

Informational Presentation: Conceptual Approaches to Disposition of Larkspur Landing Property

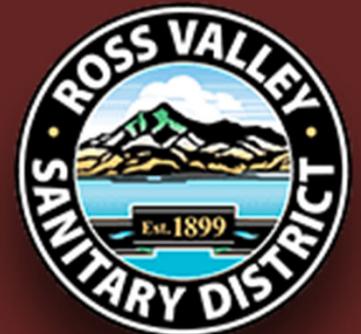


Presented to Ross Valley Sanitary District

September 30, 2020



CENTURY | URBAN





AGENDA

Century | Urban Overview

Larkspur Landing Site Overview

Phase I Tasks

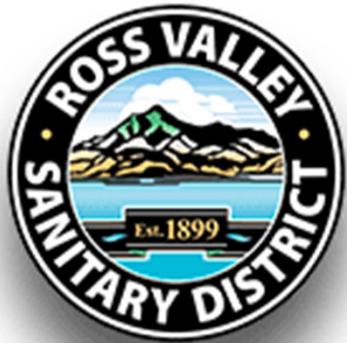
Potential Transaction Structures

Questions & Next Steps





Century | Urban Overview





- ❖ Century | Urban is a full-service, real estate economic consulting, investment, advisory, and project management firm providing on-call and as needed real estate services to clients.
- ❖ Principals have over 40 years of combined real estate experience in public-private partnerships, economic analysis, dispositions, asset management and strategic portfolio plans in all major property types.
- ❖ Project team will support the District with economic analysis, fiscal impacts, transaction structuring and developer selection.

STRATEGIC ADVISORY

- Transaction structuring and negotiation support
- Highest and best use analysis
- Complex economic/feasibility pro forma underwriting analysis
- Development budgets and cost-to-complete analyses

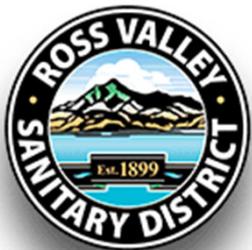
PORTFOLIO MANAGEMENT

- Identify surplus properties and prepare and implement business plans for:
 - Outright sales, ground-lease structures, tenant leasing strategies, and equity joint ventures
- Entitlements, alternate financing sources, public-private partnerships, and strategic asset repositioning

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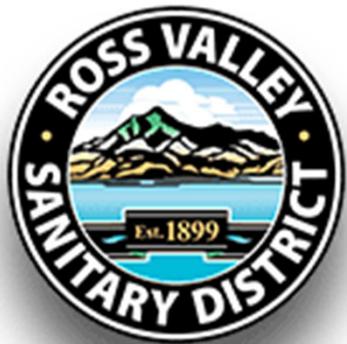


