analysis is performed in a meaningful way when the quantity and quality of data are available. However, as a result of the limited data present in the market, many of the adjustments require the appraiser's experience and knowledge of the market and information obtained from those knowledgeable and active in the marketplace.

When comparing comparables sales with the subject property, adjustments are typically made on either a quantitative or qualitative basis. Quantitative adjustments are often developed as dollar or percentage amounts, most applicable (relevant) when the quality and quantity of data allows paired sales or statistical analysis; whereas, qualitative adjustments are generally expressed through relative comparison (superior versus inferior). Given the imperfect nature of the real estate market, participants most often rely on qualitative comparisons. The combined benefits of both qualitative and quantitative analysis results in a blended adjustment technique, which is accomplished through assigning quantitative adjustments for relative comparison.

A detailed analysis involving each of aforementioned factors and the value conclusion for the subject is presented below.

### ***Property Rights Conveyed***

In transactions of real property, the rights being conveyed vary widely and have a significant impact on the sales price. As previously noted, the opinion of value in this report is based on a fee simple estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat; as well as non-detrimental easements, and conditions, covenants and restrictions (CC&Rs). The subject and all the comparables represent fee simple estate transactions. Therefore, adjustments for this factor are not necessary.

### ***Financing Terms***

In analyzing the comparables, it is necessary to adjust for financing terms that differ from market terms. Typically, if the buyer retained third party financing (other than the seller) for the purpose of purchasing the property, a cash price is presumed and no adjustment is required. However, in instances whereby the seller provides financing as a debt instrument, a premium may have been paid by the buyer for below market financing terms or a discount may have been demanded by the buyer if the financing terms were above market. The premium or discounted price must then be adjusted to a cash equivalent basis. The comparable sales are understood to be cash to the seller transactions and, therefore, do not require adjustments.

### ***Conditions of Sale (motivation)***

Adverse conditions of sale can account for a significant discrepancy from the sales price actually paid compared to that of the market. This discrepancy in price is generally attributed to the motivations of the buyer and the seller. Certain conditions of sale are considered to be non-market and may include the following:

- A seller acting under duress,
- A lack of exposure to the open market,
- An inter-family or inter-business transaction for the sake of family or business interest,
- An unusual tax consideration,
- A premium paid for site assemblage,
- A sale at legal auction, or
- An eminent domain proceeding.

All of the comparable transactions were arms-length and do not require a conditions of sale adjustment.

### ***Expenditures after Sale***

Comparables 2, 3, 4, 5 and 7 had site improvements in place at the time of sale, which require demolition to create a vacant site that is ready for development. As such, upward adjustments are made to these Comparables to account for the cost of demolition. No other adjustments are warranted for expenditures after sale.

### ***Market Condition (time)***

Market conditions generally change over time, but the date of this appraisal is for a specific point in time. Therefore, in an unstable economy, one that is undergoing changes in the value of the dollar, interest rates and economic growth or decline, extra attention needs to be paid to assess changing market conditions. Significant monthly changes in price levels can occur in several areas of a municipality, while prices in other areas remain relatively stable. Although the adjustment for market conditions is often referred to as a time adjustment, time is not the cause of the adjustment.

In evaluating market conditions, changes between the comparable sales date and the effective date of this appraisal may warrant adjustment; however, if market conditions have not changed, then no adjustment is required. While the residential market was in an expansionary period during the years of 2000 to 2007, it contracted through 2009/2010, especially as a result of the financial crisis of the latter half of 2008. In 2011 and 2012, the market was still in a period of decline, with initial signs of improvements in housing prices. However, over the past year, nearly all market participants surveyed have reported that conditions have improved for residential housing, with particular emphasis on for-rent product. With respect to for-sale residential product, reports suggest the Bay Area region is exhibiting signs of recovery. According to DataQuick Information Systems (May 14, 2014 report), home sales in the Bay Area were relatively flat year-over-year, with the exception of San Mateo County, which experienced a year-over-year increase of 14.0% in sales volume; though, the median home price in April 2014 for the nine County Bay Area region rose to the highest post-recession level of \$610,000, up 19.6% from a year ago (\$510,000). In San Francisco, there were 612 home sales in April 2014, and the year-over-year change in median home price increased 13.2% (\$815,000 to \$922,500). In the subject's submarket (94124 zip code), the median home price, as of April 2014, was up another 41.5% from a year ago, with a median price of \$518,750 – the highest price achieved was \$785,000. Based upon the discussion above, upward adjustments for market conditions are applied to Comparables 2 through 6, which transferred between February 2012 and February 2013.

### ***Physical Features***

The physical characteristics of a property can impact the selling price. Those that may impact value include the following:

#### **Location**

The subject is located in the Hunters Point area of the city of San Francisco. Comparables 2, 3 and 4 are located in superior submarkets of San Francisco and warrant large downward adjustments when compared to the subject property. Comparables 5 and 6 are located in the Dogpatch neighborhood, just north of the subject neighborhood and merit slight downward adjustments. The balance of the sales are located in areas generally similar to the subject's Bayview/Hunters Point neighborhood; thus, no adjustments are considered necessary.

### Visibility/Accessibility

The subject offers average visibility and accessibility when compared to the market, as do all of the Comparables; thus, no adjustments are necessary.

### Project Density (Units Per Acre)

The Hilltop subdivision offers a project density of 56.04 units per acre ( $705 \text{ units} \div 12.58 \text{ acres}$ ), with Block densities ranging between 27.16 and 123.53 units per acre. The Hillside subdivision offers a project density of 56.29 units per acre ( $374 \text{ units} \div 6.64 \text{ acres}$ ), with Block densities ranging between 38.19 and 71.64 units per acre. Therefore, in comparison to the subject property, comparables offering a proposed density greater than the density for the subject, namely Comparables 3 through 6, receive downward adjustments.

### Offsite Improvements

The subject property has a significant amount of offsite/infrastructure improvements in place. All of the comparables have partial offsite improvements in place; though, they will all require extensive offsite improvements associated with residential redevelopment. Therefore, based on costs associated with the subject development, coupled with the anticipated cost for each of the comparables, upward adjustments are considered reasonable to account for the lack of additional offsite improvements.

### Site Utility/Topography

Differences in shape, topography, drainage or soil conditions can affect the utility and, therefore, the market value of a property. The subject property exhibits average site utility, with a rectangular shape, sloping topography and no major impediments to development. In comparison to the subject, all of the land sales appear to offer similar site utility/topography, with no adjustments warranted.

### Unit Premiums/Discounts

In light of the topography of the Hilltop subdivision, coupled with its elevation relative to surrounding land areas with unobstructed views of both the San Francisco Bay and the San Francisco skyline, it is anticipated several of the units within Blocks comprising the Hilltop and Hillside subdivisions will generate premiums for view amenities. Therefore, in comparison to the average Block within the Hilltop and Hillside subdivisions, Comparables 1, 5, 6 and 7 are not anticipated to achieve a similar level of overall unit premiums and warrant upward adjustments when compared to the subject.

## Inclusionary Housing Requirements

The subject property (as well as the city of San Francisco as a whole) has an inclusionary housing requirement in which the owner/developer is obligated to set aside a minimum of fifteen percent (15%) of the residential units for occupancy by, and being affordable to, moderate or lower income households. San Francisco's Inclusionary Housing Requirement can be 0%, 12% or 15%, depending on the location of the property and whether it is already entitled for residential development. An in lieu fee is available (not for the subject property), and projects with less than ten units have no inclusionary housing requirement. The master developer, Lennar Corporation, has negotiated with the City and County of San Francisco to set aside all of the 50% of AMI BMR units to be constructed in the Hilltop subdivision on one Block (Block 49), which is not a part of the subject property, and the balance of the subdivision may be constructed with only 10.5% of BMR units committed to buyers qualifying under the 80% of AMI requirement.

Since Comparables 2 through 7 are anticipated to have a typical 15% inclusionary housing requirement, an upward adjustment is warranted for this inferior condition based on the increment of value attributable to BMR units stipulated for buyers meeting 50% of AMI requirements converting to market. It is worth noting Comparable 1 has fewer than ten units and does not have an inclusionary housing requirement; though, the impact is considered negligible in light of the small size of the project, and no adjustment is necessary.



## Conclusion

The sales comparables indicate an unadjusted range of \$60,714 to \$125,523 per unit. A table depicting the rankings of the Comparables and the subject subdivisions is presented below:

Comp. No.	Sale Date	Price / Unit	Expenditures after Sale	Market Conditions	Location	Visibility/ Accessibility	Density	Offsite Improvements	Site Utility	Premiums/ Discounts	Inclusionary Housing
2	Feb-13	\$125,523	Upward	Upward	Downward	-	-	Upward	-	-	Upward
4	Nov-12	\$106,250	Upward	Upward	Downward	-	Downward	Upward	-	-	Upward
Hilltop											
5	Apr-12	\$102,941	Upward	Upward	Sl. Downward	-	Downward	Upward	-	Upward	Upward
3	Feb-13	\$101,852	Upward	Upward	Downward	-	Downward	Upward	-	-	Upward
6	Feb-12	\$98,579	-	Upward	Sl. Downward	-	Downward	Upward	-	Upward	Upward
Hillside											
7	Pending	\$76,471	Upward	-	-	-	-	Upward	-	Upward	Upward
1	Jul-13	\$60,714	-	-	-	-	-	Upward	-	Upward	-

The indicators of value for the subject's Hilltop (Blocks 1JV, 52JV, 55, 56 and 57) and Hillside subdivisions of \$103,668 and \$90,508 per unit, respectively, were derived via the land residual analysis. The table above shows the subject's rankings amongst the recent land sales considered. Based on the indicators from the recent market sales, the conclusion of market value per unit estimated via the land residual analysis is considered reasonable. The indicated value for Blocks 50, 51, 53 and 54 for the Hilltop subdivision of \$187,530 is above the range of the data; however, this is expected in light of the significant amount of vertical construction costs completed to date.

## **SUMMARY AND CONCLUSION**

The purpose of this appraisal is to provide the market value of the subject property (*fee simple estate*), subject to the Lien of the Special Tax securing the Bonds, as of May 30, 2014. The appraised property comprises a portion of Phase I of the Hunters Point Shipyard redevelopment area, which is commonly referred to as the Hilltop and Hillside subdivisions. The Hilltop subdivision is located at the southeastern terminus of Innes Avenue, south of Galvez Avenue and north of Spear Avenue, within the city and county of San Francisco, California. The Hillside subdivision is located west of the Hilltop subdivision, north of Crisp Road and south of Kirkwood Avenue.

As a result of the analysis herein, it is our opinion the market values of the appraised property, which accounts for the Lien of the Special Tax securing the Bonds, in accordance with the definitions, certifications, general and extraordinary assumptions, limiting conditions and hypothetical conditions set forth in the attached document (please refer to pages 7 through 9), as of May 30, 2014, are ...

### **Market Value of Hunters Point Shipyard Redevelopment:**

#### **Phase 1 – Hilltop Subdivision**

<b>Under Development Portion – Blocks 50, 51, 53 and 54</b>	<b>\$46,320,000</b>
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<b>Undeveloped Portion</b>	<b>\$47,480,000</b>
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<b>Phase 1 – Hillside Subdivision</b>	<b><u>\$33,850,000</u></b>
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<b>Total Market Value of Hunters Point Shipyard Redevelopment Phase 1</b>	<b>\$127,650,000</b>
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The value estimates assume a transfer that reflects a cash transaction or terms considered to be equivalent to cash. The estimates are also premised on an assumed sale after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, for their own self-interest and assuming neither is under duress.

## **EXPOSURE TIME**

Exposure time is the period a property interest would have been offered on the market *prior to* the hypothetical consummation of a sale at market value on the effective date of the appraisal. Marketing time reflects the time it might take to sell an interest in real property at its estimated market value during the period *immediately after* the effective date of the appraisal. Exposure time and marketing time may or may not be similar depending on whether market activity in the immediate future continues in the same manner as in the immediate past. Indications of the exposure time associated with a market value estimate are provided by the marketing times of sale comparables, interviews with participants in the market, and analysis of general economic conditions. Estimation of a future marketing time is more difficult, requiring forecasting and analysis of trends. The exposure time is estimated for the subject property below.

As described above, exposure time is defined as the length of time a property interest would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. It is a retrospective estimate of time based on an analysis of past events assuming a competitive and open market. The commercial and residential land market throughout the Bay Area has shown significant signs of expansion and market appreciation. A transfer of residential land in the region has typically occurred within 6 to 12 months of exposure. Given the size of the subject property, and the condition of the market, it is expected that if appropriately priced, the exposure time for the subject property, in bulk, would likely be in line with the high end of the range, or approximately **12 months**.

# **ADDENDA**

## **RATE AND METHOD OF APPORTIONMENT**

## EXHIBIT A

### REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 7 (HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)

#### SECOND AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

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A Special Tax applicable to each Assessor's Parcel in the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) [herein "CFD No. 7"] shall be levied and collected according to the tax liability determined by the Administrator through the application of the appropriate amount or rate for Taxable Property, as described below. All of the property in CFD No. 7, unless exempted by law or by the provisions of Section G below, shall be taxed for the purposes, to the extent, and in the manner herein provided.

#### **A. DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"Act"** means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, (commencing with Section 53311), Division 2 of Title 5 of the California Government Code.

**"Administrative Expenses"** means any or all of the following: the fees and expenses of any fiscal agent or trustee (including any fees or expenses of its counsel) employed in connection with any Bonds, and the expenses of the Agency carrying out its duties with respect to CFD No. 7 and the Bonds, including, but not limited to, levying and collecting the Special Tax, the fees and expenses of legal counsel, charges levied by the County Auditor's Office, Tax Collector's Office, and/or Treasurer's Office, costs related to property owner inquiries regarding the Special Tax, amounts needed to pay rebate to the federal government with respect to the Bonds, costs associated with complying with any continuing disclosure requirements for the Bonds and the Special Tax, and all other costs and expenses of the Agency in any way related to the establishment or administration of CFD No. 7.

**"Administrator"** means the Deputy Executive Director, Finance and Administration, of the Agency or such other person or entity designated by the Executive Director of the Agency to administer the Special Tax according to this RMA.

**"Affordable Housing Program"** means the Affordable Housing Program which is attached to and made a part of the Disposition and Development Agreement.

