MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Resolution authorizing the issuance of special tax bonds for Community Facilities District No. 6 (Mission Bay South Public Improvements) in an aggregate principal amount not exceed $160,000,000, and approving and directing the execution of a third supplement fiscal agent agreement, a bond purchase agreement, an official statement, an escrow agreement, the engagement of professionals and approval of other related documents and actions, Mission Bay South Redevelopment Project Area

EXECUTIVE SUMMARY

Staff requests the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (“Successor Agency”) approval to issue three series of special tax bonds for Community Facilities District (“CFD”) No. 6 - Mission Bay South Public Improvements (“2013 Bonds”) in an aggregate amount not to exceed $160,000,000 and approving related documents and actions. The three series of 2013 Bonds are comprised of: Series 2013A and 2013B, which are current interest bonds, and the Series 2013C Bonds, which are capital appreciation bonds.

The net proceeds of the 2013 Bonds will be used to refund outstanding 2001 and 2002 special tax bonds previously issued by the Agency to achieve debt service savings, currently estimated at $7.5 million on a net present value basis, and to satisfy the Successor Agency’s obligations described below to reimburse FOCIL-MB, LLC, the Master Developer of Mission Bay, (“Master Developer”) for public infrastructure improvements.

The Mission Bay Project requires substantial new infrastructure (an estimated $700 million in streets, utilities, parks and open space) to convert this infill former rail yard land into a vibrant transit-oriented development. At full build-out, Mission Bay will be comprised of 6,000 units of housing (30% affordable) and an economic and employment engine driven by UCSF’s new research campus and medical center, and private tech and biotech-oriented office and lab space, along with neighborhood retail uses and amenities. In order to catalyze the necessary infrastructure investment, the Former Redevelopment Agency entered into agreements with the Master Developer. The core agreement, the Mission Bay North and South Owner Participation Agreements (“OPAs”) obligates the Master Developer to build certain public infrastructure, and obligates the Successor Agency to reimburse these expenditures from a variety of funding sources, one of which is the 2013 Bonds.
The following is the rationale for approving the issuance of the 2013 Bonds:

- **Contractual Obligation.** The Successor Agency is contractually obligated under the OPA agreement with the Master Developer to issue CFD bonds when requested, to reimburse infrastructure costs already incurred.
- **Interest Rate Savings.** The savings achieved through the refunding are significant, estimated at $7.5 million on a net present value basis, amounts to more than 8% of the par of the refunded bonds.
- **Importance of the Mission Bay Development.** Infrastructure investment supported by the 2013 Bonds is being leveraged into thousands of new market-rate and affordable housing units, millions of square feet of new research, medical, education, biotech and office space, thousands of construction and permanent jobs, and $9 billion in total new investment in the City at full build-out.

The issuance of the 2013 Bonds has several noteworthy characteristics:

- **Fiscal Neutrality to the Successor Agency and City.** The 2013 Bonds are payable exclusively from special taxes levied only against property within CFD No. 6 located in the Mission Bay South Project Area. These special taxes were instituted specifically for the purpose of funding Mission Bay South Project Area infrastructure, and have no impact on City and Successor Agency revenue.
- **Precedent.** The 2013 Bonds would be the fourth issuance of bonds for CFD No. 6. Over $114 million of prior special tax bonds have been issued to date for CFD No. 6.

The urgency of the recommended action is driven by the following:

- **Historically Low Interest Rates.** The sizable savings described above are the result of historically low interest rates.
- **Financial Efficiency.** There are limited windows (twice a year) during which existing bonds can be refinanced without additional interest costs associated with refunding bonds on a non-payment date. To meet this next payment window, notification of redemption must be given by January 2, 2013 to existing bond holders.
- **Substantial Near-Term Infrastructure Investment Required.** The 2013 Bonds help replenish infrastructure resources of the Master Developer at a critical moment in Mission Bay’s development. The $1.6 billion first phase of UCSF’s Medical Center, San Francisco’s $243 million Public Safety Building, and 972 units of new residential are all already under construction and require substantial new infrastructure in the next 18 months, which must be commenced immediately.

The professionals working on the financing team, including bond counsel, disclosure counsel, co-financial advisors and underwriters, were selected from the City’s pre-approved pools and the co-manager, Backstorm McCarly Berry & Co., is a minority owned business.

