MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Approving a resolution confirming the issuance of Special Tax Refunding Bonds for 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 a Preliminary Official Statement and authorizing the execution of a final Official Statements and approving other documents and actions properly relating thereto; Hunters Point Shipyard Project Area (the "Confirming Resolution")

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") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the "Mello-Roos Act"). Community Facilities District No. 7 ("CFD No. 7"), located in the Hunters Point Shipyard Project Area (the "Shipyard"), was established to pay for the construction of infrastructure and parks in furtherance of the financing plan for the Shipyard’s 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.

Pursuant to Resolution No. 27-2014, adopted by the Commission on April 15, 2014 (the "Approving Resolution"), the Commission authorized and approved the issuance of 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. The 2014 Bonds will be subject to a fixed interest rate and will be used to effectively refund the 2005 Bonds. Refunding the 2005 Bonds, which are variable rate bonds, with the 2014 Bonds, which are fixed rate bonds, will substantially level the debt service payments in accordance with the rate and method of apportionment of special taxes for CFD No. 7.

Pursuant to Resolution No. 3-2014, adopted April 28, 2014 (the “Oversight Board Resolution”), the Oversight Board approved the issuance of the 2014 Bonds by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, also known as the Office of Community Investment and Infrastructure (hereinafter referred to as “OCII”), and said resolution
was forwarded to the California Department of Finance ("DOF") pursuant to Sections 34177.5(f) and 34179(h) of the California Health and Safety Code. On or about May 28, 2014, DOF informed OCII that based on its review of the Oversight Board Resolution, DOF has concluded that its approval is not required pursuant to Section 34179(e) of the California Health and Safety Code for the issuance by OCII of the 2014 Bonds and reaffirmed this in a clarifying letter to OCII on June 20, 2014.

In anticipation of the sale of the 2014 Bonds, OCII, with the assistance of Schiff Hardin, disclosure counsel, Jones Hall, bond counsel, CSG Advisors Incorporated financial advisor, Goodwin Consulting special tax consultant and Stifel Nicolaus, and Backstrom McCarley Berry, the underwriters (the "Financing Team"), has caused to be prepared a form of Official Statement (the "Official Statement") describing the 2014 Bonds and containing material information relating thereto, the preliminary form of which is on file with the Secretary of the Commission.

OCII staff retained an independent appraiser, Seevers, Jordan, Ziegenmeyer (the "Appraiser"), to determine whether the maximum principal amount of the 2014 Bonds satisfies the requirement of the Mello-Roos Act and OCII’s local goals and policies regarding credit quality for CFD bond issues ("CFD Credit Policy") that the aggregate value of the taxable property in the CFD (the "Property") be at least three times the amount of public debt payable from special taxes and assessments levied on the Property, including the 2014 Bonds. This value relationship is referred to as a “three-to-one value-to-lien ratio.” The Appraiser estimates the value of the Property at approximately $127,650,000 as of May 30, 2014 (the “Appraised Value”), which would allow OCII to issue the 2014 Bonds in the principal amount of $42,550,000 (which is well in excess of the maximum principal amount of the 2014 Bonds authorized by the Commission and approved the Oversight Board) and meet the uniform three-to-one value-to-lien ratio required by the Mello-Roos Act.

The CFD Credit Policy also provides that, in situations where there is less than a uniform three-to-one value-to-lien ratio for parcels in a community facilities district -- which is the case in the CFD -- OCII may require additional credit enhancement prior to a bond sale. In consultation with the Financing Team, OCII staff is recommending that no credit enhancement be required, for the reasons described below.

