



107-0232016-002

Agenda Item **No. 5 (c)**
Meeting of April 19, 2016

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee, Executive Director

SUBJECT: Workshop #2 on OCII's Fiscal Year 2016-17 Budget, Including Operations, Debt Service, and Asset Management Obligations outside Major Approved Development Project Areas: Yerba Buena Center, Rincon Point – South Beach, Western Addition A-2, South of Market, Hunters Point, and Bayview Industrial Triangle

EXECUTIVE SUMMARY

OCII's proposed budget for Fiscal Year 16-17 for operations, debt service, and asset management obligations outside major approved development project areas, including Yerba Buena Center, Yerba Buena Gardens, Rincon-Point South Beach, Western Addition A-2, South of Market, Hunters Point, and Bayview Industrial Triangle is approximately \$181.8 million. This amount includes authority awarded in prior budget years that carries forward into the current budget year.

Edwin M. Lee
MAYOR

Tiffany Bohee
EXECUTIVE DIRECTOR

Mara Rosales
CHAIR

Miguel Bustos
Marily Mondejar
Leah Pimentel
Darshan Singh
COMMISSIONERS

Staff presented the proposed FY 16-17 budget for the three major approved development project areas, Hunters Point Shipyard/Candlestick Point, Mission Bay North and South, and Transbay, including their related affordable housing obligations at the April 5, 2016 Commission meeting. Staff will present the final budget to the Commission for its consideration on May 3, 2016. Pending Commission approval, staff will submit the budget to the Mayor's Office and Board of Supervisors for review and final approval.

DISCUSSION

OCII's proposed FY 16-17 budget for operations, debt service, and asset management obligations outside Major Approved Development Projects is approximately \$181.8 million. This amount includes authority awarded in prior budget years that carries forward into the current budget year. OCII's budget for operations includes all expenses required to operate the agency such as staff salaries and benefits, retiree health and pension costs, professional services, including specialized housing and workforce development services, and other current expenses.

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OCII's debt service budget includes debt service as well as staff and professional services required to administer the debt portfolio. OCII's asset management budget includes costs to administer Yerba Buena Center, Yerba Buena Gardens, and assets outside the Major Approved Development Projects such as Rincon Point South Beach, Western Addition A-2, South of Market, Hunters Point, and Bayview Industrial Triangle. The costs to administer assets outside the Major Approved Development Projects are referred to as Other throughout the memo and accompanying narrative. These costs include staffing, professional and asset management services, lease payments, and capital improvements.

Sources

OCII funds its activities through a variety of sources that are detailed below:

- **Property Tax Increment – Debt Service:** Property tax increment that is utilized to fund debt service. As per Redevelopment Law and OCII's debt covenants, funding debt service is the Successor Agency's first obligation.
- **Property Tax Increment – Mission Bay:** Property tax increment that is pledged, through the Owner Participation Agreement, for exclusive use in the Mission Bay Project Area.
- **Property Tax Increment – State Owned Parcels:** Property tax increment that is pledged, through the Transbay Tax Increment Allocation and Sales Proceeds Pledge Agreement, to support the construction of the Transbay Terminal, via a revenue transfer to the Transbay Joint Powers Authority, and to support construction of affordable housing in the Transbay Project Area.
- **Property Tax Increment – Other:** Property tax increment utilized to support direct program costs.
- **Property Tax Increment – ACA:** Property tax increment utilized to support agency operation.
- **Property Sales:** Revenues from sales of OCII-owned properties that are used to support OCII's activities.
- **New Bond Proceeds:** Proceeds from bonds issued in FY16-17 that are used to support OCII's activities.
- **Developer Payments:** Reimbursements from developers for OCII costs, as required by master development agreements, developer fee exactions, etc.
- **Rent, Lease & Garage Revenues:** Revenues collected from OCII-owned properties that are used to support OCII's activities, including operation and management of its properties.
- **US Navy Cooperative Agreement:** Reimbursements from the US Navy for security services at the Hunters Point Shipyard.
- **Loan Repayments:** Funds repaid from prior loans that are reallocated in the budget year to support new activities.
- **City Reimbursements for OCII Staff:** Payments from the Mayor's Office of Housing and Community Development for OCII accounting staff that provide financial support to housing projects.
- **Fund Balance - Housing:** Fund balance from prior year budget authority programmed for housing uses in the budget year.
- **Fund Balance - Non-Housing:** Fund balance from prior year budget authority programmed for non-housing uses in the budget year.

Uses

OCII categorizes its expenditure into two categories: Operations and Non-Operations. Operations includes costs associated with the administration and operation of OCII. Non-operations costs are directly related to implementing enforceable obligations in the major approved development project areas. The Operations costs are detailed below:

- **Allocated Staff & Operating Expenses:** Operating expenses that are directly related to implementing enforceable obligations and are therefore allocated to project budgets rather than to the OCII administrative budget.
- **Auditing and Accounting Services:** Services obtained from outside firms or the City to perform activities such as reviewing developer costs submitted for reimbursement under the terms of development agreements, bond accounting, preparation of OCII's financial statements, and financial systems support.
- **Legal Services:** Legal service obtained from the City Attorney and other outside counsel.
- **Planning & Infrastructure Review:** Services obtained from City departments and outside firms for planning assistance, California Environmental Quality Act review, and review of engineering and design documents.
- **Asset Management:** Services obtained from outside firms to operate and maintain OCII-owned property
- **Workforce Development Services:** Includes services obtained from the City's Office of Economic and Workforce Development in support of OCII's workforce development programs.
- **Other Professional Services:** Services obtained from City departments and outside firms for professional services such as environmental remediation, transportation plan review, real estate analysis, projections, planning, community outreach, and financial services.
- **Payments to Other Public Agencies:** Payments to the Navy and the City for rent and land and/or property transfers.
- **Other Current Expenses:** Other miscellaneous administrative and operational costs.

Non-Operations costs include costs that are not related to operations such as:

- **Affordable Housing Loans:** Loans from OCII to affordable housing developers to fund pre-development or construction of affordable housing projects.
- **Development Infrastructure:** Costs related to construction and installation of public infrastructure.
- **Pass-through to TJPA:** Tax increment generated by the increase in assessed value or sale of state-owned parcels, which is, as per the Transbay Tax Increment Allocation and Sales Proceeds Pledge Agreement, transferred to the Transbay Joint Powers Authority to fund construction of the Transbay Transit Center.
- **Debt Service:** Principal and interest payments for bonds issued by OCII in support of its enforceable obligations, as well as loans and other debt obligations.
- **Fund Balance - Housing:** Revenues, such as developer fees, bond proceeds, or pledged tax increment collected by OCII in the budget year that are held in reserve for a housing future use.
- **Fund Balance - Non-Housing:** Revenues, such as developer fees, bond proceeds, or pledged tax increment collected by OCII in the budget year that are held in reserve for a future non-housing use.

