MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee, Executive Director

SUBJECT: Workshop on enforceable obligations under State dissolution law in the existing and former redevelopment project areas of Yerba Buena Center, Western Addition A-2, Rincon Point-South Beach, South of Market, Hunters Point, and India Basin. (Discussion)

EXECUTIVE SUMMARY

The purpose of this workshop is to introduce the Commission to the Successor Agency’s (“Agency’s”) enforceable obligations under State dissolution law that exist in current and former redevelopment project areas outside of Transbay, Hunters Point Shipyard, and Mission Bay (the “Major Approved Development Projects”). These other existing and former redevelopment project areas include (1) Yerba Buena Center (former), (2) Western Addition A-2 (former), (3) Rincon Park-South Beach (existing), (4) South of Market (existing), (5) Hunters Point (former), and (6) India Basin (former).¹

The following briefly discusses the enforceable obligations that exist in each of these existing and former redevelopment project areas and the actions that may come before the Commission for its consideration in the coming months. Most of the enforceable obligations in these areas are obligations the Agency has as property owner. A more detailed discussion of these obligations and the long-term disposition and/or retention strategy for each will be contained in the property management plan that will be submitted to the Commission for its review and to the Oversight Board and the State Department of Finance for their approval, as required under State dissolution law (the “Property Management Plan”). In the Property Management Plan, the Agency must identify its real property for one of the following uses: governmental use, future development, fulfillment of an enforceable obligation, or sale of the property. The Redevelopment Dissolution Law requires the Oversight Board and the Department of Finance (“DOF”) to approve the the Property Management Plan and imposes other conditions on the assets if the plan is approved. This informational memorandum is meant to be an introduction to these assets and associated obligations. The proposed Property Management Plan will come before the Commission for its review at a later date.

The following briefly describes the Agency’s remaining real property assets and other contractual obligations in these other existing and former project areas:

¹ In addition, the Redevelopment Agency adopted redevelopment plans for the Bayview Industrial Triangle (existing for land use); the Emporium Site Subarea of Yerba Buena Center (existing but complete); and the Federal Office Building (existing but complete.)
FORMER YERBA BUENA CENTER REDEVELOPMENT PROJECT AREA

The Yerba Buena Center Redevelopment Project Area expired on January 1, 2011 ("Yerba Buena"). The former San Francisco Redevelopment Agency ("SFRA") implemented a redevelopment program in Yerba Buena that centered on destination cultural facilities, public spaces, museums, hotels, and market-rate and affordable housing. Since January 1, 2011, no new development could be initiated and the SFRA moved into an asset management role for both its real property assets as well as other contractual obligations. The following briefly summarizes these enforceable obligations:

Real Property Assets

The Agency continues to own numerous real estate assets in Yerba Buena, primarily located around the Yerba Buena Gardens neighborhood. The assets include the last developable parcel of land in Yerba Buena (i.e., the future Mexican Museum site), Jessie Square Garage and Plaza, and land and buildings comprising the two-block area known as Yerba Buena Gardens. Each asset is described more fully below.

- **The Mexican Museum Site.** Since 1993, the Successor Agency and The Mexican Museum have been working to develop the Mexican Museum site (on Mission Street between Third and Fourth Streets). The site is subject to enforceable obligations, which include an exclusive negotiations agreement and grant agreement with The Mexican Museum and an exclusive negotiation agreement with an affiliate of Millennium Partners, owner of the adjacent property at 706 Mission Street. The Agency, Millennium Partners, and the Mexican Museum are working through a public-private partnership to build a project that would span both the Mexican Museum site and 706 Mission Street and include a residential tower with new museum space for the Mexican Museum in the tower's base, renovation of the historically important building at 706 Mission Street, and purchase of the Jessie Square Garage for both project-related uses and public parking. This spring, staff expects to present, for Commission consideration, a proposed purchase and sale agreement with Millennium Partners for the transfer of the Mexican Museum site and Jessie Square Garage. (See Attachment 1) This transaction will require Oversight Board and DOF approval.

- **Jessie Square Garage and Jessie Square Plaza.** The Agency owns Jessie Square Garage, a 161,000-square-foot, four-level underground public parking structure with about 450 parking spaces. The garage, which opened in 2005, is accessed via the Stevenson Street alley off Third Street (between Market and Mission Streets. The garage was financed with bond proceeds, which are still outstanding. Outstanding enforceable obligations related to the garage include those in the various bond documents, debt service payments on the bonds, and a management agreement with the Agency’s garage operator.

