Exhibit C
HUD Letter
Mr. Olson Lee
Director
Mayor’s Office of Housing and Community Development
City and County of San Francisco
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

Dear Mr. Lee:

Subject: Results of Project-Specific Monitoring of HUD-assisted San Francisco Redevelopment Agency (SFRDA) Projects Subject to Compliance with Binding and Enforceable Obligations and Conditions Under the Community Development Block Grant (CDBG) Program:
- Yerba Buena Center – Marriott, Metreon and Howard Street Projects
- Bayview Hunters Point – Food Co-op Project

As a follow-up to a recent OIG audit of the San Francisco HUD Regional Office and Los Angeles Field Office pertaining to the oversight of local Redevelopment Agency projects assisted with funding under HUD programs, our office conducted a project-specific monitoring review of the above four projects at the Mayor’s Office of Housing and Community Development on August 7th and 8th, 2014. The review was completed by Rafael Cedillos, Sr. Community Planning and Development Representative. Also participating in the review was the Office of Community Investment & Infrastructure (OCII), the successor agency to the San Francisco Redevelopment Agency (SFRDA) following the State’s legislative mandate requiring the dissolution of Redevelopment agencies in February 2012.

The purpose of HUD’s visit was to review pertinent documents and information pertaining to the above four projects covered in the OIG’s audit, which were administered by the former SFRDA and are currently administered by OCII. More specifically, we wanted to ensure that binding and enforceable obligations and conditions placed on these projects as a result of HUD funding—have been and/or are currently being adhered to in compliance with applicable Community Development Block Grant (CDBG) Program requirements.

Yerba Buena Center Projects

The Yerba Buena Center projects received $79 Million in HUD Urban Renewal funding in 1967 directly from the Department for site acquisition purposes and the projects were completed successfully and eventually closed-out in 1983. The SFRDA retained ownership of all of the HUD-assisted acquired YBC properties until these were assumed by OCII, including the administration of all leasehold interests and generated program income.
We reviewed the HUD Urban Renewal Program Loan and Capital Grant Contract executed by HUD and SFRDA executed in December 1966 covering the Yerba Buena Center projects. In addition, we reviewed the project close-out and financial settlement Agreement executed in July 1983 by HUD and SFRDA, which allowed the proceeds received from the sale and/or lease of project property to be used for necessary and/or appropriate economic development activities in the project—defined by HUD as the operation, maintenance and security of open space, plazas, walkways, landscaping, parks, gardens, fountains, retail, hotel, office building, housing and related parking integrated with the development and Moscone Convention Center, ARE (amusement, recreation and entertainment) and cultural facilities, as applicable within each of the three segments comprising the YBC Redevelopment Project Area.

Project close-out letters from HUD Region IX Area Manager, Henry Dishroom, to Wilbur Hamilton, SFRDA Executive Director, and Mayor Dianne Feinstein, further stated that the sale or lease of project land must be treated as program income under the CDBG program and accounted for accordingly. According to MOHCD, in their discussion with the OIG in September 2013, the OIG’s review of public records confirmed the SFRDA as the owner of record of the YBC project properties. These SFRDA assets have now been assumed by OCII, with the exception of APN3734/091-Moscone Convention Center South, which was transferred to the City of San Francisco in 2011.

Therefore, we focused on the review of documentation which would show the tracking of the receipt and expenditure of revenue generated by YBC project property leases, i.e., enforceable obligations. COII staff provided us with SFRDA annual general ledger reports documenting leasing income generated by YBC properties, including underground facilities, from 1992 (when leasing income was first generated) through 2013, as well as expenditures for the operation, maintenance and security of such items permitted by HUD under the Urban Renewal close-out Agreement.

We determined that the SFRDA and OCII were properly collecting, tracking and expending YBC program income generated from leasing enforceable obligations and in compliance with CDBG program income accountability requirements. Furthermore, MOHCD required program income information to be provided by OCII and formerly by SFRDA, in order to include it in the City’s Annual Action Plan and annual reporting documents submitted to HUD.

Bayview Hunter’s Point Food Co-op Project

The Bayview Hunter’s Point Food Co-op project received $4 Million of CDBG program income funding administered by the SFRDA in 1990, which was utilized for site acquisition by the SFRDA. Ownership of the BHPFPC project site and the oversight of the lease and generated program income remained under the SFRDA since 1990, but have been assumed by OCII.

A memorandum from Edward Helfeld, SFRDA Executive Director, to the Mayor's Hunters Point Economic Development Planning Taskforce, acknowledged that $4M in CDBG funds were approved for the BHP Food Co-op by the Mayor and Board of Supervisors in the
agency's 1990/1991 budget and on September 1990, the Redevelopment Commission approved acquisition of the site for this project.