The table below highlights the proposed sources and uses for OCII's operation, debt service, and asset management obligations outside the major approved development project areas. The workplan driving these uses is described in attached budget narratives (Attachment 1).

**Table 1: Proposed FY 16-17 Budget for
Operations, Debt Service, and Asset Management Expenses**

Sources	Operations	Debt Svc	Asset Management			Total
			YBC	YBG	Other	
Property Tax Increment - Debt Svc	\$ -	\$ 109,287,472	\$ -	\$ -	\$ -	\$ 109,287,472
Property Tax Increment - Mission Bay	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property Tax Increment - State Owned Parcels	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property Tax Increment - Other	\$ 2,283,236	\$ 391,806	\$ -	\$ -	\$ 3,281,559	\$ 5,956,601
Property Tax Increment - ACA	\$ 2,991,263	\$ -	\$ -	\$ -	\$ -	\$ 2,991,263
Property Sales	\$ -	\$ 6,195,000	\$ -	\$ -	\$ -	\$ 6,195,000
New Bond Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Developer Payments	\$ -	\$ -	\$ 253,000	\$ -	\$ -	\$ 253,000
Rent, Lease & Garage Revenue	\$ -	\$ 1,114,405	\$ -	\$ 10,377,150	\$ 2,871,057	\$ 14,362,612
US Navy Cooperative Agreement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loan Repayments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City Reimbursements for OCII Staff	\$ -	\$ -	\$ -	\$ -	\$ 157,868	\$ 157,868
Hotel Tax / Moscone Revs	\$ -	\$ 4,945,350	\$ -	\$ -	\$ -	\$ 4,945,350
Fund Balance - Housing	\$ -	\$ -	\$ -	\$ -	\$ 1,317,500	\$ 1,317,500
Fund Balance - Non-Housing	\$ -	\$ -	\$ 9,532,867	\$ 24,274,787	\$ 2,469,138	\$ 36,276,792
Budget Sources	\$ 5,274,499	\$ 121,934,033	\$ 9,785,867	\$ 34,651,937	\$ 10,097,122	\$ 181,743,458
Uses						
Uses - Operations						
Allocated Staff & Operating Expenses	\$ (10,115,205)	\$ 262,103	\$ -	\$ 299,755	\$ 2,187,319	\$ (7,366,028)
Salaries and Benefits	\$ 8,565,830	\$ -	\$ -	\$ -	\$ -	\$ 8,565,830
Affordable Housing Services	\$ 768,460	\$ -	\$ -	\$ -	\$ -	\$ 768,460
Rent	\$ 452,847	\$ -	\$ -	\$ -	\$ -	\$ 452,847
Retiree Health and Pension Costs	\$ 2,283,236	\$ -	\$ -	\$ -	\$ -	\$ 2,283,236
Auditing & Accounting Services	\$ 325,000	\$ -	\$ -	\$ -	\$ -	\$ 325,000
Legal Services	\$ 1,198,413	\$ -	\$ -	\$ 40,000	\$ -	\$ 1,238,413
Planning & Infrastructure Rvw	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Asset Management	\$ -	\$ -	\$ -	\$ 4,150,000	\$ 1,520,000	\$ 5,670,000
Workforce Development Services	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ 50,000
Other Professional Services	\$ 1,107,539	\$ 29,703	\$ -	\$ -	\$ -	\$ 1,137,242
Grants to Community-Based Organizations	\$ -	\$ -	\$ 7,785,119	\$ 4,005,000	\$ -	\$ 11,790,119
Payments to other Public Agencies	\$ -	\$ -	\$ 253,000	\$ 20,087,000	\$ 3,806,933	\$ 24,146,933
Other Current Expenses	\$ 737,968	\$ -	\$ -	\$ 70,182	\$ -	\$ 808,150
Subtotal Uses - Operations	\$ 5,374,088	\$ 291,806	\$ 8,038,119	\$ 28,651,937	\$ 7,514,252	\$ 49,870,202
Uses - Non-Operations						\$ -
Affordable Housing Loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Affordable Housing Reserve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Affordable Housing Unit Purchase	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Development Infrastructure	\$ -	\$ -	\$ -	\$ 6,000,000	\$ 810,262	\$ 6,810,262
Pass-through to TIPA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ -	\$ 121,642,227	\$ -	\$ -	\$ 1,772,608	\$ 123,414,835
Fund Balance - Housing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance - Non-Housing	\$ -	\$ -	\$ 1,747,748	\$ -	\$ -	\$ 1,747,748
Subtotal Uses - Other	\$ -	\$ 121,642,227	\$ 1,747,748	\$ 6,000,000	\$ 2,582,870	\$ 131,972,845
Budget Uses	\$ 5,374,088	\$ 121,934,033	\$ 9,785,867	\$ 34,651,937	\$ 10,097,122	\$ 181,843,047
Sources vs. Uses	\$ (99,589)	\$ -	\$ -	\$ -	\$ -	\$ (99,589)

Sources vs. Uses

As shown in the Sources vs. Uses summary line, the proposed uses exceed the sources by \$0.01 million. This is due to a ten percent administrative fee charged by the City Administrator (ADM) on ADM staff contracted to

and funded by OCII. This charge covers consultation and management by ADM management staff, budget development, accounting transactions, and human resources consultation for six ADM staff contracted to and funded by OCII. The charge is approximately \$16,600 per person. In prior years ADM charged a \$25,000 fee for human resource consultation. The new administrative charge represents an increase of \$74,589 over prior years' fees.