**“Agency”** means the Redevelopment Agency of the City and County of San Francisco or any successor agency thereto.

**“Agency Affordable Housing Unit”** means a Residential Unit constructed on an Agency Housing Parcel. If the Agency acquires a Parcel within CFD No. 7 that is not designated as an Agency Housing Parcel in Attachment 3, the Residential Units constructed on such Parcel shall not be categorized as Agency Affordable Housing Units and shall be taxed as Market Rate Units pursuant to Section C below, unless a prepayment is made to release the Parcel from all or a portion of the Special Tax lien.

**“Agency Housing Parcel”** means a Parcel owned by the Agency and designated as an “Agency Housing Parcel” in Attachment 3 of this RMA.

**“Airspace Parcel”** means a parcel with an assigned Assessor’s parcel number that constitutes vertical space of an underlying land parcel.

**“Approved Development Plan”** means the most current Final Map, condominium plan, or other such approved or recorded map or plan provided by Lennar or a Subsequent Owner that identifies the type of structure, acreage, square footage, number of Bedrooms, and/or the number of Residential Units that are approved to be developed on Parcels of Taxable Property.

**“Assessor’s Parcel” or “Parcel”** means a lot or parcel, including an Airspace Parcel, shown on an Assessor’s Parcel Map with an assigned Assessor’s Parcel number.

**“Assessor’s Parcel Map”** means an official map of the County Assessor designating Parcels by Assessor’s Parcel number.

**“Authorized Facilities”** means those public facilities authorized to be funded by CFD No. 7 as set forth in the formation documents of CFD No.7.

**“Base Special Tax”** means the Special Tax that is levied on property on a per-Residential Unit basis and, when combined with the Incremental Special Tax, makes up the Designated Special Tax for a Residential Unit, as identified in Section C.2.a below.

**“Bedrooms”** means the number of bedrooms within a Required BMR Unit as shown on an Approved Development Plan or building permit issued for new construction.

**“Bonds”** means bonds or other debt (as defined in the Act), whether in one or more series, issued, insured or assumed by CFD No. 7 related to the Authorized Facilities.

**“Capitalized Interest”** means funds in any capitalized interest account available to pay debt service on Bonds.

**“CFD Update”** means the date on which the Resolution Declaring Completion of Change Proceedings was adopted by the Commission as part of the 2014 change proceedings.



**“City”** means the City and County of San Francisco.

**“Commission”** means the Commission of the Agency, acting as the legislative body of CFD No. 7.

**“County”** means the City and County of San Francisco.

**“Designated Special Tax”** means the sum of the Base Special Tax and the Incremental Special Tax for a Parcel of Taxable Property, as determined pursuant to Section C.2.a below.

**“Developed Property”** means, in any Fiscal Year, all Assessor’s Parcels of Taxable Property in CFD No. 7 for which a building permit for new construction of a residential or non-residential structure was issued prior to June 1 of the proceeding Fiscal Year.

**“Disposition and Development Agreement”** means the Disposition and Development Agreement for the Hunters Point Shipyard, Phase 1 by and between the Agency and Lennar, as approved by the Commission on December 2, 2003, and as amended from time to time.

**“Expected Maximum Special Tax”** means the aggregate Special Tax for each Sub-Block based on the Expected Land Uses at the time of the CFD Update. The Expected Maximum Special Tax for each Sub-Block is shown in Attachment 2 of this RMA and may be revised pursuant to Sections C and D below. The Expected Maximum Special Tax may also be adjusted if a property owner prepays all or a portion of the Maximum Special Tax assigned to a Parcel.

**“Expected Land Uses”** means the total number of Residential Units, amount of Square Footage, and number of Bedrooms expected within each Sub-Block. The Expected Land Uses at the time of the CFD Update are identified in Attachment 2 of this RMA and may be revised pursuant to Sections C and D below.

**“Final Map”** means a final map, or portion thereof, recorded by the County pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) that creates individual lots on which building permits for new construction may be issued without further subdivision.

**“Fiscal Year”** means the period starting July 1 and ending on the following June 30.

**“Fixed Rate Bonds”** means Bonds that pay a fixed rate of interest until the principal of such Bonds has been fully repaid.

**“Incremental Special Tax”** means the Special Tax levied on property on a Square Footage or per-Bedroom basis as identified in Section C.2.a below.

**“Indenture”** means the indenture, fiscal agent agreement, resolution, or other instrument pursuant to which CFD No. 7 Bonds are issued, as modified, amended, and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**“Lennar”** means HPS Development Co., LP, HPS1 Block 50, LLC, HPS1 Block 51, LLC, HPS1 Block 53, LLC, and HPS1 Block 54, LLC, and their respective successors and assigns.

**“Market Rate Unit”** means a Residential Unit that is not an Agency Affordable Housing Unit or a Required BMR Unit.

**“Maximum CFD Revenues”** means the aggregate Maximum Special Tax that can be levied on all Parcels of Taxable Property within CFD No. 7 in any given Fiscal Year.

**“Maximum Special Tax”** means the greatest amount of Special Tax that can be levied on an Assessor’s Parcel in any Fiscal Year determined in accordance with Section C below.

**“Non-Residential Property”** means, in any Fiscal Year, all Parcels of Taxable Property for which building permits were issued, or based on an Approved Development Plan, are expected to be issued for construction of a structure that includes Square Footage designated for non-residential land uses.

**“Proportionately”** means, for Developed Property, that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor’s Parcels of Developed Property, and for Undeveloped Property that the ratio of the actual Special Tax to the Maximum Special Tax is equal for all Assessor’s Parcels of Undeveloped Property.

**“Public Property”** means any property within the boundaries of CFD No. 7 that is owned by the federal government, the Agency, the State of California, the County, or other public agency, including Agency Affordable Housing Units. Notwithstanding the foregoing, any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall not be considered Public Property and shall be taxed and classified according to the use on the Parcel(s) unless such Parcel is an Agency Housing Parcel.

**“Required BMR Units”** means all Required BMR 80% Units and Required BMR 50% Units within CFD No. 7. Any units within CFD No. 7 that are not Required BMR Units or Agency Affordable Housing Units, as defined herein, shall be taxed as Market Rate Units pursuant to Section C below.

**“Required BMR 80% Unit”** means a Residential Unit within CFD No. 7 that is required pursuant to the Disposition and Development Agreement and is approved by the Agency as an affordable housing unit priced for sale or lease to households earning no more than 80% of the area median income (as defined in the Affordable Housing Program). Required BMR 80% Units shall be taxed at the Maximum Special Tax rates identified in Section C below.

**“Required BMR 50% Unit”** means a Residential Unit within CFD No. 7 that is required pursuant to the Disposition and Development Agreement and is approved by the Agency as an affordable housing unit priced for sale or lease to households earning no more than 50% of the area median income (as defined in the Affordable Housing Program). Required BMR 50% Units shall be taxed at the Maximum Special Tax rates identified in Section C below.

**“Required Coverage”** means the amount by which the Maximum CFD Revenues must exceed the Bond debt service and required Administrative Expenses, as set forth in the Indenture.

**“Residential Property”** means, in any Fiscal Year, all Parcels of Taxable Property for which building permits were issued, or based on an Approved Development Plan, are expected to be issued for construction of a structure that includes one or more Residential Units.

**“Residential Unit”** means an individual residential dwelling unit within CFD No. 7.

**“RMA”** means this Second Amended and Restated Rate and Method of Apportionment of Special Tax.

**“Special Tax”** means a special tax levied in any Fiscal Year to pay the Special Tax Requirement.

**“Special Tax Requirement”** means the amount necessary in any Fiscal Year to: (i) pay principal and interest on Fixed-Rate Bonds which is due in the calendar year that begins in such Fiscal Year; (ii) pay debt service on all Variable Rate Bonds estimated for the calendar year that begins in such Fiscal Year, assuming a seven and one-half percent (7 ½ %) interest rate for all Variable Rate Bonds, (iii) pay periodic costs on the Bonds, including but not limited to, credit enhancement, liquidity support and rebate payments on the Bonds, (iv) create and/or replenish reserve funds for the Bonds; (v) cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year or, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the Fiscal Year in which the tax will be collected; (vi) pay Administrative Expenses; and (vii) pay directly for Authorized Facilities. The amounts referred to in clauses (i), (ii) and (iii) of the preceding sentence may be reduced in any Fiscal Year by: (i) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against debt service pursuant to the Indenture; (ii) proceeds received by CFD No. 7 from the collection of penalties associated with delinquent Special Taxes; and (iii) any other revenues available to pay debt service on the Bonds as determined by the Administrator.

**“Square Foot”** or **“Square Footage”** means the square footage of a Residential Unit or non-residential structure reflected on a condominium plan, site plan, building permit for new construction, or other such document. If the Square Footage shown on a site plan or condominium plan is inconsistent with the Square Footage reflected on the building permit issued for construction of the Residential Unit or non-residential building, the greater of the two numbers shall be used to calculate the Maximum Special Tax pursuant to Section C below.

**“Sub-Block”** means a specific geographic area within CFD No. 7 for which an Expected Maximum Special Tax has been identified. Sub-Blocks expected within CFD No. 7 at the time of the CFD Update are identified in Attachment 1 of this RMA.

**“Subsequent Owner”** means any owner of Undeveloped Property within CFD No. 7 that is not Lennar.

**“Subsequent Owner Property”** means, in any Fiscal Year, all Parcels of Undeveloped Property within CFD No. 7 that are owned by a Subsequent Owner.

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of CFD No. 7 which are not exempt from the Special Tax pursuant to law or Section G below.

**“Taxable Public Property”** means, in any Fiscal Year, all Parcels of Public Property within CFD No. 7 that, based on an Approved Development Plan, were expected to be Taxable Property and, based on this expectation, had Maximum Special Taxes assigned to them in prior Fiscal Years.

**“Undeveloped Property”** means, in any Fiscal Year, all Parcels of Taxable Property within CFD No. 7 that are not Developed Property or Taxable Public Property.

**“Variable Rate Bonds”** means any Bonds issued for CFD No. 7 that are not Fixed Rate Bonds.

## **B. DATA FOR CFD ADMINISTRATION**

On or about July 1 of each Fiscal Year, the Administrator shall identify the current Assessor’s Parcel numbers for all Parcels of Taxable Property. The Administrator shall also determine: (i) whether each Parcel of Taxable Property is Developed Property or Undeveloped Property, (ii) within which Sub-Block each Assessor’s Parcel is located, (iii) for Developed Property, which Parcels are Residential Property and Non-Residential Property, (iv) for Residential Property, which units are Market Rate Units, Required BMR 80% Units, and Required BMR 50% Units, (v) for Market Rate Units, the Square Footage of each unit, (vi) for Required BMR Units, the number of Bedrooms within each unit, (vii) the Square Footage within each building of Non-Residential Property, and (viii) the Special Tax Requirement for the Fiscal Year.

The Administrator shall coordinate with the Agency, Lennar, and/or Subsequent Owners to identify the Required BMR 80% Units and Required BMR 50% Units within each Approved Development Plan. If there are transfers between Required BMR Units and Market Rate Units, the Administrator shall refer to Section D.2 to determine the Maximum Special Tax for each Parcel after such transfer.

If a building permit for new construction has been issued for development of a structure on an Assessor’s Parcel, and additional structures are anticipated to be built on the Parcel as shown on the Approved Development Plan, a portion of the acreage of the Assessor’s Parcel shall be taxed as Undeveloped Property if building permits for all of the structures in the Approved Development Plan were **not** issued as of June 1 of the Fiscal Year prior to the Fiscal Year in which the Special Taxes are being levied. If the acreage assigned to each building anticipated on the Assessor’s Parcel is not clearly delineated on the Approved Development Plan, the acreage of the portion of the Assessor’s Parcel to be taxed as Developed Property shall be estimated by the Administrator. The remaining acreage within the Assessor’s Parcel shall be taxed as Undeveloped Property. Determination of the amount of Developed Property and Undeveloped Property on an Assessor’s Parcel shall be at the discretion of the Agency.

In any Fiscal Year, if it is determined that (i) a parcel map or condominium plan for a portion of property in CFD No. 7 was recorded after January 1 of the prior Fiscal Year (or any other date after which the Assessor will not incorporate the newly-created parcels into the then current tax roll), (ii) because of the date the map or plan was recorded, the Assessor does not yet recognize the newly-created parcels, and (iii) one or more of the newly-created parcels meets the definition of Developed Property, the Administrator shall calculate the Special Tax for the property affected by recordation of the map or plan by determining the Special Tax that applies separately to each newly-created parcel, then applying the sum of the individual Special Taxes to the Assessor's Parcel that was subdivided by recordation of the parcel map or condominium plan.

In addition to the tasks set forth above, the Administrator shall, upon the sale of a Parcel(s) to any Subsequent Owner, update Attachment 2 to reflect the then-current Expected Land Uses on, and Expected Maximum Special Tax for, the Parcel(s) being sold. Prior to or concurrent with the sale of the Parcel(s), Lennar shall provide written confirmation to the Administrator as to the Expected Land Uses and Expected Maximum Special Tax that should apply to the Parcel(s). If a sale occurs and no such confirmation has been provided to the Administrator, the Expected Maximum Special Tax that had applied to the Parcel(s) prior to the sale shall continue to apply to the Parcel(s). To the extent the Expected Maximum Special Tax reflected in a written confirmation from Lennar is less than the Expected Maximum Special Tax that had previously applied to the Parcel(s) and this results in insufficient Maximum CFD Revenues to meet the Required Coverage, such confirmation shall also identify to which Assessor's Parcel in CFD No. 7 the difference in the Expected Maximum Special Tax has been transferred unless a prepayment is made by Lennar or the Subsequent Owner in an amount that ensures that the Required Coverage is maintained. The Parcel(s) to which the difference in Expected Maximum Special Tax has been shifted must be owned by Lennar.

### **C. MAXIMUM SPECIAL TAX**

#### ***1. Property Without an Approved Development Plan***

The Maximum Special Tax for property in CFD No. 7 without an Approved Development Plan shall be the Expected Maximum Special Tax shown in Attachment 2 of this RMA. If, in any Fiscal Year, separate Assessor's Parcels have not yet been created for property within each Sub-Block, the Administrator shall sum the Expected Maximum Special Tax for all Sub-Blocks within an Assessor's Parcel to determine the Maximum Special Tax that shall apply to the Parcel in such Fiscal Year.