To permit OCII staff to proceed with the sale of the 2014 Bonds, OCII staff requests that the Commission adopt the Confirming Resolution, pursuant to which the Commission, among other things, will:

1. Approve the issuance of the 2014 Bonds without a requirement for credit enhancement;

2. Approve the Preliminary Official Statement describing the 2014 Bonds, in substantially the form on file with the Secretary of the Commission (with such changes thereto as certain officers of OCII deem advisable) and, prior to its distribution, authorize and direct certain officers of OCII, to deem the preliminary Official Statement "final" pursuant to applicable law;
(3) Authorize officers and agents of OCII to take such actions and execute such other documents as they may deem necessary to consummate the issuance of the 2014 Bonds in accordance with the Approving Resolution and the Confirming Resolution; and

(4) Confirm its actions in the Approving Resolution authorizing and approving the issuance of the 2014 Bonds.

OCII staff recommends adoption of the Confirming Resolution.

BACKGROUND

Hunters Point Shipyard and Candlestick Point Overview and Summary

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 OCII. 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 and 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 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 the Redevelopment 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"). SFRA required the Letter of Credit at the time the 2005 Bonds were issued so as to provide a credit enhancement under the CFD Credit Policy because the value of the taxable property in the CFD did not achieve a uniform 3:1 value-to-public 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), and otherwise would have resulted in unacceptably high interest costs. 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.

Enforceable Obligation
On December 14, 2012, 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. OCII is authorized to issue the 2014 Bonds 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 the Redevelopment Dissolution Law. Further, the Redevelopment Dissolution Law does not affect the current operation of CFD No. 7 or result in a change in the name of CFD No. 7.

DOF Approval
Pursuant to the Oversight Board Resolution, the Oversight Board approved the issuance of the 2014 Bonds by OCII, and said resolution was forwarded to DOF pursuant to Sections 34177.5(f) and 34179(h) of the California Health and Safety Code. On or about May 28, 2014, DOF informed OCII that based on its review of the Oversight Board Resolution, DOF has concluded that its approval is not required pursuant to Section 34179(e) of the California Health and Safety Code for the issuance by OCII of the 2014 Bonds and reaffirmed this in a clarifying letter to OCII on June 20, 2014.

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 rate and method of apportionment of special tax for both CFDs. Such proceedings were completed on May 6, 2014.

DISCUSSION
Rationale for Refinancing
In order to provide for a fixed interest rate and substantially level debt service, pursuant to the Authorizing Resolution, the Commission authorized the issuance of the 2014 Bonds to refund the 2005 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
refund the 2005 Bonds, including any accrued interest due, fund a reserve fund, and pay the costs of issuance.

Appraisal
In connection with the issuance of the 2014 Bonds, OCII staff retained the Appraiser to determine whether the maximum principal amount of the 2014 Bonds satisfies the requirement of the Mello-Roos Act and CFD Credit Policy that there be a three-to-one value-to-lien relationship between the uniform value of the Property and the amount of public debt payable from special taxes and assessments levied on the Property, including the 2014 Bonds. The Appraiser estimates the value of the Property to be approximately $127,650,000 as of May 30, 2014, which would allow OCII to issue the 2014 Bonds in the principal amount of $42,550,000 (which is well in excess of the maximum principal amount of the 2014 Bonds authorized by the Commission and approved the Oversight Board) and meet the aggregate three-to-one value-to-lien ratio required by the Mello-Roos Act and the CFD Credit Policy.

No Requirement for Credit Enhancement
The CFD Credit Policy also provide that, in situations where there is less than a uniform three-to-one value-to-lien ratio for parcels in a community facilities district -- which is the case in the CFD -- OCII may require additional credit enhancement prior to a bond sale. The CFD Credit Policy also contemplates exceptions to the credit-related policies in the CFD Credit Policy for bond issues that that do not represent an unusual credit risk. OCII staff has consulted with the Financing Team and recommends to the Commission that it find that the parcels within CFD No. 7 with a less than three-to-one value-to-lien ratio do not represent an unusual credit risk and that no credit enhancement should be required on the basis of the following:

1. The Developer has been pursuing development on the Property since 1999 and has expended significant funds in doing so. Since 1999 the Developer has expended nearly $70 million and has put in place performance bonds and corporate guaranty to complete remaining backbone infrastructure in the amount of approximately $21 million in order to break ground on approximately 250 of 1,100 housing units within the Property. It is clear that the Developer has an ongoing and substantial commitment to develop the parcels within the Property.
2. The Developer has not missed a payment of special taxes, even throughout the recent economic downturn.
3. The parcels within the Property with a lower than three-to-one value-to-lien ratio are currently undeveloped. However, infrastructure supporting the Hilltop portion of the Property is substantially complete and many blocks have complete construction documents and permits to begin building. Further, while the Hillside infrastructure is only partially complete, the Developer has been promulgating designs to complete the infrastructure and vertical development so that building can begin in the near-term (see below, Table 1: Value to Debt, from the Official Statement for the Property value breakdown).
4. The Developer is also in the process of transferring title to many of the undeveloped parcels to vertical builders to proceed with development.
Table 1: Value-to-Debt Burden Analysis

<table>
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<tr>
<th></th>
<th>Units</th>
<th>Value/Lot(1)</th>
<th>Total Appraised Value</th>
<th>Fiscal Year 2014-15</th>
<th>Principal Bond Amount</th>
<th>Value-to-Debt Burden(2)</th>
<th>% of Share of Maximum Special Taxes</th>
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<tr>
<td>Hilltop - Developed</td>
<td>247</td>
<td>$187,530</td>
<td>$46,319,910</td>
<td>$884,786</td>
<td>$8,369,842</td>
<td>5.53</td>
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<td>Hilltop - Undeveloped</td>
<td>458</td>
<td>103,668</td>
<td>47,479,944</td>
<td>1,693,239</td>
<td>16,017,597</td>
<td>2.96</td>
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<tr>
<td>Hillside - Undeveloped</td>
<td>374</td>
<td>90,508</td>
<td>33,849,992</td>
<td>1,477,584</td>
<td>13,977,561</td>
<td>2.42</td>
<td>36</td>
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<td>Total</td>
<td>1,079</td>
<td></td>
<td>$127,649,846</td>
<td>$4,055,609</td>
<td>$38,365,000</td>
<td>3.33</td>
<td>100%</td>
</tr>
</tbody>
</table>

(1) Based on June 9, 2014 Appraisal Report prepared by Seevers • Jordan • Ziegenmeyer.
(2) Excludes all debt secured by ad valorem property taxes.
(3) "Value-to-Debt Burden Ratio." Based upon a principal amount of Bonds of $38,365,000, the overall value-to-debt burden ratio for the District is 3.33:1*.

Source: Goodwin Consulting Group, Inc.

Official Statement
In anticipation of the sale of the 2014 Bonds, OCII, with the assistance of the Financing Team, has caused to be prepared a form of Official Statement describing the 2014 Bonds and containing material information relating thereto, to be used in connection with the offering for sale of the 2014 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 meetings in March, April, and May and there was consensus to move this item forward to the Commission.

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
To permit OCII to proceed with the sale of the 2014 Bonds, OCII staff recommends adoption of the Confirming Resolution for the purpose of, among other things, (1) approving the issuance of the 2014 Bonds without any credit enhancement for the reasons described above; (2) approving the Preliminary Official Statement describing the 2014 Bonds, in substantially the form on file with the Secretary of the Commission (with such changes thereto as certain officers of OCII deem advisable) and, prior to its distribution, authorize and direct certain officers of OCII, to deem the Preliminary Official Statement “final” pursuant to applicable law; (3) authorizing officers and agents of OCII to take such actions and execute such other documents as they may
deem necessary to consummate the issuance of the 2014 Bonds in accordance with the Approving Resolution and the Confirming Resolution; and (4) confirmation of its actions in the Approving Resolution authorizing and approving the issuance of the 2014 Bonds.

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

Tiffany Bohoc
Executive Director

Attachment 1: Preliminary Official Statement