

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Approval Date: June 19, 2020

*Request to Approve Initial Resolution Reflecting
Official Intent to Issue Revenue Bonds*

Prepared by: *Andrea Gonzalez*

Applicant:	Mission Rock Utilities, Inc. and/or its affiliates	Amounts Requested	Tax-Exempt Bonds: \$15,000,000 Taxable Bond Anticipation Notes: \$25,000,000 Taxable Bonds: <u>\$30,000,000</u> Total: \$70,000,000
Project Location:	City of San Francisco (San Francisco County)	Application No.:	934 Initial Resolution No.: 20-02

Summary. Mission Rock Utilities, Inc. and/or its affiliates (the “Company”) requests approval of an Initial Resolution for an amount not to exceed \$70,000,000, which includes \$15,000,000 in tax-exempt bonds, \$25,000,000 in taxable bond anticipation notes and \$30,000,000 in taxable bonds for the development and construction of a Blackwater Recycling System plant and District Energy System plant located at the Mission Rock development in San Francisco.

Borrower. Mission Rock Partners (MRP) (comprised of the San Francisco Giants and Tishman Speyer) and EG Services, LLC (EG Services) developed Mission Rock Utilities, Inc. (MRU) in order to develop the thermal energy and black water recycling systems for a new mixed-use waterfront neighborhood located in downtown San Francisco. Mission Rock Utilities, Inc. is a non-stock corporation and was organized in Delaware on December 13, 2019.

Legal Questionnaire. The Staff has reviewed the Company’s responses to the questions contained in the Legal Status Questionnaire portion of the Application. No information was disclosed in the Legal Status Questionnaire portion of the Application that raises questions concerning the financial viability or legal integrity of this applicant.

Project Description. Mission Rock is a new mixed-use waterfront neighborhood in downtown San Francisco, comprised of 11 new buildings, 8 acres of parks and open space, 40% affordable housing, and a unique mix of neighborhood serving retail. Together, MRP, the City of San Francisco, the Port of San Francisco, and the local community developed a comprehensive master use plan for Seawall Lot 337 and Pier 48. The entire Mission Rock development is expected to be built over four phases. Phase I of development will involve four buildings, including a mix of commercial, residential and retail. Construction of Phase I is targeted to commence in 2020.

A cornerstone of the Mission Rock project is its Sustainability Strategy, which calls for advanced environmental stewardship and strategy. To meet the goals of the Sustainability Strategy, MRP has developed a resilient, reliable and cost-effective utility program that sustainably meets the utility needs of buildings owners and tenants. These utility systems will be flexible and adaptable

to the changing needs of the customers, and utility system technologies. MRP has selected EG Services, LLC as its utility system partner to achieve these goals.

MRP and EG Services, LLC have developed a Delaware non-stock corporation called Mission Rock Utilities, Inc. for the thermal energy and blackwater recycling systems. MRU's business will be 100% debt-financed, with potential support through project public financing sources, based on long-term utility service agreements that will require each property at Mission Rock to be a customer of the utility systems. Utility rates will be cost-based and will include provisions for required working capital, reserve, debt service, and all operational costs. The thermal energy and blackwater recycling systems will be financed in phases through MRP and external financing, with the initial construction expected to total approximately \$30 million.

The Company intends to build a Blackwater Recycling System (BRS) plant and District Energy System (DES) plant in San Francisco, as part of the Mission Rock development. The BRS plant and the DES plant, located separately in two of the first four buildings being constructed, are planned as part of Phase I of the Mission Rock development.

Blackwater Recycling System Plant: The BRS plant is an advanced water recycling facility that will treat a portion of the blackwater and greywater from the Mission Rock development (which includes wastewater collected from toilets, showers and sinks) to meet the non-potable water needs of buildings in the Mission Rock development, as well as associated green space. The primary non-potable water needs of the site will be irrigation and toilet flushing, along with the cooling tower's makeup water. The total average blackwater inflow at the facility will be approximately 55,000 gallons per day, with a maximum design capacity of approximately 43,000 gallons of recycled non-potable water per day. The BRS plant's size is designed to meet the San Francisco Public Utilities Commission's (SFPUC) non-potable water requirements for the full Mission Rock development project.