*Staff recommends approval to sell the 2013 Bonds in an amount not to exceed $160,000,000, and of related documents and actions.*
BACKGROUND

Enforceable Obligation: Mission Bay South Owner Participation Agreement

The Mission Bay South Owner Participation Agreement ("OPA") between the former San Francisco Redevelopment Agency ("Former Redevelopment Agency") and now, the Successor Agency, and FOCIL-MB, LLC, ("Master Developer"), establishes the protocols for financing infrastructure improvements in the Mission Bay South Project Area (see map, Exhibit A), including the sale of bonds. The OPA is an enforceable obligation consistent with Assembly Bill No. 1X 26 (Chapter 5, Statutes of 2011-12, First Session) ("AB 26") and is included on the Recognized Obligation Payment Schedules ("ROPS"), approved by the Oversight Board on April 10, 2012 (Resolution No. 5-2012) and May 7, 2012 (Resolution No. 6-2012). The ROPS for January to June 2012 and July to December 2012 were approved by the State’s Department of Finance in a letter to the Successor Agency, dated May 25, 2012. Exhibit B provides additional information about the Mission Bay existing obligation. The ROPS for January to June 2013 was approved by the Oversight Board on August 28, 2012 and all Mission Bay enforceable obligations were approved by the Department of Finance in a letter to the Successor Agency, dated October 12, 2012.

In June of 2012, the California legislature adopted Assembly Bill 1484 (Chapter 26, Statutes of 2011-12, Regular Session) ("AB 1484") amending certain provisions of AB 26 (collectively the "Dissolution Law"). Subsequent to the adoption of AB 1484, the BOS adopted Ordinance No. 215-12 to create a new Successor Agency Commission and provide it with certain authority to act as the Successor Agency of the Former Redevelopment Agency. Specifically, Ordinance No. 215-12 allows the Successor Agency Commission to approve the issuance of bonds to carry out the enforceable obligations, subject to any approval of the Oversight Board.

Mission Bay North and South Project Areas

The Mission Bay North and South Redevelopment Project Areas ("Mission Bay") are comprised of roughly 303 acres of former rail yards, located adjacent and to the south of AT&T ballpark and the 4th and King Caltrain station (see map, Exhibit A). At full build-out Mission Bay is expected to house approximately 6,000 units of housing (30% affordable), 9 million square feet of research, medical, education, biotech, office and retail space, generate thousands of construction jobs and 30,000 permanent jobs, and spur $9 billion in total new investment in the City. The Mission Bay North Project Area is substantially developed and nearing completion, and is not the subject of the bond program proposed below. The 2013 Bonds will fund public improvements within the Mission Bay South Project Area, which is comprised of the land bound by Mission Creek / China Basin Channel to the north, the Interstate-280 flyover and Caltrain tracks to the west, Mariposa Street to the south, and the San Francisco Bay to the east.

The Mission Bay South Project Area is in the middle of extensive new development of housing, commercial office and retail, a new public safety building, and the University of California, San Francisco ("UCSF") research campus and medical center. Approximately 620 of a total of 3,000+ units of housing have already been built in the Mission Bay South Project Area, with another 972 under construction and 540 breaking ground in the next six months. This new residential community will be served with over a hundred thousand square feet of locally serving retail concentrated along the 4th Street corridor. Over 30% of the total residential units built in
the Mission Bay South Project Area will be affordable, with the Master Developer donating sites for these affordable units. The newest Mission Bay affordable housing project is under construction and will provide 150 rental units to low income families.

Over 1.7 million of a total of 4.4 million square feet of new office and lab space has been built to date in the Mission Bay South Project Area, housing companies ranging from traditional companies like Old Navy to biotech like Bayer Pharmaceuticals, Nektar and Fibrogen, to cloud computing companies like Meraki. The $243 million public safety building, future home to San Francisco’s police administrative headquarters and a new police station and firehouse, whose bond financing was approved by San Francisco voters in 2010, is currently under construction and scheduled to open in 2014. The UCSF research campus already has over 2 million square feet of new facilities built out of a total of 2.65 million square feet approved. The $1.6 billion first phase of UCSF’s Mission Bay Medical Center, currently under construction and scheduled to open in early 2015, is comprised of 289 beds in three component hospitals: cancer treatment, women’s health and a children’s hospital.

