OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-2522019-002

Agenda Item **No. 5(c)**
Meeting of September 17, 2019

INFORMATIONAL MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Nadia Sesay, Executive Director

SUBJECT: Workshop on the Amendment to the Recognized Obligation Payment Schedule for January 1, 2020 to June 30, 2020 including the administrative budget for the Successor Agency and supporting documentation

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EXECUTIVE SUMMARY

On May 17, 2019, the California Department of Finance ("DOF") approved the Office of Community Investment and Infrastructure's ("OCII") Recognized Obligation Payment Schedule ("ROPS") for fiscal year 19-20 ("ROPS 19-20"), which included estimates of the amounts of property tax pledged for the payment of costs associated with OCII's enforceable obligations. In its initial submission of the ROPS 19-20, OCII had requested that DOF approve OCII's receipt of the total amount of pledged property tax revenues generated during the fiscal year even if the revenues exceed the estimated amounts. DOF, however, denied OCII's request and stated that Redevelopment Dissolution Law requires that a successor agency receive only those amounts listed and approved on the ROPS.

OCII is now in the position to list the actual amount of property tax revenues that will be generated this fiscal year under the irrevocable pledges of property tax increment. The Assessor's Office finalized the 19-20 property tax roll in August 2019. OCII seeks to amend ROPS 19-20 to reflect the updated property tax rolls in order to collect all property tax increment pledged to the projects. The proposed amendments increase the ROPS 19-20 by $53.24M from $407.91M to $461.15M, which is contractually obligated for the funding of construction of infrastructure and affordable housing in the project areas of Hunters Point Shipyard/Candlestick Point ("HPS/CP"), Mission Bay, and Transbay.

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DISCUSSION

After dissolution of the San Francisco Redevelopment Agency ("Former Agency"), the California Department of Finance ("DOF") finally and conclusively determined that four master development agreements of the Former Agency were enforceable obligations that the Office of Community Investment and Infrastructure ("OCII"), as the successor agency, could complete: Mission Bay North Owner Participation Agreement (1998); Mission Bay South Owner Participation Agreement (1998); Transbay Implementation Agreement (2005); and Candlestick Point/Hunters Point Shipyard Phase 2 Disposition and Development Agreement (2010) (collectively, the "Development Agreements"). Each of these multi-phased, long-term projects were (and continue to be) funded by irrevocable pledges of property tax revenues for the payment of the construction of public infrastructure and affordable housing ("Pledge Agreements"). DOF also finally and conclusively determined that these Pledge Agreements were enforceable obligations with separate allocations for public infrastructure costs and for affordable housing.[1] Since redevelopment dissolution, OCII has received, pursuant to approved Recognized Obligation Payment Schedules ("ROPS"), all of the net available tax increment and housing increment that the Pledge Agreements irrevocably committed for costs associated with the Development Agreements.

When OCII initially submitted the ROPS 19-20, it requested that DOF approve OCII's receipt of the tax increment that the City and County of San Francisco ("City") would receive this fiscal year under the four Pledge Agreements. The actual amounts of property taxes were not known at the time of submission of the ROPS 19-20 in February 2019 and therefore OCII estimated the amounts on eight line items for July 2019 to December 2019 ("ROPS 19-20A") and for January 2020 to June 2020 ("ROPS 19-20B").[2] The notes for each of these line items requested DOF's approval of OCII's receipt of potentially higher amounts of property tax revenues if the expected increases in assessed property values generated additional tax revenues from the four project areas subject to the Pledge Agreements.

In initially reviewing OCII's ROPS 19-20, DOF denied OCII's request to receive the actual amount of property tax revenues generated under the Pledge Agreements if they exceeded the estimated amounts on the ROPS. DOF explained that Redevelopment Dissolution Law requires that a successor agency

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[1] Each of the Pledge Agreements direct OCII to collect and retain net tax increment for the indebtedness created under the Development Agreements and the Pledge Agreements themselves. <u>E.g.</u> Mission Bay South Tax Increment Allocation Pledge Agreement, § 2 (approving "the assumption of indebtedness by the Agency under the Financing Plan for the purpose of financing or refinancing, in whole or in part, the construction of all Infrastructure required for the South Plan Area [and] all Net Available Increment produced from the South Plan Area and any interest earnings thereon shall be irrevocably pledged by the Agency, as first pledge, for the payment of principal of and interest on such indebtedness of the Agency") and § 6 (requiring that the "Agency shall devote all of the Housing Increment produced by development in the South Plan Area . . . for the predevelopment, development and construction of Agency Sponsored Affordable Housing Units . . . ."); Transbay Redevelopment Project Tax Increment Allocation and Sales Proceeds Pledge Agreement, § 2 (requiring that "all property tax increment revenues attributable to [formerly State-owned parcels] and any interest thereon, are hereby irrevocably pledged to the [Transbay Joint Powers] Authority for costs associated with construction and design of the Transbay Terminal Project, and further agree[ing] that such revenues shall not be subject to any other indebtedness . . . .").

