INFORMATIONAL MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee, Executive Director

SUBJECT: Informing the Commission of the proposed change of funding source for up to $1,300,000 in Recognized Obligations Payment Schedule (“ROPS”) 14-15B Item 140 Yerba Buena Gardens capital improvements from lease revenues to tax-exempt bond proceeds

EXECUTIVE SUMMARY

The purpose of this Informational Memorandum is to provide information to the Commission on the anticipated change in funding source for Recognized Obligations Payment Schedule (“ROPS”) 14-15B Item 140 Yerba Buena Gardens capital improvements from lease revenues to tax-exempt bond proceeds. The reason for this change in funding source is to comply with Internal Revenue Service guidelines that tax-exempt bond proceeds should be expended on eligible purposes as expeditiously as possible. This request does not involve any increase in the overall spending authority approved by the Commission in its Resolution 32-2014, authorizing OCII’s FY 2014-15 budget. Nevertheless, any change in funding source from what was included on a Recognized Obligations Payments Schedule (“ROPS”) submittal requires approval from the Oversight Board and Department of Finance. Office of Community Investment and Infrastructure (“OCII”) will be submitting this request to the Oversight Board for approval at its next meeting, scheduled for November 24, 2014.

DISCUSSION

OCII is responsible for maintaining the Yerba Buena Gardens (“YBG”) properties within the Yerba Buena Center redevelopment project area. The YBG Properties are a collection of urban mixed-use spaces, with private commercial and retail operations alongside public cultural and recreational facilities, gardens and plazas. The YBG properties function as a self-financing operation, in which the private uses are required to financially support the maintenance of the public uses and also the operations of the cultural facilities. The dedicated funding stream is an enforceable obligation of the OCII’s pursuant to an interlocking set of agreements with the OCII’s long-term tenants (e.g., the Marriott Hotel, the Metreon, and an affiliate of Millennium Partners) and other Yerba Buena Gardens stakeholders. These long-term agreements (ranging from 78 to 90 years) require the Agency to operate, maintain, and program the open space, and fund cultural operations at Yerba Buena Gardens. The agreements also require OCII to deposit lease revenue and developer exactions funds from all Yerba Buena Gardens sources into a restricted, segregated account (the “Separate Account”). Some YBC tax-exempt bond proceeds are also in the Separate Account.
OCII has $1,172,096 in Yerba Buena Center ("YBC") project area tax-exempt bond proceeds balances left over from earlier capital projects. The accounts in which these funds are held also have allocated interest of over $100,000, bringing the total amount of bond funds and associated interest that could be available for uses consistent with the bond indentures to roughly $1,300,000.

These balances are distinct from other tax-exempt bond proceeds held in reserve for Mexican Museum and Museum of African Diaspora tenant improvements ($7,785,119 and $303,000 respectively).

OCII has programmed up to $2,550,058 during the period of January – June 2015 on ROPS 14-15B Item 140. These improvements were budgeted to be funded with lease revenues. The planned improvements include:

- Expansion joint work at the Children's Creativity Museum and preliminary expansion joint work in other areas of YBG;
- Required code/safety repairs to the children's garden fountain/play stream;
- Replacement of the Child Development Center's elevator and security improvements;
- Replacement of boilers in several YBG buildings;
- Major landscaping projects including removal and replacement of trees and plantings at the end of their lifecycle, and hardscape projects including widespread repair of paved surfaces throughout YBG;
- Major repairs/replacements to electrical, irrigation, and other mechanical equipment throughout YBG, including replacement of the orchestra pit lift at Yerba Buena Center for the Arts;
- The purchase of new capital equipment (cardboard bailer, sweeper) in order to conserve water and reduce operating fees.

YBC lease agreements require that lease revenues be applied first toward YBC annual operating costs and capital needs. Accordingly, any lease revenues that would be freed up through this substitution of bond funds, and that are in excess of annual operating requirements, will remain in the YBC capital reserve account as restricted funds and be available for capital improvements anticipated in future fiscal years.

NEXT STEPS
OCII will be submitting a resolution to the Oversight Board meeting scheduled for November 24, 2014 to seek approval of the substitution of YBC bond proceeds and associated interest for lease revenues on ROPS 14-15B Item 140.

(Originated by Leo Levenson, Deputy Executive Director, Finance and Administration)

Tiffany Bohler
Executive Director