OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-0472025-002

Agenda Item **No. 5(f)**
Meeting of July 15, 2025

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Authorizing the issuance of new money tax allocation bonds in one of more series or subseries in an aggregate principal amount not to exceed $175,000,000, as permitted in Sections 34177.7(a)(1)(A) and 34177.7(a)(1)(B) of the California Health and Safety Code, to finance infrastructure in the Transbay Project Area and affordable housing obligations, approving and directing the execution of a Third Supplement to Indenture of Trust, a Bond Purchase Contract, and other related documents, and approving other related actions, subject to Oversight Board and Department of Finance approval; Affordable Housing Obligations; Transbay Infrastructure Obligations

EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure ("OCII") proposes issuing two or more series or subseries of new money tax allocation bonds (the "Bonds") to fund affordable housing and Transbay infrastructure improvements, in an aggregate principal amount not exceeding $175 million. If approved, OCII staff currently anticipates that the Bonds will consist of two series captioned as the 2026 Series A Taxable Third Lien Tax Allocation Bonds (Affordable Housing and Transbay Infrastructure Projects) ("2026A Bonds") and the 2026 Series B Third Lien Tax Allocation Bonds (Transbay Infrastructure Projects) ("2026B Bonds"). A subsequent new money bond issuance is also planned for Mission Bay South infrastructure in an amount not-to-exceed $48 million, which will be brought before Commission for approval at a later date but has been accounted for in the Fiscal Year 2025-26 budget (more on this below).

As described in OCII's Fiscal Year 2025-26 annual budget, staff anticipates using a portion of the proceeds from the 2026A Bonds to fund affordable housing on the following:

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- Mission Bay South (Block 4 East A (predevelopment and construction))
- Candlestick Point (Block 11A (predevelopment))

In Transbay Under Ramp Park infrastructure improvements will be funded by:

- 2026A Bonds, private use portion
- 2026B Bonds, public use portion

To issue the proposed bonds, the Commission must adopt a resolution authorizing the proposed issuance, approving and directing the execution of the Third Supplement to Indenture of Trust and of the Bond Purchase Contract, and authorizing and directing OCII staff to take all actions necessary to complete the proposed transaction, as further described in the proposed resolution. The Board of Supervisors must also finally adopt the resolution approving the OCII Fiscal Year 2025-26 budget and bond financing amount. This action is expected on July 15, 2025.

After Commission approval, staff will request the Oversight Board review and approve the Commission's authorizing resolution for the Bonds. After Oversight Board approval, staff will submit the Oversight Board's resolution to the California Department of Finance ("DOF") for its review. If DOF fails to request review or approves the issuance, OCII staff will return to the Commission for approval of an official statement for the 2026A Bonds and 2026B Bonds prior to the sale of such bonds.

Staff recommends the Commission to authorize the issuance of the Bonds to fund affordable housing and Transbay infrastructure as described herein, subject to Oversight Board and Department of Finance approval.

DISCUSSION

The Fiscal Year 2025-26 budget, subject to approval by the Board of Supervisors, authorizes OCII to issue new money tax allocation bonds to fund affordable housing, Transbay infrastructure, and Mission Bay South infrastructure in an amount not-to-exceed $223 million. This not-to-exceed amount was projected based on information available during OCII's budget process. Of this aggregate not-to-exceed amount, OCII plans to issue the 2026A Bonds (taxable) and 2026B Bonds (tax-exempt) to fund affordable housing and Transbay infrastructure in an aggregate amount not-to-exceed $175 million, with a subsequent new money issuance planned for Mission Bay South infrastructure in an amount not-to-exceed $48 million. The not-to-exceed amount is a legally binding maximum, expected to be authorized by the Board of Supervisors at their meeting on July 15, 2025, that includes a conservative budget and a contingency of approximately 10% to account for unforeseen transaction and project cost increases. The not-to-exceed computation done during the budget process is shown below:

Table 1: Not-To-Exceed Sources and Uses

Sources	2026 (Taxable)	2026B (Tax-Exempt)	Total
Bond Proceeds	$141,755,000	$17,380,016	$159,135,016
~10% Contingency	14,165,000	1,699,984	15,864,984
Total Sources	**$155,920,000**	**$19,080,000**	**$175,000,000**
Uses			
Affordable Housing Project Fund	$100,000,000	-	$100,000,000
Transbay Project Fund	20,000,000	15,000,000	35,000,000
Debt Service / Reserve Funds	20,751,606	2,268,667	23,020,273
Transaction Costs	1,003,394	111,349	1,114,743
~10% Contingency	14,165,000	1,699,984	15,864,984
Total Uses	**$155,920,000**	**$19,080,000**	**$175,000,000**

Estimates for sources and uses based on current market conditions and project costs are described below.

Table 2: Current Estimate Sources and Uses (w/o contingency)

Sources	2026A (Taxable)	2026B (Tax-Exempt)	Total
Bond Principal	$132,260,000	$13,750,000	$146,010,000
Premium		917,441	917,441
Total Sources	**$132,260,000**	**$14,667,441**	**$146,927,441**
Uses			
Affordable Housing Project Fund	$97,832,000	$ -	$97,832,000
Transbay Project Fund	20,000,000	13,052,000	33,052,000
Debt Service Reserve Fund	13,226,000	1,375,000	14,601,000
Cost of Issuance	802,554	197,446	1,000,000
Underwriter’s Discount	396,780	41,250	438,030
Additional Proceeds	2,666	1,744	4,411
Total Uses	**$132,260,000**	**$14,667,441**	**$146,927,441**

The components of the Total Uses are defined below:

1. *Project Fund:* Monies in the project funds will be used to fund affordable housing and Transbay infrastructure projects.

2. *Debt Service Reserve Fund:* Cash or a debt service reserve surety insurance policy in the debt service reserve fund provide additional bondholder security and serve as a backstop should OCII be unable to make debt service payments. Debt service reserve funds are a standard characteristic of a tax allocation bond structure.

3. *Cost of Issuance:* The cost of consultants, such as municipal advisors, bond counsel, disclosure counsel, and the property tax consultant, as well as the cost of OCII staff time required to issue the bonds.

4. *Underwriter's Discount*: The Underwriter's Discount is the difference between the price the underwriters pay the issuer and the price at which they sell the bonds to the public. The underwriter is the financial intermediary reselling the bonds to investors and the Underwriter's Discount reflects the underwriter's fee for selling the bonds.

5. *Bond Underwriter:* A bond underwriter is a financial intermediary, typically an investment bank, that purchases bonds from an issuer (like a corporation or government) with the intention of reselling them to investors. They play a crucial role in the bond issuance process, assessing risk, pricing the bonds, and facilitating their sale to the public.

6. *Additional Proceeds:* Balance the sources and uses and will be allocated to the project funds when the issuance numbers are finalized.

An OCII bond financing team typically consists of a Financial Advisor, Bond Counsel, Disclosure Counsel, and Fiscal Consultant ("Financing Team"). The roles of each of the Financing Team are described below. Issuing bonds is a technical process that requires specialized knowledge. As such, to issue bonds, OCII must procure the services of a Financing Team with the appropriate knowledge and skills. OCII Financing Team's roles are summarized below:

1. *Financial Advisor:* Is a specialist in public finance and advises OCII on the structure of the bond transaction, ensuring that OCII issues bonds at the least possible cost with the lowest possible risk. Both Dissolution Law and SEC Rule 15 require that OCII hire a Financial Advisor when issuing bonds.

2. *Bond Counsel:* Is responsible for drafting the bond documents, which are contracts between OCII, the investors, and the financial institutions involved in the bond issuance, ensuring the bond issuance is consistent with public finance laws and Dissolution Law, and providing legal opinions on those matters.

