MEMORANDUM

TO: Oversight Board

FROM: Tiffany Bohee, Executive Director

SUBJECT: Workshop on the Recognized Obligation Payment Schedule for January 1, 2015 to June 30, 2015 (ROPS 14-15B)

EXECUTIVE SUMMARY

Redevelopment Dissolution Law requires the creation of a Recognized Obligation Payment Schedule (“ROPS”) to set forth the minimum payment amounts and due dates of payments required by those enforceable obligations for each six-month fiscal period. Oversight Board approved ROPS are due to the State Department of Finance (“DOF”), the State Controller’s Office, and the City Controller no later than March 3rd for ROPS covering the July to December period of a fiscal year (known as the “A” period ROPS) and by October 3rd for ROPS covering the January to June period (known as the “B” period ROPS).

The Office of Community Investment and Infrastructure (“OCII”), operating as Successor Agency to the San Francisco Redevelopment Agency OCII must now prepare and seek approvals for “ROPS 14-15B”, which covers January through June 2015, or the second half of Fiscal Year 2014-2015. Today’s workshop will review our proposed submission. OCII will seek Oversight Board approval for ROPS 14-15B at the next regularly scheduled meeting on September 22, 2014. ROPS 14-15B must be submitted to the California Department of Finance by October 3, 2014.

DISCUSSION

Definition of Enforceable Obligations

The ROPS sets forth the payments required to be made under “enforceable obligations.” The Dissolution Law (AB 26 & AB 1484, together, or “the Law”) defines "enforceable obligations" to include bonds, loans, judgments or settlements, any "legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy," contracts or agreements necessary for the administration or operation of the Successor Agency, and certain “amounts borrowed from or payments owing to the Low and Moderate Income Housing Fund of a redevelopment agency,” as well as certain other obligations.
The Dissolution Law requires that successor agencies complete approved development projects that are subject to enforceable obligations by mandating that successor agencies perform those obligations and continue to oversee development until the contracted work has been completed or the contractual obligations can be transferred to other parties. Importantly, the Law expressly requires that pledges of increment associated with enforceable obligations of former redevelopment agencies be honored. The Law also provides for Successor Agencies to make new pledges of property tax revenues (former tax increment) under pre-existing agreements comprising enforceable obligations, subject to approval of their oversight boards and review by the State Controller and State Department of Finance.

Successor Agencies may also request that DOF finally and conclusively determine that certain obligations are enforceable obligations under Dissolution Law. To date OCII has submitted four “Final and Conclusive Determination” requests and three of those four have been approved by DOF as follows:

- Hunters Point Shipyard/Candlestick Point Project (approved December 2012);
- Transbay Project (approved April 2013);
- Mission Bay Project (approved January 2014); and
- Replacement Housing Obligation (pending).

**ROPS 14-15B Worksheets**
The ROPS 14-15B Worksheets provided by DOF are substantially unchanged from those used for ROPS 14-15A. There are still five separate worksheets: Summary, ROPS Detail, Report of Cash Balances, Prior Period Adjustments, and Notes.

Staff has prepared the ROPS Detail and Notes worksheets (see Attachments 1 and 2). Staff is still compiling the financial data for the Report of Fund Balances and Report of Prior Period Adjustments, which in turn affects the Summary page. Staff will provide the Oversight Board with final set of ROPS 14-15B worksheets for the September 22, 2014 meeting.

**RPTTF REQUEST**
As shown in Table 1 below, the RPTTF request in ROPS 14-15B is $109M, an increase of $38M from the ROPS 14-15A request of $71M.

The increase is largely due to a change in the timing of our RPTTF requests for bond year 2015 debt service compared to bond year 2014. For bond year 2014 (which covers our payments due to trustees in January and June 2014, we split our RPTTF equally between the ROPS 13-14B and ROPS 14-15A, at approximately $50M in each ROPS period. For bond year 2015, we are requesting the full amount due for the bond year in the ROPS 14-15B period, to reflect that the debt service payments are both due to trustees during that period, and also in order to demonstrate compliance with bond indentures that require tax increment be set aside first for the full bond year of debt service before applying the increment to other uses.
Another factor in the increase is a proposal to provide the first partial repayment of the March 16, 2010 $16.483 million loan from the Low and Moderate Income Housing Fund to support the former San Francisco Redevelopment Agency’s Supplemental Educational Revenue Augmentation Fund (SERAF), shown on ROPS Line 12. Since the Successor Agency received its Finding of Completion in May 2013, Dissolution Law (Health and Safety Code Section 34191.4(b)(2)(B) allows the repayment of such loans to the City’s Low and Moderate Income Housing Asset Fund. Based on formulas provided by DOF, the maximum repayment allowed during this ROPS period would be $15,998,229 (representing 50% of the increase in residual tax increment distributed to taxing entities in Fiscal Year (FY) 2013-14 compared to FY 2012-13). The payment proposed in ROPS 14-15B is limited to $2,950,968 because that was the earlier estimate of the maximum allowable amount included in OCII’s and the City’s FY 2014-15 budgets approved by the San Francisco Board of Supervisors.