Significant new public streets, utilities, parks and open space (“Improvements”) are needed to serve this development and extend the street grid into this former rail yard, with over 14 acres of new open space already developed in Mission Bay. The Improvements are comprised of an estimated $700 million in new infrastructure across the Mission Bay Project Areas. In order to facilitate the development of the Improvements, the Former Redevelopment Agency entered into a series of agreements with Catellus, the original landowner of a majority of Mission Bay. In 2004, Catellus transferred its rights and obligations under these agreements to FOCIL-MB, LLC, the current Master Developer. The agreements, now between the Successor Agency and the Master Developer, include the OPA which contains both an Infrastructure Plan that specifies scope and phasing of the Improvements, and a Financing Plan for funding the Improvements. Under these agreements with the Master Developer, Improvements are first built by the Master Developer, and then reimbursed through a variety of funding sources, including tax increment, tax allocation bonds, grants and community facilities district (“CFD”) bond proceeds like those from the 2013 Bonds.

Community Facilities District No. 6

Community Facilities District No. 6 - Mission Bay South Public Improvements (“CFD No. 6”) was specifically formed to finance the Improvements within the Mission Bay South Project Area by levying special taxes only on property owners within CFD No. 6, which is located in the Mission Bay South Project Area. These special taxes are in addition to regular property taxes collected from these owners. The special taxes have been collected from these owners since 2002. Interest and principal of the 2013 Bonds will be paid exclusively from these special taxes and not from any other sources.

The 2013 Bonds will represent the fourth time CFD special tax bonds have been issued for CFD No. 6. The three prior issuances, resulting in over $114 million, have been issued to date within CFD No. 6 and were used to reimburse the Master Developer for Improvements built in and around the Mission Bay South Project Area. The initial formation of CFD No. 6 and the three prior issuances, made in 2001, 2002 and 2005, are described in detail below:
In March of 2000, the Commission of the Former Redevelopment Agency conducted proceedings under and pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the “Act”), to form CFD No. 6, to authorize the levy of special taxes upon the land within CFD No. 6, to issue bonds to finance certain public facilities and to establish an appropriations limit for CFD No. 6, all as described in Resolution Nos. 45-2000, 46-2000 and 47-2000 (collectively, the “District Formation Resolutions”), each adopted by the Commission of the Former Redevelopment Agency on March 28, 2000.

The Former Redevelopment Agency entered into a Fiscal Agent Agreement, dated as of June 1, 2001, with Wells Fargo Bank, National Association, as Fiscal Agent (the “Fiscal Agent”), and on July 10, 2001, the Former Redevelopment Agency issued $54,000,000 principal amount of CFD No. 6 Special Tax Bonds, Series 2001-South (the “2001 Bonds”), to finance various Improvements. The Fiscal Agent Agreement provided that under certain conditions additional bonds may be issued, as authorized by a supplemental fiscal agent agreement, and secured on a parity with the 2001 Bonds.

The Former Redevelopment Agency and the Fiscal Agent subsequently entered into a supplement to Fiscal Agent Agreement, and, under the terms of the Fiscal Agent Agreement as supplemented on November 7, 2002, the Former Redevelopment Agency issued $39,330,000 principal amount of its CFD No. 6 Special Tax Bonds, Series 2002 Parity-South (the “2002 Bonds”), to provide additional financing for the Improvements.

The Former Redevelopment Agency and the Fiscal Agent also entered into another supplement to the Fiscal Agent Agreement in 2005, and on July 26, 2005, the Former Redevelopment Agency issued $15,160,000 principal amount of CFD No. 6 Special Tax Bonds, Series 2005A Parity-South and $5,708,938.75 principal amount of CFD No. 6 Special Tax Bonds, Series 2005B Parity-South (collectively, the “2005 Bonds”), to provide additional financing for the Improvements.

The scheduled debt service on the Series 2001 Bonds, the Series 2002 Bonds and the Series 2005 Bonds has been paid only from the Special Taxes (as defined in the Fiscal Agent Agreement) levied on property in CFD No. 6 and amounts in certain funds held under the Fiscal Agent Agreement and earnings thereon. No Tax Increment has ever been used to pay debt service on the Series 2001 Bonds, the Series 2002 Bonds or the Series 2005 Bonds.

