MEMORANDUM

TO: Oversight Board

FROM: Tiffany Bohee
Executive Director

SUBJECT: Approving, under sections 34177.5(a)(2) and 34180(b) of the California Health & Safety Code, the issuance of special tax refunding bonds in an amount not to exceed $40,000,000 by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco for the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) and Related Actions; Hunters Point Shipyard Project Area

EXECUTIVE SUMMARY

In 2005, the former Redevelopment Agency of the City and County of San Francisco ("SFRA") issued $34,500,000 initial principal amount of Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) in Variable Rate Demand Special Tax Bonds, 2005 Series A (the "2005 Bonds"). Community Facilities District No. 7 ("CFD No. 7"), located in the Hunters Point Shipyard Project Area (the "Shipyard"), was established to pay for the construction of infrastructure and parks in furtherance of the financing plan for the Shipyard’s Phase 1 Development and Disposition Agreement. The 2005 Bonds were issued with a variable rate of interest and secured by a direct-pay letter of credit which expires in September 2014.

Today, the Office of Community Investment and Infrastructure ("OCII") staff request, as successor to SFRA, the approval of the Oversight Board for the issuance of bonds designated as "Successor Agency to the Redevelopment Agency of the City and County of San Francisco Community Facilities District No. 7 (Hunters Point Shipyard Phase One Improvements) Special Tax Refunding Bonds, Series 2014" (the "2014 Bonds") in the principal amount not to exceed $40,000,000. The 2014 Bonds will be subject to a fixed interest rate and will be used to effectively refund the 2005 Bonds. Refunding the 2005 Bonds, which are variable rate bonds, with the 2014 Bonds, which are fixed rate bonds, will substantially level the debt service payments in accordance with the CFD No. 7 Rate and Method of Apportionment ("RMA," for CFD No. 7 or CFD No. 8, as applicable).

Like the 2005 Bonds, the 2014 Bonds will be payable only from special taxes levied in CFD No. 7. Therefore, the 2014 Bonds will not be payable from property tax revenues deposited into the Redevelopment Property Tax Trust Fund established pursuant to the Redevelopment Dissolution Law (as defined in the hereinafter defined Authorizing Resolution) and there would be no decrease in the amount of property tax revenues passed through to taxing entities as a result of the issuance of the 2014 Bonds. A positive impact
for taxing authorities is likely, to the extent that the issuance of the 2014 Bonds permits the
development and completion of taxable properties in the Shipyard, thus increasing the
assessed value of property in the CFD and increasing the amount of AB 1290 pass-through
funds provided to taxing entities.

OCI staff recommends adoption of a resolution approving the issuance of the 2014 Bonds to
refund the 2005 Bonds and related actions (the "Approving Resolution").

BACKGROUND

Hunters Point Shipyard and Candlestick Point Overview and Summary

The Shipyard and Candlestick Point areas (together the "Project") are comprised of
approximately 750 acres along the long-neglected waterfront lands of southeastern San
Francisco. These lands will be developed and transformed into productive areas for jobs, parks,
and housing, including affordable housing through public-private partnerships ("DDAs") with
OCI. The Project will be implemented in two phases by HPS Development Co., LP (the
"Developer"), as successor in interest to Lennar-BVHP, LLC, under separate DDAs (the "Phase
1 DDA" and the "Phase 2 DDA").

The Project will deliver over 12,000 new homes, approximately 32 percent of which will be
below market rate and will include the rebuilding of the Alice Griffith public housing
development consistent with the City’s HOPE SF program, up to 3 million square feet of
research and development space, and more than 350 acres of new parks in the southeast portion
of San Francisco. In total, the Project will generate over $6 billion of new economic activity to
the City, more than 12,000 permanent jobs, hundreds of new construction jobs each year, new
community facilities and new transit infrastructure, and provide approximately $90 million in
community benefits. The Project’s full build out will occur over 20-30 years, but over 1,000
units of housing and 26 acres of parks will be completed over the next five years in the first
phase of the Shipyard.

Phase 1 Development Program

In March 2004, the U.S. Department of the Navy transferred Parcel A (75 acres) at the Shipyard
to SFRA for development. In December 2003, the SFRA Commission authorized the Phase 1
DDA with the Developer. The Phase 1 DDA obligates the Developer to construct the
infrastructure necessary to support the total vertical development of 1,498 housing units in the
Phase 1 development and 26 acres of open space and parks.