3. *Disclosure Counsel:* Is responsible for drafting the official statement, which is a summary of the terms of the bond issuance and presents investors with the relevant financial, project, and risk information.

4. *Fiscal Consultant*: Has specialized knowledge of the revenue base supporting the bonds and provides a revenue analysis that determines OCII's bonding capacity, which is the amount of bonds OCII has sufficient revenue to issue.

The Commission previously approved contracts with the members of the Financing Team at its meeting of May 6, 2025 (Resolution No. 12-2025, 13-2025, 14-2025), with the exception of the Fiscal Consultant. The contract for Fiscal Consultant will be considered by the Commission for approval at its meeting on July 15, 2025.

The proposed resolution authorizes OCII to issue up to $175 million of the $223 million authorized by the Fiscal Year 2025-26 budget. The actual issuance amounts will be finalized in the weeks before the bond issuance and will be based on the most up-to-date project costs and market conditions. OCII will only issue the amount of bonds necessary to fund project costs. OCII's use of bonds to fund affordable housing and Transbay infrastructure (both long-term capital assets) is an appropriate use of long-term debt.

OCII also plans to issue tax allocation bonds secured from incremental property tax revenues generated from the Mission Bay South Project Area ("MBS"). The new money proceeds of the MBS bonds will be used to fund infrastructure in MBS, and the new money MBS bonds will be issued in an amount not-to-exceed $48 million. This $48 million, combined with the $175 million not-to-exceed amount for the 2026A Bonds and 2026B Bonds totals the not-to-exceed $223 million authorized by the Fiscal Year 2025-26 budget.

Enabling Authority

The proposed 2026A Bonds and 2026B Bonds would be issued pursuant to Sections 34177.7(a)(1)(A) and 34177.7(a)(1)(B) of the California Health and Safety Code, which gives OCII specific authority, with approval of the Oversight Board and DOF, to issue bonds to fund its Affordable Housing Obligations in the Mission Bay, Transbay, and the Candlestick Point-Hunters Point Shipyard Project Areas and to fund infrastructure required by the Transbay Implementation Agreement.

OCII's Affordable Housing Obligations were established under certain development agreements approved by DOF as enforceable obligations. These development agreements are:

- Disposition and Development Agreement Hunters Point Shipyard Phase 1
- Disposition and Development Agreement (Candlestick Point and Phase 2 of the Hunters Point Shipyard)
- Mission Bay North Owner Participation Agreement
- Mission Bay South Owner Participation Agreement
- Transbay Implementation Agreement

Together, these agreements constitute OCII's Affordable Housing Obligation of approximately 4,334 affordable housing units. As of June 30, 2023, 2,101 units of OCII's Affordable Housing Obligation were complete, 330 were in construction, and 662 were in predevelopment. The proposed bonds would provide funding for 341 units, or 15 percent of OCII's remaining Affordable Housing Obligation.

Proposed Action

As a first step in issuing the proposed bonds, the Commission must adopt a resolution authorizing the proposed issuance, approving and directing the execution of the Third Supplement to Indenture of Trust and of the Bond Purchase Contract, and authorizing and directing OCII staff to take all actions necessary to complete the proposed transaction.

Proposed Issuance

OCII staff currently anticipates that OCII will issue two series of new money tax allocation bonds: the 2026A Bonds (taxable) and 2026B Bonds (tax-exempt) in an aggregate amount not-to-exceed $175 million. These bonds will be secured by property tax revenues generated from certain former and current redevelopment areas as depicted in the 2023 Series A&B Third Lien Tax Allocation Bonds' Official Statement.

The bonds will comply with the provisions of the Successor Agency's debt policy (the "Debt Policy"), adopted by Resolution 32-2021 of the Commission on October 5, 2021, unless such compliance is waived in accordance with the Debt Policy. A portion of the proceeds of the 2026A Bonds are programmed for several affordable housing funding actions included in the Fiscal Year 2025-26 budget. Details on the proposed affordable housing projects that may be funded with proceeds of the 2026A Bonds are summarized below.

