MEMORANDUM

TO: Oversight Board

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing (1) the Successor Agency to transfer the northern section of the George R. Moscone Convention Center (portions of APN Nos. 3723-115 and 3734-091) to the City and County of San Francisco (the “City”), pursuant to the lease agreement between the former San Francisco Redevelopment Agency and the City, dated March 1, 1988, that leases portions of Yerba Buena Center to the City (the "1988 Project Lease"), an enforceable obligation under Section 34171(d)(1)(E) of the California Health and Safety Code, upon payment of the outstanding bonds and deferred rental payments as required by the 1988 Project Lease, and (2) the Executive Director to execute all related documents necessary for the transfer; Former Yerba Buena Center Approved Redevelopment Project Area D-1

EXECUTIVE SUMMARY

The former Redevelopment Agency of the City and County of San Francisco (the “SFRA”) issued lease revenue bonds (the “Bonds”) to finance the construction of the northern section of the George R. Moscone Convention Center (the “Moscone Center”) on land owned by the SFRA. The northern section of the Moscone Center is also known as “Moscone North.” As security for the Bonds, the SFRA leased the land and buildings comprising Moscone North to the City and County of San Francisco (the “City”) (the “1988 Project Lease”).

As the successor agency to the SFRA, the Office of Community Investment and Infrastructure (“OCII”) is required, pursuant to the 1988 Project Lease, to transfer Moscone North to the City after the City has paid the Bonds in full and has paid all required lease payments to the Successor Agency. The Bonds were paid in full by the City in August 2014. The City will make a lump-sum payment to the Successor Agency of $3.48 million in November 2014, which represents all remaining required lease payments due under the 1988 Project Lease. The City has until November 2018 to make these payments, but has chosen to pay the Successor Agency early in order to facilitate a major expansion of the Moscone Center later this year.

As explained later in this Memorandum, the $3.48 million payment to the Successor Agency is restricted revenue that is not available for redistribution to the taxing entities under Redevelopment Dissolution Law. The $3.48 million is restricted money that can only be used for the operation, maintenance and security of Yerba Buena Gardens. Therefore, upon receipt of this money, staff will deposit this money into a restricted account dedicated for this purpose.

The Long-Range Property Management Plan (“PMP”) that OCII submitted to the State of California’s Department of Finance (“DOF”) indicated that a transfer of Moscone North to the City, pursuant to an enforceable obligation (i.e., the 1988 Project Lease), was likely to occur in
2014. Therefore, the proposed action before the Oversight Board today for its consideration is consistent with the PMP.

Before a successor agency transfers or sells any of its properties, it must first give the public at least 10 days’ notice before seeking the oversight board’s approval of the specific property transfer or sale (See California Health and Safety Code § 34181(f)). To comply with this provision of Redevelopment Dissolution Law, staff published a “notice of public hearing” in the San Francisco Chronicle on October 31, 2014. The notice included information about (i) the Oversight Board’s meeting today, (ii) the proposed transfer of Moscone North to the City, and (iii) the transfer documents that are available for review. In addition, staff mailed the “notice of public hearing” to property owners within a 300-foot radius of 747 Howard Street (which is the address of Moscone North) on October 29 2014. Staff also published the “notice of public hearing” on OCII’s website beginning on October 29, 2014.

The Moscone North transfer to the City will be completed upon approval of the transfer by the Oversight Board and DOF.

DISCUSSION

Between the mid-1960s and late-1970s, the SFRA acquired, with federal funds, all of the land on Central Block Two (“CB-2”) and Central Block Three (“C-3”) in the Yerba Buena Center Approved Redevelopment Project Area D-1 (the “Project Area”).

The Moscone Center spans large portions of CB-2 and CB-3 in the Project Area’s Yerba Buena Gardens (See Exhibit A — Map of Yerba Buena Gardens). The Moscone Center was built above and below ground on CB-2 and CB-3, in two major phases (described below) between 1979 and 1991, as the need for additional convention space grew.

Between 1979 and 1988, the SFRA issued lease revenue bonds to finance the construction and improvements associated with the Moscone Center complex on land owned by SFRA. As described below, the 1979 bonds were paid in full in 2011. The 1988 bonds, which were refunded over the years, were paid in full in August 2014 (the “Bonds”). In both instances, the bonds were secured by leases with the City. Today, OCII and the City share ownership of the Moscone Center. The following summarizes the development of the Moscone Center since 1979 and the current property ownership interests between OCII and the City.

