

RESOLUTION NO. 82-2008

Adopted August 5, 2008

APPROVING A TERM SHEET WITH THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, A CALIFORNIA PUBLIC CORPORATION, REGARDING THE PURCHASE OF BLOCK 7 WEST FOR THE DEVELOPMENT OF AN AFFORDABLE HOUSING PROJECT IN CONNECTION WITH THE REGENTS' PLANS TO EXPAND UCSF HOSPITAL FACILITIES TO BLOCK X3; MISSION BAY SOUTH REDEVELOPMENT PROJECT AREA

BASIS FOR RESOLUTION

1. On September 17, 1998, by Resolution No. 193-98, the Redevelopment Agency of the City and County of San Francisco's (the "Agency") Commission (the "Agency Commission") conditionally approved the Mission Bay South Owner Participation Agreement (the "South OPA") and related documents between Catellus Development Corporation ("Catellus") and the Agency for development in the Mission Bay South Redevelopment Project Area (the "Project Area").
2. On November 2, 1998, the Board of Supervisors of the City and County of San Francisco (the "Board") by Ordinance No. 335-98 approved and adopted the Redevelopment Plan for the Mission Bay South Redevelopment Project Area (the "Plan"). The Board's adoption of the Plan satisfied the conditions to the effectiveness of Agency Resolution No. 193-98.
3. On November 16, 1998, the Agency entered into the South OPA with Catellus. The South OPA sets forth phasing principles that govern the development of property in the Project Area. Those principles include Catellus' obligations to deliver to the Agency affordable housing sites as market rate housing is built in the Project Area. They also include Catellus' commitments to construct public open space and other public infrastructure adjacent to – or otherwise triggered by – development on any of the private parcels governed by the South OPA.
4. Under the South OPA and the related Mission Bay South Tax Increment Allocation Pledge Agreement, dated as of November 16, 1998, between the Agency and the City and County of San Francisco (the "City"), approximately 20% of the total property tax increment (plus certain excess tax increment) generated by development in the Project Area is contractually dedicated to develop affordable housing units on parcels that Catellus will contribute to the Agency, to achieve the affordable housing program contemplated by the Plan.
5. The Project Area includes an approximately 43-acre biomedical research and educational campus site for the University of California, San Francisco ("UCSF") that is under the jurisdiction of The Regents of the University of California ("The Regents"). The Regents has already invested about \$1.085 billion on projects

completed or underway within the Project Area and has completed or is underway with construction of over 1,680,000 square feet of research, educational and campus-serving facilities. As a State agency, The Regents is exempt under the State Constitution from local land use regulation and property taxes to the extent it uses property exclusively in furtherance of its educational mission.