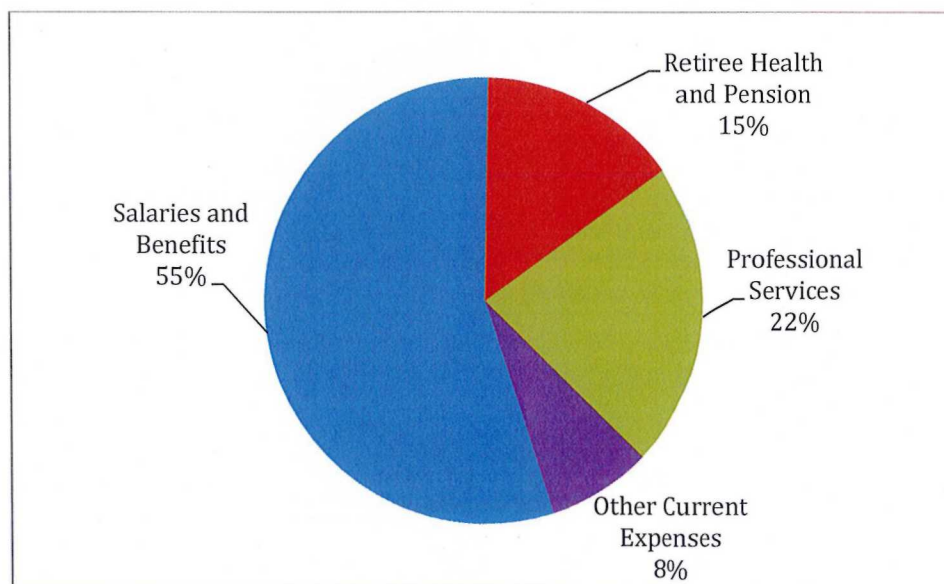
The City Administrator levied this charge after OCII submitted the 16-17 ROPS. As a result, OCII's administrative expense is higher than the Administrative Cost Allowance (ACA) requested in the ROPS. Should the Commission approve the proposed budget, OCII will seek Oversight Board Approval to amend the ROPS and increase the amount of the ACA to cover this administrative fee. SB 107, which the Governor signed in September 2015, allows Successor Agencies to amend the ROPS one time per year. This request must be made by October 1 of the ROPS year.

Operations

OCII's proposed operations budget for FY16-17 is \$15.4 million; \$13.1 in operating expenses and \$2.3 million in retiree health and operating expenses.

OCII's operations are funded by a variety of sources; \$10.0 million or 64 percent is funded by sources other than property tax such as developer payments, rent, lease and garage revenues, bonds, and payments from other public agencies. Only \$5.2 million or 36 percent is funded by property tax.

Table 2: Proposed FY 16-17 Operating Expenses



OCII's operations expenses are composed of staff salaries and benefits, retiree health and pension costs, professional services, and other current expenses. As shown in the pie chart below, OCII's largest operating expense is salaries and benefits, which comprises 55 percent of the operations budget and includes both OCII staff and City Administrator staff contracted to and funded by OCII. The proposed budget for salaries and benefits includes a 3.25 percent cost of living increase, which was negotiated in the 2015-2017 memorandums of agreement between OCII and the International Federation of Professional and Technical Engineers, Local 21 and Service Employees International Union, Local 1021. OCII's second largest operating expense is

professional services which comprises 22 percent of the operating expenses and includes specialized services such as affordable housing, workforce development, auditing and accounting, and legal services. OCII's third largest operating expense is retiree health and pension costs, which comprises 15 percent of the total operating expenses. The remainder of OCII's operating expenses are related to other current expenses, which accounts for 8 percent of the total.

Positions

The proposed FY 16-17 budget includes 46 full time equivalent (FTE) positions, which is the same number of positions as FY 15-16. The table below shows the proposed budgeted positions and salary ranges for FY 16-17.

Table 3: Proposed FY 16-17 Budgeted Positions and Salary Ranges

Class	Class Title	Biweekly Salary Range	FY 15-16 Adj Bgt	FY 16-17 Proposed	Difference
500	Executive Director	\$ 193,134 - \$ 234,754	1	1	0
520	General Counsel	\$ 181,322 - \$ 220,408	1	1	0
1060	Deputy Director, Finance and Administration	\$ 169,059 - \$ 205,482	1	1	0
1060	Deputy Director, Programs	\$ 169,059 - \$ 205,482	1	1	0
525	Deputy General Counsel	\$ 146,015 - \$ 177,478	1	1	0
565	Senior Civil Engineer	\$ 136,781 - \$ 166,267	1	1	0
930	Staff Associate V	\$ 132,958 - \$ 161,607	1	1	0
535	Development Services Manager	\$ 128,298 - \$ 155,959	1	1	0
540	Housing Program Manager	\$ 128,298 - \$ 155,959	1	1	0
550	Senior Project Manager	\$ 126,816 - \$ 154,133	1	1	0
965	Human Resources Manager	\$ 119,621 - \$ 145,414	1	1	0
585	Contract Compliance Supervisor	\$ 119,621 - \$ 145,414	1	1	0
970	Accounting Supervisor	\$ 119,621 - \$ 145,414	1	1	0
1065	Contract Compliance Specialist III	\$ 113,286 - \$ 137,704	1	1	0
630	Senior Financial Analyst	\$ 112,835 - \$ 137,146	1	2	1
595	Senior Development Specialist	\$ 110,838 - \$ 134,719	3	4	1
590	Project Manager	\$ 109,549 - \$ 133,151	4	4	0
990	Assistant Project Manager	\$ 103,063 - \$ 125,270	2	2	0
615	Development Specialist	\$ 103,063 - \$ 125,270	8	6	-2
670	Financial Systems Accountant	\$ 99,090 - \$ 120,437	1	1	0
715	Sr. Personnel Analyst	\$ 93,013 - \$ 113,071	0	1	1
705	Assistant Development Specialist	\$ 89,018 - \$ 108,218	1	1	0
720	Senior Programmer Analyst	\$ 88,782 - \$ 107,917	1	1	0
640	Contract Compliance Specialist II	\$ 86,505 - \$ 105,146	1	1	0
695	Accountant III	\$ 85,582 - \$ 104,030	1	1	0
760	Senior Legal Secretary	\$ 75,531 - \$ 91,810	0	1	1
775	Accountant II	\$ 70,785 - \$ 86,054	1	1	0
810	Administrative Secretary	\$ 65,137 - \$ 79,182	0	1	1
855	Record Specialist II	\$ 55,043 - \$ 66,919	1	1	0
860	Senior Office Assistant	\$ 55,043 - \$ 66,919	1	0	-1
1030	Management Assistant III	\$ 80,514 - \$ 97,866	3	2	-1
1035	Management Assistant II	\$ 70,227 - \$ 85,367	3	2	-1
Total			46	46	0

The FY 16-17 budget also includes seven limited term appointments (LTA), which is an increase of five LTA over the FY 15-16 budget. This increase reflects the additional design analysis associated with project approvals and related contract compliance workload generated by the pace of construction in the major approved development project areas.

