MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
       Executive Director

SUBJECT: Approving a resolution authorizing the issuance of special tax refunding bonds for the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) in an amount not to exceed $40,000,000, approving and directing the execution of a Fiscal Agent Agreement, an Escrow Deposit and Trust Agreement and a Bond Purchase Agreement, and approving other documents and actions properly relating thereto; Hunters Point Shipyard Project Area

EXECUTIVE SUMMARY

In 2005, the former Redevelopment Agency of the City and County of San Francisco ("SFRA") issued $34,500,000 initial principal amount of Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) in Variable Rate Demand Special Tax Bonds, 2005 Series A (the "2005 Bonds"). Community Facilities District No. 7 ("CFD No. 7") was established to pay for the construction of infrastructure and parks in furtherance of the financing plan for the Hunters Point Shipyard Phase 1 Development and Disposition Agreement. The 2005 Bonds were issued with a variable rate of interest and secured by a direct-pay letter of credit which expires in September 2014.

Today HPS Development Co., LP., successor in interest to Lennar-BVHP, LLC (the "Developer") is seeking Commission authorization to replace the 2005 Bonds with a new bond issuance with a fixed rate. Refinancing the variable rate bonds to fixed rate bonds will substantially level the debt service payments in accordance with the CFD No. 7 Rate and Method of Apportionment. In order to accomplish this, the Commission needs to:

1. Issue bonds designated as "Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014" (the "2014 Bonds") in the principal amount not to exceed $40,000,000.

2. Approve a i) Fiscal Agent Agreement, ii) an Escrow Deposit and Trust Agreement, and iii) a Bond Purchase Agreement.

The proposed 2014 Bonds will be fixed interest rate bonds and will refund the outstanding 2005 Bonds. On April 1, 2014 the Commission initiated the process by adopting Resolutions of
Consideration to amend and restate the rates and methods of apportionment ("RMA") for CFD No. 7, as well as for Community Facilities District No. 8 ("CFD No. 8"), the latter of which was formed in 2008 to provide revenues for open space maintenance.

Like the 2005 Bonds, the 2014 Bonds will be payable only from special taxes levied in CFD No. 7 located in the Hunters Point Shipyard. Therefore the 2014 Bonds will not be payable from property tax revenues deposited into the Redevelopment Property Tax Trust Fund established pursuant to Dissolution Law.

OCIIL staff recommends adoption of a resolution authorizing the issuance of the 2014 Bonds to refund the 2005 Bonds and approving the forms of a Fiscal Agent Agreement, an Escrow Deposit and Trust Agreement, a Bond Purchase Agreement and other documents related thereto.

BACKGROUND

Hunters Point Shipyard and Candlestick Point Overview and Summary
The Hunters Point Shipyard (the "Shipyard") and Candlestick Point areas (together the "Project") are comprised of approximately 750 acres along the long-neglected waterfront lands of southeastern San Francisco. These lands will be developed and transformed into productive areas for jobs, parks, and housing, including affordable housing through public-private partnerships ("DDAs") with OCIIL. The Project will be implemented in two phases by the Developer under separate DDAs (the "Phase 1 DDA" and the "Phase 2 DDA").

The Project will deliver over 12,000 new homes, approximately 32 percent of which will be below market rate and will include the rebuilding of the Alice Griffith public housing development consistent with the City's HOPE SF program, up to 3 million square feet of research and development space, and more than 350 acres of new parks in the southeast portion of San Francisco. In total, the Project will generate over $6 billion of new economic activity to the City, more than 12,000 permanent jobs, hundreds of new construction jobs each year, new community facilities, new transit infrastructure, and provide approximately $90 million in community benefits. The Project's full build out will occur over 20-30 years, but over 1,000 units of housing and 26 acres of parks will be completed over the next five years in the first phase of the Shipyard.

Phase 1 Development Program
In March 2004, the U.S. Department of the Navy transferred Parcel A (75 acres) at the Shipyard to SFRA for development. In December 2003, the SFRA Commission authorized the Phase 1 DDA with the Developer. The Phase 1 DDA obligates the Developer to construct the infrastructure necessary to support the total vertical development of 1,498 housing units in the Phase 1 development and 26 acres of open space and parks.

Issuance of 2005 Bonds
In 2005 and in furtherance of the financing plan for the Phase 1 DDA, the SFRA Commission authorized the formation of CFD No. 7, pursuant to the Mello-Roos Community Facilities Act of
1982, as amended (the “Mello-Roos Act”), and issued the 2005 Bonds to help fund the cost of public infrastructure development (including open space improvements) required pursuant to the Phase 1 DDA. The 2005 Bonds are payable only from special taxes levied in CFD No. 7, and are not payable from property tax revenues deposited into the Redevelopment Property Tax Trust Fund established pursuant to Dissolution Law.

