MEMORANDUM

TO: Oversight Board

FROM: Tiffany Bohee, Executive Director

SUBJECT: Workshop on the Long-Range Property Management Plan pursuant to Section 34191.5 of Assembly Bill 1484 ("Redevelopment Dissolution Law")

EXECUTIVE SUMMARY

This workshop is the first of two workshops presented by the staff of the Office of Community Investment and Infrastructure ("OCII") on OCII's Long-Range Property Management Plan, which is required by two companion bills passed by the California State Assembly, commonly known as AB 26 and AB 1484 ("Redevelopment Dissolution Law"). Under Redevelopment Dissolution Law, each successor agency to a redevelopment agency (including OCII) must submit a Long-Range Property Management Plan, or PMP, to the Oversight Board and the State Department of Finance ("DOF") for approval.

The PMP must include an inventory of all the successor agency's real property assets (including property owned or leased) and a disposition plan for each asset. DOF wants to make sure each successor agency is disposing of its real property assets pursuant to the restrictions of Redevelopment Dissolution Law and in a way that maximizes the benefits to the taxing entities.

This memorandum is organized under three broad headings: (1) Discussion, (2) OCII Properties, and (3) Next Steps/Timing of PMP Approvals. In the first section, the discussion focuses on what information must be included in a PMP and how unrestricted sales proceeds are to be used. The second section is the substance of the workshop. It focuses on all of OCII's real property interests and preliminary discussions about a disposition strategy for each. The real property interests are discussed in the following order: (1) the Major Approved Development Projects (i.e., Transbay, Mission Bay, and Hunters Point Shipyard/Candlestick Point), (2) Yerba Buena Gardens, and (3) Other OCII Properties.

This is the first workshop on this subject. The second workshop before the Oversight Board is scheduled for the end of October. Similar workshops will be held before the Successor Agency Commission. Staff will be bringing a final PMP for approval to the Commission and the Oversight Board in mid-November. OCII's PMP is due to DOF on November 29, 2013.

DISCUSSION

Redevelopment Dissolution Law (See Section 34191.5) requires that each successor agency (including OCII) submit a PMP to DOF that includes two things: (1) an inventory of all its real property assets, and (2) a disposition plan for each of those assets pursuant to the restrictions of
Redevelopment Dissolution Law. The rationale behind the PMP (which was included in AB 1484) was to provide some relief to successor agencies who were feeling pressure to sell their assets quickly under AB 26, the earlier piece of redevelopment dissolution legislation. Under AB 1484, successor agencies were given more time to prepare a disposition plan, but they were also prevented from selling any assets (except in certain circumstances) until their disposition plans, or PMPs, were approved by their respective oversight boards and DOF.

The first part of the PMP is the property inventory. Under Redevelopment Dissolution Law, the property inventory must include the following information:

- Property acquisition date and value; estimate of current value
- Purpose for which the property was acquired
- Parcel data (i.e., address, lot size, current zoning)
- Current property value, including any appraisal information
- Revenues generated from the property (i.e., lease, rents, other), and enforceable obligations committing those funds
- History of environmental contamination, studies, and remediation efforts
- Description of the property’s potential for transit-oriented development and advancement of planning objectives
- History of previous development proposals and activity, including leasing activity

The second part of the PMP is the disposition plan. Under Redevelopment Dissolution Law, the disposition plan must place each real property asset into one of the following four categories:

1. Properties that must be transferred to the city or appropriate public entity if they were constructed and used for a “governmental purpose” (See Section 34181). Examples given in Redevelopment Dissolution Law are roads, school buildings, parks, police and fire stations, libraries, and local agency administrative buildings. Most of OCII properties fall within this category.

2. Properties that must be transferred to the city if they were identified in an approved redevelopment plan for development or liquidation.

3. Properties that must be sold. Some of OCII’s properties fall within this category.

4. Properties that can be retained or sold to fulfill an enforceable obligation. Some of OCII’s properties fall within this category.

Redevelopment Dissolution Law allows properties that fall into categories #1 and #4 above to be sold prior to DOF’s approval of the successor agency’s disposition plan, or PMP. OCII used these provisions in Redevelopment Dissolution Law when it transferred an airspace parcel above the San Francisco Museum of Modern Art to the City and County of San Francisco (the “City”) in late 2012 to fulfill the enforceable obligation applicable to completion of urban renewal projects (i.e., disposition for economic development purposes pursuant to a contractual agreement between OCII and the City, which the federal government approved) and thus to serve the federal governmental purposes (i.e., the federal requirements for the use of property acquired with federal funds). DOF approved this transaction.
OCII also recently sold the Jessie Square Garage, the Mexican Museum parcel, and a small airspace parcel over Jessie Square Plaza to Millennium Partners to build a mixed-use project near 706 Mission Street, at the corner of Mission and Third Streets, using an existing enforceable obligation as the basis for property transfer. As part of the approvals for the purchase and sale agreement, the Commission and the Oversight Board also approved a Long-Range Property Management Plan (Part 1) that just contained the three OCII properties associated with the 706 Mission Street/Mexican Museum project. As such, the PMP being discussed today does not include those three properties. DOF is currently reviewing the Oversight Board’s approval of this transaction and the PMP (Part 1).