DISCUSSION

Under the provisions of the Mission Bay South Owner Participation Agreement between the Successor Agency and the Master Developer, the Master Developer has requested that the Successor Agency issue new parity bonds under the Fiscal Agent Agreement in order to provide reimbursements for the Improvements. The Successor Agency is obligated, under various agreements with the Master Developer, to issue special tax bonds to pay costs of the Improvements. In addition, due to historically favorable interest rates, the outstanding Series 2001 Bonds and Series 2002 Bonds can be refunded with the proceeds of another new series of parity bonds issued under the Fiscal Agent Agreement, resulting in substantial savings in interest costs. The refunding is estimated to generate net present value savings over $7.5 million, or
approximately 8.4% of the refunded bonds. New special tax bonds are also authorized, and these proceeds will be utilized to pay for previously incurred infrastructure costs in the Mission Bay South district.

Three series of bonds will be sold: (1) the 2013A Bonds will be used to refund the outstanding 2001 Bonds and 2002 Bonds; and (2) the 2013B Bonds and the 2013C Bonds will be used to finance costs of the Improvements. There are limited windows (twice a year) during which existing bonds can be refinanced without additional interest costs associated with refunding bonds on a non-payment date. To meet this next payment window, notification of issuance must be given by January 2, 2013.

Estimated Financing Results

The 2013 Bonds are anticipated to be priced in the second week of January and to close by January 31, 2013. The true interest cost is expected to range between 4.50% and 5.00% for the 2013A and 2013B Bonds and between 5.90% and 6.40% for the 2013C Bonds. The refunding is estimated to generate net present value savings over $7.5 million, or about 8.4% of the refunded bonds, which will be capitalized and used for the acquisition of public improvements.

Attached to this memorandum is the Official Statement for the proposed 2013 Bond issuance (Exhibit C). It provides descriptions of the 2013 Bonds, the Improvements to be funded with the 2013B and 2013C Bond proceeds, the security and sources of payments for the 2013 Bonds, and other matters related to this transaction.

Bond Description

The 2013 Bonds are comprised of three series of bonds: Series 2013A and 2013B are current interest bonds, and the Series 2013C Bonds are capital appreciation bonds (“CABs”). CABs are different than current interest bonds in terms of the cash flows that support payment of the bonds. Current interest bonds access existing, near-term and medium-term flows of revenue for reimbursement, such as special taxes, that are already available at the time the bond is issued, allowing for the payment of principal and interest from the time of issuance onward. CABs are structured to be able to bond against revenue sources that will be available in the long-term, but are not accessible today — thereby allowing greater access to capital for infrastructure improvements needed today. CABs are not considered any more risky than current interest bonds for the issuer, but their interest expense is higher because the buyer of the bonds has to wait longer to be paid back.

The three series of bonds described above each serve a different purpose. In the case of CFD No.6, most of the existing current interest bonds are being refinanced with new, lower interest rate bonds. This is the new Series 2013A bonds. Once those existing bonds are refinanced, the special assessment fees collected under CFD No.6 that had been used to pay the old current interest bond will be available to pay the new current interest bonds (Series 2013A), as well as additional new current interest bonds (Series 2013B). At current market conditions, the Series 2013A bonds will result in significant interest rate savings, which provide additional debt service capacity to repay the Series 2013B bonds.
Finally, the 2013C CABs are secured by special taxes after the two current interest bond series mature. By accessing those future special tax payments through the use of CABs, the Successor Agency will have access sooner to the capital necessary for a portion of the reimbursement due to the Master Developer for its multi-million dollar investment in Mission Bay for all of the necessary infrastructure. CABs are a form of bond in which interest is not currently payable on the bonds. Instead the interest on these obligations accrues and is paid at maturity.

California State Treasurer Bill Lockyer recently expressed concern about the use of CABs in connection with a number of school district financings. His comments addressed a number of issues including the final maturity of the bonds, the fact that total debt service to be paid by the school districts was a multiple of the amount of bond proceeds received by the school districts and the fact that use of CABs increases the amount of interest paid on the amount borrowed relative to current interest bonds. Because no payments are made on a CAB until the future flow of money becomes available, the interest continues to accrue over the years until repayment begins, thereby increasing overall amount of interest paid on the bonds.