If an Assessor's Parcel contains a portion of one or more Sub-Blocks, the Maximum Special Tax shall be determined by allocating the Expected Maximum Special Tax for each Sub-Block proportionately among such Assessor's Parcels based on the estimated acreage of the portion of the Sub-Block that falls within each Parcel, as determined by the Administrator. The Maximum CFD Revenue after such allocation shall not be less than the Maximum CFD Revenue prior to this allocation.

## **2. *Property Within an Approved Development Plan***

The Maximum Special Tax for a Parcel within an Approved Development Plan shall be the greater of the Designated Special Tax or the Back-Up Special Tax determined pursuant to this Section C.2. When a development plan is approved, the Administrator shall calculate the Designated Special Tax pursuant to Section C.2.a below for each Parcel of Taxable Property based on the land uses reflected in the Approved Development Plan. If it is determined that only a portion of a Sub-Block is included within an Approved Development Plan, the Administrator shall refer to Attachments 1 and 2 to estimate the Expected Land Uses and Expected Maximum Special Taxes that should be assigned to the portion of the Sub-Block that does not yet have an Approved Development Plan. The Administrator shall confirm this determination with the Agency, Lennar, and/or a Subsequent Owner of the property.

The Administrator shall then calculate the amount that could be levied if the Designated Special Tax was applied to the land uses proposed on Taxable Property within the Approved Development Plan. This "Total Designated Special Tax" shall be compared to the Expected Maximum Special Tax for that Sub-Block or portion of Sub-Block included within the Approved Development Plan, and the Administrator shall apply one of the following:

- *If the Total Designated Special Tax is equal to the Expected Maximum Special Tax, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the amount determined by applying the Designated Special Tax.*
- *If the Total Designated Special Tax is greater than the Expected Maximum Special Tax, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the amount determined by applying the Designated Special Tax. The Administrator shall revise Attachment 2 to reflect the increased Expected Maximum Special Tax for the Sub-Block and the increased Maximum CFD Revenues.*
- *If the Total Designated Special Tax is less than the Expected Maximum Special Tax but the Maximum CFD Revenues are still sufficient to provide the Required Coverage, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the Designated Special Tax. The Administrator shall revise Attachment 2 to reflect the decreased Expected Maximum Special Tax for the Sub-Block and the decreased Maximum CFD Revenues.*
- *If the Total Designated Special Tax is less than the Expected Maximum Special Tax and such reduction causes the Maximum CFD Revenues to be insufficient to provide the Required Coverage, then the Maximum Special Tax for each Residential Unit or Non-Residential Property within the Approved Development Plan shall be the Back-Up Special Tax determined pursuant to Section C.2.b below. If applicable, the Administrator shall revise Attachment 2 to reflect the decreased Expected Maximum Special Tax for the Sub-Block and the decreased Maximum CFD Revenues after the Back-Up Special Tax has been determined.*

***Until individual Assessor's Parcels are created for each Residential Unit and Non-Residential Property within an Approved Development Plan, the Administrator shall sum the Maximum Special Tax for all land uses on a Parcel and levy the aggregate Maximum Special Tax on the Parcel.***

***a. Designated Special Tax***

The Designated Special Tax for each Residential Unit built or expected to be built on Taxable Property shall be the sum of the Base Special Tax and the Incremental Special Tax as identified in Table 1 below. The Designated Special Tax for each Parcel of Non-Residential Property built or expected to be built on Taxable Property shall be determined by multiplying the Square Footage of the non-residential structure(s) by the Incremental Special Tax shown for Non-Residential Property in Table 1 below.

**Table 1  
Base Special Tax and Incremental Special Tax**

<b>Land Use</b>	<b>Base Special Tax Fiscal Year 2013-14*</b>	<b>Incremental Special Tax Fiscal Year 2013-14*</b>
Market Rate Units	\$1,474 per unit	\$2.35 per Square Foot
Required BMR 80% Units	\$628 per unit	\$190 per Bedroom
Required BMR 50% Units	\$352 per unit	\$90 per Bedroom
Non-Residential Property	N/A	\$1.41 per Square Foot

***\* Beginning July 1, 2014 and each July 1 thereafter, the amounts shown in Table 1 above shall be increased by two percent (2%) of the amount in effect in the prior Fiscal Year.***

***b. Back-Up Special Tax***

As set forth above, if the Administrator determines that the Total Designated Special Tax calculated for an Approved Development Plan is less than the Expected Maximum Special Tax and such reduction causes the Maximum CFD Revenues to be insufficient to provide the Required Coverage, then the Administrator shall apply one of the following:

- (i) The landowner of the property within the Approved Development Plan may make a prepayment to the Agency in an amount sufficient to reduce the annual debt service on the Bonds so that the Required Coverage can be maintained with the reduced Maximum CFD Revenues that will result from the Approved Development Plan. If such prepayment occurs, the Maximum Special Tax for land uses in the Approved Development Plan shall be the Designated Special Tax determined pursuant to Section C.2.a above.

- (ii) If the owner of property within the Approved Development Plan does not make a prepayment to offset the reduction in Maximum CFD Revenues, the Maximum Special Tax for land uses in the Approved Development Plan shall be determined as follows:

- Step 1.** Calculate the total Maximum Special Tax revenues that must be generated from property within the Approved Development Plan in order to maintain the Required Coverage.
- Step 2.** Confirm the Designated Special Tax for each Residential Unit and Non-Residential Property and the Total Designated Special Tax that could be collected within the Approved Development Plan.
- Step 3.** Divide the Maximum Special Tax revenues from Step 1 by the Total Designated Special Tax from Step 2.
- Step 4.** Multiply the quotient determined in Step 3 by the Designated Special Tax for each Residential Unit and Non-Residential Property from Step 2, and the amount determined shall be the Maximum Special Tax for each Residential Unit and Non-Residential Property within the Approved Development Plan. Until individual Assessor's Parcels are created for each Residential Unit and Non-Residential Property, the Administrator shall sum the Maximum Special Tax for all land uses on a Parcel and levy the aggregate Maximum Special Tax on the Parcel.

#### **D. CHANGES TO THE MAXIMUM SPECIAL TAX**

##### **1. *Annual Escalation of Special Tax***

Beginning July 1, 2014 and each July 1 thereafter, the Expected Maximum Special Tax for each Sub-Block and the Maximum Special Tax assigned to each Parcel of Taxable Property within CFD No. 7 shall be increased by two percent (2%) of the amount in effect in the prior Fiscal Year.

##### **2. *Required BMR Unit and Market Rate Unit Transfers***

If, in any Fiscal Year, the Administrator determines that a Residential Unit that had previously been designated as a Required BMR Unit no longer qualifies as such, the Maximum Special Tax on the Residential Unit shall be increased to the Maximum Special Tax that would be levied on a Market Rate Unit of the same Square Footage. If a Market Rate Unit becomes a Required BMR Unit after it has been taxed in prior Fiscal Years as a Market Rate Unit, the Maximum Special Tax on such Residential Unit shall not be decreased unless a Required BMR Unit is simultaneously redesignated as a Market Rate Unit.



**E. METHOD OF LEVY OF THE SPECIAL TAX**

Each Fiscal Year, the Special Tax shall be levied according to the steps outlined below:

- Step 1:*** The Special Tax shall be levied Proportionately on each Parcel of Developed Property within CFD No. 7 up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year until the amount levied on Developed Property is equal to the Special Tax Requirement prior to applying Capitalized Interest that is available under the applicable Indenture;
- Step 2:*** If additional revenue is needed after Step 1 in order to meet the Special Tax Requirement after Capitalized Interest has been applied to reduce the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Subsequent Owner Property within CFD No. 7, up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year;
- Step 3:*** If additional revenue is needed after Step 2 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Parcel of Undeveloped Property that is not Subsequent Owner Property, up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year;
- Step 4:*** If additional revenue is needed after Step 3 in order to meet the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property, up to 100% of the Maximum Special Tax assigned to each Parcel.

**F. COLLECTION OF SPECIAL TAX**

The Special Taxes for CFD No. 7 shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that prepayments are permitted as set forth in Section H below and provided further that the Agency may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

The Special Tax shall be levied and collected until principal and interest on Bonds have been repaid, the Agency's costs of constructing or acquiring Authorized Facilities from Special Tax proceeds have been paid, and all Administrative Expenses have been reimbursed. However, in no event shall a Special Tax be levied after Fiscal Year 2055-56. Pursuant to Section 53321 (d) of the Act, the Special Tax levied against a Parcel used for private residential purposes shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels and shall, in no event, exceed the Maximum Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

## **G. EXEMPTIONS**

Notwithstanding any other provision of this RMA, no Special Tax shall be levied on: (i) Public Property, except Taxable Public Property, (ii) Parcels that have prepaid the Special Tax obligation and had a Release of Special Tax Lien recorded against the property, and (iii) Agency Affordable Housing Units.

## **H. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section H:

**“Construction Fund”** means the account (regardless of its name) identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

**“Outstanding Bonds”** means all Previously Issued Bonds which remain outstanding, with the following exception: if a Special Tax has been levied against, or already paid by, an Assessor’s Parcel making a prepayment, and a portion of such Special Tax will be used to pay a portion of the next principal payment on the Bonds that remain outstanding (as determined by the Administrator), that next principal payment shall be subtracted from the total Bond principal that remains outstanding, and the difference shall be used as the amount of Outstanding Bonds for purposes of this prepayment formula.

**“Previously Issued Bonds”** means all Bonds that have been issued on behalf of CFD No.7 prior to the date of prepayment.

**“Public Facilities Requirements”** means either \$51,000,000 in 2014 dollars, which shall increase on January 1, 2015, and on each January 1 thereafter by the percentage increase, if any, in the construction cost index for the San Francisco region for the prior twelve (12) month period as published in the Engineering News Record or other comparable source if the Engineering News Record is discontinued or otherwise not available, or such other number as shall be determined by the Agency to be an appropriate estimate of the net construction proceeds that will be generated from all Bonds that have been and are expected to be issued on behalf of CFD No. 7. The Public Facilities Requirements shown above may be increased if there is a substantial increase in the Maximum CFD Revenues due to a change in density on property within CFD No. 7. The adjusted Public Facilities Requirement shall be calculated by (i) dividing the increased Maximum CFD Revenues that can be collected after the change in density is approved by the Maximum CFD Revenues that were in place prior to the density change, and (ii) multiplying the quotient by the Public Facilities Requirement that was in place prior to approval of the change in density.

**“Remaining Facilities Costs”** means the Public Facilities Requirements (as defined above), minus public facility costs funded by Outstanding Bonds (as defined above), developer equity, and/or any other source of funding.

1. *Full Prepayment*

The Special Tax obligation applicable to an Assessor's Parcel in CFD No. 7 may be prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein, provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the Agency with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Agency or its designee shall notify such owner of the prepayment amount for such Assessor's Parcel. Prepayment must be made not less than 75 days prior to any redemption date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes. Attachment 4 herein provides a sample prepayment calculation for a Parcel. The Prepayment Amount shall be calculated as follows: (capitalized terms as defined below):

	Bond Redemption Amount
plus	Remaining Facilities Amount
plus	Redemption Premium
plus	Defeasance Requirement
plus	Administrative Fees and Expenses
<u>less</u>	<u>Reserve Fund Credit</u>
equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount shall be determined by application of the following steps:

- Step 1.** Compute the total Maximum Special Tax that could be collected from the Assessor's Parcel prepaying the Special Tax in the Fiscal Year in which prepayment would be received by the Agency. If this Section H is being applied to calculate a prepayment pursuant to Section C.2.b above, use, for purposes of this Step 1, the amount by which the Maximum CFD Revenues have been reduced below the amount needed to maintain the Required Coverage due to the change in land use that necessitated the prepayment.
- Step 2.** Divide the amount from Step 1 by the Maximum CFD Revenues for that same Fiscal Year.
- Step 3.** Multiply the quotient computed pursuant to Step 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (*the "Bond Redemption Amount"*).
- Step 4.** Compute the current Remaining Facilities Costs (if any).
- Step 5.** Multiply the quotient computed pursuant to Step 2 by the amount determined pursuant to Step 4 to compute the amount of Remaining Facilities Costs to be prepaid (*the "Remaining Facilities Amount"*).

- Step 6.** Multiply the Bond Redemption Amount computed pursuant to Step 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (*the "Redemption Premium"*).
- Step 7.** Compute the amount needed to pay interest on the Bond Redemption Amount starting with the first Bond interest payment date after which the prepayment has been received until the earliest redemption date for the Outstanding Bonds.
- Step 8.** Compute the amount of interest the Agency reasonably expects to derive from reinvestment of the Bond Redemption Amount plus the Redemption Premium from the first Bond interest payment date after which the prepayment has been received until the redemption date for the Outstanding Bonds.
- Step 9.** Take the amount computed pursuant to Step 7 and subtract the amount computed pursuant to Step 8 (*the "Defeasance Requirement"*).
- Step 10.** Determine the costs of computing the prepayment amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (*the "Administrative Fees and Expenses"*).
- Step 11.** If and to the extent so provided in the Indenture pursuant to which the Outstanding Bonds to be redeemed were issued, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (*the "Reserve Fund Credit"*).
- Step 12.** The Special Tax prepayment is equal to the sum of the amounts computed pursuant to Steps 3, 5, 6, 9, and 10, less the amount computed pursuant to Step 11 (*the "Prepayment Amount"*).
- Step 13.** From the Prepayment Amount, the amounts computed pursuant to Steps 3, 6, and 9 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to Step 5 shall be deposited into the Construction Fund. The amount computed pursuant to Step 10 shall be retained in the account or fund that is established to pay administrative expenses of CFD No. 7.

## **2. Partial Prepayment**

A partial prepayment may be made in an amount equal to any percentage of full prepayment desired by the party making a partial prepayment, except that the full amount of administrative fees and

expenses determined in Step 10 shall be included in the partial prepayment. The Maximum Special Tax that can be levied on a Parcel after a partial prepayment is made shall be determined as follows:

- Step 1.** Calculate the full prepayment (not including the amount collected for administrative fees and expenses) that would be due from the Parcel if the entire Special Tax obligation were being prepaid pursuant to Section H.1 above.
- Step 2.** Divide the partial prepayment amount for the Parcel (not including the amount collected for administrative fees and expenses) by the amount computed in Step 1 to determine a percentage.
- Step 3.** Subtract the percentage computed in Step 2 from 100% to determine the "Remaining Percentage."
- Step 4.** Multiply the Remaining Percentage from Step 3 by the Maximum Special Tax for the Parcel to determine the new Maximum Special Tax that will be in effect for the Parcel after the partial prepayment is applied.

