107-0762020-002

Agenda Item **No. 5(E)**
Meeting of September 28, 2020

MEMORANDUM

TO: Oversight Board

FROM: Nadia Sesay, Executive Director

SUBJECT: Approving an Amendment to the Recognized Obligation Payment Schedule for January 1, 2021 to June 30, 2021 ("ROPS 20-21") for the Successor Agency

EXECUTIVE SUMMARY

On April 15, 2020, the California Department of Finance ("DOF") approved the Office of Community Investment and Infrastructure's ("OCII") Recognized Obligation Payment Schedule ("ROPS") for ROPS 20-21 ("ROPS 20-21"). ROPS 20-21 included estimates of the pledged property tax available for the payment of costs associated with OCII's enforceable obligations, including long-term development agreements related to Mission Bay North and South, Candlestick Point-Hunters Point Shipyard ("CP-HPSY2"), and Transbay. These development agreements are funded in part through Pledge Agreements providing that property tax generated in a specific area is irrevocably committed for certain eligible project costs.

In its initial submission of the ROPS 20-21, OCII requested pledged property tax based on the estimated property tax roll as of December 31, 2019. Since that time, the Assessor has finalized the 20-21 property tax roll. The final 20-21 property tax roll shows significant growth in assessed value and therefore increases in property tax revenues. For the Transbay and CP-HPSY2 projects, OCII has certain expenses that need to be paid in the second one-half of the ROPS 20-21 period (January-June 2021) that are not covered by the revenues identified in the previously-approved ROPS 20-21[1]. OCII therefore seeks to amend ROPS 20-21 to reflect the updated property tax rolls and collect certain property tax pledged to Transbay and the CP-HPSY2 project. The proposed amendments increase the ROPS 20-21 by $12.9M from $419.9M to $432.8M.

DISCUSSION

After dissolution of the San Francisco Redevelopment Agency ("Former Agency"), the California Department of Finance ("DOF") finally and conclusively determined that five 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); Hunters Point Shipyard Phase 1 Disposition and Development Agreement (2003) ("HPS DDA1"), and Candlestick Point/Hunters Point

[1] Property tax to fund these costs is generated in formerly state-owned parcels in Transbay and privately owned parcels in Candlestick Point.

Shipyard Phase 2 Disposition and Development Agreement (2010) (collectively, the "Development Agreements"). With the exception of HPS DDA1, these multi-phased, long-term projects were (and continue to be) funded by irrevocable pledges of property tax revenues for the payment of certain eligible project costs related to 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.[2]

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 makes its determination regarding requested amendments at least 15 days before the date of the January property tax distribution.

Proposed ROPS Amendments

In February 2020, OCII submitted its ROPS 20-21, identifying significant amounts of total outstanding debts or obligations related to the Development Agreements and projecting amounts of pledged property tax that could be used to cover those obligations. These projections were based on the estimated property tax roll as of December 31, 2019. On April 15, 2020, DOF approved this ROPS.

Since the time of the ROPS submission, the Assessor has finalized the 20-21 property tax roll. The final 20-21 property tax roll shows significant growth in assessed value. OCII seeks to amend ROPS 20-21 to reflect the updated property tax rolls and collect the increased property tax revenues from the formerly state-owned parcels in Transbay and privately owned parcels in Candlestick Point. Property tax from these parcels is pledged to fund eligible project costs in the Transbay and the CP-HPSY2 projects. The proposed amendments increase the ROPS 20-21 by \$12.9M from \$419.9M to \$432.8M. These funds would be used for reimbursement of expenditures already incurred on behalf of the project.

[2] 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. E.g. 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 . . . .").

Table 1: Summary of Proposed Amendments

Project Area	Project Name	Original B Period RPTTF Non-Admin Total	Proposed B Period RPTTF Non-Admin Total	Difference	Original ROPS 20-21 RPTTF Non-Admin Total	Proposed ROPS 20-21 RPTTF Non-Admin Total	Total Change	Justification
CP-HPSY2	Phase 2 DDA & Tax Increment Allocation Pledge Agreement -	$475,246	$2,551,470	$2,076,224	$950,492	$3,026,716	$2,076,224	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
Transbay	Tax Increment Sales Proceeds	$10,549,230	$21,310,961	$10,761,731	$21,098,459	$31,860,190	$10,761,731	To identify the actual amount of property tax revenues available for payment of outstanding obligations.
Total		**$11,024,476**	**$23,862,431**	**$12,837,955**	**$22,048,951**	**$34,886,906**	**$12,837,955**	

Changes in Sources

The proposed amendment increases Redevelopment Property Tax Trust Fund ("RPTTF") by $12.9M, as shown in Table 2 below. This amendment would increase the approved 20-21 ROPS from $419.2M to $432.8M, an increase of 3.1 percent. The proposed changes are 100 percent funded by pledged property tax and reflect the updated property tax rolls to collect all property tax increment pledged to the projects.