Successor Agency staff believes it is reasonable to use CABS as part of the financing program for CFD No. 6, and has previously used CAB financings. By issuing CABs, the Successor Agency will be able to use bond proceeds to reimburse the Developer earlier then it would otherwise with current interest bonds. This is consistent with the original intent of the public-private partnership outlined in the OPA between the Successor Agency and the Master Developer to work jointly towards quickly reimbursing the Master Developer for their upfront costs as bond financing is available. In addition, the use of CABs will not impose costs in excess of the total assessed fees that the property owners in CFD No. 6 originally agreed to pay over the lifetime of CFD No. 6. The CABs are subject to optional prepayment which would allow the Agency to refinanced them in the future with current interest bonds if market conditions are favorable.

Credit Rating Considerations

The Series 2013 Bonds will be sold as unrated securities. The Series 2013 Bonds will be sold as unrated securities. The underwriters and financial advisors considered carefully the question of whether or not the transaction should be rated, or should be sold without a rating. There was substantial concern that certain characteristics of the transaction – land-secured and in an urban area with an unusual pattern of development – would make it difficult for the rating agencies to fit this within their typical criteria. Therefore, there was not a high level of comfort that an investment grade rating would be achieved. Additionally, it was the view of the underwriters and financial advisors that, despite the potential difficulties the transaction posed for rating agencies, it would hold strong appeal for the market, and would receive a good reception without a rating. Given the potential downside of the rating process, and the likelihood that a strong pricing would be achieved without a rating, the financial advisors and underwriters have recommended that the sale of the 2013 Bonds be conducted without a rating. It should be noted that this recommendation is for this particular financing with its own time deadlines, and that a rating strategy in the future could be different, especially as development in the area progresses.
Assignment of Professionals

Public Finance Management, Inc. ("PFM") and Kitahata & Company (K&C) were chosen as financial advisors to the Successor Agency for the 2013 Bonds from the City’s panel of Financial Advisors. It was determined in consultation with PFM and K&C that current credit market conditions and the complexity and credit profile of the financing require a negotiated bond sale in order to secure the best terms for the 2013 Bonds. This method of sale allows the Underwriters to invest considerably more time assisting prospective investors in a detailed analysis of the credit supporting the 2013 Bonds. The events of the recent past in the financial markets have increased dramatically the investor’s attention to the specific credit of each bond issue. Under these circumstances, a negotiated sale would enable the underwriters to market the bonds to particular investors, and ultimately lower interest rates than would be otherwise achieved.

The Underwriters were also chosen from the City’s bond underwriter panel. Stone & Youngberg was chosen as manager and Backstorm Mc Carly Berry & Co. was chosen to serve as co-manager for the 2013 Bonds. The underwriters will be represented by the law firm of Lofton & Jennings. Quint & Thimmig LLP and Jones Hall were selected to serve as bond counsel and disclosure counsel, respectively, to the Successor Agency for the 2013 Bonds. Quint & Thimmig LLP assisted the Former Redevelopment Agency in forming CFD No. 6 and has served as bond counsel for all of the issues of special tax bonds for the Mission Bay development. Jones Hall was chosen due to its familiarity with the Former Redevelopment Agency, having acted as bond counsel for several Former Redevelopment Agency financings. Professionals working on the financing team, including bond counsel, disclosure counsel, co-financial advisors and underwriters, were selected from the City’s pre-approved pools and the co-manager, Backstorm Mc Carly Berry & Co., is a minority owned business.

Required Findings

In connection with the issuance of the 2013 Bonds, the Successor Agency Commission is requested to make the following findings:

That, based upon the current assessed value of the real property in CFD No. 6 that will be subject to the special tax to pay debt service on the 2013 Bonds and the 2005 Bonds, such real property has an assessed value that is in excess of an amount equal to three times the combined aggregate outstanding principal amount of the 2005 Bonds and the maximum initial amount of the 2013 Bonds authorized to be issued pursuant to this Resolution, and that no special taxes (other than those authorized to be levied by the District, by the Successor Agency’s Community Facilities District No. 5 (“CFD No. 5”)) related to certain maintenance services and by a community facilities district no. 90-1 established to provide funding for the San Francisco Unified School District (the “SFUSD CFD 90-1”), which CFD No. 5 and SFUSD CFD 90-1 currently have no bonded indebtedness) or special assessments have been levied on any of the property within CFD No. 6 in the current calendar year.