Jessie Square Plaza, also financed as part of the garage bond issuance, is located directly above Jessie Garage and fronts Mission Street between Fourth and Third Streets. Jessie

2 Although the Yerba Buena Plan expired, the Board of Supervisors and Redevelopment Agency authorized the continuing use of tax increment to fund affordable housing because of the Agency’s unfulfilled replacement housing obligation. The Successor Agency has asserted that this authority remains in effect and is seeking state clarification.
Plaza, completed in 2008, is subject to enforceable obligations that include a reciprocal easement agreement with surrounding property owners for the operation, maintenance, and security of the plaza, and a programming agreement for production of public events.

- **Yerba Buena Gardens ("YBG").** YBG spans a two-block area bounded by Mission, Folsom, Third, and Fourth Streets (see Attachment 2). YBG was constructed by the SFRA between 1991 and 1999 with bond and land sale proceeds, and represents a civic investment of about $118 million. YBG includes cafes, fountains – including the Martin Luther King Jr. Memorial Fountain – performance venues, a childcare center, children’s play areas, a historic carousel, recreational venues such as an ice skating center and a bowling center, public artwork, and many other attractions. This award-winning public open space is host to over 100 public performances, arts events and festivals each year.

YBG is owned and operated by the Agency, which supports the operations, capital expenditures, and programming of the gardens, the children’s facilities, Yerba Buena Center for the Arts, and the Children’s Creativity Museum through several funding streams including existing short- and long-term commercial and ground leases, operating leases, and an annual development fee from the St. Regis Hotel. (The exclusive negotiation agreement with Millennium Partners for the Mexican Museum/706 Mission Street project also has a similar development fee earmarked for YBG operations.)

This funding mechanism was designed to make YBG self-sustaining and is an enforceable obligation pursuant to an interlocking set of agreements with the Agency’s tenants (e.g., the Marriott Hotel, the Metreon, and Moscone Center North) and other YBG stakeholders, which require the Agency to operate, maintain and program the open space at YBG. These agreements require the Agency to deposit lease revenue and developer exactions funds into a restricted, segregated bank account (the “Separate Account”). The governing documents also define and restrict expenditures from the Separate Account, which are used exclusively for maintenance, operations, and security of YBG structures, landscaping, and open space, as well as funding for the cultural facilities and programming activities. YBG’s operating revenues and expenses have typically ranged from $7 to $8 million annually over the past few years.

In 1999, the Agency established a capital reserve within the Separate Account to ensure that adequate funds would be available to replace and renovate the public facilities at YBG over the coming decades. The capital reserve is funded from an operating account set-aside line item and, before the expiration of the Yerba Buena project area, from occasional infusions of tax increment bond financing.

The Agency contracts with MJM Management Group to provide on-site property management, maintenance, operation, and security at YBG. Programming activities in the open space areas at YBG are implemented through a contract with Yerba Buena Arts and Events. Staff expects to bring amendments/extensions to both of these contracts to the Commission this spring for its consideration.
Other Enforceable Obligations

There are also numerous contractual obligations, such as owner participation agreements, disposition and development agreements, and operating agreements, some of which do not include financial obligations but are nevertheless enforceable obligations that require various levels of ongoing enforcement and monitoring. The obligations currently include owner participation agreements (i.e., 660 Folsom Street and Bloomingdales), disposition and development agreements (i.e., the Paramount Apartments, the Contemporary Jewish Museum, and the Whole Foods store on Harrison Street), and multiple YBG easement agreements.

In addition, the Agency was instrumental in establishing the Museum of the African Diaspora (“MoAD”) as a new cultural institution in YBG. Through the disposition of an SFRA parcel, MoAD is currently housed in a portion of the St. Regis Hotel. Based on a series of pre-existing agreements, the SFRA provided funding to MoAD to pay for concept planning, programming, and tenant improvements to the space, and currently provides annual support (through 2015) to help this relatively new institution become established.