Redevelopment Dissolution Law is also specific about how unrestricted proceeds from any property sales are to be used. Any unrestricted sales proceeds can be used to pay off enforceable obligations and to fund wind-down activities. If any proceeds are left over, then those proceeds must be distributed to taxing entities. OCII will not likely have any unrestricted sales proceeds. The properties that are likely to be sold (which are discussed in the next section) are properties acquired with federal urban renewal grant funds. As such, they are subject to the federal requirements under the Community Development Block Grant ("CDBG") Program and any sales proceeds are considered restricted CDBG program income.

**OCII PROPERTIES**

This section is the substance of this workshop. It covers all of OCII’s real estate assets and includes a preliminary discussion about the disposition strategy for each asset. In general, OCII staff will be following a guiding principle in the PMP: OCII will own property until it is developed to fulfill its development obligations, and then OCII will sell/transfer it to another entity to operate/manager. There are exceptions to this guiding principle, however:

- Situations where an enforceable obligation requires OCII to operate the property after it is developed or;
- Situations where the property remains a liability after it is developed (i.e., properties that still contain some environmental contamination). In these situations, it will be difficult to sell/transfer the property to another owner.

This discussion is organized as follows: (1) Major Approved Development Projects (i.e., Transbay, Mission Bay, and Hunters Point Shipyard/Candlestick Point), (2) Yerba Buena Gardens, and (3) other OCII properties.

**TRANSBAY**

The following briefly summarizes the property the Successor Agency owns in Transbay, or will own in the future. A map showing these Transbay properties is attached as Attachment 1:

**Development Parcels**
- Sites OCII currently owns (i.e., Block 11A and a portion of Block 1)
- Sites OCII will own in the future (i.e., Blocks 2, 4, 5, 6, 7, 8, 9, 12, and Parcel F)
Park Lands

- Sites OCII currently owns (i.e., Block 11B)
- Sites OCII can own in the future (i.e., Blocks 3, 10)

Preliminary Disposition Discussion

The vast majority of the property in Transbay that will be included in OCII's PMP is property OCII will own in the future. The only exceptions are two development parcels (Block 11A and a portion of Block 1, also known as the Spear Street Parcel) and one small parcel (Block 11B), which is slated for a park. This memo focuses first on the properties OCII will own in the future.

In its PMP, OCII will be relying on two Transbay enforceable obligations that require OCII to own and develop property in the future. These enforceable obligations are:

- The 2005 Transbay Redevelopment Project Area Implementation Agreement between the Successor Agency and the Transbay Joint Powers Authority ("TJPA") ("Transbay Implementation Agreement")
- California State Assembly Bill 812, which imposes a 35% affordable housing requirement in the Transbay Redevelopment Project Area

Parcels that OCII does not own now, but may own in the future, are defined as "Agency Transfer Parcels" in the Transbay Implementation Agreement and in the 2008 Option Agreement for the Purchase and Sale of Real Property between the Successor Agency, the City, and the TJPA ("Transbay Option Agreement"). Under these agreements, OCII is required to exercise its purchase option on these parcels, and own them until they are either (i) sold for development, (ii) developed as affordable housing, or (iii) developed as parks. The Transbay Implementation Agreement is an enforceable obligation under AB 26 and requires that the Successor Agency "prepare and sell the Agency Transfer Parcels to third parties." This requirement is also contained in the Option Agreement, which grants the Successor Agency "the exclusive and irrevocable option to purchase the Agency Transfer Parcels." The Agency Transfer Parcels include all of the development parcels and park parcels, except for Block 1.

In addition, the Transbay Implementation Agreement and the Transbay Option Agreement are in furtherance of the 2003 Cooperative Agreement between the City, the TJPA, and the State of California ("Transbay Cooperative Agreement").

The Transbay Cooperative Agreement, the Transbay Implementation Agreement and the Transbay Option Agreement all require that the Successor Agency deposit the gross sales proceeds from the sale of the Agency Transfer Parcels into a separate account, which shall be used by the TJPA to help pay the cost of designing and constructing the new Transbay Transit Center. The fair market value of the Agency Transfer Parcels shall be determined by a competitive bidding process for each parcel, taking into account the requirements of the 2005 Redevelopment Plan for the Transbay Redevelopment Project Area, including the affordable housing requirements.

On April 15, 2013, the California Department of Finance ("DOF") determined "finally and conclusively" that the Transbay Implementation Agreement, along with other Transbay-related
documents, is an enforceable obligation that will not require additional DOF review in the future, although expenditures under the Implementation Agreement are subject to continuing DOF review. The Option Agreement provides the means by which OCII can fulfill its obligations under the Implementation Agreement to prepare and sell the Agency Transfer Parcels.

For the development parcels OCII currently owns, OCII will continue to own these properties until they are developed. These parcels include:

- **Spear Street Parcel (portion of Block 1)**. OCII's parcel is part of Block 1, which is defined in the Transbay Development Controls and Design Guidelines ("DCDG") to include OCII's parcel and three adjacent privately-owned parcels. It is a vacant property located between Main and Spear Streets, north of Folsom Street. This parcel is not an Agency Transfer Parcel, and therefore is not covered by the Transbay Implementation Agreement. However, it was purchased by the former redevelopment agency with affordable housing funds and is needed to meet the affordable housing requirements of AB 812, which was approved "finally and conclusively" as an enforceable obligation by DOF on April 15, 2013. As required by the DCDG, OCII's property on Block 1 must be aggregated with the private parcels that make up the rest of Block 1 before it can be developed. OCII staff is in discussions with a private developer, Tishman Speyer, which recently acquired control of all three of the privately-owned parcels on Block 1. It is expected that negotiation of a development agreement with Tishman Speyer would begin after approval of the PMP.

