107-0542022-002

Agenda Item **No. 5(B)**
Meeting of September 12, 2022

MEMORANDUM

TO: Oversight Board

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Workshop on Amendment to the 2022-2023 Recognized Obligation Payment Schedule for January 1, 2023, to June 30, 2023

EXECUTIVE SUMMARY

On April 15, 2022, the California Department of Finance ("DOF") approved the Office of Community Investment and Infrastructure's ("OCII") Recognized Obligation Payment Schedule ("ROPS") for ROPS 22-23 ("ROPS 22-23"). Redevelopment Dissolution Law allows one amendment of an approved ROPS during the fiscal year if the Oversight Board finds that "a revision is necessary for the payment of approved enforceable obligations during the second one-half of the [ROPS] period." Cal. Health & Safety Code § 34177(o) (1) (E).

OCII seeks to amend ROPS 22-23 to reflect higher than anticipated pledged property tax increment in Hunters Point Shipyard/Candlestick Point ("HPS/CP"), costs to repair fire damage and higher costs of goods and services in HPS/CP Building 101, payments related to extension of the Mexican Museum grant, and cost escalation in affordable housing projects Mission Bay South Block 9 and HPS/CP Blocks 52/54. These requests result in a 2% or $12,235,591 increase to the ROPS 22-23 total of $622,315,968 to a new total of $634,551,559. These changes have minimal impact on the taxing entities.

DISCUSSION

An approved ROPS sets forth the payments that a successor agency is allowed to make under "enforceable obligations," which Dissolution Law (Cal. Health & Safety Code § 64710 et seq.) defines as bonds, loans, judgments or settlements, any "legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy," "contracts or agreements necessary for the administration or operation of the Successor Agency", and certain "amounts borrowed from or payments owing to the Low and Moderate Income Housing Fund of a redevelopment agency," as well as certain other obligations. The "enforceable obligations" must have been entered into by the former redevelopment agency prior to the date of enactment of the Redevelopment Dissolution Law (June 28, 2011). New enforceable obligations (i.e., entered into on or after June 28, 2011) are permitted if they are "in compliance" with a pre-dissolution obligation. Cal. Health & Safety Code § 34177.3 (a).

After dissolution of the San Francisco Redevelopment Agency ("Former Agency"), DOF finally and conclusively determined that five master development agreements of the Former Agency (collectively, the "Development Agreements") were enforceable obligations that the OCII, as the successor agency, could complete:

1. Mission Bay North Owner Participation Agreement (1998)
2. Mission Bay South Owner Participation Agreement (1998)
3. Transbay Implementation Agreement (2005)
4. Hunters Point Shipyard Phase 1 Disposition and Development Agreement (2003) ("HPS DDA1")
5. Candlestick Point/Hunters Point Shipyard Phase 2 Disposition and Development Agreement (2010) ("HPS/CP DDA2")

With the exception of the 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.[1]

Dissolution Law authorizes successor agencies, with DOF approval, to complete approved development projects, and successor agencies may also issue new bonds secured by pledges of property tax revenues (formerly tax increment) for those projects if a pre-dissolution enforceable obligation required the issuance of bonds and provided for an irrevocable pledge of the property tax revenues Cal. Health & Safety Code §§ 34177.5 (a) (4). In addition, Dissolution Law authorizes OCII to issue new bonds secured by the Redevelopment Property Tax Trust Fund for affordable housing obligations in Mission Bay, Transbay, and Candlestick Point-Hunters Point Shipyard and for infrastructure in Transbay. Cal. Health & Safety Code § 34177.7. Issuance of the new bonds is subject to approval of oversight boards and review and approval by DOF. Cal. Health & Safety Code §§ 34177.5 (f); 34177.7 (f).

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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. 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 . . . .").

Successor agencies may only expend funds related to the completion of approved enforceable obligations. To ensure that successor agencies comply with this restriction, DOF requires that successor agencies submit ROPS for DOF approval. Successor agencies prepare the ROPS for a twelve-month fiscal period that begins July 1 and ends June 30. Successor agencies are required to obtain Oversight Board approval of the ROPS and to submit the approved ROPS to the DOF and the County Auditor Controller on February 1 of each year.

Redevelopment Dissolution Law also provides that if changes are needed to a ROPS, a successor agency may submit an amendment to the second half of the ROPS period (January 1 to June 30) no later than October 1 of the year. Also, 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" 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 first property tax distribution in January (the second property tax distribution is in June).

Proposed ROPS Amendments

In February 2022, OCII submitted its ROPS 22-23 and on April 15, 2022, DOF approved the ROPS 22-23. Since then, property tax increment collection in HPS/CP increased more than anticipated. Additionally, costs have increased in affordable housing and infrastructure projects in HPS/CP and Mission Bay South (see more on this below). The Oversight Board and DOF also had previously approved an extension of a grant for the Mexican Museum and the expenditure of those grant funds must be authorized in this ROPS amendment.