Issuance of 2005 Bonds

In 2005 and in furtherance of the financing plan for the Phase 1 DDA, the SFRA Commission
authorized the formation of CFD No. 7, pursuant to the Mello-Roos Community Facilities Act of
1982, as amended (the "Mello-Roos Act"), and issued the 2005 Bonds to help fund the cost of
public infrastructure development (including open space improvements) required pursuant to the
Phase 1 DDA. The 2005 Bonds are payable only from special taxes levied in CFD No. 7,
and are not payable from property tax revenues deposited into the Redevelopment
Property Tax Trust Fund established pursuant to the Redevelopment Dissolution Law.
The repayment of the 2005 Bonds is currently secured by an irrevocable, direct-pay letter of credit (the "Letter of Credit") issued by JPMorgan Chase Bank, N.A. (the "Bank"). A letter of credit was required at the time the 2005 Bonds were issued in order to comply with SFRA's adopted Local Goals and Policies regarding credit quality policy for CFD bond issues ("CFD Credit Policy") because the value of the taxable property in the CFD did not allow SFRA to achieve a 3:1 value-to-lien ratio (i.e., the value of the taxable property in the CFD was not at least three times the initial principal amount of the 2005 Bonds), and otherwise would have resulted in unacceptably high interest costs. The 2005 Bonds have a balloon maturity of August 1, 2036 and the entire outstanding principal amount of the 2005 bonds is due and payable on that date. The 2005 Bonds are subject to full repayment if there is no renewal of the Letter of Credit prior to its stated termination date of September 12, 2014.

Amendment and Restatement of Rate and Method of Apportionment
On April 1, 2014, by Resolution No. 24-2014 and No. 25-2014, the Commission approved the forms of amendments and restatements of the existing RMAs for CFD No. 7 and No. 8. The RMAs were updated to reflect the Phase 1 DDA’s current development program and make adjustments in the taxes in CFD No. 7 and No. 8 and proceedings are underway to obtain the approval of the applicable owners of land within each CFD of the amended and restated RMAs.

Enforceable Obligation
On December 14, 2012, the California State Department of Finance ("DOF") issued a Final and Conclusive Determination under California Health and Safety Code § 34177.5(i), that the Phase 1 DDA and the Phase 2 DDA are enforceable obligations that survived the dissolution of SFRA. OCII is authorized to issue CFD bonds pursuant to the Mello-Roos Act and the issuance of CFD bonds is an implementing action under the Phase 1 DDA and is therefore authorized under the Redevelopment Dissolution Law. Further, the Redevelopment Dissolution Law does not affect the current operation of CFD No. 7 or result in a change in the name of CFD No. 7.

Financing Team
In addition to OCII staff, the financing team is comprised of:

- **Bond Counsel:** Jones Hall, A Professional Law Corporation.
- **Financial Advisor:** CSG Advisors Incorporated.
- **Disclosure Counsel:** Schiff Hardin LLP.
- **Special Tax Consultant:** Goodwin Consulting Group, Inc.
- **Underwriters:** Stifel Nicolaus & Company, Inc., as Managing Underwriter, and Backstrom McCarley Berry and Company, as co-manager.
- **Appraiser:** Seevers, Jordan, Ziegenmeyer.
DISCUSSION

In order to provide for a fixed interest rate and substantially level debt service, in accordance with the CFD No. 7 RMA, the Developer has requested the approval of the Commission to issue the 2014 Bonds. The 2005 Bonds are variable rate bonds, which means that they are affected by interest rate fluctuations. Refinancing the variable rate bonds to fixed rate bonds will substantially level the debt service payments. Proceeds of the 2014 Bonds will be used only to refund the 2005 Bonds, including any accrued interest due, fund a reserve fund, and pay costs of issuance.

Pursuant to OCII’s CFD Credit Policy, which relies on a 3:1 value-to-lien ratio formula, the maximum amount of the bond issuance may not exceed one third of the value of the subject taxable property. An independent appraisal (the “Appraisal”) was ordered by OCII of the taxable property in CFD No. 7 (the “Property”) and was conducted by the appraisal firm, Seevers, Jordan, Ziegenmeyer. The preliminary Appraisal indicates a value of the Property at $119,620,000 which would provide the basis for a $39,873,333 issuance consistent with 3:1 value-to-lien ratio. However, a maximum principal amount of $40,000,000 for the 2014 Bonds was established to permit OCII to capture any additional market value of the Property (and corresponding increase to the appraised value) that may accrue due to construction progress between now and July when the 2014 Bonds are issued. Although an increase in the value of the Property is anticipated, the initial principal amount of the 2014 Bonds would be limited to the final appraised value of the Property pursuant to the 3:1 value-to-lien ratio requirement, pursuant to the Approving Resolution and would not exceed $40,000,000.

OCII and its consultants have prepared forms of the following documents in connection with the issuance of the 2014 Bonds:

1. Fiscal Agent Agreement (the “Fiscal Agent Agreement”), by and between OCII, for and on behalf of CFD No. 7, and The Bank of New York Mellon Trust Company, N.A., as fiscal agent, which, among other things, sets forth the terms and conditions of the 2014 Bonds, the rights of the holders thereof, and the obligations of OCII to such bondholders. A copy of the Fiscal Agent Agreement is attached hereto as Attachment A.

2. Bond Purchase Agreement (the “Bond Purchase Agreement”), by and between OCII, for and on behalf of CFD No. 7, and Stifel, Nicolaus & Company, Incorporated, representing itself and Backstrom McCarley Berry and Company as underwriters of the 2014 Bonds (collectively, the “Underwriters”), which sets forth the terms and conditions of the Underwriters’ purchase of the 2014 Bonds. A copy of the Bond Purchase Agreement is attached hereto as Attachment B.