Table 3: 2026A Bonds - Affordable Housing Project Detail

Project Area	Project Name	Units
Mission Bay South	Block 4 East A	165
Candlestick Point	Block 11A	176
Total		**341**

A portion of the proceeds of the 2026A Bonds, along with the proceeds of the 2026B Bonds, are programmed for the Under Ramp Park in the Transbay Project Area. If these projects are delayed or otherwise not ready for funding, OCII may apply the proceeds of the proposed bond issuance to other eligible projects that the Commission has approved in the annual budget.

Third Supplement to Indenture of Trust and Bond Purchase Contract

The proposed resolution approves the form of the Third Supplement to Indenture of Trust ("Third Supplement") and Bond Purchase Contract.

The proposed resolution also approves, to the extent the Bonds are issued in one or more series or subseries at different times, the issuance of such other Bonds pursuant to one or more supplemental indentures to the Original Indenture (each an "Additional Supplement"), substantially in the form of the Third Supplement, with such additions thereto or changes therein as are approved by an Authorized Officer upon consultation with the Successor Agency's General Counsel and Bond Counsel.

The proposed resolution also authorizes and directs, to the extent the Bonds are issued in one or more series or subseries at different times, each Authorized Officer, without the further approval of the Oversight Board, the Department of Finance, or any other person or entity, to execute and deliver each one or more additional bond purchase contracts (each an "Additional Purchase Contract"), substantially in the form of the Bond Purchase Contract, with such additions thereto or changes therein as are recommended or approved by an Authorized Officer upon consultation with the Successor Agency's General Counsel and Bond Counsel. Staff anticipates returning to the Commission at a later date to approve the selection of the underwriter(s) for the 2026A Bonds and the 2026B Bonds.

The resolution provisions authorizing Additional Supplements and Additional Purchase Contracts allow OCII the flexibility to execute and deliver the documentation required to issue additional series of bonds beyond the 2026A Bonds and 2026B Bonds. This authorization is being sought in the event that one or more projects are delayed and it becomes beneficial to split the issuance of 2026A Bonds and/or 2026B Bonds into multiple separate bond issuances. If additional series of bonds are issued beyond the 2026A Bonds and 2026B Bonds, all series issued under this authorization would still be subject to the aggregate not-to-exceed amount of $175 million.

Actions Necessary to Complete the Proposed Transaction

The proposed resolution authorizes and directs OCII staff to take all actions necessary to complete the proposed transaction, subject to approval by the Oversight Board and DOF. The table below identifies the critical next steps required to complete the transaction.

Table 4: Next Steps

August 6	Oversight Board consideration of OCII's authorizing resolution
August 11	Submission of approved Oversight Board resolution and related documents to DOF for review and approval
October 15	Final date for DOF determination regarding issuance
November 18	After DOF approval, Commission consideration of preliminary official statement and other actions necessary for issuance
December 10	Bond pricing, interest rates set
January 6, 2026	Bond closing, funds received

Municipal Advisor's Analysis

Attached to the proposed resolution is the Municipal Advisor's Analysis by KNN. The Municipal Advisor's Analysis was prepared by KNN and is required by Section 34177.7(i) of the Government Code. The analysis confirms that the proposed financing meets the requirements of the law as set forth in Section 34177.5(h) of the Health and Safety Code. The analysis affirms that OCII has made diligent efforts to ensure it obtains the lowest long-term cost of financing, the proposed bond issuance does not provide for any bullets or spikes and does not use variable interest rates.

California Environmental Quality Act

The issuance and sale of the new money tax allocation bonds do not constitute a "project," as defined under the California Environmental Quality Act ("CEQA") Guidelines Section 15378(b)(4), because the actions will not independently result in a physical change in the environment and are therefore not subject to environmental review under CEQA.

(Originated by Nick Jones, Debt Manager)

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