- **Block 11A**. Block 11A is currently being developed as 120 units of supportive housing, with completion expected in late 2013. The project is required in order to meet the 35% affordable housing requirement in AB 812, an enforceable obligation that was "finally and conclusively" approved by DOF. The project is being developed by Bridge Housing and Community Housing Partnership under a ground lease with OCII. When the housing is completed, OCII will transfer the ground lease to the Mayor's Office of Housing and Community Development, the City's housing successor agency.

For the park land OCII currently owns (i.e., Park 11B), OCII will continue to own this property until it is developed as a park, and then transfer the park to another entity (i.e., the City, the TJPA, or a non-profit entity) to own and manage with funds generated from a community benefits district.

**Community Outreach**

OCII staff discussed the PMP with the Transbay Citizens Advisory Committee ("CAC") at the CAC's regular meeting on August 8, 2013. As the PMP is developed, staff will schedule additional meetings with the CAC prior to the Oversight Board's consideration of the final PMP.

**MISSION BAY**

In Mission Bay, the only property OCII owns or will own in the future is designated for affordable housing. The rest of the property under OCII's control is leased from either the Port
of San Francisco (the "Port"), the Public Utilities Commission (the "PUC"), or the City at no cost to operate parks and open spaces. OCII leases the parks once they are completed, and pays for the park maintenance using special tax revenue generated from a community facilities district. A map showing the lands under OCII's control in Mission Bay is attached as Attachment 2. The following briefly summarizes these lands:

Mission Bay North

Park Lands
- Sites OCII currently leases from the Port/PUC/City to operate parks
  - Park NP1-3 (including maintenance building)
  - Park NP4-5 (including kayak shed, boat launch)

Mission Bay South

Park Lands
- Sites OCII currently leases from Port/PUC/City to operate parks
  - Parks P1 (including pavilion building), P10, P16, P17, P18, P21
- Sites OCII will lease in the future to operate parks
  - Parks P2, P3, P5, P6, P7, P8, P9, P11, P11A, P12, P13, P15, P19, P20, P22, P23, P24, P26, P27

Affordable Housing
- Sites OCII currently owns to build affordable housing (i.e., 1180 4th Street)
- Sites OCII will own in the future to build affordable housing
  - Blocks 3 East, 4 East, 6 East and West, 7 West, 9 and 9A, and 12 West

Preliminary Disposition Discussion

As shown, OCII’s property inventory in Mission Bay is comprised completely of (i) lands OCII leases (or will lease) from other public entities to operate parks or (ii) lands OCII owns (or will own) to build affordable housing. This discussion talks about the park lands first, and then the affordable housing sites.

Parks in Mission Bay are generally developed as follows. The master developer builds the parks on lands owned by the Port, the PUC, or the City. The master developer is reimbursed for these park infrastructure costs from future tax increment generated by Mission Bay, through tax increment pledge agreements between OCII, the master developer, and the City. Once a park is completed, OCII is required under the Mission Bay development agreements to lease it from the underlying property owner (i.e., either the Port, the PUC, or the City) until 2043 and maintain the park using private funds generated from a community facilities district. This structure was developed as part of the original redevelopment plan for Mission Bay for a variety of reasons. It was primarily designed to shield the City from any operating and capital costs for the new Mission Bay parks until 2043, when, it was thought, the infrastructure at Mission Bay would be paid off and there would be lots of tax increment available to the City to pay for operating and capital costs for the new Mission Bay parks.
OCII staff have not developed a disposition strategy for these assets as of yet. Redevelopment Dissolution Law allows successor agencies to maintain assets pursuant to an enforceable obligation. So, in the case of Mission Bay, OCII may designate in the PMP that OCII will continue leasing these parks until 2043 because there are enforceable obligations (i.e., the Mission Bay North and South Owner Participation Agreements) requiring it to do so. Alternatively, OCII could potentially designate in the PMP a proposed termination of the existing leases whereby OCII will not exercise its options to lease more park land in the future. Under this scenario, responsibility for the park maintenance would fall to the underlying property owner (i.e., the Port, the PUC, or the City) and each entity could use special tax revenue generated from the community facilities district (which would still likely be administered by OCII) to pay for park maintenance.

For the Mission Bay affordable housing sites, OCII will own the affordable housing sites until the project is completed. Once complete, the project will transfer to the Mayor’s Office of Housing and Community Development, the City’s affordable housing successor agency, to manage.

Community Outreach

OCII staff presented the PMP process to the Mission Bay Citizens Advisory Committee ("CAC") at their August 8, 2013 meeting. As part of that meeting, the CAC expressed a strong desire to maintain the existing management scheme for the Mission Bay parks. In the event that OCII is no longer allowed to maintain the parks, recognizing the patchwork ownership pattern of the Mission Bay park system, the CAC requested that the parks continue to be maintained by a single entity to avoid creating park system with a piecemeal management program. OCII staff committed to returning to the CAC at the up-coming meetings to involve the community in the on-going discussions for the Mission Bay parks.

