MEMORANDUM

TO: Oversight Board Members

FROM: Nadia Sesay, Executive Director

SUBJECT: Approving an Excess Bond Proceeds Obligation Under Section 34151.4(c)(1)(A) of the California Health and Safety Code in a Grant Agreement with the Port of San Francisco for an amount not to exceed $9.0 million to fund partially the Mission Bay Ferry Landing Project

EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure (“OCII”) seeks authorization to enter into a Grant Agreement with the Port of San Francisco to grant an amount not-to-exceed $9.0 million to fund the Mission Bay Ferry Terminal Landing Project. If approved, the Grant Agreement would be funded by excess bond proceeds. As per Dissolution Law, excess bond proceeds are proceeds from bonds issued prior to December 31, 2010 that are not required to fund enforceable obligations. California Health & Safety Code § 34191.4(c)(1)(A) allows successor agencies that have received a finding of completion from the Department of Finance to expend excess bond proceeds with approval of their Oversight Board. OCII received a Finding of Completion on May 29, 2013. The expenditure described in the proposed grant agreement is included in OCII’s Department of Finance approved 18-19 ROPS (line 425) and Board of Supervisor’s approved FY 18-19 budget.

Staff recommends approval of a Grant Agreement between the Office of Community Investment and Infrastructure and the Port of San Francisco to grant an amount not-to-exceed $9.0 million to fund the Mission Bay Ferry Landing Project.

DISCUSSION

The Office of Community Investment and Infrastructure (“OCII”) seeks authorization to enter into a Grant Agreement with the Port of San Francisco to grant an amount not-to-exceed $9.0 million to fund the Mission Bay Ferry Landing Project. If approved, the Grant Agreement would be funded by excess bond proceeds. As per Dissolution Law, excess bond proceeds are proceeds from bonds issued prior to December 31, 2010 that are not required to fund enforceable obligations. California Health & Safety Code § 34191.4(c)(1)(A) allows successor agencies that have received a finding of completion from the Department of Finance to expend excess bond proceeds with the approval of their Oversight Board. OCII received a Finding of Completion on May 29, 2013.

Background

The San Francisco Redevelopment Authority (SFRDA), through the San Francisco Financing Authority, issued its tax-exempt bond series 2007B to 1) refund certain outstanding bonds, 2) fund a Reserve Account, and 3) pay bond issuance costs. Reserve Accounts are accounts held by the bond trustee such that the proceeds of the account are available to the extent SFRDA is unable to make required debt service payments. The Reserve Accounts must be maintained at an amount
equal to the Reserve Requirement as defined in the applicable bond documents and are currently equal to the maximum annual debt service.

On August 1, 2018, all but one of the loan agreements supporting the issuance of 2007B matured, reducing the maximum annual debt service and therefore reducing the total Reserve Requirement. OCII will instruct the trustee to transfer to OCII the amount of the cash on deposit in the Reserve Accounts in excess of the Reserve Requirement. Pending the trustee’s final reserve and allocated interest calculations, the trustee will transfer approximately $8.4 million to OCII. As amounts released from the Reserve Accounts constitute proceeds of series 2007B, OCII must expend these funds consistent with Federal tax rules applicable to tax-exempt bonds. To avoid Federal tax issues, OCII must expend these funds on capital costs of a project constructed for governmental purposes no later than two (2) years from the date that the trustee transfers proceeds from the Reserve Accounts (which date is approximately August 2020).

While OCII has numerous enforceable obligations remaining, the timing requirements described above make it extremely difficult for OCII to expend the cash reserve to fund enforceable obligations. OCII does not yet have eligible expenditures in the Hunters Point Shipyard / Candlestick Project Area and OCII funded eligible expenditures in the Mission Bay North, Mission Bay South, and Transbay Project Areas by issuing tax-exempt bond series 2016D and 2017B. As OCII cannot spend the cash reserve from series 2007B on remaining enforceable obligations, OCII seeks to use the cash reserve from series 2007B to fund projects sponsored by other government entities that will benefit OCII enforceable obligations in the Hunters Point Shipyard / Candlestick Point, Mission Bay North, Mission Bay South, or Transbay Project Areas.