FORMER WESTERN ADDITION A-2 REDEVELOPMENT PROJECT AREA

The Redevelopment Plan for the former Western Addition A-2 Redevelopment Project Area expired on January 1, 2009 (“Western Addition”). The SFRA’s program for the Western Addition included thousands of units of new and rehabilitated housing, the revitalization of the Nihonmachi and Fillmore business districts, public infrastructure improvements, small business assistance, job training, and workforce development. Since January 1, 2009, no new economic development programs could be initiated and the SFRA moved into an asset management role for both its real property assets as well as other contractual obligations. The following briefly summarizes these enforceable obligations:

Real Property Assets

The Agency still owns property in the Western Addition and has the responsibility to maintain this property, insure it, and plan for its eventual disposition. The property the Agency owns includes:

- **Fillmore Heritage Center Public Parking Garage.** The Fillmore Heritage Center is a mixed-use project the SFRA helped finance about 10 years ago to stimulate economic development along the lower Fillmore Street commercial corridor. (See Attachment 3) The project includes 80 condominiums, ground-floor commercial space (which houses Yoshi’s jazz club and restaurant and a second restaurant called “1300 on Fillmore”), and a 112-space public parking garage. The Agency built the garage primarily to serve the two commercial tenants, and the Agency continues to own this asset. Pacific Park Management operates the garage for the Agency under a garage management agreement that runs until May 1, 2014. The garage has struggled financially since it opened in 2007 and has only recently begun to turn a small profit after several cost-cutting measures were

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3 Similar to the Yerba Buena Center, the Board of Supervisors and Redevelopment Agency authorized the continuing use of tax increment from the Western Addition to fund affordable housing because of the Agency’s unfulfilled replacement housing obligation.
implemented. This garage has the added expense of common area maintenance charges which all the property owners in this project must pay to maintain the common areas of this mixed-use development. This charge runs about $14,500 a month for the garage. Agency staff will be outlining a disposition plan for this garage in the Property Management Plan.

- **Fillmore Heritage Center Commercial Space.** The commercial space at the Fillmore Heritage Center is a separate legal parcel which the Agency owns. The Agency ground leases this parcel to Fillmore Development Commercial, a subsidiary of the developer who built the Fillmore Heritage Center (“FDC”). FDC then subleases the space to the two commercial tenants. The ground lease was a financing mechanism to allow the developer to pay the Agency back for the land over the 35-year term of the ground lease. The Agency will begin collecting a percentage of the rental revenue from this space, once the developer has paid the City back on a construction loan. Once the developer pays the Agency the $3.1 million owed under the ground lease, the developer will own the commercial parcel. Recently, the major tenant in this space – Yoshi’s jazz club and restaurant – filed for Chapter 11 bankruptcy to delay a receivership action by FDC. Currently, Yoshi’s and FDC agreed to a court-approved mediation to develop a more economically viable long-term management plan for the jazz club and restaurant.

- **Ellis Street Driveway.** This 6,875-square-foot parcel is a portion of the former Ellis Street right-of-way, which the City vacated in 1981 and transferred to the SFRA at no cost in 1982 as part of a larger land assemblage. It is approximately 69 feet wide and 100 feet deep, and is located off Fillmore Street just south of Geary Boulevard. It includes paved areas for vehicular ingress/egress (including emergency vehicles) and sidewalks/street trees on both sides of the paved thoroughway. Currently, it primarily provides vehicular and pedestrian access from Fillmore Street to the residential and commercial uses that surround it, including: (1) a commercial building to the north; (2) a Safeway supermarket and the Fillmore Marketplace Apartments to the east; and (3) the Fillmore Heritage Center to the south. (See Attachment 3)

Various easements and restrictions encumber the parcel, which require it to be used for vehicular ingress/egress and severely restrict any redevelopment potential it might have. In recent years, SFRA staff formally contacted the three adjacent property owners on two separate occasions to see if any of them would be interested in purchasing the property for its appraised value. Only one adjacent property owner, Safeway Inc., was interested and signed a letter of intent to purchase the property. The SFRA was never able to complete the disposition due to a state-imposed suspension. Agency staff will include this property in its Property Management Plan, and will likely recommend a disposition as soon as possible to Safeway Inc.

**Other Contractual Obligations**

There are also numerous contractual obligations, such as owner participation agreements, disposition and development agreements, and loan agreements, which do not include financial obligations but are nevertheless enforceable obligations that require various levels of ongoing enforcement and monitoring. These obligations currently include owner participation agreements for unfinished private development at 1450 Franklin Street and 1301 Divisadero,
disposition and development agreements (i.e., 1210 Scott Street and Fillmore Heritage Center), and economic development loans for Yoshi’s jazz club and restaurant, 1300 on Fillmore restaurant, Sheba Lounge, and Rasselas jazz club and restaurant. Staffing costs are associated with the ongoing enforcement and monitoring of these agreements. Some of these costs are reimbursed by the project sponsors, and others are covered by the administrative cost allowance. Staff expects to bring proposed amendments to some of these loan agreements before the Commission for its consideration in the near future.