Table 1. RPTTF Approved in ROPS 14-15A compared to ROPS 14-15B Request

<table>
<thead>
<tr>
<th>ROPS 14-15A</th>
<th>ROPS 14-15B</th>
<th>USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$53M</td>
<td>$99M</td>
<td>Debt Service</td>
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<td>$3M</td>
<td>Mission Bay Pledged TI above Debt Svc</td>
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<td>$2M</td>
<td>$2M</td>
<td>Transbay Implementation Agreement</td>
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<td>HPSY EDA Grant Match etc.</td>
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<tr>
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<td>$3.0</td>
<td>Partial LMIHF ERAF Loan Repayment</td>
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<td>$1.5M</td>
<td>Admin Cost Allowance</td>
</tr>
<tr>
<td>$71M</td>
<td>$109M</td>
<td>TOTAL RPTTF REQUEST</td>
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</table>

POTENTIAL RPTTF DEFICIENCY

The magnitude of the $103M ROPS 14-15B request means that we are likely to have a deficiency in RPTTF actually available from the January 2, 2015 distribution. Current estimates are that the ROPS 14-15B increment available after AB 1290 pass-throughs is likely to be in the range of $80M - $90M. This results in a deficiency of up to $20M or more between the RPTTF request and available funds. There are two approaches that OCII can pursue to accommodate the deficiency:
1. Preferred Alternative—Seek a Treasurer’s Cash Flow Loan

AB 1484 created a process for handling deficiencies such as this in Section 34173 and 34183. Pursuant to Section 34183, the Successor Agency must report by December 1 (for a “B” ROPS) to the City and County Controller’s Office that the RPTTF funds available will be insufficient to fully fund the ROPS request and pass-throughs. Section 34173(h) allows the City to loan funds to the Successor Agency for the purpose of paying an item approved on the ROPS “at the request of the Department of Finance that are necessary to ensure prompt payment of redevelopment agency debts.” The City of San Francisco Charter Section 9.113 also provides authorization for the Treasurer, upon the recommendation of the City and County Controller, to advance funds from the Treasurer’s pool to public agencies who are participants in the pool (such as OCII). Any such advances would be charged interest at a level not less than the amount of interest earned by the Treasurer’s pooled funds. Historically, interest has not been charged above the pooled interest earnings rate, which is currently less than 1% annually.

Assuming OCII is able to get a loan from the Treasurer’s Office for the RPTTF deficiency approved by the Oversight Board and Department of Finance, this loan would represent an enforceable obligation, with the repayment placed on ROPS 15-16A, to be paid from RPTTF funds available from the June 1, 2015 distribution. There will be sufficient RPTTF to support that repayment because there will be no tax allocation bond debt service requirements due from that ROPS period.

Staff will seek City and County Controller’s Office and Treasurer’s Office consent for the cash flow loan to the RPTTF as soon as possible in early October after the ROPS 14-15B ROPS is submitted, with a goal of bringing the loan request to the Oversight Board by November 10, 2015. This should give the Department of Finance sufficient time to review the request prior to the January 2, 2015 distribution.

2. Back-up Alternative—Subordination of ACA and AB 1290 Pass-throughs

If the Treasurer’s cash flow loan is not approved, a back-up alternative would be to apply the provisions of AB 1484 Section 34183(b) and tax allocation debt subordination provisions, which allow for the City and County Controller to redirect RPTTF funds from OCII’s Administrative Cost Allowance and from the taxing entity AB 1290 pass-throughs to the payment of debt service and other enforceable obligations on the ROPS 14-15B. The taxing entities would be paid the full AB 1290 pass-throughs due them from the June 2015 RPTTF distribution. This alternative is not preferred because OCII’s credit rating might suffer if we were seen to be triggering subordination of pass-through obligations in order to fulfill the requirements of our bond indentures.
ADMINISTRATIVE BUDGET

The total administrative budget in Items 1, 4 and 10 of ROPS 14-15B totals $6.0M, comprised of: The sources of funds are:

- $385K in taxable bond proceeds,
- $3.2M in developer fees, reimbursements, lease revenues and other miscellaneous revenues;
- $945K in RPTTF project funds ($425K for project management staffing costs $520K is for retiree health premiums); and
- $1.45M in Administrative Cost Allowance

The total administrative budget is just $82K more than the amount requested in ROPS 14-15A to reflect changes in staffing projections ($37K increase in use of taxable housing bond proceeds, and a $45K increase in project RPTTF). The Administrative Cost Allowance (ACA) request of $1,455,000 is unchanged from ROPS 14-15A, consistent with the annual administrative budget presented to the Oversight Board during approval of ROPS 14-15A.