HUNTERS POINT SHIPYARD AND CANDLESTICK POINT

At the Shipyard, OCII controls property (either by owning it or leasing it from the federal government) that is reserved for the various public uses at the Shipyard: (i) affordable housing, (ii) parks, (iii) streets, and (iv) community facilities (including artist studios and a clean-tech incubator). A map showing where the various public uses are located at the Shipyard is attached as Attachment 3. The following briefly summarizes these OCII-controlled properties:

Affordable Housing
- Vacant land OCII currently owns (i.e., in Phase 1)
- Vacant land OCII will own in the future (i.e., in Phase 2)

Parks
- Vacant land OCII currently owns (i.e., in Phase 1)
  - Land under the jurisdiction of the California State Lands Commission
  - Other land
Parks (Cont’d…)
- Vacant land OCII will own in the future (i.e., in Phase 2)
  o Land under the jurisdiction of the California State Lands Commission
  o Other land

Streets
- Vacant land OCII currently owns (i.e., in Phase 1)
- Vacant land OCII will own in the future (i.e., in Phase 2)

Community Facilities
- Two buildings OCII owns or will own for permanent artist studios
  o OCII currently owns Building 101 and will own a new building in the future (the “Artist Replacement Building.”) The master developer is required to build the Artist Replacement building on OCII land under the Shipyard development agreements.

- Two buildings OCII owns or will own for other community uses
  o OCII currently has a limited license agreement with the federal government for Building 813, but will own this building in the future. It is currently vacant and need of major renovation. It is slated for a clean-tech incubator.
  o OCII currently owns a newly constructed building, otherwise known as the modular building. It is currently vacant, but is anticipated to house a combination of event space, educational centers, art display and fabrication, and job training facilities.

- Vacant land OCII owns or will own for future community uses
  o OCII currently owns vacant land in Phase 1 for future community uses
  o OCII will own vacant land in Phase 2 for future community uses

In addition, OCII leases or owns buildings for temporary community facilities, including temporary artist studios (i.e., Buildings 110, 103, 104, 115, 116, 117, 125) and a temporary public safety building (Building 606). All these buildings will be demolished in the future after permanent replacement facilities are built.

Preliminary Disposition Discussion

At the Shipyard, it is helpful to first understand the underlying enforceable obligations that will guide the development at the Shipyard. Much of the Shipyard is still owned by the federal government, and is undergoing environmental remediation. The only parcels that have transferred from the federal government are properties known as “Hilltop” and “Hillside” where the master developer plans to build a new residential neighborhood. Much of Hilltop and Hillside has transferred to the master developer for development of the infrastructure and residential units, pursuant to the 2003 Phase 1 Disposition and Development Agreement between OCII and the master developer (the “Phase 1 DDA”). OCII has retained the lands reserved for the public uses outlined above. In some cases, the master developer will be responsible for building the public uses (i.e., the parks, the streets, and the Artist Replacement Building), and in other cases OCII is responsible for building the public uses (i.e., the affordable housing and additional community facilities).
Once other property at the Shipyard is remediated consistent with the reuse plans, OCII is required under four separate enforceable obligations to acquire this land from the federal government. These enforceable obligations requiring acquisition are:

- The 2004 Conveyance Agreement between OCII and the U.S. Navy (the “Conveyance Agreement”);
- The 2010 Candlestick Point Hunters Point Shipyard Phase 2 Disposition and Development Agreement between OCII and the master developer (“Phase 2 DDA”);
- The 2011 Hunters Point Shipyard/Candlestick Point Title Settlement, Public Trust Exchange and Boundary Line Agreement between the State Lands Commission, the State Department of Parks and Recreation, OCII, the City, and the Port (the “Trust Exchange Agreement”); and
- The 2011 Candlestick Point State Recreation Area Reconfiguration, Improvement and Transfer Agreement between the State Lands Commission, the State Department of Parks and Recreation, and OCII (the “State Parks Agreement”)

Once OCII acquires land at the Shipyard, then other enforceable obligations governing development kick in. Basically, the development agreements require a similar process as outlined above for the Hilltop and Hillside areas: OCII is required to transfer the land reserved for private development (i.e., residential and commercial) to the master developer, and is required to retain the land reserved for public uses (i.e., affordable housing, parks, streets, and community facilities). The enforceable obligations governing this development are the Phase 1 DDA and the Phase 2 DDA.

Based on this overarching legal framework, OCII is beginning to outline a disposition strategy for the public uses (i.e., affordable housing, parks, streets, and community facilities) at the Shipyard. One idea is for OCII to retain ownership of the land and buildings associated with the public uses during the development phase of each “major phase” of development. Once a major phase is completed, then OCII could transfer the public uses to other appropriate owners, such as the City or non-profit entity. The following briefly discusses each of these public uses:

(1) Affordable Housing. OCII is required to fulfill its obligation to build the affordable housing at the Shipyard under the development agreements mentioned above. As a result, OCII will continue owning the land it currently owns until the affordable housing is completed. Once an affordable housing project is complete, OCII will transfer that asset to the Mayor’s Office of Housing and Community Development, the City’s housing successor agency, to manage. This process will be similar for the land OCII will own in the future at the Shipyard for affordable housing. The source of development funds for these sites is a combination of tax increment, subsidy provided by the master developer, and traditional sources such as low-income housing tax credits, and state and federal grants or loans.