Debt Service

OCII's proposed debt service budget for FY 16-17 is \$121.9 million, \$121.6 million is debt service payments on outstanding bonds and loans. The remaining \$0.3 million is professional services required to issue debt and to perform specialized bond accounting functions.

In FY 16-17, OCII plans to issue both new money bonds and refunding bonds. As described below, some bonds will be tax allocation bonds, the credit for which is property tax increment generated by redevelopment areas. Some bonds will be Community Facilities District (CFD) bonds, the credit for which is a special tax levied, with the approval of the property owners, on the properties within the CFD. The proposed new money issuances are summarized and approximated below:

- \$103 million in housing bonds, the proceeds of which will be expended in FY 16-17 and FY 17-18,
- \$ 45 million in infrastructure bonds in Mission Bay South, the proceeds of which will be used to reimburse the developer for completed infrastructure such as streets and parks, and
- \$ 37 million in infrastructure bonds in Transbay, the proceeds of which will be spent in FY16-17 and 17-18 to fund construction of Folsom Streetscape, Transbay Park, Under-Ramp Park, and Essex Park,
- \$ 30 million in CFD bonds for a new CFD in Hunters Point Shipyard / Candlestick Point.

In addition, OCII plans to monitor the housing and Hunters Point Shipyard Phase 1 CFD debt portfolios to determine if market conditions favor refunding bonds. Currently OCII projects refunding \$75 million in housing bonds. The proposed refundings will be issued in accordance with OCII's debt policy and will decrease the amount of tax increment required to fund debt service, thereby increasing the tax increment available to finance future debt or pay housing and development expenses on a pay-go basis. OCII may also refund \$36 million in Hunters Point Shipyard Phase 1 CFD bonds. The proposed CFD refundings will be issued in accordance with OCII's debt policy and will decrease the amount of special tax required to fund debt service, enabling OCII to issue additional CFD debt to generate proceeds to fund infrastructure improvements. The amounts of the proposed refundings will be determined and presented to the Commission at the time of the refunding. OCII's budget resolution will reflect this market uncertainty and will authorize staff to refund bonds in accordance with OCII's debt policy and upon approval of the Commission.

Asset Management Outside Major Approved Project Areas

OCII's proposed asset management budget for FY 16-17 is \$56.7 million and includes expenses related to the administration of Yerba Buena Center, Yerba Buena Gardens, Rincon-Point South Beach, Western Addition A-2, South of Market, Hunters Point, and Bayview Industrial Triangle. The budget also includes the resources need to implement the Long-Range Property Management Plan (LRPMP), which is a plan for disposition of all OCII's real property assets and is required under Redevelopment Dissolution Law.

The State Department of Finance approved OCII's LRPMP in December 2015. In FY16-17, OCII staff will continue to implement the LRPMP with a focus on three priority projects: transferring the Fillmore Heritage

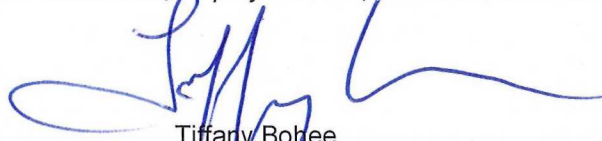
Center, which includes the Fillmore Garage and Commercial Parcel, to the City's Department of Real Estate (DRE), transferring Yerba Buena Gardens to DRE, and transferring Shoreview Park to the City's Recreation and Park Department. The details of these transactions are discussed in Attachment 1.

The size of the asset management budget is largely driven by Yerba Buena Gardens (YBG). OCII has an enforceable obligation, under certain long-term documents with its YBG tenants and stakeholders as well as the Yerba Buena Center Redevelopment Project Closeout Agreement executed in 1983 by the City and the former San Francisco Redevelopment Agency with concurrence from the U.S. Department of Housing and Urban Development, to transfer an estimated \$20 million Community Development Block Grant (CDBG) restricted YBG cash balance to the City along with the YBG assets at the time of transfer in 2016 or 2017. Other major expenditures in YBG include \$6.0 million in capital improvements (\$3.0 million in prior year capital improvements and \$3.0 million in new projects), approximately \$4.0 million in grants to community based organizations, and approximately \$4.0 million for operations and management of YBG, all funded by CDBG restricted funds.

NEXT STEPS

After incorporating Commission feedback, staff will present the final FY 16-17 budget to the Commission for its consideration on May 3, 2016. Pending Commission approval, staff will submit the budget to the Mayor's Budget Office for its review, and then to the Board of Supervisors for final review and approval. Staff will apprise the Commission of any significant changes made to the budget as it undergoes the City's review and approval process.

(Originated by Bree Mawhorter, Deputy Director, Finance and Administration)



Tiffany Bohee
Executive Director

Attachment 1: OCII FY 16-17 Budget: Draft Budget Narrative – Operations, Debt Service, and Asset Management outside Major Approved Project Areas

OCII FY 16-17 Budget: Draft Budget Narrative – Operations, Debt Service, and Asset Management outside Major Approved Project Areas

Budget Narrative

The budget narrative below describes the OCII operations budget and positions in greater detail. It also summarizes the debt service budget and explains the proposed debt issuances in FY 16-17. Finally, the narrative describes OCII's asset management enforceable obligations and detail the FY 16-17 work plan.

Operations Budget

OCII's proposed operations budget for FY16-17 is \$15.4million; \$13.1 in operating expenses and \$2.3 million in retiree health and operating expenses.

Of this \$15.4 million, \$8.5 million is comprised of staff salaries and benefits, including OCII staff and City Administrator staff contracted to and funded by OCII. Highlights of the operations budget include:

- Increase in salaries and benefits following the 3.25 percent Cost of Living Allowance negotiated in the 2015-2017 Memorandums of Agreement between OCII and its labor partners, the International Federation of Professional and Technical Engineers Local 21 and Service Employees International Union Local 1021, as well as equivalent increases for City Administrator staff contracted to and funded by OCII, as negotiated in the 2015-2017 Memorandums of Understanding between the City and its labor partners,
- Increase of \$0.7 million in the cost to provide health benefits to retirees. This increase is due the rising cost of health care. The monthly cost to provide health benefits to retirees increased from approximately \$112,000 per month in FY15-16 to approximately \$120,000 per month in FY 16-17, and
- Addition of five Limited Term Appointments to reflect the increased design review approval and approval and contract compliance necessitated by the pace of OCII's work program.

