MEMORANDUM

TO: Oversight Board
FROM: Tiffany Bohee, Executive Director
SUBJECT: Approving a Pooled Funds Cash Flow Loan Agreement of up to $21,172,676, with the Treasurer and Controller of the City and County of San Francisco to Ensure Compliance with Bond Indentures

EXECUTIVE SUMMARY

The Successor Agency to the City and County of San Francisco Redevelopment Agency, operating as the Office of Community Investment and Infrastructure ("Successor Agency") seeks authorization to enter into a Pooled Funds Cash Flow Loan Agreement ("Loan Agreement") with the Treasurer and Controller’s Office of the City and County of San Francisco for up to $21,172,676, to ensure that there will be sufficient funds available at the time of the January 2, 2015 property tax distribution to fulfill the terms of bond indentures to set aside funds for the full bond year debt service requirements. The loan would be repaid from property tax increment funds available from the June 1, 2015 property tax distribution. The loan may not be necessary or the amount needed may be substantially reduced if a tax allocation bond refunding effort is completed prior to January 2, 2015, which would likely reduce the payment obligations to an amount covered by available funds.

Staff recommends approval of the attached Resolution.

DISCUSSION

The former San Francisco Redevelopment Agency ("SFRA") tax allocation bond indentures included language stating that the Agency must set aside sufficient tax increment in debt service accounts for the full bond year of debt service prior to using tax increment for other purposes. In those indentures, the bond year extended from August 2 of one year to August 1 of the next. The SFRA complied with this requirement through the use of reserves carried forward from prior years and by making required pass-through payments to taxing entities of tax increment only after the full bond year of debt service had been transferred to trustees.

Redevelopment Dissolution Law established the principle that Successor Agencies submit a Recognized Obligation Payment Schedule ("ROPS") detailing payment requirements for each six-month period, and receive two tax increment distributions per year—on January 2 for the January to June period, and on June 2 for the July to December period of each year. The
Controller's Office of the City and County of San Francisco is required to calculate and withdraw pass-through payments to taxing entities at the time of the January and June payments.

Significantly, Redevelopment Dissolution Law establishes that debt service payments for tax allocation bonds have priority to receive tax increment fund in the Redevelopment Property Tax Trust Fund (California Health and Safety Code § 34183(a)(2)(A)).

The tax increment distribution on January 2, 2015 will represent the first distribution of the bond year stretching from August 2, 2014 to August 1, 2015. Accordingly, the Successor Agency's ROPS 14-15B request for tax increment from the January 2, 2015 distribution includes the full tax allocation bond debt service requirements for the year.

Including the full bond year debt service requirements brought our ROPS 14-15B tax increment request up to $109,272,190, offset by $3,160,208 of tax increment on hand left over from prior ROPS periods, for a net amount of $106,103,982, subject to some adjustment up or down depending on how much pledged increment is available for Mission Bay and the formerly state-owned parcels in the Transbay project area. On October 1, 2014, the City and County of San Francisco Controller's Office submitted an estimate that approximately $86 million in tax increment would be available for distribution to the Successor Agency on January 2, 2015 for enforceable obligations, leaving a roughly $20 million shortfall to the Successor Agency's request.

The Successor Agency is currently pursuing the potential refunding of tax allocation bonds to take advantage of current low interest rates. If the Successor Agency successfully completes the refunding, the amount of funds needed for debt service from the January 2, 2015 distribution may be substantially lower.

However, if the refunding does not occur prior to January 2, 2015, and if the Successor Agency did not receive any other sources of funds to support the RPTTF request, the Successor Agency would need to divert all RPTTF received in January 2, 2015 to debt service accounts, leaving nothing available for other purposes on ROPS 14-15B, including administrative costs. Since these diversions would not free up sufficient funds for the full bond year debt service requirements, the Successor Agency would also need to invoke provisions of the bonds that would require the Controller's Office of the City and County of San Francisco to subordinate AB 1290 tax increment pass-through payments to taxing entities until the bond year debt service had been paid. Such a course is permitted under Redevelopment Dissolution Law, California Health and Safety Code §34183(b).

Redevelopment Dissolution Law also permits an alternative course of action that would not delay AB 1290 tax increment payments to taxing entities. California Health and Safety Code § 34183(c) provides:

"The county treasurer may loan any funds from the county treasury to the Redevelopment Property Tax Trust Fund of the successor agency for the purpose of paying an item approved on the Recognized Obligation Payment Schedule at the request of the
Department of Finance that are necessary to ensure prompt payments of redevelopment agency debts.”

In addition, the Charter of the City and County of San Francisco Section 9.113 provides that in the event that funds are not available to meet authorized expenditures for any agency whose funds are held by the Treasurer, the Treasurer, upon the recommendation of the Controller, is authorized to transfer monies among funds held by the Treasurer in the pooled funds of the City and County which are legally available for such a purpose.

If the tax allocation bond refunding does not occur or does not reduce the Successor Agency’s tax increment needs to within the amount available on January 2, 2015, the Successor Agency proposes to use these provisions of Redevelopment Dissolution Law and the County Charter to obtain a cash flow loan from the pooled funds of the Treasurer for the specific purposes of complying with bond indentures to set aside funds for the full bond year of debt service for our tax allocation bonds, and thus freeing up tax increment to fund the other obligations on our ROPS 14-15B payment schedule.

The proposed Cash Flow Loan Agreement included as Exhibit A to the attached resolution would provide that the Treasurer would loan funds for specific debt service line items on the ROPS, allowing the substitution of the loaned funds for the tax increment request for those items. In practice, the loaned funds would remain in the Treasurer’s Pool, but placed in a separate Successor Agency account dedicated to debt service on the tax allocation bonds. As long as the loaned funds are not actually disbursed from the Treasurer’s pool, the Successor Agency would not be charged any net interest on the loaned funds. Since the majority of the debt service payments are not due to the bond trustees until June 30, 2015, and since the loaned funds will be repaid from the tax increment distribution of June 1, 2015, the loan should not result in any interest charges to the Successor Agency. If however, interest is charged, the rate would be equal to the interest rate earned by the Treasurer’s pool, which was an annualized rate of 0.76% as of July 2014.

Successor Agency staff outlined the proposal for seeking a cash flow loan from the Treasurer’s Office in the staff memo accompanying Oversight Board Resolution 10-2014 approving ROPS 14-15B on September 22, 2014. Any amounts borrowed under this loan would be paid back under ROPS 15-16A from tax increment provided in the June 1, 2015 distribution. Since much less, if any tax increment will be required for debt service during the ROPS 15-16A period, we anticipate that there will be ample funds available from the June 1, 2015 distribution to repay any amount borrowed from the Treasurer under the terms of the proposed cash flow loan.

Staff recommends approval.

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