#### **I. INTERPRETATION OF SPECIAL TAX FORMULA**

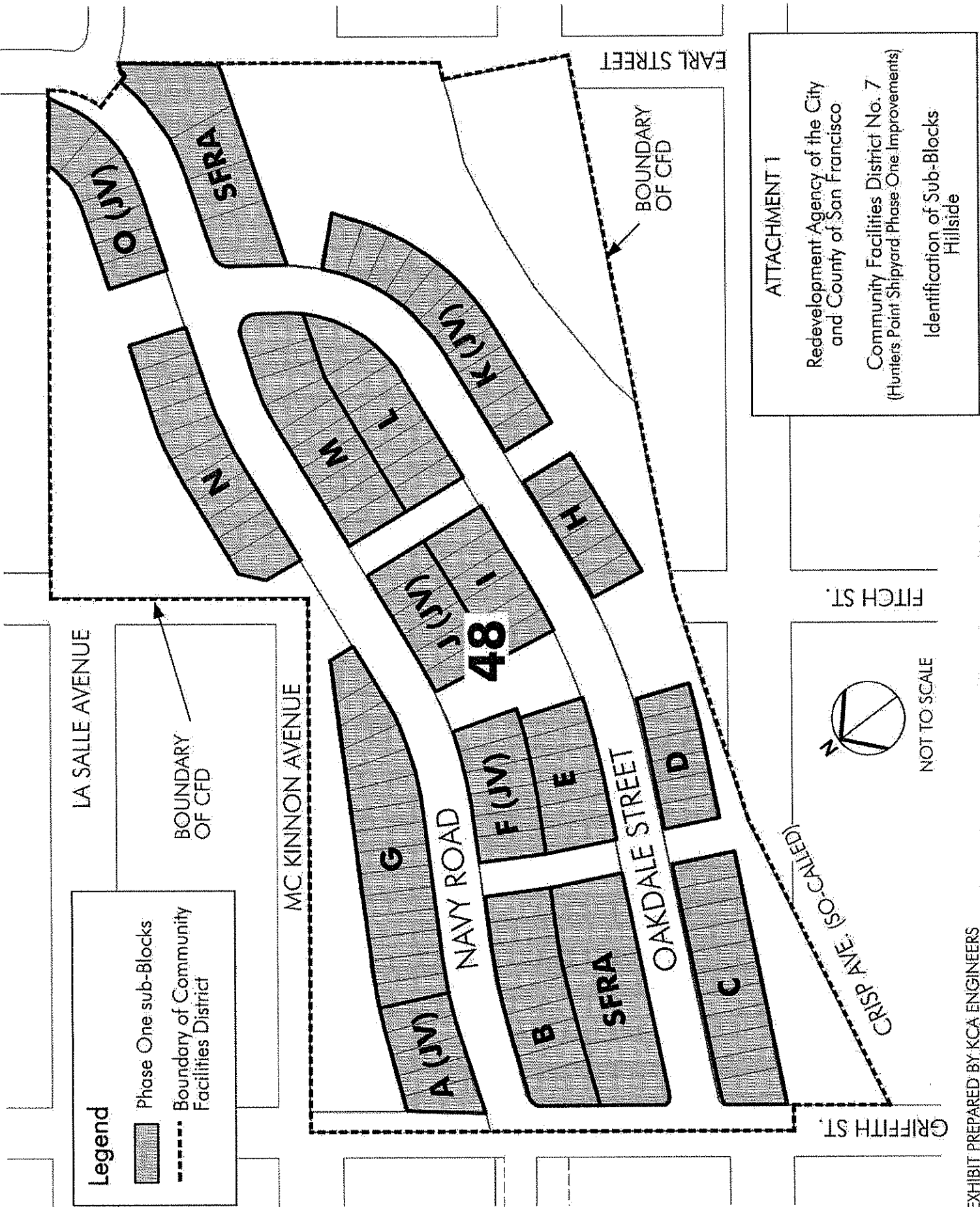
Any taxpayer who feels that the amount or formula of the Special Tax is in error may file an application with the Administrator contesting the levy of the Special Tax. The Agency shall promptly review the application. If the findings of the Agency verify that the Special Tax should be modified or changed, a recommendation to that effect shall be made to the Commission, and as appropriate, the Special Tax levy shall be corrected and, if applicable in any case, a refund shall be granted. If the Agency denies the application, the taxpayer may appeal that determination within 14 days of the mailing of notification of denial, to the Commission under such procedures as the Commission shall establish. The determination of the Commission on the appeal shall be final for all purposes. The filing of an application or an appeal shall not relieve the taxpayer of the obligation to pay the Special Tax when due.

## **ATTACHMENT 1**

### **REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO COMMUNITY FACILITIES DISTRICT NO. 7 (HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)**

#### **IDENTIFICATION OF SUB-BLOCKS**







**ATTACHMENT 2**

**REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO  
COMMUNITY FACILITIES DISTRICT NO. 7  
(HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)**

**EXPECTED LAND USES AND EXPECTED MAXIMUM SPECIAL TAX BY SUB-BLOCK**

# ATTACHMENT 2

## Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements)

### Expected Land Uses and Expected Maximum Special Tax by Sub-Block

Sub-Block /1	Expected Land Use	Expected Number of Residential Units	Expected Sq. Ft. or Bedrooms per Unit	Total Base Special Tax (FY 2013-14)	Total Incremental Special Tax (FY 2013-14)	Expected Maximum Special Tax (FY 2013-14) /2
1JV	Market Rate Unit	21	700	\$30,954	\$34,545	\$65,499
	Market Rate Unit	38	825	\$56,012	\$73,673	\$129,685
	Market Rate Unit	27	1,000	\$39,798	\$63,450	\$103,248
	Market Rate Unit	15	1,150	\$22,110	\$40,538	\$62,648
	Market Rate Unit	18	625	\$26,532	\$26,438	\$52,970
	Market Rate Unit	38	750	\$56,012	\$66,975	\$122,987
	Market Rate Unit	24	875	\$35,376	\$49,350	\$84,726
	Market Rate Unit	18	1,025	\$26,532	\$43,358	\$69,890
	Required BMR 80% Unit	3	1	\$1,884	\$570	\$2,454
	Required BMR 80% Unit	5	1.5	\$3,140	\$1,425	\$4,565
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Required BMR 80% Unit	2	2.5	\$1,256	\$950	\$2,206
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	5	1	\$3,140	\$950	\$4,090
	Required BMR 80% Unit	3	1	\$1,884	\$570	\$2,454
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Non-Residential Property	N/A	9,000	N/A	\$12,690	\$12,690
	Total					\$726,786
48A JV	Market Rate Unit	9	1,183	\$13,266	\$25,020	\$38,286
	Market Rate Unit	4	1,400	\$5,896	\$13,160	\$19,056
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$59,548
48B	Market Rate Unit	5	908	\$7,370	\$10,669	\$18,039
	Market Rate Unit	5	968	\$7,370	\$11,374	\$18,744
	Market Rate Unit	16	1,050	\$23,584	\$39,480	\$63,064
	Market Rate Unit	3	1,280	\$4,422	\$9,024	\$13,446
	Market Rate Unit	3	1,500	\$4,422	\$10,575	\$14,997
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Total					\$132,132
48C	Market Rate Unit	10	1,000	\$14,740	\$23,500	\$38,240
	Market Rate Unit	10	1,290	\$14,740	\$30,315	\$45,055
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$85,501
48D	Market Rate Unit	3	1,000	\$4,422	\$7,050	\$11,472
	Market Rate Unit	4	1,290	\$5,896	\$12,126	\$18,022
	Market Rate Unit	2	828	\$2,948	\$3,892	\$6,840
	Market Rate Unit	4	1,000	\$5,896	\$9,400	\$15,296
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Total					\$52,638

Sub-Block /I	Expected Land Use	Expected Number of Residential Units	Expected Sq. Ft. or Bedrooms per Unit	Total Base Special Tax (FY 2013-14)	Total Incremental Special Tax (FY 2013-14)	Expected Maximum Special Tax (FY 2013-14) /2
48E	Market Rate Unit	11	1,183	\$16,214	\$30,581	\$46,795
	Market Rate Unit	5	1,400	\$7,370	\$16,450	\$23,820
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$72,821
48F JV	Market Rate Unit	4	908	\$5,896	\$8,535	\$14,431
	Market Rate Unit	3	968	\$4,422	\$6,824	\$11,246
	Market Rate Unit	11	1,050	\$16,214	\$27,143	\$43,357
	Market Rate Unit	2	1,280	\$2,948	\$6,016	\$8,964
	Market Rate Unit	2	1,500	\$2,948	\$7,050	\$9,998
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	<u>\$1,008</u>
	Total					\$90,012
48G	Market Rate Unit	24	1,183	\$35,376	\$66,721	\$102,097
	Market Rate Unit	13	1,400	\$19,162	\$42,770	\$61,932
	Market Rate Unit	1	828	\$1,474	\$1,946	\$3,420
	Market Rate Unit	2	1,000	\$2,948	\$4,700	\$7,648
	Required BMR 80% Unit	4	2	\$2,512	\$1,520	\$4,032
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$180,327
48H	Market Rate Unit	3	1,000	\$4,422	\$7,050	\$11,472
	Market Rate Unit	4	1,290	\$5,896	\$12,126	\$18,022
	Market Rate Unit	2	828	\$2,948	\$3,892	\$6,840
	Market Rate Unit	4	1,000	\$5,896	\$9,400	\$15,296
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Total					\$52,638
48I	Market Rate Unit	11	1,183	\$16,214	\$30,581	\$46,795
	Market Rate Unit	5	1,400	\$7,370	\$16,450	\$23,820
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	<u>\$1,198</u>
	Total					\$72,821
48J JV	Market Rate Unit	4	908	\$5,896	\$8,535	\$14,431
	Market Rate Unit	3	968	\$4,422	\$6,824	\$11,246
	Market Rate Unit	11	1,050	\$16,214	\$27,143	\$43,357
	Market Rate Unit	2	1,280	\$2,948	\$6,016	\$8,964
	Market Rate Unit	2	1,500	\$2,948	\$7,050	\$9,998
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	<u>\$1,008</u>
	Total					\$90,012
48K JV	Market Rate Unit	10	828	\$14,740	\$19,458	\$34,198
	Market Rate Unit	21	1,000	\$30,954	\$49,350	\$80,304
	Required BMR 80% Unit	2	1.5	\$1,256	\$570	\$1,826
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	<u>\$3,024</u>
	Total					\$119,352

Sub-Block /1	Expected Land Use	Expected Number of Residential Units	Expected Sq. Ft. or Bedrooms per Unit	Total Base Special Tax (FY 2013-14)	Total Incremental Special Tax (FY 2013-14)	Expected Maximum Special Tax (FY 2013-14) /2
48L	Market Rate Unit	14	1,183	\$20,636	\$38,921	\$59,557
	Market Rate Unit	7	1,400	\$10,318	\$23,030	\$33,348
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$96,119
48M	Market Rate Unit	18	1,183	\$26,532	\$50,041	\$76,573
	Market Rate Unit	9	1,400	\$13,266	\$29,610	\$42,876
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$122,663
48N	Market Rate Unit	20	1,183	\$29,480	\$55,601	\$85,081
	Market Rate Unit	10	1,400	\$14,740	\$32,900	\$47,640
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$135,935
48O JV	Market Rate Unit	13	1,183	\$19,162	\$36,141	\$55,303
	Market Rate Unit	6	1,400	\$8,844	\$19,740	\$28,584
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$86,093
50	Market Rate Unit	15	859	\$22,110	\$30,280	\$52,390
	Market Rate Unit	4	1,478	\$5,896	\$13,893	\$19,789
	Market Rate Unit	3	1,426	\$4,422	\$10,053	\$14,475
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Total					\$89,678
51	Market Rate Unit	1	457	\$1,474	\$1,074	\$2,548
	Market Rate Unit	13	665	\$19,162	\$20,316	\$39,478
	Market Rate Unit	13	741	\$19,162	\$22,638	\$41,800
	Market Rate Unit	29	975	\$42,746	\$66,446	\$109,192
	Market Rate Unit	1	1,158	\$1,474	\$2,721	\$4,195
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	1	1.5	\$628	\$285	\$913
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Total					\$202,786
52JV	Market Rate Unit	9	1,172	\$13,266	\$24,788	\$38,054
	Market Rate Unit	7	1,359	\$10,318	\$22,356	\$32,674
	Market Rate Unit	6	757	\$8,844	\$10,674	\$19,518
	Market Rate Unit	20	829	\$29,480	\$38,963	\$68,443
	Market Rate Unit	21	867	\$30,954	\$42,786	\$73,740
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Total					\$239,105

Sub-Block /1	Expected Land Use	Expected Number of Residential Units	Expected Sq. Ft. or Bedrooms per Unit	Total Base Special Tax (FY 2013-14)	Total Incremental Special Tax (FY 2013-14)	Expected Maximum Special Tax (FY 2013-14) /2
53A	Market Rate Unit	4	1,087	\$5,896	\$10,218	\$16,114
	Market Rate Unit	7	1,340	\$10,318	\$22,043	\$32,361
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$49,673
53B	Market Rate Unit	23	624	\$33,902	\$33,727	\$67,629
	Market Rate Unit	11	1,019	\$16,214	\$26,341	\$42,555
	Market Rate Unit	13	1,099	\$19,162	\$33,574	\$52,736
	Market Rate Unit	11	1,304	\$16,214	\$33,708	\$49,922
	Market Rate Unit	4	1,257	\$5,896	\$11,816	\$17,712
	Required BMR 80% Unit	3	1	\$1,884	\$570	\$2,454
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$237,231
53JV	Market Rate Unit	4	1,120	\$5,896	\$10,528	\$16,424
	Market Rate Unit	7	1,347	\$10,318	\$22,158	\$32,476
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$50,098
54	Market Rate Unit	7	1,117	\$10,318	\$18,375	\$28,693
	Market Rate Unit	9	1,417	\$13,266	\$29,970	\$43,236
	Market Rate Unit	4	555	\$5,896	\$5,217	\$11,113
	Market Rate Unit	14	797	\$20,636	\$26,221	\$46,857
	Market Rate Unit	14	963	\$20,636	\$31,683	\$52,319
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Required BMR 80% Unit	2	1	\$1,256	\$380	\$1,636
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Total					\$188,075
54JV	Market Rate Unit	4	1,116	\$5,896	\$10,490	\$16,386
	Market Rate Unit	7	1,337	\$10,318	\$21,994	\$32,312
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$49,896
55	Market Rate Unit	47	1,686	\$69,278	\$186,219	\$255,497
	Market Rate Unit	12	1,829	\$17,688	\$51,578	\$69,266
	Required BMR 80% Unit	6	3	\$3,768	\$3,420	\$7,188
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$333,149