- **Moscone South.** In 1981, the first section of the Moscone Center – Moscone South was completed. It was primarily an underground structure spanning the length and width of CB-3, except for an above-ground lobby facing Howard Street and a few stairwell structures, ramp walls, and landscaping features (“Moscone South”). Moscone South was owned by the SFRA and leased to the City under a 1979 Project Lease. In 2011, the City paid the 1979 bonds in full, and the SFRA was required under an enforceable obligation, namely the 1979 Project Lease, to transfer this property to the City. As a result, all of Moscone South is now owned by the City.
Moscone North. In 1992, the final section of the Moscone Center – Moscone North was completed. Moscone North is comprised of a building (the esplanade ballroom and administrative offices) on CB-3; an above-ground lobby on the CB-2 side of Howard Street; an underground portion of Howard Street connecting the Moscone buildings on both sides of Howard Street; and an expansive underground section of CB-2 ("Moscone North"). (See Exhibit B for photographs of Moscone North.) The SFRA issued the Bonds and entered into another lease with the City as security for the Bonds (the "1988 Project Lease"). The 1988 Project Lease provided for, in addition to bond debt service payments by the City, deferred lease payments, which represent a deferred $20 million land payment for the property. These deferred lease payments were considered the "fair rental value" at the time and the City has been making annual payments of $870,000 since 1996, with the final payment scheduled for 2018.

In sum, the City owns all of Moscone South and OCII owns all of Moscone North.

Proposed Transfer

OCII proposes to transfer Moscone North to the City pursuant to an enforceable obligation (i.e., the 1988 Project Lease) in compliance with California Health and Safety Code § 34177 (c). Under the 1988 Project Lease, the SFRA (and now the Successor Agency) is required to transfer Moscone North to the City after the City has paid the Bonds in full and has paid all required deferred lease payments to the Successor Agency. The Bonds were paid in full by the City in August 2014. The City will make a lump-sum payment to the Successor Agency of $3.48 million in November 2014, which represents all remaining required deferred lease payments due under the 1988 Project Lease. The City has until November 2018 to make these payments, but has chosen to pay the Successor Agency early in order to facilitate a major expansion of the Moscone Center later this year.

Federal Restrictions

The $3.48 million payment to the Successor Agency is restricted money that can only be used for the operation, maintenance and security of Yerba Buena Gardens, as more fully explained below.

The SFRA originally acquired the land associated with Moscone North with urban renewal funds provided through a federal Contract for Loan and Capital Grant dated December 2, 1966 (Contract No. Calif. R-59) and approved by the U.S. Department of Housing and Urban Renewal ("HUD") (the "HUD Contract"). Under the HUD Contract, the SFRA was required to use the federal funds to carry out redevelopment activities in accordance with the Redevelopment Plan and the federal standards for urban renewal under Title I of the Housing Act of 1949.

Upon the demise of the federal urban renewal grant program, HUD required that the SFRA, and now the Successor Agency, treat all future proceeds from the sale or lease of the properties acquired with federal funds as program income under the federal Community Development Block Grant ("CDBG") program. The Mayor’s Office of Housing and Community Development ("MOHCD") administers the CDBG program for the City and is ultimately responsible for the
timely and accurate tracking, reporting and administration of “CDBG Program Income,” as defined by Title 24 in the Code of Federal Regulations § 570.500.

In 1983, the SFRA and the City executed, with HUD concurrence, the Yerba Buena Center Redevelopment Project Closeout Agreement (“YBC Closeout Agreement”) whereby the SFRA agreed to retain certain property (including Moscone North) for disposition, subject to applicable federal law and subject further to restrictions on the use of any proceeds received from the sale or lease of properties subject to the YBC Closeout Agreement. Under the YBC Closeout Agreement, HUD required the SFRA to use income generated from leases within the project area for “necessary and/or appropriate economic development activities,” which included the “operation, maintenance, and security” of all the publicly owned spaces on Yerba Buena Gardens, including Moscone North. Therefore, the Successor Agency is allowed to continue to use Program Income generated in Yerba Buena Gardens for the operation, maintenance and security of Yerba Buena Gardens, in compliance with the YBC Closeout Agreement.

Furthermore, HUD recently conducted a monitoring review of certain Successor Agency-owned properties acquired with federal funds and determined that federal obligations continue to apply to these properties. Upon completing its review, HUD issued a letter\(^1\) to MOHCD in September 2014 summarizing its conclusions (the “HUD Letter”). The HUD Letter confirms that income generated from Project Area properties, which includes the Moscone North property, is considered restricted CDBG Program Income. The HUD Letter also confirms that the “operation, maintenance, and security of open space, plazas, walkways, landscaping, parks gardens, fountains...” of Yerba Buena Gardens is an allowable use of restricted Program Income. See Exhibit C, the HUD Letter, for additional details.