District Energy System Plant: The DES's shared energy plant will supply hot and cold water to the development through a network of underground pipes to meet the heating and cooling needs of all buildings in the Mission Rock development. The DES plant will contain district heating and cooling equipment for entire development which will replace the need to have this type equipment inside each building. Ultimately, the DES plant is also planned to integrate a bay water energy exchange system for both heating and cooling once the Mission Rock development is fully built-out. This bay water exchange system which will pair bay water from the San Francisco Bay with heat pumps to meet heating and cooling needs, will reduce carbon and conserve millions of gallons of water per year. The initial system will utilize cooling towers using non-potable water from the BRS plant. The bay water energy exchange system will not be constructed during Phase I of the development and, therefore, will not be financed with the initial bond anticipation notes or the taxable or tax-exempt bonds.

Volume Cap Allocation. The Company anticipates applying to the Authority or the California Debt Limit Allocation Committee (CDLAC) for volume cap allocation for the \$15,000,000 in tax exempt bonds in 2021. The taxable bond anticipation notes do not require volume cap allocation.

Financing Details. The Company is requesting the approval of issuance of negotiated taxable bond anticipation notes in 2020 to finance a portion of the BRS plant and the DES Plant, as well

as approval for the issuance of negotiated tax exempt bonds and taxable bonds in 2021 to finance an additional portion of the BRS plant and the DES plant and to refund the 2020 bond anticipation notes.

Financing Team.

Underwriter: Piper Sandler & Co.
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Issuer's Counsel: Office of the Attorney General
Borrower's Counsel: Schiff Hardin LLP

Staff Recommendation. Staff recommends approval of Initial Resolution No. 20-02 for Mission Rock Utilities, Inc. and/or its affiliates for a total amount not to exceed \$70,000,000.

Note: An Initial Resolution approval is not a commitment that the Board will approve a Final Resolution and bond financing of the proposed Project.

**RESOLUTION OF OFFICIAL INTENT TO ISSUE NOTES AND BONDS TO
FINANCE AND REFINANCE DISTRICT HEATING AND COOLING, SEWAGE AND
WATER FURNISHING FACILITIES FOR
MISSION ROCK UTILITIES, INC. AND/OR ITS AFFILIATES**

June 19, 2020

WHEREAS, the California Pollution Control Financing Authority (“Authority”), a public instrumentality, is authorized and empowered by the provisions of the California Pollution Control Financing Authority Act (“Act”) to issue bonds or notes for the purpose of financing the cost of facilities for local district heating and cooling and the furnishing of water; and

WHEREAS, Mission Rock Utilities, Inc., a Delaware corporation (“Applicant”), and/or its affiliates (collectively, “Company”), have requested that the Authority assist in financing and refinancing the acquisition, construction, and/or installation of facilities for local district heating and cooling, including the construction of a district energy system and related facilities, and for the collection and treatment of blackwater for the purpose of treating sewage and furnishing water, including a blackwater recycling system and related facilities, as further described in Exhibit “A” attached hereto (the “Facilities”), and have presented an estimate of the maximum cost of such Facilities as shown in Exhibit “A” attached hereto; and

WHEREAS, the Authority desires to encourage the Company to provide district energy system facilities and blackwater recycling system facilities which will serve the public of the State of California; and

WHEREAS, the Authority deems it necessary and advisable to further the purposes of the Act that the Facilities be constructed at the earliest practicable date, but the Company requires satisfactory assurances from the Authority that the proceeds of the sale of bonds or notes of the Authority will be made available to finance and refinance such Facilities; and

WHEREAS, the Company expects to incur or pay from its own funds certain expenditures in connection with the Facilities prior to the issuance of indebtedness for the purpose of financing costs associated with the Facilities on a long-term basis; and

