MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing the issuance of Tax Allocation Bonds for the Mission Bay South Redevelopment Project Area in an aggregate principal amount not to exceed $70,000,000, and approving and directing the execution of an Indenture of Trust, and a Bond Purchase Contract, and approval of other related documents and actions, Mission Bay South Redevelopment Project Area

EXECUTIVE SUMMARY

Staff requests Commission approval to take such actions as necessary to accomplish the issuance of Tax Allocation Revenue Bonds ("2014 Bonds") for the Mission Bay South Redevelopment Project Area in an aggregate amount not to exceed $70 million and authorization for the Executive Director to prepare and submit a resolution to the Board of Supervisors to request an increase in the Fiscal Year 2013-2014 bond issuance authority from the previously approved maximum principal amount of $58.6 million to a new maximum of $70 million.

The net proceeds of the 2014 Bonds will be used 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 issuance of the bonds is an enforceable obligation under the terms of the Mission Bay South Owner Participation Agreement (OPA).

The resolution also approves in form key transaction documents and the selection of underwriters.

Staff recommends Commission authorization to sell tax allocation bonds in an amount not to exceed $70,000,000 subject to Oversight Board and Department of Finance concurrence and Board of Supervisors approval for an increase in bonding authority and approval 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, 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 has been included on all Recognized Obligation Payment Schedules ("ROPS") to date, including ROPS 13-14A for the period of July to December 2013 and on the ROPS 13-14B for the period January 2014 to June 2014, approved by the Oversight Board on September 23, 2013 (Resolution No. 9-2013) and currently under review by the California Department of Finance.

Successor Agency Debt Policies and Authorizations

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"). Section 34177.5(a)(4) of AB 1484 provides that a successor agency may issue bonds or incur other indebtedness to make payments under enforceable obligations when the enforceable obligations include the irrevocable pledge of property tax increment, formerly tax increment revenues, or other funds and the obligation to issue bonds secured by that pledge.

Subsequent to the adoption of AB 1484, the City and County of San Francisco Board of Supervisors ("Board of Supervisors") 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.

On June 4, 2013, the Commission adopted a budget for the period of July 1, 2013 to June 30, 2014 (Resolution No. 23-2013), which envisioned potential issuance and associated expenditure of up to $58.6 million in bond proceeds for the Mission Bay North and South project areas, subject to Oversight Board and Department of Finance approval. On July 16, 2013, the Board of Supervisors, through Resolution 237-13, approved the Agency budget (Resolution 237-13) and the issuance of up to $58.6 million in bonds, subject to Oversight Board and Department of Finance approval.

The proposed bond issuance is being planned under the provisions of the former Redevelopment Agency’s Debt Policy, which was last updated on March 12, 2004.

Financing Team

In addition to Agency staff, the Financing Team is comprised of:

- **Bond Counsel**: Jones-Hall, as approved by Commission Resolution 47-2013.
- **Disclosure Counsel**: Bill Lofton, formerly of Lofton Jennings and currently of Schiff Hardin, selected by an Agency panel from an approved pool through a competitive RFP process under the Executive Director’s contracting authority for contracts under $50,000 pursuant to the Agency’s purchasing policy.
- **Fiscal Consultant**: Urbics, selected on a sole source basis pursuant to the Agency’s purchasing policy Section IX(D)(1)(d), based on the consultant’s in-depth knowledge developed over the past year researching Mission Bay tax rolls and assessment history,
with associated specific information and experience making the consultant uniquely qualified to provide the needed services, and under the Executive Director’s contracting authority for contracts under $50,000.

- **Underwriters:** De La Rosa & Company for Managing Underwriter and Backstrom McCarley Berry and Company for co-manager. This proposed selection is as a result of a unanimous recommendation from a panel that was convened as part of an RFP process facilitated by Financial Advisor PFM, under which 15 qualified responses were received. The panel consisted of Agency staff, PFM staff and a representative from the City and County of San Francisco Office of Public Finance. The proposed Commission Resolution would ratify this selection.