Services of the San Francisco Public Utilities Commission





Larkspur Landing Site Overview

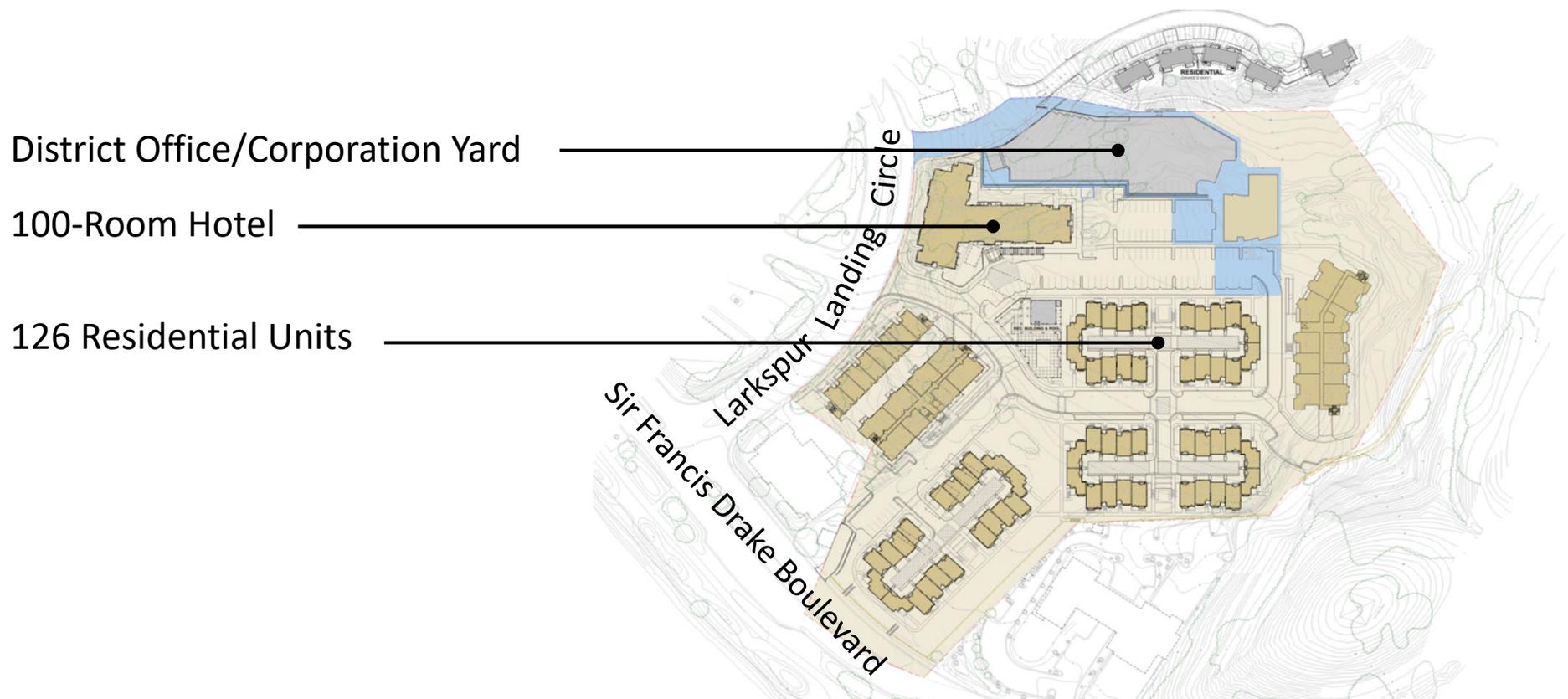


Larkspur Landing Site Overview



Larkspur Landing Site Overview

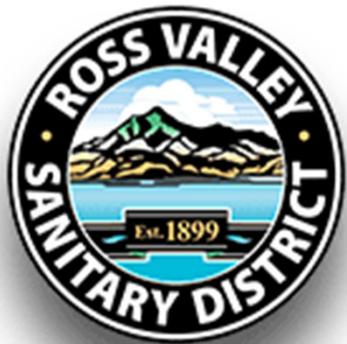
- ❖ 10.7-acre site of District's former wastewater treatment plant; site remediation nearly complete
- ❖ One of last remaining undeveloped parcels in City of Larkspur in Marin County
- ❖ Enjoys expansive views of San Francisco Bay
- ❖ Previously entitled for District Office/Corporation Yard (no longer needed), hotel, and residential



* Existing project entitlements subject to third party land use counsel review.



Larkspur Landing Phase I Tasks



Larkspur Landing Phase 1 Tasks



- ❖ District Workshop(s) to Review Broader Goals and Objectives



- ❖ Review and Evaluation of Transaction Structures:

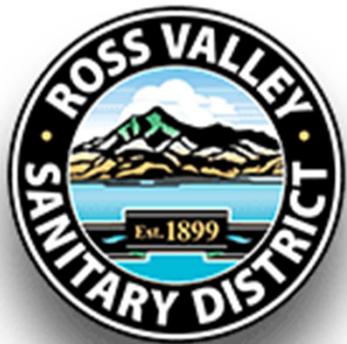
- ✓ Option to Ground Lease (Maintain Ownership of Land)
- ✓ Option to Purchase Land (Sale)
- ✓ Joint Venture Partnership