(2) Parks. When complete, there will be approximately 350 acres of new and improved public parks, recreational fields, open spaces and waterfront trails and plazas at the Shipyard. OCII is not required to build the parks at the Shipyard. Instead, the master developer is required to build the parks on land OCII owns or will own in the future. These parks will be maintained with special taxes generated from community facilities districts. In Phase 1 and 2, the source of development funds for the parks is the master
developer. In Phase 1, the master developer is reimbursed with special taxes generated from a separate community facilities district. In Phase 2, the master developer is reimbursed with tax increment generated from Phase 2. In the PMP, OCII could propose retaining these park properties until each major phase of the Shipyard is completed. Then, once the major phase is completed, OCII could transfer the parks in that major phase to the City for a governmental purpose (i.e., a park). It is important to note that some of this park property falls under the jurisdiction of the State Lands Commission. For these parks, OCII has the additional responsibility as "trustee" of these lands and OCII staff is analyzing what impact that might have on disposition.

(3) Streets. Similar to parks, OCII is not required to build the streets at the Shipyard. Instead, the master developer is required to build the streets on land OCII owns or will own in the future. Once complete, the Shipyard will include more than 30 miles of new dedicated transportation improvements, including streets, bus rapid transit right-of-way, pedestrian paths, bus bays for a transit center, and dedicated bicycle paths. In Phase 1 and 2, the source of development funds is the master developer. The master developer is not reimbursed for the Phase 1 infrastructure costs but is reimbursed for the Phase 2 infrastructure costs with tax increment generated from Phase 2. Once the street improvements are complete, OCII is required under the Shipyard development agreements to convey the finished streets to the City.

(4) Community Facilities. This is the most complicated category of public uses. At the Shipyard, about six acres of land has been set aside for community-serving uses, such as social services, education, the arts, senior services, police and fire buildings, and other community uses. Under the development agreements, the master developer is required to build some of the community facilities on OCII land (i.e., the Artist Replacement Building) and OCII was given the responsibility for making development happen on the other community facilities sites (i.e., vacant parcels in Phase 1 and 2). The source of development funds for the OCII sites is anticipated to come from a combination of funds from the Shipyard’s dedicated community benefits fund, state and federal grants (including new markets tax credits), and philanthropic sources. Before redevelopment dissolution, the former redevelopment agency intended to use non-housing tax increment from Phase 1 to pay for the development of the Phase 1 community facilities parcels. That tax increment is no longer available.

OCII staff is still developing a disposition strategy for these community facilities parcels. Some ideas include the following. The permanent artist studios (i.e., Building 101 and the Artist Replacement Building) could be sold with a deed restriction to a non-profit entity that could operate these facilities as permanent artist space. Building 813, the clean-tech incubator, could be sold to a third-party or the master developer to develop. The vacant land OCII owns in Phase 1 and will own in Phase 2 could be retained by OCII until it is developed.

Staff is still analyzing the underlying enforceable obligations, and talking to community stakeholders and City representatives, in an effort to determine an appropriate disposition strategy for these important sites.
Community Outreach

OCII staff discussed the PMP with the Shipyard Citizens Advisory Committee ("CAC") at the CAC's regular meeting on August 12, 2013. As the PMP is developed, staff will schedule additional meetings with the CAC prior to the Oversight Board's consideration of the final PMP.

YERBA BUENA GARDENS

Yerba Buena Gardens ("YBG") spans three blocks between Market and Folsom Streets, and Third and Fourth Streets, which the former redevelopment agency acquired during the 1960s and 1970s with urban renewal grant funds from the federal government. YBG was constructed by the former redevelopment agency beginning in the early 1990s with bond and land sale proceeds, and represents a civic investment of about $175 million. YBG includes cafes, plazas, fountains — including the Martin Luther King Jr. Memorial Fountain — performance venues, a childcare center, children's play areas, a historic carousel, recreational venues such as an ice skating center and a bowling center, public artwork, and many other attractions. This award-winning public open space is host to over 100 public performances, arts events and festivals each year.

YBG is currently under single ownership and single management. It is owned and managed by OCII, as the successor to the former redevelopment agency. OCII staff contract with a private firm (MJM Management Group) to handle all the property management and capital improvements for the YBG open spaces, cultural facilities, recreational facilities, children's facilities, fountains, and public infrastructure. OCII also manages several contracts with cultural institutions to operate the YBG cultural facilities and program the public open space.

Operating Costs. YBG's operating costs are financed with restricted user fees or "exactions" from mostly private property owners and tenants. These fees are memorialized in YBG's existing short- and long-term commercial and ground leases, operating leases, easement agreements, and development agreements (i.e., for the St. Regis Hotel and the Mexican Museum/706 Mission Street project). The private entities contributing the most to YBG's operating revenues are the Marriott Hotel and the Metreon, which together contribute about $5.5 million a year. The only public entity that contributes to YBG's operating revenues is the Moscone Convention Center (North), which contributes $870,000 a year (These payments will expire in 2018). All of these funds are restricted revenues, and can only be used for maintenance, operations, and security of YBG structures, landscaping, and open space, as well as funding for the cultural facilities and programming activities. YBG's operating revenues and expenses have typically ranged from $7 to $8 million annually over the past few years. Revenues are able to cover all current operations, and a $590,000 contribution to the YBG capital reserve (see below).

