MEMORANDUM

TO: Oversight Board

FROM: Tiffany Bohee, Executive Director

SUBJECT: Final 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 second and final workshop presented by the staff of the Office of Community Investment and Infrastructure ("OCII" or "Successor Agency") 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.

In the first workshop on September 9, 2013, staff presented the Oversight Board with a draft disposition plan for each asset that OCII owns or leases. The disposition plan for some of those assets was unknown or listed as "TBD," or to-be-determined. This workshop focuses on those assets, and presents a disposition plan for those assets. The disposition plan for the remaining assets -- assets that had a clear disposition plan as of September 9, 2013 -- remains unchanged from what was presented in the first workshop. For your reference, the staff memorandum presented at the Oversight Board's first workshop is attached as Attachment 1.

This memorandum therefore focuses on a subset of OCII's properties: (1) Parks in the Transbay Redevelopment Project Area (the "Transbay Park Parcels"), (2) Parks and Community Facilities in the Hunters Point Shipyard/Candlestick Point Redevelopment Project Areas (the "Shipyard Park Parcels" and the "Shipyard Community Facilities Parcels"), (3) Parks in the Mission Bay North and South Redevelopment Project Areas (the "Mission Bay Park Parcels"), (4) Yerba Buena Gardens, and (5) Other Properties.

A second workshop before the Successor Agency Commission is scheduled for November 5, 2013. Staff will be bringing a final PMP for approval to the Commission on November 19 and to the Oversight Board on November 25. OCII's PMP is due to DOF on November 29, 2013.
DISCUSSION

Per Redevelopment Dissolution Law, the Successor Agency must dispose of each one of its properties (both properties the Successor Agency owns and properties the Successor Agency leases) in one of the following four ways:

1. Retain for governmental use. Redevelopment Dissolution Law (Section 34191.5) allows “the retention of the property for governmental use pursuant to subdivision (a) of Section 34181,” which states that the Oversight Board may “direct the successor agency to transfer ownership of those assets that were constructed and used for a governmental purpose, such as roads, school buildings, parks, police and fire stations, libraries, and local agency administrative buildings, to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset.” Staff has interpreted this language to mean that any properties with a governmental purpose should transfer to the City and County of San Francisco (the “City”) or relevant public entity to own and manage.

2. Use to fulfill an enforceable obligation. Redevelopment Dissolution Law (Section 34191.5) also allows “the use of the property to fulfill an enforceable obligation.” Staff has interpreted this language to mean that properties carrying an enforceable obligation regarding the development of those properties can be retained by the Successor Agency for the purposes of fulfilling those enforceable obligations regarding the development of those properties. DOF has indicated to Successor Agency staff in other related contexts that the City should assume the Successor Agency’s enforceable obligations not related to development, such as property management. Given DOF’s stated stance on this issue, staff propose either transferring the property to the City or selling it once the Successor Agency has fulfilled its enforceable obligation regarding the development of the property.

For all other properties, meaning properties that do not have a governmental purpose or do not carry an enforceable obligation, Redevelopment Dissolution Law (Section 34191.5 (c)(2)(A) & (B)) states that the Successor Agency should:

3. Sell the property and “the proceeds from the sale shall be distributed as property tax to the taxing entities.” (See Section 34191.5 (c)(2)(B)). Or, alternatively,

4. Retain for future development. If a Successor Agency’s PMP “directs the use or liquidation of the property for a project identified in an approved redevelopment plan” then that property “shall transfer to the city, county, or city and county.” (See Section 34191.5 (c)(2)(A)). Staff has interpreted this language to mean properties that were specifically identified for a specific use in an approved redevelopment plan, and were going to be developed with that specific use. In this narrow case, these properties must be transferred to the City.