The repayment of the 2005 Bonds is currently secured by an irrevocable, direct-pay letter of credit (the “Letter of Credit”) issued by JPMorgan Chase Bank, N.A. (the “Bank”). A letter of credit was required at the time the 2005 Bonds were issued in order to comply with SFRA’s adopted Local Goals and Policies regarding credit quality policy for CFD bond issues (“CFD Credit Policy”) because the value of the taxable property in the CFD did not allow SFRA to achieve a 3:1 value-to-lien ratio (i.e., the value of the taxable property in the CFD was not at least three times the initial principal amount of the 2005 Bonds). The 2005 Bonds have a balloon maturity of August 1, 2036 and the entire outstanding principal amount of the 2005 bonds is due and payable on that date. The 2005 Bonds are subject to full repayment if there is no renewal of the Letter of Credit prior to its stated termination date of September 12, 2014.

Amendment and Restatement of Rate and Method of Apportionment
On April 1, 2014, by Resolution No. 24-2014 and No. 25-2014, the Commission approved an amendment and restatement of the form of RMAs for CFD No. 7 and No. 8. The RMAs were updated to reflect the Phase 1 DDA’s current development program and make adjustments in the taxes in CFD No. 7 and No. 8.

Enforceable Obligation
On December 14, 2012, the California State Department of Finance (“DOF”) issued a Final and Conclusive Determination under California Health and Safety Code § 34177.5 (i), that the Phase 1 DDA and the Phase 2 DDA are enforceable obligations that survived the dissolution of SFRA. The Commission’s legal authority to issue CFD bonds is pursuant to the Mello-Roos Act and the issuance of CFD bonds is an implementing action under the Phase 1 DDA and is therefore authorized under Dissolution Law. Further, Dissolution Law does not affect the current operation of CFD No. 7 or result in a change in the name of CFD No. 7.

Financing Team
In addition to OCII staff, the financing team is comprised of:

- **Bond Counsel**: Jones-Hall, as approved by Commission Resolution No. 22-2014.
- **Financial Advisor**: CSG Advisors (“CSG”), selected from the City’s approved financial advisor pool after OCII issued an invitation to propose to the four Northern California firms with CFD experience. The personal services contract, in an amount not to exceed $25,000, is being executed under the Executive Director’s authority for contracts under $50,000, pursuant to the OCII’s Purchasing Policy.
- **Disclosure Counsel**: Schiff Hardin, selected from the City’s approved disclosure counsel pool through a competitive Request for Proposal (“RFP”) process. The personal services contract, in an amount not to exceed $40,000, is being executed under the Executive
Director’s contracting authority for contracts under $50,000 pursuant to OCII’s Purchasing Policy.

- **Special Tax Consultant**: Goodwin Consulting Group, Inc. as approved by Commission Resolution No. 23-2014.

- **Underwriters**: Stifel Nicolaus & Company, Inc., Managing Underwriter and Backstrom McCarley Berry and Company, co-manager. These firms were selected for Commission consideration after a unanimous recommendation from the selection panel comprised of OCII Finance and Shipyard project staff in consultation with the City Controller’s Office of Public Finance. The proposals were submitted in response to an RFP issued to the City’s pool of approved underwriters. The two recommendations were chosen from among four respondents. The proposed Commission Resolution No. 27-2014, would ratify this selection.

- **Appraiser**: Seevers, Jordan, Ziegenmeyer, was selected from the Phase 1 DDA’s approved pool of real estate appraisers. The personal services contract, in an amount not to exceed $15,000, is being executed under the Executive Director’s authority for contracts under $50,000, pursuant to OCII’s Purchasing Policy.

**DISCUSSION**

In order to provide for a fixed interest rate and substantially level debt service, in accordance with the CFD No. 7 RMA, the Developer is seeking the approval of the Commission to issue the 2014 Bonds. The 2005 Bonds are variable rate bonds, which means that they are affected by interest rate fluctuations. Refinancing the variable rate bonds to fixed rate bonds will substantially level the debt service payments. Proceeds of the 2014 Bonds will be used only to redeem the 2005 Bonds, including any accrued interest due, fund a reserve fund, and pay costs of issuance.

Pursuant to OCII’s CFD Credit Policy, which relies on a 3:1 value-to-lien ratio formula, the maximum amount of the bond issuance may not exceed one third of the value of the subject taxable property. An independent appraisal (the “Appraisal”) was ordered by OCII of the taxable property in CFD No. 7 (the “Property”) and was conducted by the appraisal firm, Seevers, Jordan, Ziegenmeyer. The Appraisal valued the Property at $119,620,000 which provides the basis for a $39,873,333 issuance consistent with 3:1 value-to-lien ratio. However, the 2014 Bond is set not to exceed $40,000,000 to be able to capture any additional market value of the Property that may accrue due to construction progress between now and July when the 2014 Bond is issued. Although an increase in the value of the Property is anticipated, the amount of the 2014 Bond will be limited to the final appraised value of the Property pursuant to the 3:1 value-to-lien ratio requirement and will not exceed $40,000,000.