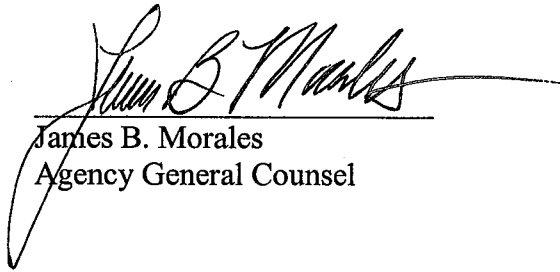
6. On November 30, 2004, The Regents released proposed amendments in draft form to its long range development plan, as LRDP Amendment #2. Those amendments contemplate an expansion of UCSF facilities onto Blocks 36 to 39 in the Project Area, including the possibility of developing by 2015 new integrated specialty Children's, Women's and Cancer hospitals containing about 210 beds, together with ambulatory and research facilities. In March 2005, The Regents approved LRDP Amendment #2 and certified a related final environmental impact report (the "LRDP #2 FEIR") which analyzed the environmental effects of the proposed UCSF development on Blocks 36 to 39. Copies of the LRDP #2 FEIR are on file with the Agency Secretary.
7. Catellus and The Regents have entered into a long-term ground lease of Blocks 36 to 39 (the "Lease") and Catellus and The Regents entered into an Option Agreement and Grant of Option to Purchase under which The Regents will have an option to purchase Blocks 36 to 39, based on the terms more specifically set forth in those agreements. The Lease allows for UCSF to develop up to 1,020,000 leasable square feet on Blocks 36 to 39.
8. On November 1, 2005, the Agency took several actions related to the proposed UCSF expansion facilities on Blocks 36 to 39. These actions included the approval of a Memorandum of Understanding regarding the expansion of UCSF facilities (the "MOU"), per Agency Resolution No. 176-2005; the approval of a Disposition and Development Agreement (the "Existing DDA") for The Regents' purchase of a portion of Block 7 in the Project Area for the development of an affordable housing project ("Block 7 East"), per Agency Resolution No. 160-2005; and the authorization of a Second Amendment to the South OPA, per Agency Resolution No. 177-2005. These actions are collectively referred to as the "2005 Actions."
9. In approving the 2005 Actions, the Agency and The Regents contemplated that The Regents might acquire other private parcels, including Block X3, for development of hospital facilities in the Project Area (the "Other Possible Expansion Parcels").
10. The Regents acquired Block X3 in two parts: 0.34 acres from W.Y.L. Orion Properties, LLC in December 2005, and 4.43 acres from 1900 Third Street, LLC in January 2007. Block X3 is subject to the Plan, although it is not subject to the South OPA.

11. In April 2008, The Regents published a draft environmental impact report analyzing the current proposed project for Blocks 36 to 39 and Block X3 consisting of a 289-bed integrated specialty Children's, Women's and Cancer hospital plus ambulatory and support facilities to be developed by the end of 2015, and full buildout of the entitlement available for Blocks 36 to 39 and Block X3 with a potential additional 261 hospital beds (for a total of 550 beds) and ambulatory and support facilities in the future.
12. In the MOU, the Agency and The Regents agreed that they would negotiate, in good faith, agreements for UCSF to address the housing demand generated by the development on the Other Possible Expansion Parcels. The Agency and The Regents also agreed that these agreements would be based in principle on the terms and conditions provided for in the Existing DDA, but are not obligated to agree to the same terms and conditions set forth in the Existing DDA.
13. Staff has negotiated a draft term sheet (the "Term Sheet") that defines non-binding terms for The Regents' acquisition of a second parcel in Mission Bay South, Block 7 West, and developing an additional 77 units of affordable rental housing. Block 7 West is contiguous to Block 7 East, the location of UCSF's first affordable housing project and the subject of the Existing DDA. The development of affordable housing on these two parcels will provide local housing opportunities for UCSF's low- and moderate-income workforce. It will also ensure that UCSF's tax-exempt development on Blocks 36 to 39 and X3 does not undermine the Agency's ability to execute its affordable housing program in Mission Bay, which relies on property tax increment funds to subsidize Agency-sponsored affordable housing projects.
14. The Term Sheet will be the basis for a new DDA between the Agency and The Regents under which The Regents will purchase Block 7 West and develop the affordable housing project (the "Block 7 West DDA"). Staff will also prepare an Amended and Restated MOU (the "Revised MOU") to include X3 in the hospital development. The Revised MOU and the new Block 7 West DDA will come before the Commission for review and approval in the next several months.
15. Staff is recommending that the Agency Commission approve the Term Sheet.
16. Agency authorization of the Term Sheet with The Regents of the University of California is exempt from the California Environmental Quality Act ("CEQA"), pursuant to CEQA Guidelines Section 15061(b)(3). Authorization of the Term Sheet will allow the University of California and the Agency to formally enter into negotiations over the development of Blocks 7 West and X3 in the Project Area. The current action is non-binding, would not directly lead to development on the Blocks, and will not have a significant effect on the physical environment.

RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that the Executive Director is authorized to execute the "Term Sheet for the Expansion of UCSF Hospital Facilities in the Mission Bay South Redevelopment Plan to Block X3 and Purchase by the Regents of Block 7 West for the Development of Affordable Housing," substantially in the form attached to this Resolution; Mission Bay South Redevelopment Project Area.

APPROVED AS TO FORM:



James B. Morales
Agency General Counsel

**EXPANSION OF UCSF FACILITIES TO BLOCK X3
IN THE MISSION BAY SOUTH REDEVELOPMENT PROJECT AREA**

ADDITIONAL AFFORDABLE HOUSING

TERM SHEET

This Term Sheet, dated July ____, 2008, summarizes basic terms of a proposed transaction between The Regents of the University of California ("**The Regents**") and the Redevelopment Agency of the City and County of San Francisco ("**Agency**") concerning the steps that The Regents would undertake in connection with its development of Block X3 in the Mission Bay South Redevelopment Project Area ("**X3**"). The Agency and The Regents are referred to collectively as the "**Parties**." The Parties intend to embody these terms in a Disposition and Development Agreement ("**X3 DDA**") that will be based on the previous Disposition and Development Agreement (dated November 1, 2005) between the Agency and The Regents for Block 7 East, as defined in paragraph A, below. The new X3 DDA will be executed prior to development of X3.

Many of the facts and circumstances underlying the proposed transaction that this Term Sheet contemplates were previously described in an earlier term sheet executed between the Parties on August 10, 2005, Expansion of UCSF Facilities in the Mission Bay South Redevelopment Project Area (Blocks 36-39), Term Sheet ("**Prior Term Sheet**"). The Prior Term Sheet (adopted per Agency Resolution No. 81-2005) led to the 2005 Actions that are described below. This Term Sheet is made with reference to the following additional facts and circumstances:

- A. On November 1, 2005, the Agency took several actions related to proposed UCSF expansion facilities on Blocks 36-39 in the Mission Bay South Redevelopment Project Area ("**Project Area**"). These actions included the approval of a Memorandum of Understanding regarding the expansion of UCSF facilities ("**Existing MOU**"), per Agency Resolution No. 176-2005; the approval of a Disposition and Development Agreement ("**Existing DDA**") for The Regents' purchase of a portion of Block 7 in the Project Area ("**Block 7 East**") for the development of an affordable housing project ("**Phase I**"), per Agency Resolution No. 160-2005; and the authorization of a Second Amendment to the Mission Bay South Owner Participation Agreement, per Agency Resolution No. 177-2005. These actions are collectively referred to as the "**2005 Actions**."
- B. In approving the 2005 Actions, the Parties contemplated that The Regents might acquire other private parcels, including X3, for development of hospital facilities in the Project Area ("**Other Possible Expansion Parcels**") and agreed in the Existing MOU that they would negotiate, in good faith, agreements for UCSF to address the housing demand generated by the development on these Other Possible Expansion Parcels. The Parties agreed that these agreements

would be based in principle on the terms and conditions provided for in the Existing DDA, but are not obligated to agree to the same terms and conditions set forth in the Existing DDA.

- C. The Regents acquired X3 in two parts: 0.34 acres from W.Y.L. Orion Properties, LLC in December 2005, and 4.43 acres from 1900 Third Street, LLC in January 2007. X3 is subject to the Redevelopment Plan, although it is not subject to the Mission Bay South Owner Participation Agreement (“OPA”) between the Agency and Catellus Development Corporation, a publicly held real estate corporation.
- D. In April 2008, The Regents published a draft Environmental Impact Report analyzing the current proposed project for the Expansion Parcels and X3 consisting of a 289-bed integrated specialty Children's, Women's and Cancer hospital plus ambulatory and support facilities to be developed by the end of 2014, and full buildout of the entitlement available for the Expansion Parcels and X3 with a potential additional 261 hospital beds (for a total of 550 beds) and ambulatory and support facilities in the future.
- E. The Parties will execute an Amended and Restated MOU to address the inclusion of X3 in the development of the hospital facilities.