Table 2: Approved v. Proposed ROPS Difference by Funding Source[3], *Millions*

Use	Approved ROPS 20-21	Proposed ROPS 20-21	Difference
Affordable	$109.8M	$109.8M	
Mission Bay	$103.4M	$103.4M	
Transbay	$49.5M	$60.3M	*+$10.8M*
CP-HPSY2	$17.1M	$19.2M	*+$2.1M*
Asset	$7.8M	$7.8M	-
Debt	$111.9M	$111.9M	-
Operations	$20.4M	$20.4M	-
Total	**$419.9M**	**$432.8M**	**+$12.9M (3.1% increase)**

[3] Dissolution Law requires that OCII categorize the payment source for each expenditure into one of five sources defined by DOF. The payments sources are:

Bond Proceeds	Bond proceeds from bonds issued or to be issued
Reserve Funds	Property tax increment approved to be retained by DOF at Dissolution, or prior year property tax increment to be used in the current year
Other Funds	Funds that are not bond proceeds, reserve funds, Redevelopment Property Tax Trust Fund ("RPTTF") Non-Admin, or RPTTF Admin
RPTTF Non-Admin	Property tax increment requested to fund enforceable obligations
RPTTF Admin	Property tax increment requested to fund administrative costs

Use of Additional Funds

The proposed amendment of $12.9M will reimburse expenditures already incurred for the Transbay and CP-HPSY2 projects, as shown in Table 3 below. The Transbay Joint Powers Authority ("TJPA") requests all property tax revenues pledged under the Transbay Tax Increment Allocation and Sales Proceeds Pledge Agreement (Jan. 31, 2008) ("Transbay Pledge Agreement") for "costs associated with construction and design of the Transbay Terminal Project." In a letter dated September 4, 2020, TJPA explains that the capital budget for the first phase of the Transbay Terminal Project is $2.259 billion and for the second phase is $4 billion and that it has issued $271 million in tax allocation bonds, as permitted under the Transbay Pledge Agreement, to cover some of these costs. TJPA states: "[U]nder the terms of the [Transbay Bond] Indenture, all property tax increment revenues under the Transbay Pledge Agreement must be deposited with the Trustee for payment of debt service on the [sic] for repayment of the TJPA Bonds and, to the extent not needed to pay scheduled debt service on the TJPA Bonds, to redeem the Subordinate Turbo Bonds." Letter, E. Roseman to B. Mawhorter at page 2 (Sept. 4, 2020). The TJPA is required to make debt service payments of $15,890,032.32 in FY20-21 ($9,882,137.07 on October 1, 2020 and $6,007,895.25 on April 1, 2021) and has a mandatory redemption obligation of $15,970,156.68 for outstanding Subordinate Turbo Bonds. For payment of these obligations, TJPA relies on the Transbay Pledge Agreement's irrevocable pledge of property tax increment revenues attributable to certain former state-owned parcels. The total amount outstanding on the TJPA Bonds is $498,839,117.57.

The developer of the CP-HPSY2 project ("CP Development Co., LLC") requests payment for eligible project costs that have been incurred to date and identified as $51,741,842 in a Payment Request dated June 19, 2019. Eligible project costs include predevelopment costs that were incurred before the 2010 CP-HPSY2 Disposition and Development Agreement (the "DDA") was signed, and that are required to be reimbursed under the DDA and CP-HPSY2 Pledge Agreement. In FY 18-19, the developer submitted an invoice for $51,741,842 in "Pre-Agreement Costs", which are predevelopment costs incurred before the DDA. Since that time, OCII has paid $1,629,875.05 against this invoice, leaving a remaining liability of $50,111,966.95.

Table 3: Proposed Amended ROPS Changes by Uses, *Millions*

Project Area	ROPS Line	Approved ROPS 20-21	Proposed ROPS 20-21	Difference
CP-HPSY2	49	$1.0M	$3.0M	*+$2.1M*
Transbay	102	$21.1M	$31.9M	*+$10.8M*
Total				***$12.9M***

Prior Public Review

The Workshop on the ROPS 20-21 Amendment was presented to the Commission on September 15, 2020. No revisions were requested.

Next Steps

Pending Oversight Board approval, OCII will submit the amended ROPS to the DOF no later than October 1, 2020. DOF will notify OCII regarding the requested amendments no later than December 16, 2020, which is 15 days before the ROPS 20-21 B period distribution. Staff will update the Oversight Board as the process evolves.

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

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Executive Director