**Process**

OCII staff worked with the Mayor’s Budget Office (MBO) and the City of San Francisco’s capital planning team to identify projects that meet the above-described Federal tax rules and benefit the Hunters Point Shipyard / Candlestick Point, Mission Bay North, Mission Bay South, or Transbay Project Areas. The group identified the Port of San Francisco’s Mission Bay Ferry Landing Project as the best use of the series 2007B cash reserve. The Ferry Landing Project meets the Federal tax rules because it is a governmental facility serving the general public and the Port expects to expend the grant funds by August 1, 2020. The Ferry Landing Project will benefit the Mission Bay South Project Area by increasing Ferry service to and from Mission Bay.

Capital planning staff presented this recommendation to the City’s Capital Planning Committee on April 30, 2018 and the Capital Planning Committee accepted the recommendation on May 14, 2018 as part of its approval of the FY18-19 and FY19-20 General Fund Capital Budget. The Board of Supervisors approved the General Fund Capital Budget on July 24, 2018.

OCII included the expenditure described in the proposed Grant Agreement in its FY 18-19 ROPS (line 425) and FY 18-19 budget. The Department of Finance approved the FY 18-19 ROPS on May 17, 2018 and the Board of Supervisors approved OCII’s FY18-19 budget on July 24, 2018.

**Scope of Work**

The Mission Bay Ferry Landing Project will be located in Mission Bay South, within walking distance of the Golden Gate Warriors Chase Center. When complete, the Mission Bay Ferry Landing will provide the capability to berth two ferry boats simultaneously, handling up to 6,000 passengers per day. The Port anticipates that the San Francisco Bay Area Water Emergency
Transportation Authority (WETA) and Golden Gate Bridge Transportation District will provide ferry service at the Landing. The Port anticipates the project will be complete in or about 2021.

As per the Port, the total Project budget is $42.7 million. The funds provided by the proposed Grant Agreement are a partial source. Port will fund the remainder of the project with Port funds, the City’s General Fund, private contributions, and Regional Measure 3, a regional ballot measure through which voters authorized increased bridge tolls to fund transportation improvements.

**Grant Agreement Terms**

The proposed Grant Agreement will become effective the date it is approved by both the Oversight Board and the Port Commission. The Grant Agreement requires that the grant funds be expended by August 1, 2020; however, the term of the Grant Agreement extends until December 31, 2020 in order to allow time for OCII to confirm the Port’s expenditures qualify as eligible uses in compliance with the Federal tax requirements related to the expenditure and use of tax-exempt bond proceeds. If, however, the Port does not establish a plan for expending the grant funds in a timely manner, as described in the Grant Agreement, OCII has the sole and absolute discretion to expend the funds on other OCII projects.

The Port will expend the funds on a reimbursable basis. Following expenditure, the Port will request reimbursement by providing OCII with requisitions for disbursements for project expenditures, including invoices and other relevant information. OCII staff will work with bond counsel to confirm the expenditures qualify as eligible uses in compliance with Federal tax requirements related to the expenditure and use of tax-exempt bond proceeds. Following confirmation, OCII will disburse the requested amount to the Port within five days of confirmation.

The Port acknowledges that OCII has approximately $8.4 million available to fund the Mission Bay Ferry Landing Project. However, because the trustee has not yet completed final reserve and allocated interest calculations, OCII and the Port mutually agreed to a grant amount not-to-exceed $9.0 million dollars should the final calculations exceed $8.4 million.

**Next Steps**

Final approval of the proposed Grant Agreement is conditional upon the approval of the Port Commission. The Port Commission is scheduled to consider the Grant Agreement on September 25, 2018.

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

Nadia Sesay  
Executive Director