Sub-Block /1	Expected Land Use	Expected Number of Residential Units	Expected Sq. Ft. or Bedrooms per Unit	Total Base Special Tax (FY 2013-14)	Total Incremental Special Tax (FY 2013-14)	Expected Maximum Special Tax (FY 2013-14) /2
56 & 57	Market Rate Unit	7	625	\$10,318	\$10,281	\$20,599
	Market Rate Unit	7	680	\$10,318	\$11,186	\$21,504
	Market Rate Unit	2	740	\$2,948	\$3,478	\$6,426
	Market Rate Unit	4	745	\$5,896	\$7,003	\$12,899
	Market Rate Unit	5	915	\$7,370	\$10,751	\$18,121
	Market Rate Unit	11	1,081	\$16,214	\$27,944	\$44,158
	Market Rate Unit	21	1,100	\$30,954	\$54,285	\$85,239
	Market Rate Unit	14	1,250	\$20,636	\$41,125	\$61,761
	Market Rate Unit	13	1,350	\$19,162	\$41,243	\$60,405
	Market Rate Unit	4	1,500	\$5,896	\$14,100	\$19,996
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	1	1	\$628	\$190	\$818
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	1	2	\$628	\$380	\$1,008
	Required BMR 80% Unit	3	2	\$1,884	\$1,140	\$3,024
	Required BMR 80% Unit	2	2	\$1,256	\$760	\$2,016
	Required BMR 80% Unit	1	3	\$628	\$570	\$1,198
	Total					\$360,998

**Total Maximum CFD Revenue, Fiscal Year 2013-14**

**\$3,976,084**

/1 See Attachment 1 for the geographic area associated with each Sub-Block.

/2 Beginning July 1, 2014 and each July 1 thereafter, the Expected Maximum Special Taxes shown above shall be increased by an amount equal to 2.0% of the amount in effect for the prior Fiscal Year.

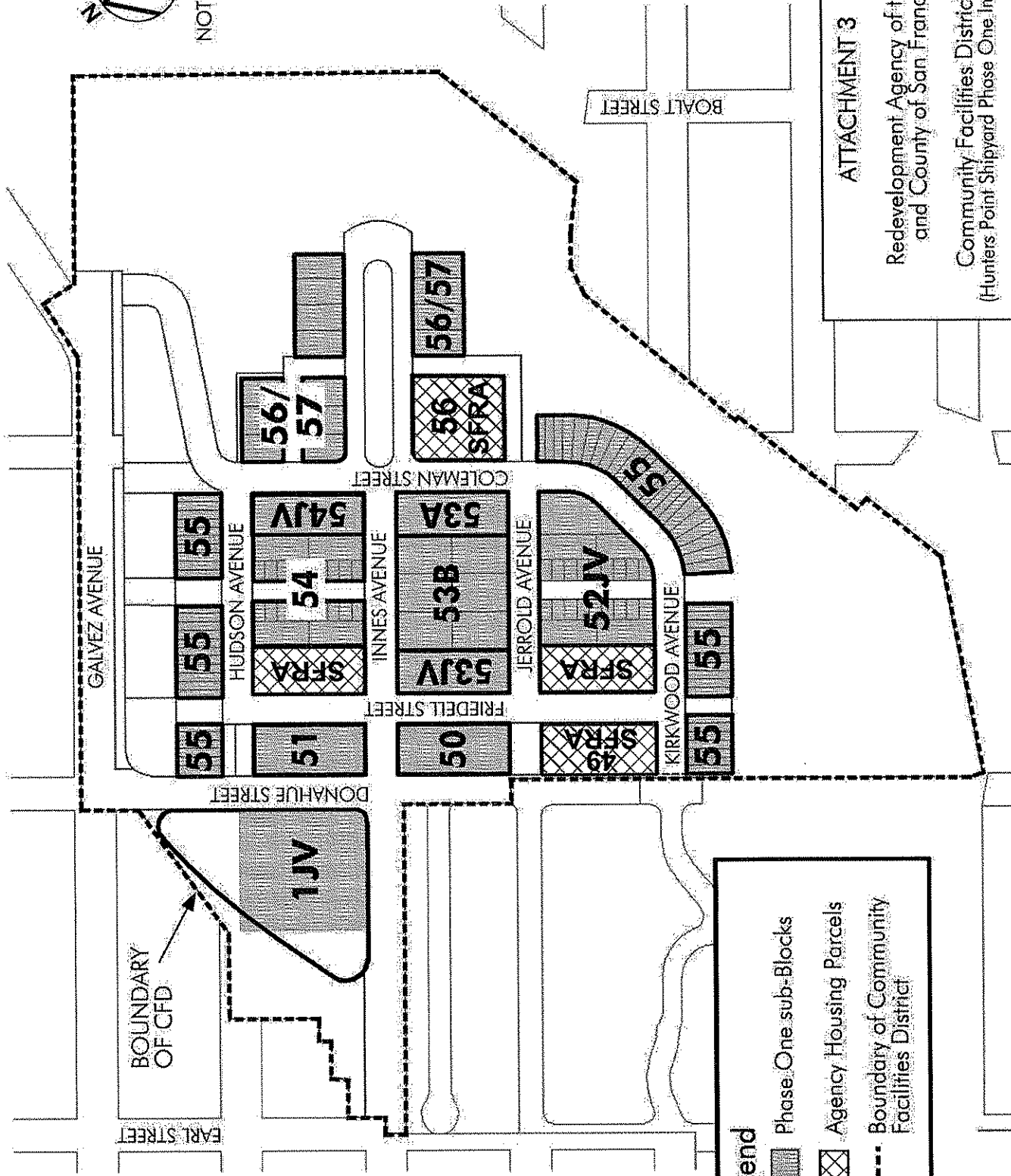
## **ATTACHMENT 3**

**REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO  
COMMUNITY FACILITIES DISTRICT No. 7  
(HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)**

**IDENTIFICATION OF AGENCY HOUSING PARCELS**



NOT TO SCALE



### Legend

-  Phase One sub-Blocks
-  Agency Housing Parcels
-  Boundary of Community Facilities District

### ATTACHMENT 3

Redevelopment Agency of the City  
and County of San Francisco

Community Facilities District No. 7  
(Hunters Point Shipyard Phase One Improvements)

Identification of Sub-Blocks  
Hilltop





## **ATTACHMENT 4**

**REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO  
COMMUNITY FACILITIES DISTRICT No. 7  
(HUNTERS POINT SHIPYARD PHASE ONE IMPROVEMENTS)**

**SAMPLE FULL PREPAYMENT CALCULATION**

**6<sup>TH</sup> AMENDAMENT TO DISPOSITION AND  
DEVELOPMENT AGREEMENT (HUNTERS  
POINT SHIPYARD PHASE 1)**

DUPLICATE

**RECORDING REQUESTED BY  
and When Recorded Mail To:**

Successor Agency to the San Francisco  
Redevelopment Agency  
One South Van Ness Avenue, 5th Floor  
San Francisco, California 94103  
Attn: Executive Director

This document is exempt from payment  
of a recording fee pursuant to California  
Government Code Section 27383.

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This document has not been compared with the original  
SAN FRANCISCO ASSESSOR-RECORDER

Recorder's Stamp

**SIXTH AMENDMENT TO DISPOSITION AND DEVELOPMENT AGREEMENT  
(Hunters Point Shipyard Phase 1)**

This SIXTH AMENDMENT TO DISPOSITION AND DEVELOPMENT AGREEMENT (HUNTERS POINT SHIPYARD PHASE 1) (this "**Sixth Amendment**"), dated as of December 19, 2012 (the "**Sixth Amendment Reference Date**"), is entered into by and between the SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO, a public body, corporate and politic (the "**Agency**"), and HPS DEVELOPMENT CO., LP, a Delaware limited partnership ("**Developer**"), with reference to the following facts and circumstances:

**RECITALS**

A. The Redevelopment Agency of the City and County of San Francisco (the "**Redevelopment Agency**") and Developer entered into that certain Disposition and Development Agreement Hunters Point Shipyard Phase 1, dated as of December 2, 2003, and recorded in the Official Records of the City and County of San Francisco (the "**Official Records**") on April 5, 2005 as Document No. 2005H932190 at Reel I861, Image 564 (the "**Original DDA**"), as amended by that certain First Amendment to Disposition and Development Agreement Hunters Point Shipyard Phase 1, dated as of April 4, 2005 and recorded in the Official Records on April 5, 2005 as document No. 2005H932191 at Reel I861, Image 565 (the "**First Amendment**"), and as further amended by that certain Second Amendment to Disposition and Development Agreement Hunters Point Shipyard Phase 1, dated as of October 17, 2006, and recorded in the Official Records on October 26, 2006 as Document No. 2006I275571 at Reel J254, Image 429 (the "**Second Amendment**"), and as further amended by that certain Amendment to Attachment 10 (Schedule of Performance For Infrastructure Development And Open Space "Build Out" Schedule of Performance) to the Disposition And Development Agreement Hunters Point Shipyard Phase 1, dated as of August 5, 2008, and recorded in the Official Records on March 24, 2009 as Document No. 2009-I738449 (the "**Third Amendment**"), and as further amended by that certain Fourth Amendment to Disposition and

Development Agreement (Hunters Point Shipyard Phase 1), as of August 29, 2008, and recorded in the Official Records on March 24, 2009, as Document No. 2009-I738450 (the "**Fourth Amendment**"), and as further amended by that certain Fifth Amendment to Disposition and Development Agreement (Hunters Point Shipyard Phase 1), dated as of November 3, 2009, and recorded in the Official Records on November 30, 2009, as Document No. 2009-I879123 (the "**Fifth Amendment**" and, together with the Original DDA, the First Amendment, the Second Amendment, the Third Amendment, and the Fourth Amendment, the "**DDA**").

B. The Agency and CP Development Co., LP, a Delaware limited partnership (as more particularly defined as "Developer" under the CP/HPS2 DDA, "**CP/HPS2 Developer**"), an Affiliate of Developer, entered into that certain Disposition and Development Agreement (Candlestick Point and Phase 2 of the Hunters Point Shipyard), dated as of June 3, 2010, and recorded in the Official Records on November 18, 2010 as Document No. 2010-J083660-00, at Reel K273, Image 427 (the "**CP/HPS2 DDA**").

C. Under Assembly Bill No. 1X 26 (Chapter 5, Statutes of 2011-12, First Extraordinary Session) ("**AB 26**") and the California Supreme Court's decision in *California Redevelopment Association v. Matosantos*, No. S194861, all redevelopment agencies in the State of California, including the Redevelopment Agency, were dissolved by operation of law as of February 1, 2012, and their non-affordable housing assets and obligations were transferred to certain designated successor agencies, which AB 26 charged with satisfying enforceable obligations of the former redevelopment agencies.

D. In June 2012, the California Legislature adopted legislation amending AB 26 as a trailer bill to the State's budget bill for the 2012-2013 fiscal year, known as Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12, Regular Session) ("**AB 1484**"), and the Governor signed that bill on June 27, 2012. While AB 26 defined the successor agency to be the sponsoring community, AB 1484 provided that (1) the successor agency is a separate public entity from the public agency that provides for its governance and the two entities shall not merge, (2) the successor agency has its own name and the capacity to sue and be sued, (3) the successor agency succeeds to the organizational status of the former redevelopment agency but without any legal authority to participate in redevelopment activities except to complete the work related to an approved enforceable obligation, and (4) the successor agency is a local entity for purposes of the Ralph M. Brown Act.

E. Pursuant to AB 26 and AB 1484, the Agency was designated as the successor agency to receive the non-affordable housing assets of the Redevelopment Agency, and the Agency succeeds, by operation of law, to the Redevelopment Agency's rights, title and interest in the DDA and the CP/HPS2 DDA, without the necessity for any assignment or other action on the part of any party. On October 2, 2012, the City's Board of Supervisors adopted Ordinance 215-12 (File No. 120898) acknowledging that the Agency is a separate legal entity, creating a commission for the Agency (the "**Commission**") as a policy body of the Agency and delegating to the Commission the authority to act in place of the former San Francisco Redevelopment Agency Commission to implement certain projects, including the Project and the CP/HPS2 Project. As required by AB 26, the City also established the oversight board of the Agency (the "**Oversight Board**").

F. The DDA and the CP/HPS2 DDA are enforceable obligations within the meaning of AB 26 and AB 1484 ("**Enforceable Obligations**"), and both were in existence prior to June 28, 2011. The Oversight Board has recognized and approved the DDA and the CP/HPS2 DDA as Enforceable Obligations, and has approved recognized obligation payment schedules that include various obligations and commitments relating to these Enforceable Obligations.

G. California Health and Safety Code Section 34177 provides that the Agency, as a successor agency, is required to (1) perform obligations required pursuant to any Enforceable Obligation, and (2) continue to oversee development of properties until the contracted work has been completed.

H. This Sixth Amendment is consistent with and in furtherance of an Enforceable Obligation that existed prior to June 28, 2011, and is in the best interests of the Agency, Developer and the taxing entities. This Sixth Amendment will likely enable Developer to obtain financing and expedite the Project, and thereby significantly aid the completion of the Project and the winding down of the affairs of the Agency.

I. Under the DDA, Developer is required to complete certain Horizontal Improvements, including in order to support certain Agency Housing Parcels on which Agency Affordable Housing Units will be constructed by the Agency utilizing tax increment revenue dedicated to improving, preserving or producing affordable housing. Developer's Lots are available to sell to Vertical Developers, including third parties or Affiliates of Developer, for market rate homes.