The increases noted above are partially offset by the increase in the supplemental employee contribution to OCII's pension plan, which decreases OCII's cost to provide retirement benefits. As per the 2015-2017 Memorandums of Agreement negotiated between OCII and its labor partners, the supplemental employee contribution will increase on July 1, 2016 by 1.25 percent from 2.25 percent of salary to 3.5 percent of salary.

Other items of note include:

- **Affordable Housing Services:** The proposed FY 16-17 budget includes \$768,460 for affordable housing staffing support provided by the Mayor's Office of Housing and Community Development.
- **Retiree Health and Pension Unfunded Accrued Actuarial Liability (UAAL) contribution:** The proposed FY16-17 budget includes approximately \$1.7 million for retiree health insurance obligations and \$0.5 million for a payment against OCII's Unfunded Accrued Actuarial Liability (UAAL). This payment is made to reduce OCII's unfunded pension liabilities. The amount of the UAAL payment is determined by OCII's actuarial valuation.
- **Legal Services:** The proposed FY 16-17 legal budget of approximately \$3.4 million includes:
 - \$700,000 for legal support for the challenge to the Warriors Environmental Impact Review (EIR), provided by outside counsel and reimbursed by the developer,
 - \$340,000 for specialized legal support, provided by outside counsel and funded by property tax increment, and
 - \$155,000 for general legal support, including housing program support, provided by the City Attorney and funded by property tax increment or bond proceeds.

OCII FY 16-17 Budget: Draft Budget Narrative – Operations, Debt Service, and Asset Management outside Major Approved Project Areas

Note that project-specific budgets include an additional \$2.2 million for legal support in the Major Area Development Projects.

- **Other Professional Services:** The proposed FY16-17 professional services budget of approximately \$0.7 million for professional services includes:
 - \$490,000 for professional services related to asset management,
 - \$140,000 for general professional services,
 - \$100,000 for public communications support,
 - \$ 15,000 for Office of Labor Standards Enforcement investigations support.

The need for professional services related to asset management is due to the Department of Finance's approval of OCII's Long Range Property Management Plan (LRPMP) in December 2015. The LRPMP is a plan for disposition of all real property assets and is required under Redevelopment Dissolution Law. Implementing the LRPMP will require the use of professional services such as title and escrow work, drafting transactional documents related to property sales or transfers, and lease assignments.

- **Other Current Expenses:** The proposed FY 16-17 budget of approximately \$.7 million budget includes:
 - \$400,000 for insurance premiums and allowance for deductibles,
 - \$200,000 for virtual server maintenance, mail, e-mail, telephone, copy machine, records storage, technology infrastructure and support,
 - \$ 40,000 for office supplies, employee training, and field expenses
 - \$ 45,000 for Commission and Oversight Board meeting expenses, including audiovisual recording of Commission meetings by SFGOV TV.

Positions

Budgeted positions and salary ranges are shown in Table 1. The budgeted positions reflect OCII employees plus City Administrator staff contracted to and funded by OCII. These staff are former OCII employees who transferred to the City Administrator and continue to work full-time on OCII-related work. The proposed FY 16-17 budget contains 46 full-time equivalent positions (FTE), which is equivalent to the number of positions in the FY15-16 budget. The proposed budget also contains seven limited term appointments (LTA), which is an increase of five LTA over the FY 15-16 budget. As OCII continues to implement its work program, these positions may be converted to FTE in future budget years.

As shown in Table 1, a number of positions have been converted from their FY 15-16 classification to a proposed new classification in FY 16-17. These new classifications better reflect the OCII's projected work program. The cost of these conversions is approximately \$55,236. The conversions include:

- 1 FTE Management Assistant III to 1 FTE Senior Personnel Analyst,
- 1 FTE Senior Office Assistant to 1 FTE Administrative Secretary,
- 1 FTE Development Specialist to 1 FTE Senior Development Specialist,
- 1 FTE Development Specialist to 1 FTE Senior Financial Analyst, and
- 1 FTE Management Assistant II to 1 FTE Senior Legal Secretary.

**OCII FY 16-17 Budget: Draft Budget Narrative –
Operations, Debt Service, and Asset Management outside Major Approved Project Areas**

Table 1: Proposed FY 16-17 Budgeted Positions and Salary Ranges

Class	Class Title	Biweekly Salary Range	FY 15-16 Adj Bgt	FY 16-17 Proposed	Difference
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1060	Deputy Director, Programs	\$ 169,059 - \$ 205,482	1	1	0
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565	Senior Civil Engineer	\$ 136,781 - \$ 166,267	1	1	0
930	Staff Associate V	\$ 132,958 - \$ 161,607	1	1	0
535	Development Services Manager	\$ 128,298 - \$ 155,959	1	1	0
540	Housing Program Manager	\$ 128,298 - \$ 155,959	1	1	0
550	Senior Project Manager	\$ 126,816 - \$ 154,133	1	1	0
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585	Contract Compliance Supervisor	\$ 119,621 - \$ 145,414	1	1	0
970	Accounting Supervisor	\$ 119,621 - \$ 145,414	1	1	0
1065	Contract Compliance Specialist III	\$ 113,286 - \$ 137,704	1	1	0
630	Senior Financial Analyst	\$ 112,835 - \$ 137,146	1	2	1
595	Senior Development Specialist	\$ 110,838 - \$ 134,719	3	4	1
590	Project Manager	\$ 109,549 - \$ 133,151	4	4	0
990	Assistant Project Manager	\$ 103,063 - \$ 125,270	2	2	0
615	Development Specialist	\$ 103,063 - \$ 125,270	8	6	-2
670	Financial Systems Accountant	\$ 99,090 - \$ 120,437	1	1	0
715	Sr. Personnel Analyst	\$ 93,013 - \$ 113,071	0	1	1
705	Assistant Development Specialist	\$ 89,018 - \$ 108,218	1	1	0
720	Senior Programmer Analyst	\$ 88,782 - \$ 107,917	1	1	0
640	Contract Compliance Specialist II	\$ 86,505 - \$ 105,146	1	1	0
695	Accountant III	\$ 85,582 - \$ 104,030	1	1	0
760	Senior Legal Secretary	\$ 75,531 - \$ 91,810	0	1	1
775	Accountant II	\$ 70,785 - \$ 86,054	1	1	0
810	Administrative Secretary	\$ 65,137 - \$ 79,182	0	1	1
855	Record Specialist II	\$ 55,043 - \$ 66,919	1	1	0
860	Senior Office Assistant	\$ 55,043 - \$ 66,919	1	0	-1
1030	Management Assistant III	\$ 80,514 - \$ 97,866	3	2	-1
1035	Management Assistant II	\$ 70,227 - \$ 85,367	3	2	-1
Total			46	46	0

Salary ranges shown are as of July 1, 2016. Salary ranges are for information only-- should there be any discrepancy between the salary ranges shown here and the salary resolution, which reflects the salaries in the negotiated labor agreements, the salary resolution would be determinative. The Commission passed a salary resolution codifying the salaries in the 2015-2017 Memorandums of Agreement on June 16, 2015 (Resolution 39-2015). In special circumstances, and in accord with OCII's Personnel Policy, individuals may receive higher salaries than the ranges shown below to reflect acting assignments or unusual recruitment conditions.