Capital Improvements. In 1999, the former redevelopment agency established a capital reserve for YBG to ensure that adequate funds would be available to replace and renovate the public facilities at YBG over the coming decades. In the past, capital improvements were financed with periodic infusions of tax increment (which is no longer available) and a $590,000 annual set-aside from operating revenues, which is not enough to cover the expected cost of future capital improvements at YBG. There is currently about $5.5 million in the capital reserve, but OCII plans to spend $2.7 million of it this fiscal year, leaving $3.4 million as of July 1, 2014. What the future source of funds will be is the subject of a current research effort, discussed below.
Rationale for Existing Single Ownership/Single Management Structure. The existing structure—where OCII both owns and manages YBG—was established by the former redevelopment agency commission ("SFRA Commission") decades ago to shield the City from the financial and legal liabilities associated with the YBG properties. Subsequent actions by the SFRA Commission solidified and funded this single ownership/management structure, and the underlying legal documents reflect this single ownership/management structure.

The following briefly outlines the properties that OCII owns and leases that comprise the totality of the YBG properties. More detail about these properties can be found in Attachment 4.

Central Block 1 (Closest to Market Street)

OCII owns significant property on this block and leases most of it to affiliates of Millennium Partners and Marriott Corporation, which operate large hotels and commercial properties on this block. The properties OCII owns on this block includes:

- **Properties OCII owns and leases to an affiliate of Millennium Partners**
  - Yerba Buena Lane
  - Ground floor of Marriott Hotel
  - Ground/Second floors of Four Seasons
  - Underground Retail Parcels

- **Properties OCII owns and leases to Marriott Corporation**
  - Land under Marriott Hotel
  - Second floor of Marriott Hotel

- **Open spaces**
  - Jessie Square Plaza

Central Block 2 (Core of Yerba Buena Gardens)

OCII owns all the land and buildings on this entire block, except for the Metreon building. OCII either maintains these properties as open space and support facilities, or leases them to cultural operators, restaurants, and other private parties. These properties include:

- **Open spaces**
  - Garden areas, including the central grassy knoll, terraced gardens, other landscaped areas, and associated outdoor furnishings
  - Hardscape areas, including the upper terrace loggia, plazas and associated artwork, performance areas, and pedestrian bridge
  - Fountains, including the Martin Luther King Jr. Memorial Fountain

- **Support Facilities**
  - Administration offices, green room, dressing rooms, public restrooms, underground rooms for mechanical & fountain equipment, engineering offices, supplies/materials
• Properties OCII owns and leases to cultural operators
  o Yerba Buena Center for the Arts -- Forum Building
  o Yerba Buena Center for the Arts -- Theater Building

• Properties OCII owns and leases to restaurants
  o East café space on upper terrace
  o West café space on upper terrace

• Properties OCII owns and leases to other private parties
  o Land under the Metreon building -- leased to a joint venture that owns and operates the Metreon building
  o Land under the Metreon building -- leased to Marriott Corporation for the Marriott’s ballroom facilities

Central Block 3 (Children-focused Block)

OCII leases a portion of the rooftop of the Moscone Convention Center (South) from the City. On this leased land, the former redevelopment agency constructed various improvements, mostly designed for children. OCII continues to own and operate these improvements, described below:

• The Children’s Garden, including grassy areas, gardens, maze, amphitheater, play circles, sand circle, play stream, assorted playground equipment
• The Children’s Creativity Museum, including museum space, gift shop, snack bar space, and carousel
• The Child Development Center, including childcare spaces, outdoor play areas, meeting/classroom space, teacher support rooms, other support rooms
• The Bowling Center, including bowling lanes, snack bar, full-service restaurant, terrace, support rooms
• The Ice Skating Center, including ice rink, spectator seating, snack bar, pro shop, lockers, dressing rooms, support rooms

Preliminary Disposition Discussion

Yerba Buena Gardens (“YBG”) is by far the largest and most complicated property (or portfolio of properties) that OCII owns and manages. Internal discussions, as well as discussions with City representatives, about its long-term ownership and management have occurred over the years, but no consensus was ever reached and implemented. Redevelopment Dissolution Law has jumpstarted these discussions and provided an impetus for resolution of this issue. Under Redevelopment Dissolution Law, the disposition strategy for YBG will likely be a transfer to the City or other public entity for governmental purposes (i.e., parks, recreational facilities, children’s facilities, cultural facilities). However, the details of that transfer -- including how the assets will be owned and managed, and what a “public entity” other than the City potentially might look like -- have yet to be determined.

Toward that end, OCII staff, working in partnership with designated City representatives, has hired a consultant to assist in the YBG disposition effort. This consultant, The PFM Group (“PFM”), has been asked to (i) research the ownership/management structures of comparable
urban mixed-use public spaces in San Francisco and elsewhere in the nation, and (ii) research potential funding mechanisms for future capital improvements. As mentioned, capital improvements were financed in the past with periodic infusions of tax increment (which is no longer available) and a $590,000 annual set-aside from operating revenues, which is not enough to cover the expected cost of future capital improvements at YBG.

PFM is still conducting its research on comparable ownership/management structures and financing mechanisms for capital improvements. In evaluating possible ownership/management structures, OCII and City staff are considering using the following criteria: (i) acceptability to the California Department of Finance, (ii) conformity to existing legal agreements, (iii) public involvement in the ultimate operating structure, (iv) impact to the City’s budget, (v) City’s exposure to legal liability, (vi) access to capital, (vii) long-term financial sustainability, (viii) organizational stability, (xi) ability to maintain the integrity of the YBG district, and (x) ease of implementation.