J. The DDA requires that fifteen percent (15%) of the Residential Units constructed in the Project by Vertical Developers will be Affordable Inclusionary Units, with approximately seventy percent (70%) of these Residential Units targeted to households earning no more than eighty percent (80%) of AMI (the "**80% AMI Units**") and thirty percent (30%) of these Residential Units being targeted to households earning no more than fifty percent (50%) of AMI (the "**50% AMI Units**"). The DDA further requires that the 80% AMI Units and the 50% AMI Units would be evenly distributed throughout the Project.

K. In order to permit the 50% AMI Units to be constructed earlier, the Agency and Developer desire to dedicate Block 49 for the development of an Affordable Residential Project consisting of approximately sixty (60) 50% AMI Units, and that all of the Residential Units on Block 49 shall be 50% AMI Units. By doing so, the 80% AMI Units would remain as Inclusionary Units constructed by Vertical Developers and comprise, in the aggregate, 10.5% of the total Residential Units. Accordingly, there will be no change under this Sixth Amendment in the total number of Affordable Residential Units anticipated in the Project. In addition, Developer has agreed to contribute to the Block 49 affordable housing development construction and/or permanent funds for the development of such Affordable Residential Project to the extent required after application of funds not provided through other sources (the "**Block 49 Subsidy**"). Developer has also agreed to make a one million dollar (\$1,000,000) payment in connection with the dedication of Block 49 for the 50% AMI Units to be constructed on Block 49.

L. At the time the DDA was executed in 2005, the Parties anticipated that the issuance of Mello-Roos Bonds, together with revenue from Lots sales and other Developer

financing would provide sufficient financing for construction of the Horizontal Improvements without the need for land secured financing. Changes in the development schedule and capital markets provide the opportunity to efficiently finance the remaining Horizontal Improvements utilizing land secured financing in a manner consistent with that contemplated for the Residential Projects under the Vertical DDA and with other projects in the City, including development of Candlestick Point and Phase 2 of the Hunters Point Shipyard under the CP/HPS2 DDA (as more particularly described in the CP/HPS2 DDA, the "**CP/HPS2 Project**").

M. The Project is adjacent to the CP/HPS2 Project. While the development of the CP/HPS2 Project and the Project are undertaken by separate Persons under separate agreements with the Agency, each project is substantially aided by the success of the other. In order to facilitate the simultaneous development of the Project and the CP/HPS2 Project, CP/HPS2 Developer and Developer have cooperated to pursue financing for the development of the CP/HPS2 Project and the Project, respectively. In order to permit such financing to proceed efficiently, and in recognition of such interrelationships, the Agency and Developer desire to permit mortgages on the Project Site and to provide consistency between the rights of lenders under the DDA and the CP/HPS2 DDA. Concurrently with this Sixth Amendment, the Agency and CP/HPS2 Developer are amending the CP/HPS2 DDA (the "**Phase 2 Amendment**").

N. Pursuant to the DDA, Developer is constructing Infrastructure on the Project Site, including on the Hillside and the Hilltop, in accordance with the Schedule of Performance for Infrastructure Development and the Open Space Build-Out Schedule of Performance, each of which is attached to the DDA as Attachment 10 (the "**Schedule of Performance**"). The Schedule of Performance was formulated by Developer and the Agency to reflect the scope of the Infrastructure and the anticipated market demand for Residential Projects constructed on the Project Site. Developer is substantially complete with the construction of the Infrastructure on the Hilltop, and Lots are available for the development of Residential Projects by Vertical Developers. Developer has been actively engaged in efforts to sell portions of the Project Site to Vertical Developers, and anticipates that its Affiliates will develop Vertical Improvements on certain Lots on the Hilltop in the near term. However, certain adjustments to the Schedule of Performance are required in order to match the Schedule of Performance with anticipated market demand for Lots.

O. Developer's obligation to construct the Horizontal Improvements is secured by certain faithful performance and labor and material bonds provided under the Hunters Point Shipyard Phase 1 Public Improvement Agreement dated as of July 21, 2009 by and among Developer, the Agency and the City (as amended and as amended from time to time, the "**PIA**"). In addition, under the DDA, Developer has provided the Guaranty, which secures Developer's obligations under the DDA. Under the Fourth Amendment, Developer is permitted under the DDA to a release of any Reversionary Quitclaim Deed, or from the obligation to provide same, upon providing the Agency with specified additional security. Developer and the Agency wish to make certain changes to these provisions to decrease the amount of additional security required in order to release a Reversionary Quitclaim Deed, as described below. Consistent with other projects in the City, the Agency has determined that the provision of security in an amount equal to one hundred twenty five percent (125%) of the estimated cost to complete the Horizontal Improvements is sufficient to ensure the timely delivery of the Horizontal Improvements.

P. Under the DDA, the Vertical Developer Residential Units are restricted to For-Sale Residential Units. In order to reflect current market conditions, including increased demand for Lots on which For-Rent Residential Units may be constructed, the Agency and Developer desire to permit Vertical Developers to determine whether a Residential Project will contain For-Rent or For-Sale Residential Units.

Q. In order to (i) provide for the use of efficient and customary Mortgages on the Project Site, (ii) provide for the 50% AMI Units to be delivered on Block 49, (iii) match the Schedule of Performance to the anticipated market demand for Lots, (iv) efficiently secure Developer's performance of its obligations under the DDA in a manner consistent with other projects in the City, (v) promote the development of Affordable Residential Units within the Project Site, (vi) permit the delivery of For-Sale and For-Rent Residential Units consistent with market demand in the Bayview Hunters Point community, (vii) amend the purchase price for the Agency's option to acquire additional Residential Units in Vertical Developers' Residential Projects and (viii) make other conforming amendments, all for the purposes of achieving development of the Project and the significant public benefits that derive from the Project, the Agency and Developer wish to enter into this Sixth Amendment.

#### AGREEMENT

**ACCORDINGLY**, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Agency and Developer agree as follows:

1. Block 49 Dedication and Block 49 Subsidy; Distribution of Inclusionary Units. Developer shall convey Block 49 to the Agency (or to the Mayor's Office of Housing or other designee), in form approved by the Agency and ready for vertical development consistent with the DDA, concurrently with the execution and approval of the Block 49 Vertical DDA. The Block 49 Vertical DDA shall be in form and substance approved by the Agency and Developer, and shall provide for the construction of approximately sixty (60) 50% AMI Units. Developer shall also (1) pay to the Agency (or to the Mayor's Office of Housing or other designee) at the time of conveyance of Block 49, one million dollars (\$1,000,000) for use on Alice Griffith or other affordable housing costs within the Project Site, and (2) provide a subsidy to the Block 49 project in an amount and at times required to fill any gap financing necessary in order to build the proposed 50% AMI Units (collectively, the "**Block 49 Subsidy**"), provided that the Block 49 project shall be eligible to apply for four percent (4%) low-income housing tax credits and no other competitively-sought funding sources. Following Developer's conveyance and the Agency's acceptance of Block 49 and execution and delivery of the Block 49 Vertical DDA: (i) Developer shall have the right to determine the number of Inclusionary Units to be located in each Residential Project (as such number will be set forth in the applicable Vertical DDA for each Residential Project), so long as the following minimum requirements are met: (a) at least ten and one-half percent (10.5%) of the aggregate number of all Vertical Developer Residential Units in Phase 1 constructed or restricted under a Vertical DDA (with the applicable recorded Declaration of Restrictions for For-Rent or For-Sale Affordable Housing) are 80% AMI Units on each of the following dates (each, a "**Milestone Date**"): the date on which the Lot permitting construction of the (1) 300th, (2) 600th, (3) 900th and (4) 1200th Residential Unit is transferred by Developer to a Vertical Developer, and (5) the date on which the last Residential Lot is transferred by Developer to a Vertical Developer, all in accordance with Article 15 of the DDA;



(b) the number of Inclusionary Units within each Residential Project shall be no less than five percent (5%) and no more than twenty percent (20%) of the total number of Residential Units in that Residential Project; and (c) all Inclusionary Units shall be 80% AMI Units, subject to the restrictions in the Affordable Housing Program for the Inclusionary Units. Following conveyance of Block 49 to the Agency, Developer shall not, without the prior written approval of the Agency Executive Director, close sale on the 450<sup>th</sup> Residential Unit (or any subsequent Residential Unit) in Phase 1 until the Block 49 Residential Project has achieved Final Completion as defined in the Block 49 Vertical DDA. To obtain any such approval from the Agency Executive Director under the preceding sentence, Developer must notify the Agency Executive Director that the proposed sale that will permit development of the 450<sup>th</sup> Residential Unit and cite to the requirements of this Section. For purposes of calculating the number of Inclusionary Units, any fraction equal to or greater than one half (1/2) shall be rounded up to the nearest whole number and any fraction less than one half (1/2) shall be rounded down to the nearest whole number. If Developer and the Agency are not able to reach agreement on the Block 49 Vertical DDA on or before December 31, 2014 (subject to extension so long as the parties continue to negotiate in good faith), then either party shall have the right to terminate the provisions of this Section 1 by delivery of written notice to the other party. The termination shall take effect sixty (60) days following delivery of the written notice if the parties do not reach agreement during that sixty (60) day period. Following any such termination, Developer shall be required to build all of the Affordable Residential Units as described in the DDA without the changes described in this Section 1. Any Vertical DDA for a Residential Project that is executed and delivered before the date on which Block 49 is conveyed and the Block 49 Vertical DDA is executed and delivered may provide that (x) any of the 50% AMI Units, and (y) any of the 80% AMI Units in excess of 10% of the aggregate number of Residential Units in such Residential Project, may be converted to Residential Units without any Affordability restrictions so long as such conversion does not impact any existing occupant of such converted unit.

2. Reversionary Security. The amount of security required under the Fourth Amendment for a release of the Reversionary Quitclaim Deed shall be one hundred twenty five percent (125%). The Agency Executive Director shall request that the Director of the Department of Public Works release that portion of the "Reversionary Security" (as defined in the PIA) provided by Developer that the Agency Executive Director reasonably determines exceeds one hundred twenty five percent (125%) of the estimated cost to complete the remaining Horizontal Improvements, and shall use reasonable efforts to obtain any consent required of the Department of Public Works to any such release, including any revisions to the PIA that may be necessary to implement such release. Nothing in this Sixth Amendment will impact or reduce the security required under the Candlestick Point/Hunters Point Shipyard Subdivision Code (San Francisco Subdivision Code sections 1600 et seq.). Furthermore, the Agency Executive Director is hereby authorized to execute an amendment to the Guaranty, or a replacement Guaranty, such that the guaranteed obligations thereunder are limited to the payment and performance of Developer's indemnification and reimbursement obligations under the DDA, are subject to the same cap and are otherwise generally in a form consistent with the "Base Security" provided under the CP/HPS2 DDA. Nothing in the foregoing shall reduce or limit any security provided under the CP/HPS2 DDA, nor shall any such security limit or reduce any security provided under the DDA or the PIA.

3. Financing; Rights of Mortgagees. Section 18 of the DDA is hereby deleted in its entirety and replaced with the language set forth in Exhibit 1 to this Sixth Amendment.

4. Schedule of Performance. Attachment 10 of the DDA is hereby amended by providing that the date for Complete Infrastructure Construction of Block 48 shall be December 31, 2017.

5. For-Sale and For-Rent Residential Units. Without limiting the Affordability requirements of the DDA, (i) Developer and each Vertical Developer may cause Residential Units in a Residential Project to be offered either For-Sale or For-Rent, which determination will be set forth in the applicable Vertical DDA and apply to all of the Residential Units in that Residential Project, and (ii) no Declaration of Rental Use Restriction shall be required. Before completion of a Residential Project, a Vertical Developer may change the Residential Project from For-Sale to For-Rent, or vice-a-versa, by notification to the Agency. Following completion of a Residential Project, a Vertical Developer may request the ability to rent a For-Sale Residential Unit or sell a For-Rent Residential Unit based on market conditions, with appropriate tenant and resident restrictions as contemplated by the Affordable Housing Program, and any such request shall be subject to the prior written approval of the Agency Executive Director, which approval shall not be unreasonably withheld, conditioned or delayed. Subject to any such consent, nothing in this Section 5 shall limit the requirements of the Affordable Housing Program that a Declaration of Restrictions for For-Rent Affordable Housing Units be recorded against each For-Rent Affordable Residential Unit, that each For-Sale Affordable Residential Unit be sold to qualified members of the public using an Affordable Housing Parcel Deed, together with a Declaration of Restrictions for For-Sale Affordable Residential Unit and Option to Purchase Agreement.

6. Option to Acquire Residential Units; Purchase Price. The Option Purchase Price, as defined in section 3.5(e) of the Affordable Housing Program (attached as Attachment 22 to the DDA and Attachment F to the Vertical DDA form), shall be the price offered to the public minus six percent (6%).

7. Conforming Amendments.

(a) Definitions.

(i) The following defined terms are hereby added to section 1.1 of the DDA:

“**Block 49**” is a residential development site located in Parcel A-1 (i.e., the Hilltop area of Phase 1), as such location is generally depicted on the Land Use Plan (“**Block 49**”).

“**CP/HPS2 DDA**” means that certain Disposition and Development Agreement (Candlestick Point and Phase 2 of the Hunters Point Shipyard) dated as of June 3, 2010, as the same may have been, and may be, amended or supplemented from time to time.

**"CP/HPS2 Developer"** means CP Development Co., LP, a Delaware limited partnership, or its transferees as "Developer" of the CP/HPS2 Project.

**"CP/HPS2 Project"** means the development of Candlestick Point and Phase 2 of the Hunters Point Shipyard under the CP/HPS2 DDA.

(ii) The following defined terms in section 1.1 of the DDA are hereby amended and restated in their entirety:

**"Mortgage"** is defined in Section 18.1.

8. Miscellaneous.

(a) Incorporation. This Sixth Amendment constitutes a part of the DDA and any reference to the DDA shall be deemed to include a reference to the DDA as amended by this Sixth Amendment.

(b) Ratification. To the extent of any inconsistency between this Sixth Amendment and the DDA, the provisions contained in this Sixth Amendment shall control. As amended by this Sixth Amendment, all terms, covenants, conditions and provisions of the DDA shall remain in full force and effect.

(c) Other Definitions. All capitalized terms used but not defined herein shall have the meanings assigned thereto in the DDA.