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Debt Service

OCII's proposed debt service budget is \$121.9 million. \$121.6 million is debt service payments on outstanding bonds and loans. The remaining \$0.3 million is professional services required to issue debt and to perform specialized bond accounting functions.

Highlights of the debt service budget include:

- **Property Tax Increment for Debt Service on Tax Allocation Bonds:** \$115.5 million for debt service payments scheduled for August 2015 and February 2016.
- **Property Tax Increment for South Beach Harbor:** \$0.1 million in Harbor property tax derived from boats and improvements at South Beach Harbor to repay a South Beach Harbor revenue bond. OCII will make its last debt service payment in December 2016.
- **South Beach Harbor Revenue for Debt Service:** \$1.2 million in South Beach Harbor revenues needed to supplement Harbor property tax increment in order to cover debt service related to the Harbor. OCII will make its last debt service payment in December 2016.
- **Hotel Tax/ for Debt Service:** \$5.0 million in City and County of San Francisco Hotel Taxes to pay debt service on revenue bonds issued by the former San Francisco Redevelopment Agency.

In FY 16-17 OCII plans to issue both new money bonds and refunding bonds. As described below, some bonds will be tax allocation bonds, the credit for which is property tax increment generated by redevelopment areas. Some bond will be Community Facilities District (CFD) bonds, the credit for which is a special tax levied, with the approval of the property owners, on the properties within the CFD. The proposed new money issuances are summarized and approximated below:

- \$103 million in housing bonds, the proceeds of which will be expended in FY 16-17 and FY 17-18,
- \$ 37 million in infrastructure bonds in Transbay, the proceeds of which will be spent in FY16-17 and 17-18, to fund construction of Folsom Streetscape, Transbay Park, Under-Ramp Park, and Essex Park,
- \$ 45 million in infrastructure bonds in Mission Bay South, the proceeds of which will be used to reimburse the developer for completed infrastructure such as streets and parks, and
- \$ 30 million in CFD bonds for a new CFD in Hunters Point Shipyard / Candlestick Point.

In addition, OCII plans to monitor the housing and Hunters Point Shipyard Phase 1 CFD debt portfolios to determine if market conditions favor refunding bonds. Currently OCII projects refunding \$75 million in housing bonds. The proposed refundings will be issued in accordance with OCII's debt policy and will decrease the amount of tax increment required to fund debt service, thereby increasing the tax increment available to finance future debt or pay housing and development expenses on a pay-go basis. OCII may also refund \$36 million in Hunters Point Shipyard Phase 1 CFD bonds. The proposed refundings will be issued in accordance with OCII's debt policy and will decrease the amount of special tax required to fund debt service, enabling OCII to issue additional CFD debt to generate proceeds available to pay for infrastructure improvements. The amounts of the proposed refundings will be determined and presented to the Commission at the time of the refunding. OCII's budget resolution will reflect this market uncertainty and will authorize staff to refund bonds in accordance with OCII's debt policy and upon approval of the Commission.

Asset Management

In addition to the Major Approved Project Areas, OCII has significant asset management responsibilities in several active and expired redevelopment project areas. These asset management responsibilities include: (1) property management of physical land and buildings, (2) lease management, (3) loan

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management and administration, (4) oversight of public parking garages, (5) landlord and creditor responsibilities in bankruptcies, (6) managing and monitoring development agreements, (7) managing a community facilities district, (8) general asset management and problem-solving, and (9) implementing OCII's Long-Range Property Management Plan, which is a plan for disposition of all real property assets and is required under Redevelopment Dissolution Law (PMP).

The PMP was approved by the State Department of Finance (DOF) in December 2015. OCII staff has begun implementing the PMP with a focus on three priority projects for FY16-17: Fillmore Heritage Center (Garage and Commercial Parcel), Yerba Buena Gardens, and Shoreview Park, all of which are discussed in further detail below. This work includes, among other things, title and escrow work, drafting transactional documents related to property sales or transfers, lease assignments, and shepherding properties through the approvals process. The proposed FY 16-17 budget includes \$793,565 in tax increment for these asset management and disposition purposes.

The following briefly describes OCII's asset management responsibilities in several active and expired redevelopment project areas.

Yerba Buena Center (Expired Project Area)

Project Description & Status

The Yerba Buena Center (YBC) Redevelopment Plan was adopted by the Board of Supervisors in 1966 and expired on January 1, 2011¹. YBC is an 87-acre area south of Market Street that formerly consisted of dilapidated hotels and commercial and industrial buildings. The redevelopment of YBC was a highly successful effort, and the area has been central to the economic growth and vitality of San Francisco over the past two decades.

Major commercial developments included (1) the expansion of Westfield's Shopping Centre onto the site of the former historic Emporium department store on Market Street and development of a new Bloomingdales fronting Mission Street as part of that project, and (2) development of new hotels including the Marriott Hotel, the Four Seasons, the W Hotel, the Westin San Francisco Market Street, and the St. Regis Hotel, totaling over 2,500 new hotel rooms in YBC. Major YBC residential development projects included the Paramount Apartments, the St. Regis and Four Seasons condominiums, and over 1,400 senior affordable units throughout YBC. Altogether about 3,100 new residential units were created.

Today, YBC is one of San Francisco's major cultural and convention/visitor districts. Major cultural facilities -- such as the San Francisco Museum of Modern Art, the Museum of the African Diaspora, the Contemporary Jewish Museum, Yerba Buena Center for the Arts, the Mexican Museum (still in planning) - were developed by or in partnership with the former San Francisco Redevelopment Agency (SFRA). The Moscone Convention Center was developed in partnership with the City, when the SFRA issued lease revenue bonds to finance the construction of the convention center.

In 2009, in anticipation of the expiration of the Yerba Buena Center Redevelopment Plan (the YBC Plan), the YBC Plan was amended pursuant to SB 2113. Adoption of this amendment lifted the "cap" on the aggregate amount of tax increment which can be collected from the YBC project area and extended the period for repayment of debt. As required by SB 2113, all new tax increment funds are used only for affordable housing development.