- ❖ Community Outreach Process and Approach
- ❖ Review of Existing Site Planning and Entitlement
- ❖ Evaluation of Project Risks, Benefits and Value
- ❖ Work with District Board and Staff to Make Informed Decision to Benefit Ratepayers
- ❖ Plan for Developer RFQ/RFP Selection Process





Potential Transaction Structures



Transaction Structure Considerations



- ❖ Support of the District's Mission
- ❖ Community Outreach Approach
- ❖ Partnership Approach
- ❖ Access to Low Cost Capital
- ❖ Development Expertise & Efficiency
- ❖ Risk Allocation
- ❖ Shared Goals & Objectives
- ❖ Alignment of Interest
- ❖ Partner Values
- ❖ Timeline



STRATEGIC TRANSACTION STRUCTURE OPTIONS

Option	Structure	Recommended
Option A	Option to Enter into Ground Lease	Yes
Option B	Option to Enter into Purchase Agreement	Yes
Option C	Joint Venture Partnership	No
Option D	Development Management Agreement	No





Option A

Option to Enter Ground Lease

Recommended: Yes

A ground lease is an agreement in which a tenant is permitted to develop a piece of property and operate the improvements during the ground lease period, after which the improvements are turned over to the property owner (ground lease terms vary, but most ground leases for development projects in California range from 75 to 99 years).

Project Benefits

- 1.) Generate annual revenue without expenditure of “at risk” capital and burden of property management
- 2.) Structure privatized transaction that preserves discretionary approval over project entitlements
- 3.) Ability to use developer debt and equity financing to avoid encumbrance of balance sheet
- 4.) Leverage management expertise and execution capabilities of developer with successful track record
- 5.) Preferred structure for public agencies where land ownership is maintained, and, at lease term end, vertical improvements revert to land owner, ground lease is extended, or new master lease is executed

Project Risks

- 1.) Select developers will not enter into ground lease transaction structures, which may limit developer interest
- 2.) Less control over development of vertical improvements and future management of completed project
- 3.) Developer’s maintenance of physical improvements in later years of ground lease term should be monitored
- 4.) More complicated legal transaction structure required to achieve potential benefits of privatized delivery

Note: transaction would be structured as option to enter ground lease, similar to Option B: option to enter purchase agreement.



Option B

Option to Enter Purchase Agreement

Recommended: Yes

An agreement between two parties that provides one of the parties with the right, but not the obligation, to buy, sell or obtain a specific asset or assets at an agreed-upon price at some point in the future.

Project Benefits

- 1.) Retain ownership of land until entitlements are secured and developer exercises option to purchase land (and land value is maximized)
- 2.) Structure option agreement to limit "at risk" capital such that all funding is provided by developer
- 3.) Potential for non-refundable upfront option payment and ongoing milestone payments inuring to benefit of land owner
- 4.) Select major decision approval rights during entitlement period/option term
- 5.) Establish mechanism for determining either upfront "baseline" value or future fair market value upon securing non-appealable entitlements

Project Risks

- 1.) Developer to retain majority of control given it will be leading and funding prosecution of entitlements
- 2.) Need to select "like-minded" partner that shares similar approach, values, and philosophy for relationship during entitlement period/option term
- 3.) Option structure requires ongoing developer oversight by land owner to confirm adherence to business plan and public process
- 4.) Closing of land will not occur until entitlements are approved, which may take several years
- 5.) Project may need to be phased over time given overall size of land assemblage and potential improvements



Option C

Joint Venture Partnership

Recommended: No

A joint venture ("JV") is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific project. In a JV, both parties will have an equity ownership interest, and each of the participants is responsible for profits, losses and costs associated with the JV.