RINCON POINT-SOUTH BEACH REDEVELOPMENT PROJECT AREA

Rincon Point-South Beach is still an active redevelopment project area. The Redevelopment Plan for this project area expires on January 5, 2021; however, the Agency’s work program has been largely completed, and therefore its activities are of an asset management nature. Since 1981, the area has been transformed into a new mixed-use neighborhood. The majority of the private development was developed under owner participation agreements, or OPAs, which are considered existing enforceable obligations. Only one OPA in this project area is still active, and that is for the development of 74 condominiums over a rehabilitated historic warehouse at 72 Townsend Street. Staff costs for this project will be reimbursed by the developer.

This project area also includes various parcels along the waterfront, some of which include open space and parks, under the Agency’s management through a lease structure with the Port of San Francisco (the “Port”). (See Attachment 4) The Agency then subleases some of this Port-owned land to various subtenants, including the South Beach Yacht Club. The Agency also manages South Beach Harbor, a 700-berth facility that is fully occupied, and a community facilities district that pays for additional landscaping and property maintenance on some of the project area’s open spaces.

Since the Agency’s dissolution, staff have been in discussions with the Port about the transfer of these Port-owned assets back to the Port. The transfer has been complicated by the lease structure, ongoing debt obligations at South Beach Harbor, and requirements of the Bay Conservation and Development Commission, or BCDC. In addition, the City’s initial role as successor agency immediately upon the Redevelopment Agency dissolution and the subsequent change in state law to require successor agencies to be separate legal entities from cities and counties has created complications with the transfer. Staff expects to bring items related to this transfer before the Commission for its consideration in the coming months. Staff costs associated with this work are covered by the administrative cost allowance, because currently the Agency has no other source of funds to cover such expenses. Since July 1, 2012, all revenues the Agency used to receive from its subtenants have been going to the Port.

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4 In 2007, the Board of Supervisors and Redevelopment Agency authorized the use of new tax increment financing from Rincon Point-South Beach exclusively for affordable housing to fulfill the Agency’s replacement housing obligations.
OTHER ENFORCEABLE OBLIGATIONS

There are also some enforceable obligations that remain in some former smaller redevelopment project areas, like Hunters Point and India Basin, and on the border of the Bayview-Hunters Point Redevelopment Project Area. These were “infill” project areas, where the Agency’s focus was on revitalizing existing neighborhoods through targeted economic development grant and loan programs, limited public improvements, and other efforts to eliminate blight including the creation of affordable housing. The remaining enforceable obligations in these areas all involve the Agency’s responsibilities as property owner. They include:

- **345 Williams Street.** This Agency-owned property is located on the border of the Bayview-Hunters Point Redevelopment Project Area and is ground leased to Kroger’s to operate a grocery store. (See Attachment 5)

- **Shoreview Park.** This Agency-owned park is located in the former Hunters Point Redevelopment Project Area (See Attachment 6). It requires ongoing property maintenance services, which the Agency accomplishes through a personal services contract with a property maintenance company. The Agency also pays to water the park’s landscaping.

- **Hunters Point Mini Parks.** These six Agency-owned mini parks are located throughout the former Hunters Point Redevelopment Project Area. The City and adjacent property owners maintain these open spaces and walkways. (See Attachment 6)

- **Remnant Parcels.** The Agency owns small remnant parcels that are part of the City’s street and sidewalk network in the former Hunters Point Redevelopment Project Area and the former Yerba Buena Center Redevelopment Area.

- **Westbrook Health Center.** The Agency owns a health clinic that is part of a larger affordable housing development in the South of Market Redevelopment Project Area.

Further information about all of these real property assets, along with staff’s proposed disposition and/or retention strategy, will be included in the Property Management Plan which staff expects to bring before the Commission for its review later this year.

*(Originated by Tracie Reynolds, Manager, Real Estate and Development Services, Denise Zermani, Development Specialist, and Christine Maher, Development Specialist)*

Tiffany Bohee
Executive Director

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5 In addition, the Successor Agency has the continuing obligation to exercise the land use authority specified in several redevelopment plans, including Rincon Point-South Beach and Bayview Industrial Triangle.
| Attachment 1: | Map depicting Mexican Museum Site (with project description) |
| Attachment 2: | Map depicting Yerba Buena Gardens |
| Attachment 3: | Map depicting Fillmore Heritage Center and Ellis Street Driveway |
| Attachment 4: | Map depicting leased land from the Port of San Francisco |
| Attachment 5: | Map depicting 345 Williams Street |
| Attachment 6: | Map depicting Shoreview Park and Mini Parks |