Although research is very preliminary, some ideas have started to emerge. Many comparable urban mixed-use public open spaces are publicly owned but managed by a separate 501(c)3 non-profit organization that ground leases the land and improvements from the municipality. This structure provides a couple of key benefits: (i) it shields the municipality from legal liability and minimizes the impact to the city budget (i.e., the non-profit is responsible for managing operating costs and financing capital improvements), (ii) it generates a much-needed source of operating revenue (i.e., a 501(c)3 can accept tax-deductible donations), and (iii) it can provide a source of financing for capital improvements (i.e., 501(c)3s under certain circumstances can issue their own bonds). Local examples of this model include the San Francisco Produce Market, the Golden Gate Park Concourse, and most of the City’s affordable housing projects (i.e., the City owns the land and leases it to a non-profit to operate affordable housing).

Other possible ownership/management structures include (i) the City owning the YBG assets and managing them directly, either itself or through outside parties, or (ii) a separate public entity, like an authority, owning the YBG assets and managing them directly. Examples of the latter are the Presidio of San Francisco and Pike Place Market in Seattle, Washington.

The goal of PFM’s research is to inform the decision-making process about the YBG assets, and present possible options for their ultimate ownership and management. Staff is still analyzing the underlying enforceable obligations, and talking to community stakeholders and City representatives, in an effort to determine an appropriate disposition strategy for this civic gem.

Community Outreach

Outreach to the YBG community has been extensive and includes one-on-one discussions with key YBG stakeholders such as (i) OCII’s tenants (i.e., Marriott Hotel, Metreon, and Moscone North), (ii) OCII’s cultural operators (i.e., Yerba Buena Center for the Arts, and Children’s Creativity Museum), and (iii) other community leaders. Staff has also given presentations to local Yerba Buena organizations including the Yerba Buena Gardens Festival board of directors at its recent meeting and the Yerba Buena Alliance (the “Alliance”) at its August neighborhood meeting. Additionally, the Alliance has offered to announce upcoming community meetings on the disposition of the YBG assets to its member email list and post notices on its website.
The purpose of this community outreach effort is to keep the community informed about the YBG asset disposition process and to solicit community input in the future of its neighborhood. Towards that end, OCII and the City held the first community-wide meeting in July at Yerba Buena Center for the Arts, with about 35 people attending. At that meeting, staff (i) presented basic information about the YBG assets, and the impact of Redevelopment Dissolution Law on those assets, (ii) introduced PFM and described PFM’s research work, and (iii) asked for community feedback. Additional community-wide meetings were held on August 19 and September 5, 2013. Going forward, community-wide meetings are scheduled every two weeks until the PMP is finalized.

Finally, OCII and the City plan to continue outreach efforts in the future by (i) holding additional one-on-one and community meetings as needed (ii) posting information about the YBG disposition planning on OCII’s website, and (iii) continuing to communicate via email to the more than 90 interested parties on OCII’s YBG outreach list.

OTHER OCII PROPERTIES

Outside of the Major Approved Development Projects, and Yerba Buena Gardens, OCII owns or leases several other properties. These are briefly outlined in this section.

Rincon Point-South Beach

OCII continues to lease large swaths of waterfront land from the Port of San Francisco (the “Port”), even though OCII’s property management responsibilities for these lands were transferred to the Port on July 1, 2012. These leased lands include South Beach Harbor and Harbor Services Building; Rincon Park (including “Cupid’s Span” art sculpture); affordable housing projects (Delancey Street & Steamboat Point); waterfront open spaces and play areas; streets and parking lots; and commercial spaces (Pier 40, Pier 38/40 bulkhead, and portion of the second floor of the Harbor Services Building).

Since the Agency’s dissolution, staff has been in discussions with the Port about the transfer of these Port-owned assets back to the Port. The transfer has been complicated by the lease structure, ongoing debt obligations at South Beach Harbor, and requirements of the Bay Conservation and Development Commission, or BCDC. In addition, the City’s initial role as successor agency immediately upon the redevelopment agency’s dissolution and the subsequent change in state law to require successor agencies to be separate legal entities from cities and counties has created complications with the transfer. OCII staff and Port staff are working closely to resolve these issues.

In OCII’s PMP, OCII staff will recommend terminating these underlying ground leases and transferring the land back to the Port for a governmental purpose (i.e., waterfront open spaces, harbor and harbor services).

Other Non-Housing Sites

- **Fillmore Heritage Center garage.** OCII owns this 112-space public parking garage located at the base of the Fillmore Heritage Center in the former Western Addition A-2
Redevelopment Project Area. This property must be sold. Disposition strategies for this asset include a sale, either on its own or as part of a larger sale of the Fillmore Heritage Center commercial space discussed below.

- **Fillmore Heritage Center commercial space.** OCII also owns the commercial space in the Fillmore Heritage Center, which totals about 50,000 square feet, and is ground leased to a master developer who subleases the space to commercial tenants. The master developer is currently in default on its construction loan to the City. In addition, the main tenant in the commercial space is in bankruptcy and will likely not continue operating in this space for much longer. Unless a workout agreement can be reached between the City and the master developer, the City will likely foreclose and take over as master tenant of the property. Under this scenario, OCII (as owner and landlord) would work with the City (as master tenant) to sell the asset as soon as possible.