Project Benefits

- 1.) Potential to structure JV in manner that limits land owner "at risk" development capital (i.e., only contribute land)
- 2.) Entering into JV with developer may allow land owner to receive upfront proceeds from its property as well as future profit participation
- 3.) Experienced JV development partner to contribute additional resources, identify additional development programs or financing strategies, and create increased development and/or operating efficiencies

Project Risks

- 1.) Most developers will not entertain JV with public agencies, which may substantially limit developer interest
- 2.) Less control over development of vertical improvements and future management of completed project with shared ownership
- 3.) May require completion guaranties and/or additional funding requirements for cost overruns or operating deficits
- 4.) Increased exposure to development cost risk such as construction cost increases prior to securing final construction contracts



Option D

Development Management Agreement

Recommended: No

When an owner seeks to develop its land or property and wishes to appoint a project team or developer to do so on its behalf, the parties will generally enter into a development management agreement.

Project Benefits

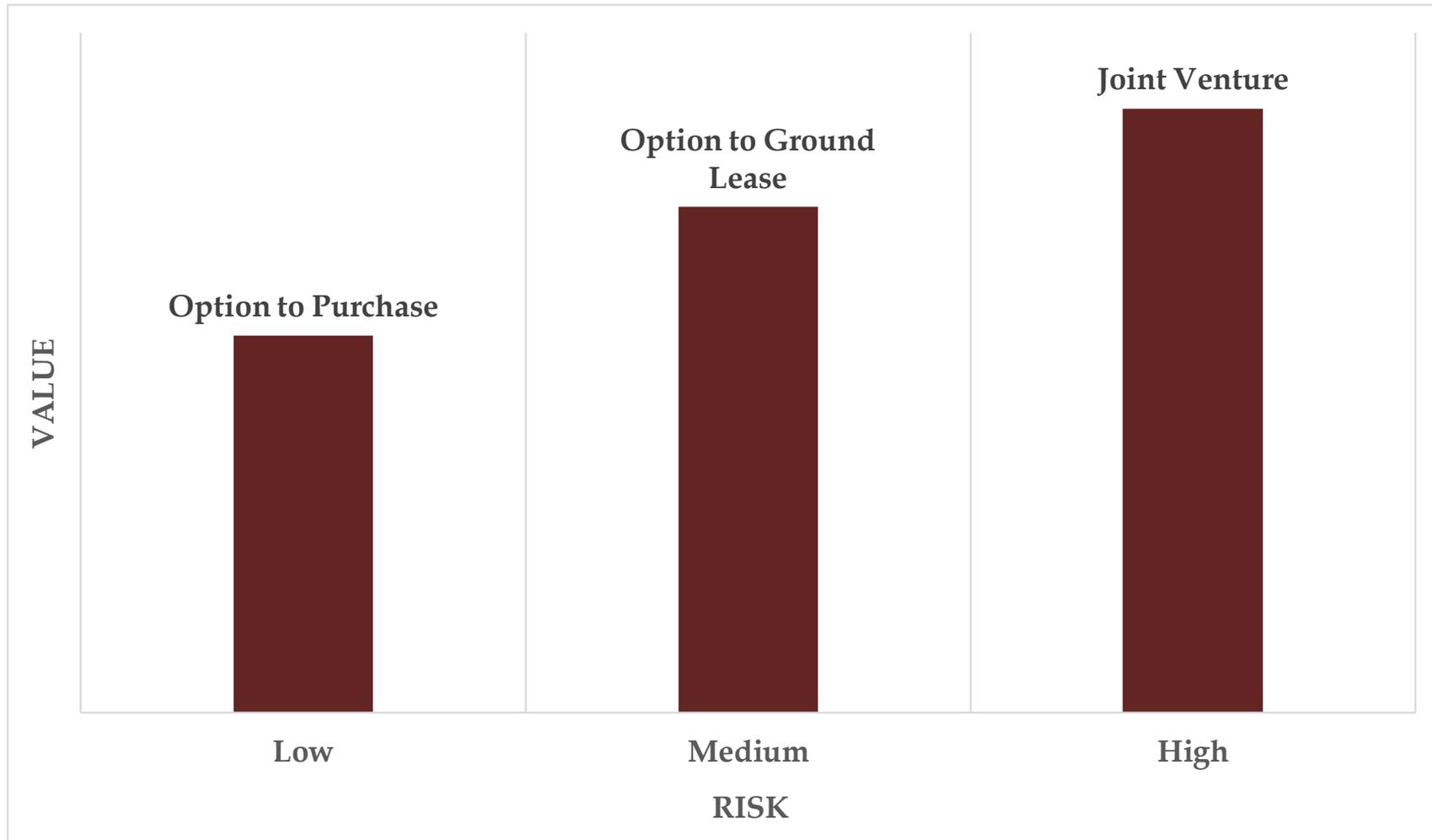
- 1.) As funder of entitlement costs, land owner retains control and oversight of consultants and receives future value creation
- 2.) Project not beholden to developer objective of monetizing project value as quickly as possible given high developer equity capital cost
- 3.) Allows land owner to design project to serve its specific needs with "patient" and "community-oriented" entitlement process