[2] See ROPS 19-20 at line 49 (Phase 2 DDA and Tax Increment Allocation Pledge Agreement for infrastructure costs at Candlestick Point and Hunters Point Shipyard Phase 2: $150,538 + $150,538); line 86 (Tax Increment Allocation Pledge Agreement for infrastructure costs at Mission Bay North: $3,276,342 + $3,276,343); line 88 (Tax Increment Allocation Pledge Agreement for infrastructure costs at Mission Bay South: $6,549,298 + $6,549,298); line102 (Tax Increment Sales Proceeds Pledge Agreement for costs of the Transbay Transit Center: $4,302,998 + $4,302,998); line 219 (Phase 2 DDA and Tax Increment Allocation Pledge Agreement for affordable housing costs at Candlestick Point and Hunters Point Shipyard Phase 20: $37,634 + $37,634); line 220 (Mission Bay North Tax Allocation Pledge Agreement for affordable housing costs: $1,252,700 + $1,252,699); line 226 (Mission Bay South Tax Allocation Pledge Agreement for affordable housing costs: $3,752,726 + $3,752,726); and line 237 (Affordable housing production for Transbay: $5,083,620). The approved 19-20 ROPS included only affordable housing pledge in the ROPS 19-20A period in coordination with the city year.

only receive the amounts of property tax revenues listed and approved on a ROPS.[3] Subsequently, after a meet and confer with OCII, DOF reiterated its initial decision and stated that there is “no authority to distribute amounts in excess of the amounts as listed and approved by Finance on the ROPS.”[4] DOF suggested, however, that “if the actual project costs are higher than authorized on the ROPS, and an increase in the amount distributed is necessary, the Agency may request additional funding on a subsequent amended ROPS pursuant to [Health and Safety Code] section 34177 (o) (1) (E).”[5]

Redevelopment Dissolution Law provides that a successor agency may submit an amended ROPS for the second half of the ROPS period (January 1 to June 30) no later than October first of each ROPS year. Under Section 34177 (o) (1) (e) of the Health and Safety Code, the Oversight Board must make “a finding that a revision is necessary for the payment of approved enforceable obligations during the second one-half of the [ROPS] period” and that “[a] successor agency may only amend the amount requested for payment of approved enforceable obligations.” DOF make its determination regarding requested amendments at least 15 days before the date of the January property tax distribution.

Recommended ROPS Amendments

On January 30, 2019, OCII submitted its ROPS 19-20, identifying significant amounts of total outstanding debts or obligations related to the Development Agreements and estimating projected amounts for pledged property tax that could be used to cover those obligations. On May 17, 2019, DOF approved this ROPS, but as noted above did not approve additional amounts of pledged property tax under the Pledge Agreements that exceeded the estimates. The Assessor’s Office finalized the 19-20 property tax roll in August 2019. OCII now seeks to amend ROPS 19-20 to reflect the updated property tax rolls in order to collect all property tax increment pledged to the projects for payment of outstanding obligations.

For example, the Development Agreements for Hunters Point Shipyard/Candlestick Point (“HPS/CP”) and Mission Bay obligate the developers to design and construct, at their cost, the public infrastructure needed for these projects. These Development Agreements identify the public infrastructure to be constructed and the binding process by which the Successor Agency or City will accept the infrastructure and reimburse the developers for construction costs. The Transbay Implementation Agreement requires OCII to comply with the Transbay Pledge Agreement, which establishes the irrevocable pledge of all property tax increment revenues from certain formerly state-owned parcels to pay for the costs associated with construction and design of the Transbay Transit Center. In addition, the Development Agreements obligate OCII to fund and construct a certain number of affordable units on land that the developers or the State have contributed for this purpose. The Development Agreements and related Pledge Agreements expressly state that they are intended to create an indebtedness of OCII, the costs of which are shown in the approved ROPS line items listing the outstanding total indebtedness or obligation.

[3] Letter, Jennifer Whitaker, DOF, to Bree Mawhorter, OCII (April 15, 2019)
[4] Letter, Jennifer Whitaker, DOF, to Bree Mawhorter, OCII (May 17, 2019).
[5] Letter, Jennifer Whitaker, DOF, to Bree Mawhorter, OCII (May 17, 2019).

Changes in Sources

The proposed amendment increases Redevelopment Property Tax Trust Fund ("RPTTF") Non-Admin by $53.24M, as shown in Exhibit 1 below. The proposed amended ROPS 19-20 totals $461.15M, which represents a 13.05 percent increase from the $407.91M approved ROPS 19-20. The proposed changes are 100 percent funded by pledged RPTTF Non-Admin and reflect the updated property tax rolls to collect all property tax increment pledged to the projects.

