INFORMATIONAL MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee, Executive Director

SUBJECT: Informing the Commission of the proposed disposition of the Moscone Convention Center North to the City and County of San Francisco pursuant to the 1988 Project Lease, an enforceable obligation, upon payment of the outstanding bonds and deferred rental payments as required by the 1988 Project Lease; the former Yerba Buena Center Redevelopment Project Area

EXECUTIVE SUMMARY

The purpose of this Informational Memorandum is to provide information to the Commission about the proposed transfer of the Moscone North (defined below) section of the George R. Moscone Convention Center (the “Moscone Center”) from the Office of Community Investment and Infrastructure, as Successor Agency to the Redevelopment Agency of the City and County of San Francisco (“OCII”), to the City and County of San Francisco (the “City”).

The former Redevelopment Agency of the City and County of San Francisco (“SFRA”) issued lease revenue bonds to finance the construction of Moscone North on land owned by SFRA. As security for the bonds, SFRA and the City entered into a 1988 Project Lease (the “1988 Project Lease”). The 1988 Project Lease is an enforceable obligation in compliance with California Health and Safety Code Section 34171(d) (1) (E).

OCII is required, pursuant to the 1988 Project Lease, to transfer Moscone North to the City upon the City’s payment in full of the SFRA-issued bonds and the City’s payment of all deferred rental payments to OCII. The 1988 bonds were paid in full by the City in August 2014. The City will pay the deferred rental payments in November 2014, rather than 2018, as contemplated in the 1988 Project Lease, to gain full ownership of Moscone North, and therefore complete site control over the property, before it begins a major expansion of the Moscone Center later this year.

As explained later in this Informational Memorandum, the deferred rental payments from the City are restricted revenues that are not available for redistribution to the taxing entities under Redevelopment Dissolution Law. OCII plans to use the restricted deferred rental payments to fund the Yerba Buena Gardens capital reserve account.

The Long-Range Property Management Plan (“PMP”) that OCII submitted to the State of California Department of Finance (“DOF”) indicated that a transfer of Moscone North to the City, pursuant to an enforceable obligation, was likely to occur in 2014. Therefore, the pending transfer of Moscone North is consistent with the PMP, and, as indicated in the PMP, is on schedule to happen in 2014.
In addition, the proposed transfer is subject to overview and approval by the Oversight Board in compliance with California Health and Safety Code Section 34181 (a). The Oversight Board is holding a public hearing regarding the transfer of Moscone North on October 27, 2014. The Moscone North transfer to the City will be completed upon approval of the transfer by the Oversight Board and DOF.

DISCUSSION

Between the mid-1960s and late 1970s, SFRA acquired, with federal funds, all of the land on Central Block Two ("CB-2") and Central Block Three ("C-3") in the Yerba Buena Center Redevelopment Project Area (the "Project Area").

The Moscone Center spans large portions of CB-2 and CB-3 in the Project Area’s Yerba Buena Gardens (See Attachment 1 – Map of Yerba Buena Gardens). The Moscone Center was built above and below ground on CB-2 and CB-3, in two major phases (described below) between 1979 and 1991, as the need for additional convention space grew.

Between 1979 and 1988, SFRA issued lease revenue bonds to finance the construction and improvements associated with the Moscone Center complex on land owned by SFRA. As described below, the 1979 bonds were paid in full in 2011. The 1988 bonds, which were refunded over the years, were paid in full in August 2014 (the "1988 Bonds"). In both instances the bonds were secured by leases with the City. Today, OCII and the City share ownership of the Moscone Center. The following summarizes the development of the Moscone Center since 1979 and the current property ownership interests between OCII and the City.

- **Moscone South.** In 1981, the first section of the Moscone Center – Moscone South was completed. It was primarily an underground structure spanning the length and width of CB-3, except for an above-ground lobby facing Howard Street and a few stairwell structures, ramp walls, and landscaping features ("Moscone South"). Moscone South was owned by SFRA and leased to the City under a 1979 Project Lease. In 2011, the City paid the 1979 bonds in full, and SFRA was required under an enforceable obligation, namely the 1979 Project Lease, to transfer this property to the City. As a result, all of Moscone South is now owned by the City.

- **Moscone North.** In 1992, the final section of the Moscone Center – Moscone North was completed. Moscone North is comprised of a building (the esplanade ballroom and administrative offices) on CB-3; an above-ground lobby on the CB-2 side of Howard Street; an underground portion of Howard Street connecting the Moscone buildings on both sides of Howard Street; and an expansive underground section of CB-2 ("Moscone North"). (See Attachment 2 for photographs of Moscone North.) SFRA issued the 1988 Bonds and entered into another lease with the City as security for the 1988 Bonds (the "1988 Project Lease"). The 1988 Project Lease provided for, in addition to bond debt service payments by the City, deferred rental payments, which represent a deferred $20 million land payment for the property. These deferred rental payments were considered the “fair rental value” at the time and the City has been making annual payments of $870,000 since 1996, with the final payment scheduled for 2018.
OCII still owns Moscone North. A proposed transfer is contemplated, however, since the City paid off the 1988 Bonds in August 2014 and will be making the final deferred rental payment in November 2014 (instead of 2018). As a result, OCII is required under an enforceable obligation (i.e., the 1988 Project Lease) to transfer Moscone North to the City. Additional details on the upcoming transfer are discussed later in this Informational Memorandum.