With the expiration of the YBC Redevelopment Plan on January 1, 2011, OCII moved into an asset management role for its numerous real property assets in YBC. The assets include the last developable parcel of land in the Yerba Buena neighborhood (the future Mexican Museum site), Jessie Square

¹ The Redevelopment Plan for the Emporium Site (the redeveloped Bloomingdales/Westfield Mall expansion) remains in place and tax increment funds from this site are directed to affordable housing projects.

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Garage and Plaza, Yerba Buena Lane and adjacent commercial parcels, open space, recreational spaces, museums, and other land and buildings comprising the three-block area known as Yerba Buena Gardens.

FY 16-17 Workplan

- a. **706 Mission Street/Mexican Museum Project/Jessie Square Garage:** OCII, Millennium Partners, and the Mexican Museum formed a public-private partnership to build a residential tower at 706 Mission Street that would include a new museum space in the tower's base. OCII entered into a purchase and sale agreement with Millennium Partners in July 2013 to sell land and the Jessie Square Garage to the developer as part of the development of the 706 Mission Street/Mexican Museum project. OCII also has an exclusive negotiation agreement and grant agreement with the museum. OCII staff anticipates that title to the land will transfer to Millennium Partners before the start of FY 16-17, but OCII will continue administration of the exclusive negotiation agreement and grant agreement with the museum after the transfer of the land.
- b. **Paramount Apartments:** In 2014, the Commission approved a lease buy-out deal with Paramount's tenant that includes repayment of the developer's land discount. The budget reflects the third of four \$250,000 payments from the developer pursuant to the lease buy-out deal. This money is Community Development Block Grant program income to be transferred to the Mayor's Office of Housing and Community Development. Any work not funded by the project sponsor will be covered by OCII's asset management and disposition budget.

Yerba Buena Gardens Asset Management: Yerba Buena Gardens includes cafes, fountains – including the Martin Luther King Jr. Memorial Fountain – performance venues, children's play areas, a child development center, cultural institutions, a historic carousel, recreational venues such as an ice skating center and a bowling center, public artwork, and many other attractions (YBG and/or YBG Assets). YBG is owned and operated by OCII, which supports (1) operations and programming of the YBG open spaces, (2) cultural facilities such as Yerba Buena Center for the Arts (YBCA), the Children's Creativity Museum (CCM), and the Child Development Center (CDC), and (3) capital improvements of the YBG Assets. To pay for these expenses, OCII uses CDBG-restricted funds generated from existing short- and long-term commercial and ground leases, operating leases, and development fees from various projects including the St. Regis Hotel and the new 5M development at Fifth and Howard Streets.

New capital improvements planned for this fiscal year include (1) retrofitting light fixtures in the public open spaces; (2) upgrading interior doors, benches, and equipment furnishings at the bowling center; (3) upgrading the air conditioning and dehumidification system and installing new restroom partitions in the ice skating center; (4) installing new HVAC systems and new gallery lighting at YBCA; (5) repairing exterior doors and upgrading wall/ceiling finishes at CDC; (6) replacing the freight elevator and some doors in the underground maintenance area, (7) repairing exterior roof/windows and interior lighting and furnishings at the YBG management office; (8) refinishing floors, elevator modernization and HVAC work at CCM; and, (9) minor capital work as needed throughout the year.

To date, completed capital improvement work for Fiscal Year 15-16 includes (1) ceiling replacement at B Restaurant; (2) electrical work and switch gear replacement at the Upper Terrace; (3) the re-design and re-planting of the Sister City Garden; and, (4) lighting upgrades in the East Garden.

Staff anticipates that the transfer of YBG to the City pursuant to the PMP will occur in FY16-17.

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Rincon Point – South Beach (Active Project Area)

Project Description & Status

The Redevelopment Plan for this project area does not expire until January 5, 2021 and SFRA's work program has been largely completed, and therefore its activities are of an asset management nature.² Since 1981, the area has been transformed into a new mixed-use neighborhood. The majority of the private development was developed under owner participation agreements, or OPAs, which are considered existing enforceable obligations. Only one OPA in this project area is still active, and that is for the development of 72 Townsend, which began selling units in 2016. This project contains 74 condominiums over a rehabilitated historic warehouse; of those, seven are affordable to those earning no more than 95 percent of area median income. OCII also manages a community facilities district that pays for additional landscaping and property maintenance on some of the project area's open spaces.

FY 16-17 Workplan

- a. **Port-Owned Property, including South Beach Harbor:** OCII and the Port have negotiated a Memorandum of Agreement (MOA) that would terminate all OCII leases of Port property and transfer the associated improvements to the Port of San Francisco. This MOA was approved by the Commission on March 3, 2015, the Oversight Board on March 27, 2015, and the Department of Finance on April 29, 2015. The MOA is conditional upon approval by the State Lands Commission, which is still pending. Obtaining State Lands Commission approval is the purview of the Port. Staff anticipates the leases will be terminated in the first half of FY 16-17, however since the exact timing is not known at the time of the budget approval, the budget includes the full fiscal year amounts consistent with the FY 15-16 budget.

Even after OCII terminates the underlying ground leases with the Port and transfers the properties back to the Port, OCII will still have the responsibility to (1) pay off the outstanding bonds associated with the construction of the harbor facilities. The source of funds for this payment will be tax increment from the Harbor, fund balance remaining in the South Beach Harbor account at the time of lease termination, and if necessary, Harbor revenues transferred to OCII by the Port pursuant to the terms of the MOA. The bonds will be fully paid off in December 2016.

- b. **Community Facility District #1:** Staff manages a community facilities district that taxes property owners to maintain streetscape improvements in the South Beach neighborhood. The streetscape improvements include landscaping (i.e., street trees, lawns, ground cover, shrubs, flowers, etc.), irrigation and lighting systems, and street improvements (i.e., benches, plazas, and a stairway). Work includes managing the contract with a landscape maintenance firm that does the work and managing the maintenance funds paid by the property owners.

Western Addition A-2 (Expired Project Area)

Project Description & Status

The Redevelopment Plan for the former Western Addition A-2 Redevelopment Project Area (the Western Addition) expired on January 1, 2009.³ The SFRA implemented a development program for the Western Addition that included thousands of units of new and rehabilitated housing, the revitalization of the Nihonmachi and Fillmore business districts, public infrastructure improvements, small business

² The Board of Supervisors for the City and County of San Francisco (the "Board of Supervisors") and the SFRA authorized the use of new tax increment financing from the Rincon Point-South Beach Redevelopment Project Area exclusively for affordable housing to fulfill the SFRA's replacement housing obligations.