Accordingly, in light of the foregoing and the Parties' interest in addressing the additional housing demand generated by development on X3, the Parties wish to set forth their understanding about the agreement that they are willing to negotiate regarding an affordable housing project in Mission Bay in the terms and conditions generally described below.

1. UCSF X3 Affordable Housing Project.

- 1.1. Affordable Housing Parcel. The Regents agree to purchase from the Agency an Agency Affordable Housing Parcel containing about 1.0 acre on the western end of Block 7 in Mission Bay South (“**Block 7 West**”) for development of an affordable rental housing project (“**Apartments**”).
- 1.2. University Affordable Housing Obligation. The Regents agree to build Apartments containing 77 units (which is both a minimum and a maximum number of units) of apartment style housing and consisting of 31 one bedroom and 46 two bedroom units, with a first priority for rental to UCSF employees, including nurses, radiology technicians, post-doctoral researchers, house staff, and other categories of employees (“**UCSF Employees**”) meeting the eligibility and income requirements described below (the “X3 Affordable Housing Project”). The Regents shall purchase Block 7 West from the Agency and shall finance, develop and operate the X3 Affordable Housing Project on the parcel at no expense to

the Agency. These units will constitute Phase 2 of the affordable housing project to which the Parties agreed in the Existing DDA (“**Phase 2**”). Of the 77 units, UCSF may offer to UCSF Employees: 54 of the Phase 2 units (31 one-bedroom units and 23 two-bedroom units), or 70% of the units, with rents established at not more than 30% of 60% of Area Median Income, adjusted solely for households size, as determined by HUD for the San Francisco PSA at the time the units are available for rental (“AMI”); and 23 two-bedroom units, or 30% of the units, with rents established at not more than 30% of 100% of AMI. Before offering any of these units for rent, The Regents shall provide the Agency with a proposed marketing plan for the Agency’s approval (not to be unreasonably withheld or delayed), which plan shall determine compliance with these requirements for eligibility. These affordability requirements shall be applicable for a period of seventy five (75) years from the earlier of (i) opening for the X3 Affordable Housing Project or (ii) issuance by the City of a certificate of completion, if The Regents requests such certificate. For these purposes, “opening” means when 10% of the units are leased and occupied. If The Regents are unable to rent all the units to UCSF Employees, The Regents may rent the units to qualified non-UCSF tenants.

- 1.3. Restrictions and Reports. The Regents shall enter into an appropriate binding agreement with the Agency, as further described in paragraph 1.5 below, assuring the X3 Affordable Housing Project is leased in accordance with the procedures described above, and shall record an appropriate memorandum of restrictions against the affected parcel of land. The Regents shall agree to provide annual reports to the Agency demonstrating compliance with the affordability restrictions and allow the Agency reasonable access to monitor compliance with the restrictions.
- 1.4. Land Purchase, Construction Commencement, and Trigger Date. To purchase Block 7 West, The Regents shall pay, in cash or immediately available funds, to the Agency the amount of \$1.155 million by January 1, 2009. The Regents shall commence construction of the Phase 2 units not later than the eighteen (18) months preceding the estimated completion of construction on the combined Blocks 36 through 39 and X3 (collectively “**Hospital Blocks**”) of improvements that would bring the total development on the Hospital Blocks to in excess of 1,020,000 rentable square feet (“**Phase 2 Trigger Date**”). In the event that a portion of the total allowed development of 1,608,600 rentable square feet allocated to the Hospital Blocks is transferred to another UCSF property (“**Transferred Development Allowance**”), the amount of the Transferred Development Allowance will count toward the calculation of the Phase 2 Trigger Date when the project including such Transferred Development Allowance is eighteen (18) months from estimated completion. Land transfer of Block 7 West would occur upon The Regents’ election to proceed with construction of Phase 2 and any delay in such transfer would toll the

timing of The Regents' obligation. The Regents shall complete construction – or cause construction to be complete – of the X3 Affordable Housing Project no later than the date of the opening of the projects comprising the Phase 2 Trigger Date.