To summarize, the City currently owns all of Moscone South and OCII currently owns all of Moscone North.

Proposed Transfer

OCII proposes to transfer Moscone North to the City pursuant to an enforceable obligation in compliance with California Health and Safety Code Section 34177 (c). According to the 1988 Project Lease, OCII must transfer title in Moscone North to the City once the lease terminates upon the payment in full of the (1) 1988 Bonds, and (2) deferred rental payments.

As mentioned above, the City paid the 1988 Bonds in full in August 2014. The City included the deferred rental payment of $3,480,000, which is the total of all the annual payments due from 2015 through 2018, in its fiscal year 2014-15 budget (the “Final Rental Payment”) and is prepared to make this Final Rental Payment to OCII in November 2014. OCII’s use of the Final Rental Payment is subject to federal restrictions, which are described below. The City decided to make the Final Rental Payment now, instead of 2018, to gain full ownership of Moscone North and ensure complete site control over the property before it begins a major expansion of the Moscone Center later this year. For the reasons explained above, OCII is proposing to complete the transfer of Moscone North to the City upon receipt of the approvals described below.

Federal Restrictions

In light of SFRA’s use of federal Urban Renewal funds to acquire initially the land for Moscone North, the Final Rental Payment is considered “program income” (as defined by Title 24 in the Code of Federal Regulations) under the Community Development Block Grant (“CDBG”) Program and must comply with CDBG regulations. Accordingly, these funds are restricted revenues that are not available for redistribution to the taxing entities under Redevelopment Dissolution Law (“Dissolution Law”). Indeed, the U.S. Department of Housing and Urban Development (“HUD”) recently conducted a monitoring review of certain OCII properties acquired with federal funds and determined that federal obligations continue to apply to these properties. Accordingly, in September 2014, HUD issued a letter1 to the Mayor’s Office of Housing and Community Development (the “HUD Letter”) outlining the results of the monitoring review. See Attachment 3, the HUD Letter for additional details.

As the HUD Letter confirms, income generated from Project Area properties, which includes the Moscone North property, is considered restricted CDBG program income. The HUD Letter also

---

1 Letter, from M. Cremer, HUD Director, Community Planning and Development Division, to O. Lee, Director, MOCD (September 26, 2014).
confirms that the “operation, maintenance, and security of open space, plazas, walkways, landscaping, parks gardens, fountains...” of Yerba Buena Gardens is an allowable use of restricted program income. Therefore, OCII plans to fund the Yerba Buena Gardens capital reserve account with the Final Rental Payment, which OCII uses for maintenance and capital improvements at OCII-owned Yerba Buena Gardens.

**OCII’s Long-Range Property Management Plan (“PMP”)**

In November 2013, OCII submitted its PMP to DOF for approval, as required by Redevelopment Dissolution Law. The PMP indicated that a transfer of Moscone North to the City, pursuant to an enforceable obligation, was likely in 2014. Therefore, the pending transfer of Moscone North is consistent with the PMP, and, as indicated in the PMP, is on schedule to happen in 2014.

**NEXT STEPS**

**Escrow Process, Oversight Board Approval, DOF Review**

To effectuate the proposed transfer, the City has opened escrow with a local title company. The City will deposit into escrow the Final Rental Payment and OCII will deposit a quitclaim deed and a notice of termination of the 1988 Project Lease (the “Transfer Documents”). The transfer of Moscone North, as an enforceable obligation, is subject to overview and approval by the Oversight Board in compliance with California Health and Safety Code Section 34181 (a). The Oversight Board is holding a public hearing regarding the transfer of Moscone North on October 27, 2014.

DOF has five days following the Oversight Board hearing to request a review of the Oversight Board’s actions related to the proposed transfer of Moscone North. If DOF does not request a review, the Oversight Board’s actions become final. If DOF requests a review, it then has up to 60 days to review the matter.

Escrow will close upon approval of the Moscone North transfer by the Oversight Board and DOF. At closing, the Transfer Documents will be recorded and the Final Rental Payment will be submitted to OCII. As a result, OCII will have no further ownership interest in the Moscone Center.

*(Originated by Denise Zermani, Senior Development Specialist)*

Tiffany Bohan
Executive Director

Attachment 1: Map of Yerba Buena Gardens
Attachment 2: Photographs of Moscone North
Attachment 3: HUD Letter