Project Risks

- 1.) Land owner required to fund "at-risk" entitlement and/or development expenditures
- 2.) Land owner has primary exposure to all potential budget and cost overruns
- 3.) Project team receives development fee that can be i) fixed fee paid on key milestone dates, ii) % of development costs, and/or iii) success fee (or combination of foregoing)
- 4.) Structure requires management and oversight of project team to ensure adherence to business plan and budget
- 5.) Other risks may include project program or design that developers consider less marketable and/or lower density resulting in lower-than-anticipated project value



TRANSACTION STRUCTURE RISK VS. VALUE COMPARISON



One-Time Upfront Payment
Generally Used to Fund Large
Capital Improvement Project(s)

Predictable & Steady Ground Rent
Revenue (up to 99 Years) to Fund
Operations & Bonds

Equity Cash Flow from Operations
and Future Sale Proceeds (Sale
Timeline Subject to JV Partner)

Transaction Structure Comparison



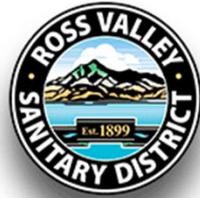
TRANSACTION STRUCTURE RATINGS			
Approach	Option to Ground Lease	Option to Purchase	Joint Venture
Option	Option A	Option B	Option C
1.) Risk Level	Low	Low	High
- Financial Exposure	Low	Low	High
- Market & Development Risk	Medium	Low	High
2.) RE Time Commitment from Staff/Board	Low	Low	High
3.) Level of Control / Major Decision Approval Rights	Medium	Low	Medium
4.) Transaction Structure Complexity	Medium	Low	High
5.) Recurring Revenue / Cash Flow	High	None	High
6.) Value Generation & Future Upside	Medium	Low	High

TRANSACTION STRUCTURE CONSIDERATIONS			
Approach	Option to Ground Lease	Option to Purchase	Joint Venture
Option	Option A	Option B	Option C
7.) Annual Income vs. Lump Sum Payment	Annual Recurring Income	One-Time Payment Upon Sale	Annual Income with Upside (May be Predicated on Negotiations)
8.) RVSD Maintain Ownership of Land	Yes; Ownership of Vertical Improvements Transferred to RVSD at Lease Term End	No; Sell Land Upon Entitlement	Partial Ownership w/Land Contributed to JV; Timing Subject to Negotiation
9.) Long Term Commitment as RE Owner/Operator	Yes; Only as Ground Lessor	No	Yes
10.) At Risk RVSD Land or Capital Requirement	Lease Land & No Capital Funding	Sell Land & No Capital Funding	Contribute Land & Fund Capital as May Be Required

Thank You!



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