Exhibit 1: Approved v. Amended ROPS Difference by Funding Source, *Millions*

Change by Source						
Source		**Approved ROPS 19-20**		**Amended ROPS 19-20**		**Difference**
Bond Proceeds	$	199.71	$	199.71	$	-
Reserve Balance	$	-	$	-	$	-
Other Funds	$	42.02	$	42.02	$	-
RPTTF Non-Admin	$	162.53	$	215.77	$	53.24
RPTTF Admin	$	3.65	$	3.65	$	-
Total	**$**	**407.91**	**$**	**461.15**	**$**	**53.24**

Changes in Uses

The proposed amendment of $53.24M will be spent on housing and infrastructure in the project areas of HPS/CP, Mission Bay, and Transbay, as shown in Exhibit 2 below. Housing funds will be expended on OCII-funded loans for affordable housing. Infrastructure expenditures in HPS/CP and Mission Bay will reimburse developers for infrastructure already constructed. Infrastructure expenditures in Transbay will be transferred to Transbay Joint Powers Authority to support the Transbay Terminal.

Exhibit 2: Proposed Amended ROPS Changes by Uses, *Millions*

Change by Use						
Project Area		**Housing**		**Infrastructure**		**Total**
HPS/CP	$	0.27	$	0.63	$	0.90
Mission Bay	$	11.73	$	22.64	$	34.38
Transbay	$	3.32	$	14.64	$	17.97
Total	**$**	**15.33**	**$**	**37.92**	**$**	**53.24**

The changes described above are detailed in Attachment 1, which is the ROPS Amendment presented in the DOF required format.

Next Steps

Staff will incorporate Commission feedback into the ROPS Amendment and, pending Oversight Board approval, will submit the amended ROPS to the DOF no later than October 1, 2019. DOF will notify OCII regarding the requested amendments no later than December 16, 2019, which is fifteen days before the ROPS 19-20 B period distribution. Staff will update the Commission as the process evolves.

(Originated by Mina Yu, Financial Reporting and Management Analyst)

Nadia Sesay
Executive Director

Attachment 1: ROPS Amendments in DOF Required Format

Exhibit 3: Summary of Proposed Amendments

Item #	Project Area	Project Name	Original B Period RPTTF Non Admin Total	Amended B Period RPTTF Non Admin Total	Change	Original RPTTF Non Admin Total	Amended RPTTF Non Admin Total	Total Change	Justification
49	HPS-CP	Phase 2 DDA & Tax Increment Allocation Pledge Agreement - Hunters Point Shipyard	$ 153,538	$ 785,332	$ 631,794	$ 304,076	$ 935,870	$ 631,794	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
86	Mission Bay	Tax Increment Allocation Pledge Agreement	$ 3,276,342	$ 3,415,697	$ 139,355	$ 6,552,685	$ 6,692,039	$ 139,354	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
88	Mission Bay	Tax Increment Allocation Pledge Agreement	$ 6,549,298	$ 29,052,818	$ 22,503,520	$ 13,098,596	$ 35,602,116	$ 22,503,520	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
102	Transbay	Tax Increment Sales Proceeds Pledge Agreement (Tax Increment)	$ 4,302,998	$ 18,943,766	$ 14,640,768	$ 7,505,452	$ 23,246,764	$ 15,741,312	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
219	HPS-CP	Phase 2 DDA & Tax Increment Allocation Pledge Agreement (Housing Portion)	$ 37,634	$ 309,184	$ 271,550	$ 75,268	$ 346,818	$ 271,550	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
220	Mission Bay	Mission Bay North Tax Allocation Pledge Agreement (Housing Portion); affordable housing program funded by LMIHF for Mission Bay North	$ 1,252,699	$ 1,862,236	$ 609,537	$ 2,505,399	$ 3,114,936	$ 609,537	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
226	Mission Bay	Mission Bay South Tax Allocation Pledge Agreement (Housing Portion); affordable housing program funded by LMIHF for Mission Bay South	$ 3,752,726	$ 14,875,643	$ 11,122,917		$ 18,628,369	$ 18,628,369	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
237	Transbay	Affordable housing production obligation under Section 5027.1 of Cal. Public Resources Code; affordable housing program funded by LMIHF for Transbay	$ -	$ 3,324,630	$ 3,324,630	$ 5,083,620	$ 8,408,250	$ 3,324,630	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
			$ 19,325,235	**$ 72,569,306**	**$ 53,244,071**	**$ 35,125,096**	**$ 96,975,162**	**$ 61,850,066**	