### Proposed Bond Issuance

The proposed issuance is to sell up to $70 million in tax allocation bonds (“2014 Bonds”) for the purpose of reimbursing developer-funded infrastructure projects in the Mission Bay South Project Area, pursuant to the Mission Bay South Owner Participation Agreement (OPA). The increase to $70 million from the $58.6 million in anticipated bond proceeds included in the Agency’s Fiscal Year 2013-2014 budget is proposed in order to take advantage of recent changes in Mission Bay South bonding capacity and potential changes in market conditions. The actual amount of bonds proceeds realized would be dependent on market conditions at the time of the sale and could be significantly less than $70 million. Pursuant to Dissolution Law, issuance of the bonds would be conditional upon approval by the Oversight Board and California Department of Finance. Issuance of more than $58.6 million in bonds would be subject to increase by the City and County of San Francisco Board of Supervisors in the approved Fiscal Year 2013-2014 bonding authority. Bond proceeds in excess of approved ROPS amounts would be proposed for expenditure on future ROPS submissions.

The Successor Agency, in consultation with Financial Advisor PFM recommends that credit and market conditions require a negotiated bond sale in order to secure the best terms for these bonds. This method of sale allows the underwriter to assist prospective investors in a detailed analysis of the credit supporting the bonds. The events of recent years have increased investor attention to the specific credit of each bond issue. Additionally this will likely be the first successor agency “new money” bond issuance under authority granted in AB1484. Under these circumstances, a negotiated sale should result in broader investor interest in the Agency’s bonds and lower interest rates than would otherwise be achieved.

The Bonds are anticipated to be priced as soon as possible in the first calendar quarter of 2014. The true interest cost is expected to be around 5.25%. This estimate is based on the current market and the actual rate will be determined by market conditions at the time of the bond pricing. As the amount available to pay debt service is fixed, the interest rate will determine the total amount of bonds that can be issued.

### Proposed Form of Bond Indenture

Attachment A provides the proposed form of the Indenture of Trust that would establish the underlying terms of the issuance of the 2014 Bonds. The document was drafted by Bond Counsel with input from Agency staff and the financing team. The Resolution authorizes the Executive Director or Deputy Executive Director, Finance and
Administration (each referred to in the Resolution as an “Authorized Officer”), to make such additions or changes that may be necessary, after consultation with the Agency Counsel and Bond Counsel.

**Proposed Form of Bond Purchase Contract:** Attachment B provides the proposed form of the Bond Purchase Contract, which is a three way contract among the Successor Agency, the City and County of San Francisco Redevelopment Financing Authority ("Financing Authority"), and the underwriters, for the actual purchase of the bonds. The Successor Agency will sell the bonds to the Financing Authority, who resells them to the underwriter. The Financing Authority's obligations to purchase the bonds are conditioned upon its receipt of funds from the underwriter to pay for them. The Form of Bond Purchase Contract was drafted by the underwriters with input from Agency staff and the financing team.

The Financing Authority is a local agency created by a joint exercise of powers agreement dated July 11, 1989, executed by and between the City and County of San Francisco ("City") and the former San Francisco Redevelopment Agency ("SFRA"). The Financing Authority facilitates the sale of bonds and is governed by a Board of Directors consisting of the Commissioners of the Successor Agency, which acts in place of the former SFRA commission under Board of Supervisors Ordinance No. 215-12. Under Sections 33640 et seq. of the Health and Safety Code, bonds issued by redevelopment agencies (and, by implication, successor agencies) are required to be sold by competitive sale. However, the Marks-Roos (Section 6584 et seq. of the Government Code) contains a provision (Section 6589) that allows joint powers authorities, such as the Financing Authority, to enter into purchase contracts with local agencies notwithstanding any other provision of law. Accordingly, the Financing Authority, at a future meeting, will need to adopt a resolution approving the form of the bond purchase contract.

**NEXT STEPS**

Upon approval by the Commission, Staff would bring the 2014 Bonds to the Oversight Board for approval. Any Oversight Board action will be referred for review by the State Department of Finance as required by law.

Concurrently, staff would bring a resolution to the City Board of Supervisors to increase the bond authorization from $58.6 million to $70 million. Prior to the sale of the Bonds, staff would return to the Commission for approval of the Preliminary Official Statement. The City and County of San Francisco Redevelopment Financing Authority would also convene to approve the execution the three party Bond Purchase Agreement.
RECOMMENDATION

Staff recommends Commission authorization to sell tax allocation bonds in an amount not to exceed $70,000,000 subject to Oversight Board and Department of Finance concurrence and Board of Supervisors approval for an increase in bonding authority and approval of related documents and actions.

(Originated by John Daigle, Senior Financial Analyst)

Tiffany Bohne
Executive Director

Attachment A: Form of Indenture of Trust
Attachment B: Form of Bond Purchase Agreement