WHEREAS, subject to meeting all the conditions set forth in this Initial Resolution the Authority reasonably expects that debt obligations in an amount not expected to exceed \$70,000,000 will be issued and that certain of the proceeds of such debt obligations will be used to reimburse the Company for its prior expenditures for the Facilities; and

WHEREAS, Section 1.103-8(a)(5) and Section 1.150-2 of the Treasury Regulations require the Authority to declare its reasonable official intent to reimburse prior expenditures for the Facilities with proceeds of a subsequent borrowing;

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority as follows:

Section 1. The Authority finds and determines that the foregoing recitals are true and correct. For purposes of this Initial Resolution, an “Affiliate” of the Applicant means any person or entity which meets the definition of “participating party” in the Act and controls, is controlled by, or is under common control with, the Applicant, as shown by the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through majority equity ownership, contract or otherwise.

Section 2. The Authority declares its official intent to issue, at one time or from time to time, an aggregate of up to \$70,000,000 principal amount of bonds or notes of the Authority for the Facilities; including up to \$45,000,000 for the purpose of reimbursing to the Company costs incurred for the Facilities prior to the issuance of the bonds or notes.

Section 3. The bonds or notes will be payable solely from the revenues to be received by the Authority pursuant to a loan agreement or other agreements to be entered into between the Authority and the Company in connection with the Facilities. Each bond or note shall contain a statement to the following effect:

“Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof or any local agency is pledged to the payment of the principal of, premium, if any, or any interest on this bond.”

Section 4. The bonds or notes shall be issued subject to the conditions that (i) the Authority and the Company shall have first agreed to mutually acceptable terms for the bonds or notes and of the sale and delivery thereof, and mutually acceptable terms and conditions of the loan of the proceeds thereof to the Company; (ii) all requisite governmental approvals shall have first been obtained or shall be obtained by the Company for any local governmental approvals required during construction of the Facilities; (iii) a Final Resolution shall have been received from the Authority; and (iv) an allocation shall have been received from the California Debt Limit Allocation Committee for any portion of the bonds or notes which are to be sold as exempt from federal income tax.

Section 5. The Executive Director or Deputy Executive Director of the Authority has authority under Authority Resolution No. 19-01-001 to indicate the willingness of the Authority to proceed with and effect such financing in order to assist the Company by defraying the cost of the Facilities, subject to due compliance with all requirements of the law and the obtaining of all necessary consents and approvals and meeting all other requirements of the Authority.

Section 6. It is intended that this Initial Resolution shall constitute “some other similar official action” towards the issuance of bonds within the meaning of Section 1.103-8(a)(5) of the Treasury Regulations and “official intent” within the meaning of Section 1.150-2 of the Treasury Regulations, each as applicable under Section 103 of the Internal Revenue Code of 1986, as amended. It is also intended that this statement of “official action” or “official intent” by the Authority shall continue in full force and effect even if this Initial Resolution ceases to be effective for other purposes.

Section 7. This Initial Resolution shall take effect immediately upon its approval and remain in full force and effect thereafter; provided that, subject to Section 6, this Initial Resolution shall cease to be effective on the date three years after the approval date unless prior thereto the Authority, or Executive Director or Deputy Executive Director of the Authority, specifically adopts a further resolution extending the effective date of this Initial Resolution, which it will do only after receiving a specific request for such action from the Company, accompanied by an explanation of the status of the project and any additional information requested by the Authority to supplement the Company's application.

EXHIBIT A

APPLICATION NUMBER: 934

PROJECT LOCATION: Seawall Lot 337, San Francisco, California

PROJECT DESCRIPTION: Finance and refinance the acquisition, construction, and/or installation of facilities for local district heating and cooling, including the construction of a district energy system and related facilities, and for the collection and treatment of blackwater for the purpose of treating sewage and furnishing water, including a blackwater recycling system and related facilities

TYPE: District heating and cooling, sewage and water furnishing

AMOUNT: Up to \$70,000,000