NEW AND UPDATED ITEMS ON ROPS 14-15B

The new or updated items on ROPS 14-15B are:

- Item 12, Low and Moderate Income Housing Fund (LMIHF) Loan Repayment: $2,950,968 payment to City’s Low and Moderate Income Housing Asset Fund, as partial repayment of the 2010 $16.483M LMIHF loan to the former San Francisco Redevelopment Agency, as discussed above.

- Item 384, 385 and 386: Use of Excess South of Market Area (SOMA), Western Addition Area 2 (WA-2) and Bayview Hunters Point (BVHP) Excess Tax-Exempt Bond Proceeds, $591K, $83K and $434K respectively: These were previously on ROPS 14-15A but since the grant agreements with the City have not yet been concluded, these are being included again on this ROPS. As mentioned in the notes, the scopes has been further defined, as follows:
  - SOMA $591K: eligible pedestrian safety improvements along 6th Street and alleyway improvements.
  - WA-2 $83K: Capital improvements to the Ella Hill Hutch Community Center.
  - BVHP $434K: Streetscape, façade improvements along Third Street commercial corridor, public art, sidewalk gardens and other greening projects.

- Item 387, Excess BVHP Tax-Exempt Bond Proceeds for CNI Model Block/ Streetscape Improvements Program, $450K: This was previously on
ROPS 13-14B as Line 367 and the transfer of funds was initially expected to be completed by June 2014, so the line was retired from ROPS 14-15A. The transfer was delayed and is no expected to take place in the ROPS 14-15B period.

- **Item 388, Excess Tax-exempt Housing Bond Proceeds:** $8.1M of surplus pre-2011 tax-exempt bond proceeds intended for affordable housing are anticipated to be transferred to the City during this ROPS period, as allowed by OCII’s Finding of Completion for purposes consistent with the bond indentures. These funds are anticipated to be used for major elevator repairs at San Francisco Housing Authority sites and to fund a grant program to affordable housing non-profits for major capital repairs and other uses consistent with the bond indentures.

- **Item 389, Mission Bay South Series 2014A Bonds:** These bonds were issued in March 2014. There was $1.1M in capitalized interest paid from bond proceeds that was inadvertently left off prior ROPS and so is included here. The additional $3.5M debt service due for this bond year is included in the RPTTF column.

- **Item 390, Hunters Point Shipyard International African Marketplace:** $84K in developer payments for the development of an International African Marketplace are anticipated to be disbursed in this ROPS period.

- **Item 391, Transbay Underramp Park Construction:** $0.9M in existing 2001 bond proceeds planned to be provided to the Transbay Joint Powers Authority, who has been contracted to oversee the work on behalf of OCII

- **Item 392, Transbay Block 1 Affordable Housing Project:** $5M included for anticipated predevelopment costs for Transbay Block 1 affordable housing project.

- **Item 393, Mission Bay South Block 6 East Affordable Housing Project:** $3.1M in prior period Mission Bay pledged RPTTF is programmed for predevelopment for this project for which the developer selection process will soon be completed. No payment amount is shown on ROPS 14-15B per DOF instructions as the funds were already shown as pledged for Mission Bay housing purposes on a prior ROPS.

- **Item 394, Mission Bay South Block 3 East Affordable Housing Project:** $2.5M in available developer fees programmed for predevelopment. Staff anticipates commencing the developer selection process in the Fall of 2014.

- **Item 395, HPS Block 54 Affordable Housing Project:** $2.5M in available developer fees programmed for predevelopment. Staff anticipates commencing the developer selection process in the Spring of 2015.
NEXT STEPS

This ROPS will be considered at a workshop of the Commission on Community Investment and Infrastructure on September 12, 2014 and brought back to the Oversight Board for approval on September 22, 2014, in order to meet the October 3, 2014 deadline for submission to DOF and the City and County Controller’s Office. DOF will make its determination of the enforceable obligations, and the amounts and funding sources of the enforceable obligations, within 45 days of submission.

Should OCII wish to dispute any of DOF’s determinations on ROPS 14-15B, OCII may request an opportunity to meet and confer with DOF. The meet and confer request must be made within five business days of DOF’s determination, and DOF will notify OCII and the Controller as to the outcome of that review at least 15 days before the January 2, 2015 property tax distribution. Staff will provide updates to the Oversight Board as we receive feedback from DOF on this ROPS.

(Originated by Leo Levenson, Deputy Director for Finance & Administration)

Tiffany Bonec
Executive Director

Attachment A: Draft ROPS 14-15B – ROPS Detail Worksheet
Attachment B: Draft ROPS 14-15B – Notes Worksheet