The issuance by OCII of the 2014 Bonds to refund the 2005 Bonds is authorized by Section 34177.5(a)(2) of Dissolution Law, which authorizes successor agencies to issue bonds “to finance debt service spikes, including balloon maturities, provided that (A) the existing indebtedness is not accelerated, except to the extent necessary to achieve substantially level debt service, and (B) the principal amount of the bonds or other indebtedness shall not exceed the
amount required to finance the debt service spikes, including establishing customary debt service reserves and paying related costs of issuance.”

OCII and its consultants have prepared forms of the following documents in connection with the issuance of the 2014 Bonds:

1. Fiscal Agent Agreement (the “Fiscal Agent Agreement”), by and between OCII, for and on behalf of CFD No. 7, and The Bank of New York Mellon Trust Company, N.A., as fiscal agent, which, among other things, sets forth the terms and conditions of the 2014 Bonds, the rights of the holders thereof, and the obligations of OCII to such bondholders. A copy of the Fiscal Agent Agreement is attached hereto as Attachment A.

2. Bond Purchase Agreement (the “Bond Purchase Agreement”), between OCII, for and on behalf of CFD No. 7, and Stifel, Nicolaus & Company, Incorporated, representing the underwriters of the 2014 Bonds (the “Underwriter”), which sets forth the terms and conditions of the Underwriter’s purchase of the 2014 Bonds. A copy of the Bond Purchase Agreement is attached hereto as Attachment B.

3. Escrow Deposit and Trust Agreement (the “Escrow Agreement”; together with the Bond Purchase Agreement and the Escrow Agreement, the “Bond Documents”), by and between OCII, for and on behalf of CFD No. 7, and The Bank of New York Mellon Trust Company, N.A., as escrow holder (in such capacity, the “Escrow Bank”), which, among other things, establishes an escrow fund in which proceeds of the 2014 Bonds will be deposited and remitted by the Escrow Bank to the Bank to reimburse it for the draw on the Letter of Credit to redeem the 2005 Bonds. A copy of the Escrow Agreement is attached hereto as Attachment C.

The Commission’s approval of Resolution No. 27-2014, authorizes the issuance of the 2014 Bonds to refund the 2005 Bonds and approves the forms of each of the Bond Documents on file with the Secretary of the Commission. In addition, the Resolution authorizes and directs an authorized officer of OCII to complete and execute each of the Bond Documents with such changes, additions or deletions as may be approved by such authorized officer.

OCII staff anticipates returning to the Commission in early July 2014 for approval of the preliminary official statement for the 2014 Bonds and after the Appraisal of the market value of the Property has been updated to capture any increase in value since the Appraisal was issued and information about the current status of property ownership and development in CFD No. 7 has been compiled.

Concurrent Change Proceedings
On April 1, 2014, the Commission began the process to change certain terms in CFD No. 7 and CFD No. 8, known as “change proceedings,” to amend and restate the current RMAs of special tax for both CFD’s. OCII staff anticipates that such proceedings will be completed no later than May 6, 2014 and prior to the issuance of the 2014 Bonds and the refunding of the 2005 Bonds.
Community Outreach
OCII staff provided a briefing on this CFD transaction for the Mayor’s Hunters Point Shipyard Citizens Advisory Committee (“CAC”) and the community at the CAC’s March 24, 2014 Executive Subcommittee meeting and there was consensus to move this item forward to the Commission.

Approval of the Oversight Board and Department of Finance
The issuance of the 2014 Bonds are subject to the approval of the Oversight Board and DOF. OCII staff anticipates presenting the issuance of the 2014 Bonds to the Oversight Board for approval on April 28, 2014. OCII staff anticipates submitting to DOF the Oversight Board’s approval of the issuance of the 2014 Bonds immediately thereafter.

California Environmental Quality Act
The sale and issuance of the 2014 Bonds are fiscal activities of OCII that do not constitute “projects,” as defined by the California Environmental Quality Act Guidelines Section 15378 and would not result in any significant physical effect on the environment.

RECOMMENDATION
Staff recommends adoption of the Authorizing Resolution for the purpose of refunding the 2005 Bonds as set forth above.

(Originated by John Daigle, Sr. Financial Analyst and Thor Kaslofsky, Project Manager)

Tiffany Bonee
Executive Director

Attachment A: Form of Fiscal Agent Agreement
Attachment B: Form of Bond Purchase Agreement
Attachment C: Form of Escrow Deposit and Trust Agreement