A Memorandum of Agreement executed on January 1, 1992, between the SFRDA and MOCD officially gave the responsibility to the SFRDA for administering SFRDA generated CDBG program income. Prior to this MOA, the SFRDA as a CDBG sub-recipient, determined which projects to fund with CDBG program income, but subject to the approval from the Mayor and Board of Supervisors.

SFRDA records pertaining to the BHP Food Co-op are approximately 25 years old and have been stored in microfiche by the City. OCII researched existing records, but an agreement executed between the SFRDA and the BHP Food Co-op owner was not available. However, it's not certain that such an agreement did not exist. Given that HUD-CPD senior staff did review the BHP Food Co-op project as part of its multi-program monitoring from mid-August to mid-October 1992 (although with an emphasis on the environmental review process), the non-availability of such an agreement would likely have been flagged by HUD-CPD at the time. It’s pertinent to note that HUD-CPD concluded at the time that the SFRDA’s financial systems and controls were adequate to ensure accountability for continuing Urban Renewal activities and activities funded with program income that continued to be generated from Urban Renewal and CDBG funded projects. No weaknesses or deficiencies were found in accounting for program income.

OCII staff provided us with copies of SFRDA financial records, specifically, annual general ledger reports from 1990 through 2013 reflecting program income generated from the BHP Food Co-op lease of SFRDA land acquired with CDBG funds, as well as general ledger reports for two sample years, i.e., 1996 and 2008, showing expenses of CDBG program income for CDBG eligible activities. We determined that the SFRDA and OCII were properly collecting, tracking and expending BHP Food Co-op CDBG program income generated from the leasing enforceable obligation and in compliance with CDBG program income requirements.

At the monitoring exit conference held with you, members of your staff and OCII staff on August 8, 2014 at MOHCD offices—we stated that no Findings or Concerns were determined as a result of our review of the subject SFRDA projects assisted with HUD program funds. We concluded that the SFRDA retained ownership (and eventually OCII in its role as “Successor Agency”) of the Yerba Buena Center properties (excluding Moscone Convention Center South) and the Bayview Hunter’s Point Food Co-op property; the SFRDA and OCII have carried out leasing enforceable obligations pertaining to each of the properties to-date; and have collected, tracked and expended CDBG program income in compliance with CDBG program requirements.

Furthermore, OCII is in the process of preparing a long-range property management plan to be submitted to the State Department of Finance in November. The management plan will include any properties which are bound by enforceable obligations and should therefore be exempt from the State’s disposition actions. These will include the YBC and BHPC properties which are required to comply with CDBG program income requirements.
We offered the following recommendations which were agreed to by MOHCD and OCII:

Recommendation No. 1:

- Execute an updated Memorandum of Agreement which covers the roles of responsibility of MOHCD and OCII pertaining to the administration and disposition of any and all CDBG program income generated from non-housing CDBG-assisted projects originally administered by the SFRDA (and now under OCII's oversight), including program income generated from the YBC HUD Urban Renewal projects. A listing of all such SFRDA/OCII projects which generate CDBG program income should be referenced in the MOA. A draft of the MOA has since been prepared by MOHCD and OCII and is acceptable to HUD. The MOA will need to be reviewed by the legal teams from MOHCD and OCII, before being submitted to the OCII Commission for final approval, as well as the Oversight Board.

Recommendation No. 2:

- A certification from MOHCD confirming its evaluation (based on historical records available and reasonable assumptions) that the BHP Food Co-op initially met CDBG eligibility and National Objective requirements and has continued to meet such requirements beyond the period to which the CDBG regulations' "reversion of assets" standard applies, i.e., five years after the end of the contract between SFRDA and the project owner (i.e., project completion and meeting of economic development low/mod job creation goals). The certification has been prepared by MOHCD and is acceptable to HUD.

Thank you and respective staff members from MOHCD and OCII for your cooperation and assistance during this project monitoring review. If you have any questions, please contact me at (415) 489-6572 or maria.f.cremer@hud.gov, or Rafael Cedillos, at (415) 489-6585, or rafael.a.cedillos@hud.gov.

Sincerely,

[Signature]

Maria Cremer
Director, Community Planning and Development Division

cc: Benjamin McCloskey, Chief Financial Officer, MOHCD
    Brian Cheu, Director of Community Development, MOHCD
    Gloria Woo, Director of Compliance and Data Analysis, MOHCD
    Tiffany Bohee, Executive Director, OCII
    Tracie Reynolds, Development Services Manager, OCII
    Denise Zermani, Senior Development Specialist, OCII
    Rosa Torres, Accounting Supervisor