³ The Board of Supervisors and the SFRA authorized the use of new tax increment financing from the Western Addition A-2 Redevelopment Project Area exclusively for affordable housing to fulfill the SFRA's replacement housing obligations.

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assistance, job training, and workforce development. Since January 1, 2009, no new economic development programs could be initiated and the SFRA moved into an asset management role for both its real property assets as well as other contractual obligations, such as owner participation agreements for unfinished private development, disposition and development agreements, and economic development loan agreements.

FY 16-17 Workplan

- a. **Fillmore Heritage Center Garage:** The Fillmore Heritage Center is a mixed-use project the SFRA helped finance over 10 years ago to stimulate economic development along the lower Fillmore Street commercial corridor. The project includes 80 condominiums, ground-floor commercial space (which currently houses a music venue/restaurant and a second restaurant), and a 112-space public parking garage. The SFRA built the garage primarily to serve the two commercial tenants, and OCII continues to own this asset. Pacific Park Management operates the garage for OCII under a garage management agreement that runs until June 30, 2016. Staff anticipates bringing an extension of this agreement to the Commission for its consideration prior to its expiration.

The proposed budget for FY 16-17 includes \$1.0 million in expenses related to the garage. These expenses, which are paid with garage revenues and some new property tax revenue include: 1) \$415,000 for operating expenses and 2) \$600,000 for operating deficits and capital reserves. These amounts assume that OCII continues to own the garage during the entirety of the FY 16-17, however staff anticipates that the garage will be transferred to the City, pursuant to the PMP, prior to the end of FY 16-17. Work includes general asset management duties and implementing the disposition plan. Staff time will be paid out of OCII's asset management and disposition budget.

- b. **Fillmore Heritage Center Commercial Parcel:** OCII also owns the commercial space within the Fillmore Heritage Center. Previously, the commercial space was leased to a master tenant (FDC), who subleased it to Yoshi's jazz club/restaurant (subsequently renamed The Addition), and another restaurant, 1300 on Fillmore. The Addition closed in January 2015. The master lease with FDC was terminated in June 2015, and was immediately assumed by the City. The commercial space pays common area maintenance (CAM) charges to the homeowners' association, which manages the entire building and the common areas. Pursuant to the ground lease, the master tenant, now the City, is responsible for paying the CAM charges on the commercial parcel. If the master tenant fails to make these payments, for whatever reason, OCII, as owner of the commercial parcel, is responsible for paying any outstanding CAM charges. To be prudent, OCII is assuming that it will pay all of the CAM charges for the commercial parcel, which run about \$15,000 per month. Therefore, the budget includes \$180,000 to cover this expense for 12 months. Work includes managing the master tenant and subtenants, resolving problems with the homeowners' association, dealing with property management issues of the common areas, conducting analyses associated with a tenant's bankruptcy, and other asset management duties. Work also will include implementing the disposition plan; as noted above, OCII staff anticipates that the Commercial Parcel will be transferred to the City prior to the end of FY 16-17. Staff time will be paid out of OCII's asset management and disposition budget.

- c. **1450 Franklin and 1210 Scott Street Development Agreements:** Staff monitors two development agreements in this project area. Development is proceeding on an owner participation agreement to build 67 new condominium units at 1450 Franklin Street. Of those units, nine will be affordable to households earning up to 100 percent of area median income. Agency work on this project includes reviewing construction documents, design review and contract compliance. Staff also monitors a disposition and development agreement for a school gymnasium and classroom space at 1210 Scott Street. Work will be funded by the project sponsors.

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- d. **Tenant Improvement Loan Agreements:** OCII is currently the party to several tenant improvement loan agreements with businesses along Fillmore Street: work includes loan administration and monitoring. This work is paid through OCII's administrative cost allowance.

Other Active and Expired Redevelopment Project Areas

- a. **South of Market (Active Project Area):** The Redevelopment Plan for this project area does not expire until 2020, but Redevelopment Dissolution Law severely curtailed the SFRA's work program for this project area. Several planned projects and economic development programs have either been cancelled or not renewed, and the ongoing alleyway improvement project was transferred to the City to complete. OCII has very few enforceable obligations left in this project area.

There are still several active façade and tenant improvement loan agreements that were executed under OCII's "Six on Sixth" Loan Program. These loan agreements require some staff time until they are forgiven pursuant to their terms. Work includes processing subordination requests, monitoring the schedules for forgiving the loans, processing deeds of reconveyance, and consulting with legal counsel. This work is funded by OCII's administrative cost allowance.

- b. **Hunters Point (Expired Project Area):** The Redevelopment Plan for this project area expired in 2009 and the SFRA's redevelopment program for this project area was complete. The redevelopment program focused on creating a new residential community for low- to moderate-income residents with supporting commercial, educational and recreational uses. OCII continues to own several min-parks in this project area, and one larger park known as Shoreview Park.

OCII pays property management expenses for Shoreview Park, the one property it owns in this project area. The other mini-parks OCII owns in this project area are maintained by either the City or adjacent property owners. OCII anticipates transferring Shoreview Park to the City pursuant to the LRPMP during FY 16-17, but will continue to maintain the park until the transfer occurs. Accordingly the budget includes about \$20,000 for property management for Shoreview Park. Work includes managing the property management contract with a property management firm and implementing a disposition strategy pursuant to the PMP, which is a transfer to the City in FY 16-17.

In addition, OCII is carrying forward \$1.6 million in prior year budget authority and budgeting a further \$500,000 for capital improvements and deferred maintenance at Shoreview Park. The source of funds is CDBG program income mostly generated from a parcel of land OCII owns at 345 Williams Avenue. The capital improvement funds will be transferred to the City at the same time as the transfer of the property.

- c. **Bayview Industrial Triangle (Active Project Area):** The Redevelopment Plan for this project area doesn't expire until 2020 but the SFRA's redevelopment program for this project area, which was to create a new industrial park, was largely complete. OCII occasionally receives requests for land use approvals in this project area. Development is proceeding on several new mixed-use projects on privately-owned parcels at 4040 Third Street, 4101 Third Street, 4128 Third Street, and 1615 Jerrold Street. Work includes design review, zoning checks, and shepherding entitlement approvals through the Commission. Staff time will be reimbursed by the project sponsors.