- 1.5. Transaction Structure. The Agency will enter into a Disposition and Development Agreement that is consistent with this Term Sheet and substantially similar in form to the Existing DDA, including its procedures for Agency review and approval of design ("X3 DDA").
- 1.6. Liquidated Damages. In the case of a default where: (i) The Regents fails to pre-pay the purchase price and the failure continues for five (5) business days following the date of written notice, or (ii) The Regents rejects conveyance of any portion of the Block 7 West site upon tender and the failure continues for three (3) business days following the date of written notice, or (iii) prior to commencement of Above-Grade Construction (as defined in the Existing DDA), The Regents either (A) transfers its interest in violation of the X3 DDA, (B) fails to submit to the Agency all document submittals, (C) violates any covenant, condition, or restriction set forth in the declaration of restrictions, or (D) fails to perform any other agreements or obligations to be performed under the X3 DDA, and in all cases such failure continues for thirty (30) days after written notice from Agency, or (iv) The Regents fails to achieve Commencement of Above-Grade Construction (as defined in the Existing DDA) within six (6) months after the required commencement date as defined in Section 1.4, which includes reasonable extensions of time because the Agency does not have title to the Block 7 West site and such failure continues for more than six (6) months following the date of written notice, then in such cases the Agency shall not have the remedy of specific performance, but may exercise the power of termination, obtain reconveyance of the Block 7 West site and receive and retain as liquidated damages the sum of the purchase price and an additional cash amount equal to \$2,400,000.
- 1.7. Severability. The Regents may elect to build either the Phase 1 or the Phase 2 apartment project or both or neither, subject to the remedies in the Existing DDA and this Term Sheet. If The Regents elect to build both projects, it may configure the units across the entirety of Block 7 as it deems appropriate consistent with the applicable terms and conditions described in the Existing DDA and this Term Sheet.
- 1.8. Retail Space. If The Regents develop Phase 2 on Block 7 West, it shall include not less than nine thousand (9,000) square feet of retail space developed as shell space. The Regents shall be given the option to master lease the retail space to an operator. To the extent there are shared expenses for operations and maintenance of the retail component with other parts of the UCSF development on Block 7. The Regents may recharge the retail operator for its proportionate share of such expenses.

- 1.9. Parking. A maximum of one parking space per residential unit is allowed. No parking is required for the retail component.
- 1.10. Approval Rights. Agency design approval rights shall be on the same basis as for the Phase I development on Block 7 East.
2. The Agency will comply with CEQA as a responsible agency. The Regents shall be the lead agency under CEQA.
3. This term sheet is non-binding and intended solely as a summary of the terms currently proposed by the parties. It is to be used for discussion purposes only to inform a future, binding X3 DDA. It does not create any legal rights or obligations between the parties or any obligation to proceed with negotiations. It is intended that any and all legal rights and obligations between the parties will come into existence only when the Parties' respective Board/Commission or duly authorized designee approves these terms and a X3 DDA is executed and delivered by both parties.
4. The parties acknowledge that neither of them intends to enter or has entered into any agreement to negotiate a definitive future agreement pursuant to the terms of this document. Both parties agree that the terms mentioned here impose no burden to negotiate further terms, until a definitive future agreement has been drafted, discussed and executed. Either party may, at any time prior to execution of a definitive agreement, propose different terms from those summarized here. Either party may also unilaterally terminate all negotiations. In either instance, such party shall have no liability of any kind to the other party. Each party is solely responsible for all of its own fees, costs, and other expenses in conjunction with the negotiation and preparation of a final agreement pursuant to this document.

For the Agency:

By: _____

Its: _____

By: _____

Its: _____

For The Regents:

By: _____

Its: _____

By: _____

Its: _____