In response to these events, OCII proposes the following amendments to the ROPS 22-23:

- **Line 49 Phase 2 DDA & Tax Increment Allocation Pledge Agreement - Hunters Point Shipyard**– Increase of $68,496 in pledged Redevelopment Property Tax Trust Fund ("RPTTF"), reflecting availability of additional property tax increment anticipated over initial projections to continue paying down $51,741,842 in Pre-Agreement Costs eligible for reimbursement under the HPS/CP DDA2. OCII has paid $4,898,083 against these costs, leaving a remaining liability of $46,843,759.

- **Line 76 HPS/CP Property Management** – Increase of $640,653 in Other funds, reflecting cost escalation for two projects at Building 101:
    - $180,000 for repairs from a minor fire to one artist studio.
    - $460,653 for supply chain issues and unforeseen conditions that caused delays and increased construction cost.

- **Line 151 Mexican Museum** – Carryforward of $5,225,108 in Bond Proceeds and $1,560,011 in Other Funds from prior year, for a total of $6,785,119 reflecting the March 2022 DOF approval grant extension to accommodate construction delays.

- **Line 395 HPS/CP Blocks 52/54 Affordable Housing Funding** – Increase of $4,019,059 in Bond Proceeds due to:
  - Delays and costs from unsuccessful low-income housing tax credit and tax-exempt bond applications with the State.
  - Cost escalation from interest rate and construction cost increases during the delays.

- **Line 417 Mission Bay South Block 9 Affordable Housing Funding** – Increase of $722,264 in Other funds (development fees) for costs due to construction delays.
  - Construction delays include delays in production and delivery of modular units.
  - Time required to repair and inspect damage from heavy rainfall in 2021.
    - The insurance claim for the rain damage will cover only 95% of the total $6,085,000 repair costs.
      - The unfunded 5% or $304,250 of the costs will be funded by OCII.

In summary, the proposed amendments increase the ROPS 22-23 total by 2% or $12,235,591, from $622,315,968 to $634,551,559.

Table 1: Summary of Proposed Amendments

ROPS Line		Justification	Bonds	Other	Reserve	RPTTF Non-Admin	Change
49	Hunters Point Shipyard Phase 2 DDA & Tax Increment Allocation Pledge Agreement	Increase due to availability of additional pledged property tax available over projected amount to reimburse Pre-Agreement Costs under CP-HPS2 DDA.				$ 68,496	$ 68,496
76	HPS /CP Property Management	Increase due to supply chain issues and unforeseen conditions that caused delays increasing construction costs and due to repairs for fire damage to one artist studio at Building 101.		$ 640,653			$ 640,653
151	Mexican Museum	Carryforward of prior year funds to ROPS 22-23 due to grant extension for construction of museum.	$ 5,225,108	$ 1,560,011			$ 6,785,119
395	HPS/CP Block 52/54 Affordable Housing Funding	Increase due to interest rates increases, cost escalation, and lack of state financing.	$ 4,019,059				$ 4,019,059
417	MBS Block 9 Affordable Housing Funding	Increase due to construction and lease-up delays and repairs required due to water damage following fall 2021 storms.		$ 722,264			$ 722,264
Total			**$ 9,244,167**	**$ 2,922,928**	**$ -**	**$ 68,496**	**$ 12,235,591**

Changes in Sources

Overall, the proposed amendments will increase the 22-23 ROPS by $12,235,591, which is a 2% increase over the approved ROPS. As shown below, the proposed amendments are primarily funded by Bond Proceeds and Other Funds, with an immaterial increase to RPTTF.

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

Source	Approved ROPS 22-23	Proposed ROPS 22-23	Difference	Percent Change
Bond Proceeds	$272,395,648	$281,639,815	$9,244,167	3%
Reserve Balance	$32,303,453	$32,303,453	$0	0%
Other Funds	$165,848,117	$168,771,045	$2,922,928	2%
RPTTF Non-Admin	$147,898,927	$147,967,423	$68,496	0%
RPTTF Admin	$3,869,823	$3,869,823	$0	0%
Total	**$622,315,968**	**$634,551,559**	**$12,235,591**	**2%**

Impact to Taxing Entities

OCII has cash-on-hand for amendments funded by Bond Proceeds and Other Funds. Therefore, approval of these amendments will have minimal impact on taxing entities in the current fiscal year. Approval of amendments funded by RPTTF Non-Admin will increase the January 2023 property tax distribution by $68,496. As this amount is less than a 1% change to the overall 22-23 ROPS request of $151,837,246, the impact to taxing entities is immaterial.

[2] 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

Next Steps

Staff will incorporate Oversight Board feedback into the proposed ROPS Amendment and, pending Oversight Board approval on September 26, 2022, will submit the amended ROPS to DOF no later than October 1, 2022. DOF will notify OCII regarding the requested amendments no later than December 16, 2022, which is 15 days before the ROPS 22-23 B period distribution. Staff will update the Oversight Board as the process evolves.

(Originated by Mina Yu, Budget & Project Finance Manager)

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