3. Escrow Deposit and Trust Agreement (the “Escrow Agreement”; together with the Bond Purchase Agreement and the Escrow Agreement, the “Bond Documents”), by and between OCII, for and on behalf of CFD No. 7, and The Bank of New York Mellon Trust Company, N.A., as escrow holder (in such capacity, the “Escrow Bank”), which, among other things, establishes an escrow fund in which proceeds of the 2014 Bonds will be deposited and remitted by the Escrow Bank to the Bank to reimburse it for the draw on
the Letter of Credit to redeem the 2005 Bonds. A copy of the Escrow Agreement is attached hereto as Attachment C.

4. Independent Financial Advisor’s memo per Section 34117.5(h) attached hereto as Attachment E.

The issuance by OCII of the 2014 Bonds to refund the 2005 Bonds is authorized by Section 34177.5(a)(2) of the Redevelopment Dissolution Law, which authorizes successor agencies to issue bonds “to finance debt service spikes, including balloon maturities, provided that (A) the existing indebtedness is not accelerated, except to the extent necessary to achieve substantially level debt service, and (B) the principal amount of the bonds or other indebtedness shall not exceed the amount required to finance the debt service spikes, including establishing customary debt service reserves and paying related costs of issuance.” Under Sections 34177.5(f) and 34180(b) of the Redevelopment Dissolution Law and the provisions of Ordinance No. 215-12 adopted by the Board of Supervisors of the City and County of San Francisco on October 2, 2012, OCII’s issuance of bonds is subject to the approval of the Oversight Board.

Pursuant to Resolution No. 29-2014 (the “Authorizing Resolution,” Attachment D) adopted by the Commission on April 15, 2014, the Commission authorized the issuance of the 2014 Bonds to refund the 2005 Bonds and approved the forms of each of the Bond Documents in each case subject to the approval of the Oversight Board and DOF. A copy of the Authorizing Resolution is attached hereto as Attachment D. In addition, the Authorizing Resolution authorizes and directs an authorized officer of OCII to complete and execute each of the Bond Documents with such changes, additions or deletions as may be approved by such authorized officer.

OCII staff anticipates returning to the Commission in early July 2014 for approval of the preliminary official statement for the 2014 Bonds and after the Appraisal of the market value of the Property has been updated to reflect any increases in value of the Property accruing after the date thereof and the current status of property ownership and development in CFD No. 7 has been compiled.

Impact on Taxing Entities
Like the 2005 Bonds, the 2014 Bonds will be payable only from special taxes levied in CFD No. 7. Therefore, the 2014 Bonds will not be payable from property tax revenues deposited into the Redevelopment Property Tax Trust Fund established pursuant to the Redevelopment Dissolution Law and there would be no decrease in the amount of property tax revenues passed through to taxing entities as a result of the issuance of the 2014 Bonds. The issuance of the 2014 Bonds permits the development and completion of taxable properties in the Shipyard, thus increasing the assessed value of property in the CFD and the amount of AB 1290 pass-through funds provided to taxing entities.
Concurrent Change Proceedings
On April 1, 2014, the Commission began the process to change certain terms in CFD No. 7 and CFD No. 8, known as “change proceedings,” to amend and restate the current RMAs of special tax for both CFDs. OCII staff anticipates that such proceedings will be completed no later than May 6, 2014 and prior to the issuance of the 2014 Bonds and the refunding of the 2005 Bonds. The Oversight Board does not need to approve these changes.

Community Outreach
OCII staff provided a briefing on this CFD transaction for the Mayor’s Hunters Point Shipyard Citizens Advisory Committee (“CAC”) and the community at the CAC’s meetings in March and April and there was consensus to move this item forward to the Commission and the Oversight Board.

Approval of the Department of Finance
Even though the 2014 Bonds will be payable only from special taxes levied in the CFD, the issuance of the 2014 Bonds is subject to the approval of DOF. OCII staff anticipates presenting the issuance of the 2014 Bonds to DOF for approval immediately after obtaining the Oversight Board’s approval thereof.

California Environmental Quality Act
The sale and issuance of the 2014 Bonds are fiscal activities of OCII that do not constitute “projects,” as defined by the California Environmental Quality Act Guidelines Section 15378 and would not result in any significant physical effect on the environment.

RECOMMENDATION
Staff recommends adoption of the Approving Resolution for the purpose of approving the issuance by OCII of the 2014 Bonds to refund the 2005 Bonds as set forth above.

(Originated by John Daigle, Sr. Financial Analyst
and Thor Kaslofsky, Project Manager)

Tiffany Bohce
Executive Director

Attachment A: Form of Fiscal Agent Agreement
Attachment B: Form of Bond Purchase Agreement
Attachment C: Form of Escrow Deposit and Trust Agreement
Attachment D: Authorizing Resolution
Attachment E: Financial Advisor’s Memo