That the 2013 Bonds, when issued pursuant to the Fiscal Agent Agreement as amended and supplemented by the Third Supplement, will be in accordance with the Former Redevelopment Agency’s Amended and Restated Local Goals and Policies for Community Facilities Districts which the Commission of the Former Redevelopment
Agency adopted on July 15, 2008 pursuant to Resolution No. 79-2008 (the “Local Goals and Policies”), which Local Goals and Policies the Successor Agency Commission acknowledges in the Resolution continue to be effective for community facilities districts for which the Successor Agency Commission is the legislative body.

That: (a) it is prudent in the management of the fiscal affairs of the Successor Agency and CFD No. 6 to issue the 2013A Bonds for the purpose of refunding the 2001 Bonds and the 2002 Bonds; (b) the total net interest cost to maturity of the 2013A Bonds plus the principal amount of the 2013A Bonds will not exceed the total net interest cost to maturity of the 2001 and 2002 Bonds to be refunded plus the principal amount of the 2001and 2002 Bonds to be refunded; and (c) the 2013 Bonds satisfy the “Parity Bond” requirements of the Fiscal Agent Agreement and, when issued, the 2013 Bonds will be secured under the Fiscal Agent Agreement on a parity with the 2005 Bonds and any future parity bonds that may be issued under the Fiscal Agent Agreement.

That, for purposes of Section 53363.2 of the Act: (a) it is expected that the purchase of the 2013A Bonds will occur on or after January 14, 2013, (b) the date, denomination, maturity dates, places of payment and form of the 2013A Bonds will be as set forth in the Fiscal Agent Agreement, as amended and supplemented by the Third Supplement, (c) the minimum rate of interest to be paid on the 2013A Bonds will be one-quarter of one percent (0.25%) with the actual rate or rates to be set forth in the Fiscal Agent Agreement, as amended and supplemented by the Third Supplement, (d) the place of payment for the 2013A Bonds will be as set forth in the Fiscal Agent Agreement, as amended and supplemented by the Third Supplement; (e) the designated costs of issuing the 2013A Bonds will be as described in Section 53363.8(a) of the Act, and as otherwise described in the Third Supplement and the closing certificates for the 2013 Bonds, including Bond Counsel and Disclosure Counsel fees and expenses, Underwriters’ discount, financial advisor fees and expenses, printing costs, initial fiscal agent fees, and costs of City and Successor Agency staff incurred in connection with the sale and issuance of the 2013A Bonds; and (f) that the sale of the 2013 Bonds at negotiated sale as contemplated by the Bond Purchase Agreement will result in a lower overall cost.

NEXT STEPS

Pursuant to Sections 34177.5(a)(1) and 34177.5(a)(4) of the California Health and Safety Code, the Oversight Board’s approval is also required prior to the issuance of bonds. Staff will bring the 2013 Bonds to the Oversight Board in January 2013 for approval. Once they have taken action, their approval will be referred to the California State Department of Finance (“DOF”), as required by law.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

Authorizing the issuance of the 2013 Bonds and approving related documents and matters will provide funding for Successor Agency activities and are Successor Agency fiscal activities that are not “projects” as defined by California Environmental Quality Act (“CEQA”) Guidelines
Section 15378(b)(4). These actions will not independently result in a physical change in the environment and are not subject to environmental review under CEQA.

**STAFF RECOMMENDATION**

Staff recommends approval of the resolution to authorize the issuance of the 2013 Bonds in an aggregate principal amount not to exceed $160,000,000 and approval of related documents and actions.

*(Originated by Catherine Reilly, Acting Project Manager, and John Daigle, Senior Financial Analyst)*

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Tiffany Bonlee
Executive Director

Exhibit A: Mission Bay Map
Exhibit B: Executive Summary of the Mission Bay Enforceable Obligations
Exhibit C: Preliminary Official Statement for 2013 Bonds