Given the foregoing, the $3.48 million payment to the Successor Agency is restricted revenue that is not available for redistribution to the taxing entities under Redevelopment Dissolution Law. The Successor Agency is required to use the $3.48 million for the operation, maintenance and security of Yerba Buena Gardens and will deposit this money into a restricted account dedicated for this purpose.

OCII’s Long-Range Property Management Plan (“PMP”)

In November 2013, OCII submitted its PMP to DOF for approval, as required by Redevelopment Dissolution Law. The PMP indicated that a transfer of Moscone North to the City, pursuant to an enforceable obligation, was likely in 2014 (The 1988 Project Lease is an enforceable obligation in compliance with California Health and Safety Code § 34171(d)(1)(E).). Therefore, the pending transfer of Moscone North is consistent with the PMP.

Notice of Public Hearing

Before a successor agency transfers or sells any of its properties, it must first give the public at least 10 days’ notice before seeking the oversight board’s approval of the specific property transfer or sale (See California Health and Safety Code § 34181(f)). To comply with this

\(^1\) Letter from M. Cremer, HUD Director, Community Planning and Development Division, to O. Lee, Director, MOHCD (September 26, 2014).
provision of Redevelopment Dissolution Law, staff published a “notice of public hearing” in the San Francisco Chronicle on October 31, 2014. The notice included information about (i) the Oversight Board’s meeting today, (ii) the proposed transfer of Moscone North to the City, and (iii) the transfer documents that are available for review. In addition, staff mailed the “notice of public hearing” to property owners within a 300-foot radius of 747 Howard Street (which is the address of Moscone North) on October 29, 2014. Staff also published the “notice of public hearing” on OCII’s website beginning on October 29, 2014.

ENVIRONMENTAL REVIEW

Authorization of the proposed transfer of Moscone North to the City is exempt from the California Environmental Quality Act, or CEQA, on the following grounds: (1) it can be seen with certainty that there is no possibility that the transfer may have a significant effect on the environment (CEQA Guidelines § 15061(b)(3)), (2) the transfer will result in a continuation of existing facilities involving no expansion of use, and any future development for the real property will require separate environmental review (CEQA Guidelines § 15301), and (3) transfer of ownership is a ministerial act required under Redevelopment Dissolution Law (CEQA Guidelines § 15268).

In addition, because the Moscone North site was purchased with federal CDBG grant funds, the proposed transfer must also comply with the National Environmental Policy Act, or NEPA. The City, through the Mayor’s Office of Housing and Community Development, as a “Responsible Entity” under NEPA, has determined that the proposed transfer of Moscone North to the City is categorically excluded from further environmental review under NEPA because the land and buildings associated with Moscone North will be retained for the same use (Title 24 of the Code of Federal Regulations § 58.35(a)(5)) (See Exhibit D, NEPA Determination). As such, the transfer, by its scope and nature, requires no mitigation or formal consultation in order to be in compliance with the related laws and regulations, and is therefore considered an exempt project under NEPA (Title 24 of the Code of Federal Regulations § 58.34(a)(12)).

NEXT STEPS

To effectuate the proposed transfer, the City has opened escrow with a local title company. The City will deposit into escrow the $3.48 million and OCII will deposit a quitclaim deed and a notice of termination of the 1988 Project Lease (the “Transfer Documents”). The transfer of Moscone North, as an enforceable obligation, is subject to overview and approval by the Oversight Board in compliance with California Health and Safety Code § 34181 (a).

DOF has five days following the Oversight Board hearing to request a review of the Oversight Board’s actions related to the proposed transfer of Moscone North. If DOF does not request a review, the Oversight Board’s actions become final. If DOF requests a review, it then has up to 100 days to review the matter.

Escrow will close upon approval of the Moscone North transfer by the Oversight Board and DOF. At closing, the Transfer Documents will be recorded and the $3.48 million will be paid to
OCII to use for the operations, maintenance and security of Yerba Buena Gardens. As a result, OCII will have no further ownership interest in the Moscone Center.

(Originated by Denise Zermani, Senior Development Specialist)

Exhibit A: Map of Yerba Buena Gardens
Exhibit B: Photographs of Moscone North
Exhibit C: HUD Letter
Exhibit D: NEPA Determination