If a workout agreement is reached between the City and the master developer, OCII could possibly transfer this asset to the City for the governmental purposes mandated by the City’s loan with the U.S. Department of Housing and Urban Development (“HUD”), which loaned the City $5.5 million to make the construction loan to the master developer. Under this structure, the master developer makes its debt service payments to the City using rental income from the commercial space, and then the City uses that money to make its debt service payments to HUD. However, because the master developer has missed more than $1.0 million in payments, the City has had to find other money (i.e., Community Development Block Grant ("CDBG") funds) to make its debt service payments to HUD.

- **Ellis Street driveway.** OCII owns this small parcel that primarily serves as the entrance to the loading dock for the Safeway grocery store on Fillmore Street. It is a portion of the former Ellis Street right-of-way, which the City vacated in 1981 and transferred to the former redevelopment agency as part of a larger land assemblage. The disposition plan for this property is to sell at appraised value to Safeway.

- **Shoreview Park.** OCII owns and maintains this large park located in the former Hunters Point Redevelopment Project Area. Disposition options for this property include a transfer to the City for a governmental purpose (i.e., a park) or sale to an adjacent property owner.

- **Mini-parks.** OCII owns six small parks located throughout the former Hunters Point Redevelopment Project Area. The City and adjacent property owners maintain these open spaces and walkways. Disposition options for these properties include either a transfer to the City for a governmental purpose (i.e., a park) or sale to an adjacent property owner.

- **Contemporary Jewish Museum (Airspace parcels).** OCII still owns two airspace parcels, one above and one below the Contemporary Jewish Museum on Mission Street. The disposition plan for these airspace parcels is to sell them at appraised value to the Contemporary Jewish Museum. These airspace parcels are not part of the “Yerba Buena Gardens” assets discussed earlier in this memo.
• **Moscone Convention Center (North).** OCII still owns the Moscone Convention Center (North) and leases it to Moscone to operate its convention facilities. Under the ground lease with Moscone, the property must transfer to Moscone once the City pays off the construction bonds. That is expected to happen in 2018 or earlier. At that time, and assuming agreement can be reached on outstanding rent payments, the property would transfer to Moscone pursuant to an enforceable obligation (i.e., the ground lease). This asset is not part of the “Yerba Buena Gardens” assets discussed earlier in this memo.

• **Land under Foodsco Grocery Store.** OCII owns land located on the border of the Bayview-Hunters Point Redevelopment Project Area that is ground leased to Kroger’s to operate a grocery store. Disposition options for this land include: (i) selling the parcel at appraised value to Kroger’s, or (ii) transferring the parcel to the City for a governmental purpose (i.e., to maintain a grocery store in this underserved market).

• **Remnants of streets and sidewalks.** OCII owns small remnant parcels that are part of the City’s street and sidewalk network in the former Hunters Point Redevelopment Project Area and the former Yerba Buena Center Redevelopment Project Area. The disposition strategy for these parcels is to transfer them to the City for a governmental purpose (i.e., streets and sidewalks).

**Other Housing Sites**

In addition to the housing assets mentioned in the discussion of the Major Approved Development Projects, OCII owns a small number of housing properties. These include: (i) land and improvements in South of Market (formerly Hugo Hotel); (ii) a health clinic that is part of an affordable housing project in South of Market (Westbrook Plaza); (iii) land underneath three affordable housing projects in Bayview-Hunters Point (i.e., Alice Griffith, 6600 Third Street, and 5800 Third Street); and (iv) land underneath one affordable housing project in the Western Addition A-2 (Mary Helen Rogers).

The disposition plan for these other housing sites will be the same as OCII’s housing assets in the Major Approved Development Projects. That is, OCII will continue to own these properties until the affordable housing is built and completed. Once the project is completed, OCII will transfer the asset to the Mayor’s Office of Housing and Community Development, the City’s housing successor agency, to operate.

**NEXT STEPS/TIMING OF PMP APPROVALS**

Redevelopment Dissolution Law requires each successor agency to submit an oversight board-approved disposition plan, or PMP, to DOF within six months of receiving a “finding of completion” from DOF. That “finding of completion” is DOF’s approval of the successor agency’s audits and the amount of money the successor agency transmitted to the state for distribution to the taxing entities, as a result of those audits. OCII received its “finding of completion” from DOF on May 29, 2013. That means OCII must submit its Oversight Board-approved PMP to DOF by November 29, 2013.
The following schedule generally outlines the work that has been completed to date, or needs to be completed, on the PMP over the next 90 days or so:

**August**
- Started gathering input from community stakeholders
- Started preparing Draft PMP
- Started conversations with stakeholders/City staff
- Held Commission workshop (August 20, 2013)

**September**
- Oversight Board workshop (September 9, 2013)
- Continue gathering input from community stakeholders
- Continue preparing Draft PMP
- Continue conversations with stakeholders/City staff

**October**
- Finalize Draft PMP
- Final Commission workshop (October 15, 2013)
- Final Oversight Board workshop (October 28, 2013)

**November**
- Commission approval (November 19, 2013)
- Oversight Board approval (November 25, 2013)
- Submittal to DOF no later than November 29

*(Originated by Tracie Reynolds, Manager, Real Estate and Development Services)*

Attachment 1: OCII's Transbay Real Estate Assets
Attachment 2: OCII's Mission Bay Real Estate Assets
Attachment 3: OCII's Hunters Point Shipyard/Candlestick Point Real Estate Assets
Attachment 4: OCII's Yerba Buena Gardens Real Estate Assets