(d) Successors and Assigns. This Sixth Amendment shall be binding upon and inure to the benefit of the successors and assigns of the Agency and Developer, subject to the limitations set forth in the DDA.

(e) Counterparts. This Sixth Amendment may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute one and the same document, binding on all parties hereto notwithstanding that each of the parties hereto may have signed different counterparts. Delivery of this Sixth Amendment may be effectuated by hand delivery, mail, overnight courier or electronic communication (including by PDF sent by electronic mail, facsimile or similar means of electronic communication). Any electronic signatures shall have the same legal effect as manual signatures.

(f) Governing Law; Venue. This Sixth Amendment shall be governed by and construed in accordance with the laws of the State of California. The parties hereto agree that all actions or proceedings arising directly or indirectly under this Sixth Amendment shall be litigated in courts located within the County of San Francisco, State of California.

(g) Integration. This Sixth Amendment contains the entire agreement between the parties hereto with respect to the subject matter of this Sixth Amendment. Any prior correspondence, memoranda, agreements, warranties or representations relating to such subject matter are superseded in total by this Sixth Amendment. No prior drafts of this Sixth Amendment or changes from those drafts to the executed version of this Sixth Amendment shall be introduced as evidence in any litigation or other dispute resolution proceeding by either party.

hereto or any other person, and no court or other body shall consider those drafts in interpreting this Sixth Amendment.

(h) Further Assurances. The Agency Executive Director and Developer shall execute and deliver all documents, amendments, agreements and instruments reasonably necessary or reasonably required in furtherance of this Sixth Amendment, including as required in connection with the PIA, documents and agreements attached to the DDA or incorporated therein by reference, and other documents reasonably related to the foregoing.

(i) Effective Date. This Sixth Amendment shall become effective on the latest to occur of (the "**Sixth Amendment Effective Date**") (i) the date that it is duly executed and delivered by the parties hereto, (ii) the effective date of a resolution adopted by the Oversight Board approving this Sixth Amendment and the Phase 2 Amendment, and (iii) the effective date of a resolution adopted by the Commission approving this Sixth Amendment and the Phase 2 Amendment.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

IN WITNESS WHEREOF, the Agency and Developer have each caused this Sixth Amendment to be duly executed on its behalf as of the Sixth Amendment Effective Date.

**AGENCY:**

Authorized by Agency Resolution No. 2-2012  
adopted December 18, 2012.

Oversight Board Resolution No. 15-2012  
Adopted December 10, 2012

Approved as to Form:

DENNIS J. HERRERA, City Attorney,  
as counsel to the Agency

By:   
Name: Charles Sullivan, Deputy City Attorney

SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE  
CITY AND COUNTY OF SAN FRANCISCO,  
a public body, corporate and politic

By:   
Name: Tiffany Bohee  
Title: Executive Director

**DEVELOPER:**

HPS DEVELOPMENT CO., LP,  
a Delaware limited partnership

By: CP/HPS Development Co. GP, LLC,  
a Delaware limited liability company  
Its General Partner

By: \_\_\_\_\_  
Name: Kofi Bonner  
Its: Authorized Representative

State of California

County of San Francisco

On December 20, 2012 before me, Voneciel J. Gaines, Notary Public, personally appeared Tiffany Jane Bohannon who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

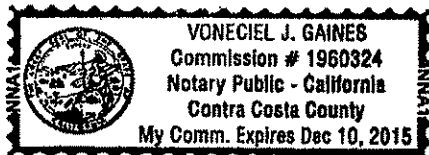
I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Voneciel J. Gaines

Signature of Notary Public

(Notary Seal)



IN WITNESS WHEREOF, the Agency and Developer have each caused this Sixth Amendment to be duly executed on its behalf as of the Sixth Amendment Effective Date.

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Authorized by Agency Resolution No. 2-2012  
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Its General Partner

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Name: Kofi Bonner  
Its: Authorized Representative

State of California  
County of San Francisco

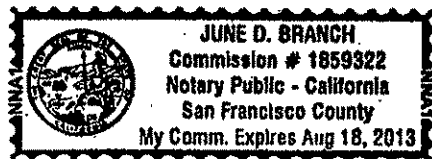
On 12/20/2012, 2012 before me, June D Branch, Notary Public, personally appeared Kelie Branch who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

June D Branch  
Signature of Notary Public

(Notary Seal)





## **EXHIBIT 1**

### **New Section 18**

#### **SECTION 18. Financing; Rights of Mortgagees.**

18.1 Right to Mortgage. Developer and any Person to whom it transfers its interest in this Agreement, as permitted under this Agreement (collectively and individually, as the case may be, a "Mortgagor") shall have the right, at any time and from time to time during the term of this Agreement, to grant a mortgage, deed of trust or other security instrument (each a "Mortgage") encumbering all or a portion of such Mortgagor's respective interests in all or a portion of the Project and/or the Project Site, including any such Mortgagor's interest in any Land Proceeds Accounts relating to such portions of the Project and/or the Project Site (including the right to receive payments or other revenue emanating from the Project and/or the Project Site), for the benefit of any Person (together with its successors in interest, a "Mortgagee") as security for one or more loans related to the Project, the Project Site, the CP/HPS2 Project or the real property comprising the CP/HPS2 Project, the proceeds from which are used to pay or reimburse costs incurred in connection with the Project, the Project Site, the CP/HPS2 Project or the real property comprising the CP/HPS2 Project, subject to the terms and conditions contained in this Section 18. For any Mortgage that cross-collateralizes and/or cross-defaults the obligations of Developer and CP/HPS2 Developer, Developer shall promptly provide to the Agency written notice of such Mortgage. Except as provided in this Section 18.1, no Mortgage shall be granted to secure obligations unrelated to the Project or the Project Site or to provide compensation or rights to a Mortgagee in return for matters unrelated to the Project or the Project Site. A Mortgagee may transfer or assign all or any part of or interest in any Mortgage without the consent of or notice to any Party; provided, however, that the Agency shall have no obligations under this Agreement to a Mortgagee unless the Agency is notified of such Mortgagee. Furthermore, the Agency's receipt of notice of a Mortgagee following the Agency's delivery of a notice or demand to Developer or to one or more Mortgagees under Section 18.4 shall not result in an extension of any of the time periods in this Section 18, including the cure periods specified in Section 18.5.

18.2 Certain Assurances. The Agency agrees to cooperate reasonably with each Mortgagor or prospective Mortgagor in confirming or verifying the rights and obligations of the Mortgagee hereunder.

18.3 Mortgagee Not Obligated to Construct. Notwithstanding any other provision of this Agreement, including those that are or are intended to be covenants running with the land, a Mortgagee, including any Person who obtains title to all or any portion of or any interest in the Project or the Project Site as a result of foreclosure proceedings, or conveyance or other action in lieu thereof, or other remedial action, including (a) any other Person who obtains title to real property in the Project Site or such portion from or through such Mortgagee or (b) any other purchaser at foreclosure sale, shall in no way be obligated by the provisions of this Agreement to Commence Construction or Complete Construction. Nothing in this Section 18.3 or any other provision of this Agreement shall be deemed or construed to permit or authorize any Mortgagee or any other Person to devote all or any portion of the Project Site to any uses, or to

construct any improvements, other than uses consistent with this Agreement and the Redevelopment Requirements.

**18.4. Copy of Notice of Default and Notice of Failure to Cure to Mortgagee.**

Whenever the Agency shall deliver any notice or demand to a Mortgagor for any breach or default by such Mortgagor in its obligations or covenants under this Agreement, the Agency shall at the same time forward a copy of such notice or demand to each Mortgagee having a Mortgage on the portion of the Project or the Project Site or any interest in the revenues therefrom or related thereto that is the subject of the breach or default who has previously made a written request to the Agency for a copy of any such notices. The Agency's notice shall be sent to the address specified by such Mortgagee in its most recent notice to the Agency. In addition, if such breach or default remains after any cure period permitted under this Agreement, as applicable, has expired, the Agency shall deliver a notice of such failure to cure such breach or default to each such Mortgagee at such applicable address. A delay or failure by the Agency to provide such notice required by this Section 18.4 shall extend, for the number of days until notice is given, the time allowed to the Mortgagee for cure.

**18.5 Mortgagee's Option to Cure Defaults.** Before or after receiving any notice of failure to cure referred to in Section 18.4, each Mortgagee shall have the right (but not the obligation), at its option, to commence within the same period as Developer to cure or cause to be cured any Event of Default, plus an additional period of (a) thirty (30) days to cure a monetary Event of Default and (b) sixty (60) days to cure a non-monetary Event of Default that is susceptible of cure by the Mortgagee without obtaining title to the applicable property subject to the applicable Mortgage. If an Event of Default is not cured within the applicable cure period (or cannot be cured by the Mortgagee without obtaining title to the applicable property), the Agency nonetheless shall refrain from exercising any of its remedies for the Event of Default and shall permit the cure by Mortgagee of such Event of Default if, within the Mortgagee's applicable cure period: (i) the Mortgagee has a recorded security interest in the applicable real property or perfected security interest in other applicable property and notifies the Agency in writing that the Mortgagee intends to proceed with due diligence to foreclose the Mortgage or otherwise obtain title to the subject property; (ii) the Mortgagee commences foreclosure proceedings within sixty (60) days after giving such notice, and diligently pursues such foreclosure to completion; and (iii) after obtaining title, the Mortgagee diligently proceeds to cure those Events of Default: (A) that are susceptible of cure by the Mortgagee; and (B) of which the Mortgagee has been given written notice by the Agency under Section 18.4 or thereafter. Notwithstanding the foregoing, no Mortgagee shall be required to cure any Event of Default that is personal to the Mortgagor (by way of example and not limitation, such Mortgagor's bankruptcy, failure to submit required information in the possession of such Mortgagor), and the completion of a foreclosure and acquisition of title to the applicable property by the Mortgagor shall be deemed to be a cure of such Events of Default. Although no Mortgagee is obligated to do so, any Mortgagee that directly or indirectly obtains title and that properly Completes Construction of the Infrastructure relating to the applicable portion of the Project Site in accordance with this Agreement shall be entitled, upon written request made to the Agency, to a Certificate of Completion.

**18.6 Mortgagee's Obligations with Respect to the Property.** Except as set forth in this Section 18, no Mortgagee shall have any obligations or other liabilities under this

Agreement unless and until it acquires title by any method to all or some portion of or interest in the Project or the Project Site (referred to as "**Foreclosed Property**"), and expressly assumes Developer's rights and obligations under this Agreement in writing. A Mortgagee (or its designee) that acquires title to any Foreclosed Property (a "**Mortgagee Acquisition**"), shall take title subject to all of the terms and conditions of this Agreement to the extent applicable to the Foreclosed Property, including any claims for payment or performance of obligations that are due as a condition to enjoying the benefits under this Agreement from and after the Mortgagee Acquisition. Upon completion of a Mortgagee Acquisition and written assumption of Developer's rights and obligations under this Agreement, the Agency shall recognize the Mortgagee as Developer under this Agreement. The Agency shall have no right to enforce any obligation under this Agreement personally against any Mortgagee unless such Mortgagee expressly assumes and agrees to be bound by this Agreement in a form reasonably approved in writing by the Agency (for the avoidance of doubt, the foregoing shall not limit the Agency's rights and remedies against Developer notwithstanding any interest Mortgagee may have in Developer). However, the Agency shall have the right to terminate this Agreement with respect to the Foreclosed Property if the Mortgagee does not agree to assume the rights and obligations of Developer relating to the Foreclosed Property in writing within ninety (90) days following a Mortgagee's acquisition of title to the Foreclosed Property. If a Mortgagee or any Person who acquires title to real property in the Project Site from a Mortgagee assumes obligations to construct Improvements under this Agreement, the Schedule of Performance with respect to the Foreclosed Property shall be extended as needed to permit such construction.

**18.7 No Impairment of Mortgage.** No default by a Mortgagor under this Agreement shall invalidate or defeat the lien of any Mortgagee. Neither a breach of any obligation secured by any Mortgage or other lien against the mortgaged interest nor a foreclosure under any Mortgage shall defeat, diminish, render invalid or unenforceable or otherwise impair Developer's rights or obligations or constitute, by itself, a default under this Agreement.

**18.8 Multiple Mortgages.** If at any time there is more than one Mortgage constituting a lien on a single portion of the Project or the Project Site or any interest therein, the lien of the Mortgagee prior in time to all others on that portion of the mortgaged property shall be vested with the rights under this Section 18 to the exclusion of the holder of any other Mortgage; provided, however, that if the holder of a senior Mortgage fails to exercise the rights set forth in this Section 18, each holder of a junior Mortgage shall succeed to the rights set forth in this Section 18 only if the holders of all Mortgages senior to it have failed to exercise the rights set forth in this Section 18 and holders of junior Mortgages have provided written notice to the Agency under Section 18.4. No failure by the senior Mortgagee to exercise its rights under this Section 18 and no delay in the response of any Mortgagee to any notice by the Agency shall extend any cure period or Developer's or any Mortgagee's rights under this Section 18. For purposes of this Section 18.8, in the absence of an order of a court of competent jurisdiction that is served on the Agency, a title report prepared by a reputable title company licensed to do business in the State of California and having an office in the City of San Francisco, setting forth the order of priorities of the liens of Mortgages on real property may be relied upon by the Agency as conclusive evidence of priority.

18.9 Cured Defaults. Upon the curing of any Event of Default by a Mortgagee within the time provided in Section 18.5, the Agency's right to pursue any remedies for the cured Event of Default shall terminate.

**READDRESSING / REASSIGNING  
APPRAISAL REPORTS**



### **Readdressing/Reassigning Appraisal Reports**

Seevers Jordan Ziegenmeyer adheres to the requirements of the 2012-2013 Edition of the Uniform Standards of Professional Appraisal Practice (USPAP). This edition is effective from January 1, 2012 through December 31, 2013. The following excerpts pertain to readdressing/reassigning appraisal reports:

#### **Advisory Opinion 26, Page A-86:**

Once a report has been prepared for a named client(s) and any other identified intended users and for an identified intended use, the appraiser cannot "readdress" (transfer) the report to another party.

#### **Advisory Opinion 27, Pages A-88 to A-89:**

Situations often arise in which appraisers who have previously appraised a property are asked by a different party to appraise the same property.... Accepting the assignment from the subsequent prospective client is not prohibited by USPAP, assuming appropriate disclosure is made to the client before being engaged and any existing confidential information is handled properly.... If there is a new potential client, valuation services performed for that new client would constitute a new assignment and the assignment results would be specific to that new assignment.

#### **Frequently Asked Question No. 121, Page F-56:**

It is never permissible to readdress a report by simply changing the client's name on a completed report, regardless of whether the first client gave a release. The request from Lender B must be treated as a new assignment.

## **GLOSSARY OF TERMS**

## **GLOSSARY OF TERMS**

Unless otherwise noted, the following definitions are from The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

**Aggregate of Retail Values (ARV):** The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent an opinion of value; it is simply the total of multiple market value conclusions.

**As Is Market Value:** The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.

**Band of Investment:** A technique in which the capitalization rates attributable to components of a capital investment are weighted and combined to derive a weighted-average rate attributable to the total investment.

**Bulk (Discounted) Value:** The most probable price, in a sale of all parcels within a tract or development project, to a single purchaser or sales to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in cash, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under stress. (Appraisal Standards For Land-Secured Financing, California Department Advisory Commission, 1994)

**Comparative-Unit Method:** A method used to derive a cost estimate in terms of dollars per unit of area or volume based on known costs of similar structures that are adjusted for time and physical differences; usually applied to total building area.

**Cost Approach:** A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

**Depreciation:** In appraising, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date.

**Direct Capitalization:** A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only a single year's income is used. Yield and value changes are implied but not identified.

**Discounted Cash Flow (DCF) Analysis:** The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams and the quantity and timing of the reversion, and discounts each to its present value at a specified yield rate.

**Discount Rate:** A yield rate used to convert future payments or receipts into present value; usually considered to be a synonym for *yield rate*.



**Disposition Value:** The most probable price that a specified interest in real property should bring under the following conditions: 1) consummation of a sale within a future exposure time specified by the client; 2) the property is subjected to market conditions prevailing as of the date of valuation; 3) both the buyer and seller are acting prudently and knowledgeably; 4) the seller is under compulsion to sell; 5) the buyer is typically motivated; 6) both parties are acting in what they consider to be their best interests; 7) an adequate marketing effort will be made during the exposure time specified by the client; 8) payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; 9) the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Easement:** The right to use another's land for a stated purpose.

**Exposure Time:** Estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. (USPAP 2012-2013 Edition)

**External Obsolescence:** An element of depreciation; a diminution in value caused by negative externalities and generally incurable on the part of the owner, landlord, or tenant.

**Extraction:** A method of estimating land value in which the depreciated cost of the improvements on the improved property is calculated and deducted from the total sale price to arrive at an estimated sale price for the land.

**Extraordinary Assumption:** An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. (USPAP

2012-2013 Edition)

**Fair Market Value:** The highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available. (California Code of Civil Procedure, Section 1263.320(a))

**Fee Simple Estate:** Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

**Floor Area Ratio (FAR):** The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area.

**Functional Obsolescence (Incurable):** An element of depreciation; a defect caused by a deficiency or superadequacy in the structure, materials, or design that cannot be practically or economically corrected.

**Highest and Best Use:** The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property – specific with respect to the user and timing of the use – that is adequately supported and results in the highest present value.

**Highest and Best Use of Property as**

**Improved:** The use that should be made of a property as it exists. An existing improvement should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.

**Highest and Best Use of Land or a Site as**

**though Vacant:** Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.

**Hypothetical Condition:** A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. (USPAP 2012-2013 Edition)

**Income Capitalization Approach:** A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.

**Leased Fee Interest:** A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship.

**Leasehold Interest:** The tenant's possessory interest created by a lease. (Negative leasehold: A lease situation in which the market rent is less than the contract rent. Positive leasehold: A lease situation in which the market rent is greater than the contract rent.)

**Liquidation Value:** See *Disposition Value*.

**Marketing Time:** An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.

**Neighborhood:** A group of complementary land uses; a congruous grouping of inhabitants, buildings, or business enterprises.

**Obsolescence:** One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or external factors that make a property less desirable and valuable for a continued use; may be either functional or external.

**Prospective Opinion of Value:** A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy.

**Quantity Survey Method:** A cost-estimating method in which the quantity and quality of all materials used and all categories of labor required are estimated and unit cost figures are applied to arrive at a total cost estimate for labor and materials.

**Replacement Cost:** The estimated cost to construct, at current prices as of the effective appraisal date, a substitute for the building being appraised, using modern materials and current standards, design, and layout.

**Reproduction Cost:** The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all the deficiencies, superadequacies, and obsolescence of the subject building.

**Sales Comparison Approach:** The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.

**Site Coverage Ratio:** The gross area of the building footprint divided by the site area.

**Stabilized Occupancy:** An expression of the expected occupancy of a property in its particular market considering current and forecasted supply and demand, assuming it is priced at market rent.

**Subdivision Development Method:** A method of estimating land value when subdivision development is the highest and best use of the parcel of land being appraised. When all direct and indirect costs and entrepreneurial incentive are deducted from an estimate of the anticipated gross sales price of the finished lots (or residences), the resultant net sales proceeds are then discounted to present value at a market-derived rate over the development and absorption period to indicate the value of the land.

**Superadequacy:** An excess in the capacity or quality of a structure or structural component; determined by market standards.

**Unit-In-Place Method:** A cost-estimating method in which total building cost is estimated by adding together the unit costs for the various building components as installed; also called the *segregated cost method*.

**Yield Capitalization:** A method used to convert future benefits into present value by 1) discounting each future benefit at an appropriate yield rate, or 2) developing an overall rate that explicitly reflects the investment's income pattern, holding period, value change, and yield rate.

**Yield Rate:** A rate of return on capital, usually expressed as a compound annual percentage rate. A yield rate considers all expected property benefits, including the proceeds from sale at the termination of the investment.

## **QUALIFICATIONS OF APPRAISER(S)**



Seevers  
Jordan  
Ziegenmeyer

Real Estate Appraisal & Consultation

Northern California/Nevada  
3825 Atherton Road, Suite 500  
Rocklin, California 95765

P: (916) 435-3883 F: (916) 435-4774

## **Eric A. Segal, Partner**

### **Introduction**

Mr. Segal is a Certified General real estate appraiser with Seevers Jordan Ziegenmeyer, a real estate appraisal firm that engages in a wide variety of real estate valuation and consultation assignments. In 1998, Mr. Segal began his career in real estate as a research analyst/appraiser trainee for SJZ. By 1999, he began writing narrative appraisal reports covering a variety of income properties. Today, Mr. Segal is a partner in the firm and is involved in appraisal assignments covering a wide variety of properties including office, retail, industrial, multifamily housing, master planned communities, Mello-Roos and Assessment Districts, and residential subdivisions. He has developed the experience and background necessary to deal with complex assignments covering an array of property types.

### **Professional Affiliations**

Associate Member (General) - Appraisal Institute

Certified General Real Estate Appraiser - State of California (No. AG026558)

### **Education**

#### *Academic:*

Bachelor of Science in Business Administration (Concentrations in Finance and Real Estate & Land Use Affairs), California State University, Sacramento

#### *Appraisal and Real Estate Courses:*

Uniform Standards of Professional Appraisal Practice

Appraisal Principles

Basic Income Capitalization

Highest & Best Use and Market Analysis

Advanced Income Capitalization

Report Writing and Valuation Analysis

Appraisal Litigation Practice and Courtroom Management

Computer Enhanced Cash Flow Modeling

Advanced Sales Comparison & Cost Approaches

Advanced Applications



Seevers  
Jordan  
Ziegenmeyer

Real Estate Appraisal & Consultation

Northern California/Nevada  
3825 Atherton Road, Suite 500  
Rocklin, California 95765

P: (916) 435-3883 F: (916) 435-4774

## Sample of Appraisal Experience

Hunters Point Shipyard – Phase I  
San Francisco, San Francisco County, California

This appraisal was completed for use by the developer for determination of possible refinancing of the Redevelopment Agency of the City and County of San Francisco Community Facilities District (CFD) No. 7 (Hunters Point Shipyard) Bonds. The appraised property comprises Phase I of the Hunters Point Shipyard redevelopment area, which is commonly referred to as the Hilltop and Hillside subdivisions, and comprises approximately 75.32 gross acres of land, which includes 23.72± developable acres proposed for the construction of 1,142 residential units in a variety of attached single-family, townhouse and stacked residential units. Specifically, the Hilltop development contains 15.92± acres of land to be developed with 768 residential units, and the Hillside development contains 7.8± acres to be developed with 374 single-family residential units. In addition, Phase I will include 36.0± acres dedicated to parks and open space and 15.6± acres of streets and rights-of-way.

City of San Mateo Community Facilities District No.  
2008-1 (Bay Meadows)  
San Mateo, San Mateo County, California

This appraisal was completed for use in a land-secured financing associated with the development of 52± developable acres proposed for the development of 724,225 square feet of office space, approximately 85,374 square feet of retail space and 1,121 residential housing units, with 832 residential housing units being developed on the residential land component and the balance (289 units) to be developed as part of the mixed-use component. The report was prepared for the City of San Mateo Department of Finance.

City of Redwood City Community Facilities District  
No. 2010-1 (One Marina)  
Redwood City, San Mateo County, California

This appraisal was completed for use in a land-secured financing associated with the development of 16.62± acres proposed for the construction of 231 townhome and flat-style residential units within 24 detached buildings. The report was prepared for the City of Redwood City Department of Finance.

County of San Joaquin Community Facilities District  
No. 2009-2 (Vernalis Interchange)  
Vernalis, San Joaquin County, California

This assignment involved the appraisal of approximately 3,457.41 gross acres of land comprising 40 separate Assessor's parcels devoted to (or intended for) aggregate mining operations by six independent mining operators, including Teichert, West Coast Aggregates, Granite, Knife River, DeSilva Gates and Cemex. The summary appraisal was completed for bond financing purposes, with the proceeds intended to finance the construction of a new interchange on State Route 132 at Bird Road, which is intended to enhance traffic operation safety at this intersection. This report was prepared for the County of San Joaquin.



Seevers  
Jordan  
Ziegenmeyer

Real Estate Appraisal & Consultation

Northern California/Nevada  
3825 Atherton Road, Suite 500  
Rocklin, California 95765

P: (916) 435-3883 F: (916) 435-4774

## Sample of Appraisal Experience (continued)

HUD 223(f) Apartment Portfolio  
San Francisco, San Francisco County, California

This appraisal assignment involved the appraisal of nine multifamily properties in San Francisco containing between seven and 50 units, as well as mixed-use properties including ground floor retail tenants. The self-contained appraisals were completed in compliance with Federal regulatory requirements and guidelines that may apply as well as the requirements of the Federal Housing Administration (FHA) MAP Program for a 223(f) Refinance. This report was prepared for Column Guaranteed, LLC.

The Parkway & Quinto Ranch  
Santa Nella, Merced County, California

This appraisal involved the valuation of a 1,464-lot single-family residential master planned community that included residential, commercial and public use components, and a non-contingent 1,644-acre ranch subject to a conservation easement. This report was prepared for IndyMac Bank.

Reclamation District No. 17 – Mossdale Tract  
(portion)  
County of San Joaquin, California

The appraised properties represented a portion of Reclamation District No. 17 identified as vacant residential, vacant commercial and vacant industrial land, and excluded those properties within the boundaries of the District zoned as agricultural and public use, and those properties with an assessed improvement value on the most recent property tax roll. Reclamation District No. 17 (Mossdale Tract) is located in San Joaquin County and contains approximately 16,107.58 acres of land comprising approximately 13,335 assessor's parcels. This report was prepared for Reclamation District No. 17.

Bickford Ranch Community Facilities District No.  
2003-1  
Placer County, California

The hypothetical market valuation of a proposed master planned community that will include 847.2 acres of land designated for 1,783 residential lots and a 9.7-acre commercial component. The appraisal will be used for bond underwriting purposes and was prepared for the County of Placer.

El Dorado Hills Community Facilities District No.  
1992-1 (portion)  
El Dorado County, California

This assignment involved the hypothetical cumulative, or aggregate, valuation of a sizeable portion of the existing Serrano master planned community. The appraisal included 1,597 single-family residential lots, 382 custom single-family residential lots, 33.05 acres of commercial land and 344 existing single-family residences. The appraisal will be used for bond underwriting purposes and was prepared for the County of El Dorado.



Seevers  
Jordan  
Ziegenmeyer

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Rocklin, California 95765

P: (916) 435-3883 F: (916) 435-4774

### **Sample of Appraisal Experience (continued)**

Diablo Grande Community Facilities District No. 1  
(Series 2002)  
Stanislaus County, California

The appraisal involved the valuation of a partially improved resort and master planned community offering 1,410 residential lots, multifamily land, commercial land, a hotel site, vineyards and two 18-hole championship golf courses. The appraisal was used for bond underwriting purposes and was prepared for Western Hills Water District.

Plumas Lake Community Facilities District No.  
2002-1  
Yuba County, California

This appraisal included the valuation of a portion of the proposed, and partially improved, Plumas Lake Specific Plan area, and comprised 3,314 detached single-family residential lots. The appraisal was used for bond underwriting purposes and was prepared for the Olivehurst Public Utility District.

Patterson Gardens & Keystone Pacific Business  
Park  
Patterson, Stanislaus County, California

This appraisal involved the valuation of a 985-lot single-family residential master planned community that included residential, commercial and public use components, and a non-contingent 224-acre industrial park. This report was prepared for Bank of America.





Business, Transportation & Housing Agency  
OFFICE OF REAL ESTATE APPRAISERS  
REAL ESTATE APPRAISER LICENSE

Eric A. Segal

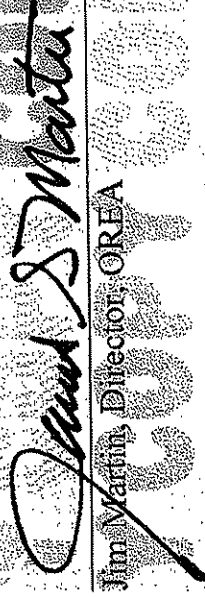
has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

"Certified General Real Estate Appraiser"

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

OREA APPRAISER IDENTIFICATION NUMBER AG 026558

Effective Date: February 19, 2013  
Date Expires: February 18, 2015

  
Jim Martin, Director, OREA

3004944





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