As shown, two of the four disposition plans allowed under Redevelopment Dissolution Law involve a transfer to the City. The only two disposition plans that allow the Successor Agency to retain property is (i) when the Successor Agency has an enforceable obligation it must fulfill and needs to retain that property for the period of time required to fulfill that enforceable obligation, or (ii) when the Successor Agency must sell the property.
As mentioned in the Executive Summary, this memorandum focuses only on those properties that did not have a clear disposition plan at the Oversight Board’s first workshop on September 9, 2013. Those properties include: (1) the Transbay Park Parcels, (2) the Shipyard Park Parcels and the Shipyard Community Facilities Parcels, (3) the Mission Bay Park Parcels, (4) Yerba Buena Gardens, and (5) Other Properties. Each of these property subsets is discussed below, along with staff’s proposed disposition plan, which will be one of the four disposition plans (shown above) allowed under Redevelopment Dissolution Law.

### Transbay Park Parcels

The Transbay Park Parcels are comprised of (1) Block 11B, which the Successor Agency owns now, and (2) Blocks 3 and 10, which the Successor Agency can own in the future under its purchase options granted under the 2008 Option Agreement for the Purchase and Sale of Real Property between the Successor Agency, the City, and the Transbay Joint Powers Authority (the “TJPA”) (the “Transbay Option Agreement”). These properties are shown on Attachment 2.

In 2003, the City, the TJPA, and the State Department of Transportation (“Caltrans”) entered into a cooperative agreement which required Caltrans to transfer 24 parcels to the City and the TJPA for the construction of a new transit center and future neighborhood development (the “Transbay Cooperative Agreement”). Two years later, as a result of this agreement, the Successor Agency and the TJPA entered into the Transbay Redevelopment Project Implementation Agreement (the “Transbay Implementation Agreement”), under which the Successor Agency is required to exercise its purchase option on the Transbay Park Parcels (which are a subset of the 24 parcels Caltrans must transfer to the City and the TJPA under the Transbay Cooperative Agreement) and own them until they are developed into public parks. The Transbay Implementation Agreement is an enforceable obligation under Redevelopment Dissolution Law. On April 15, 2013, DOF determined “finally and conclusively” that the Transbay Implementation Agreement is an enforceable obligation that will not require additional DOF review in the future, although expenditures under the Transbay Implementation Agreement are subject to continuing DOF review. In addition, the Transbay Option Agreement grants the Successor Agency “the exclusive and irrevocable option to purchase” the Transbay Park Parcels. The Transbay Option Agreement provides the means by which the Successor Agency can fulfill its obligations under the Transbay Implementation Agreement to build the public parks.

**Disposition Plan.** Given these enforceable obligations, staff proposes the following disposition plan for the Transbay Park Parcels:

- Block 11B, which the Successor Agency owns now, was originally slated to be a residential project, and is zoned for residential development. However, the adjacent affordable housing development on Block 11A required additional land so a portion of what was Block 11B was added to Block 11A. As a result, the remaining portion of Block 11B is too small to be financially feasible as a private development. Instead, Block 11B will be developed as a public park, increasing the open space already planned immediately to the south. Staff propose disposition plan #2 (i.e., retain property temporarily to fulfill an enforceable obligation, then transfer it to the City). Pursuant to the Transbay Implementation Agreement, staff will use tax increment to build the park improvements on Block 11B. Once the park is complete, staff will transfer this property...
to the City for a governmental purpose (i.e., a public park) and the City can use funds generated from a to-be-formed community benefits district to maintain the park. This transfer is expected to occur in 2016.

- Block 3 will be developed as a large neighborhood park and is zoned as public open space. It will be surrounded by private development in the future, and will function as a traditional city park. The Successor Agency does not own Block 3 now, but under the Transbay Option Agreement has an option to purchase it from the TJPA, which acquired the parcel from Caltrans under the Transbay Cooperative Agreement. The Successor Agency must exercise its option on this property in the future to fulfill its obligations under the Transbay Implementation Agreement. Once acquired, staff propose disposition plan #2 (i.e., retain property temporarily to fulfill an enforceable obligation, then transfer it to the City). Pursuant to the Transbay Implementation Agreement, staff will use tax increment to build the park improvements on Block 3. Once the park is complete, staff will transfer this property to the City for a governmental purpose (i.e., a public park) and the City can use funds generated from a to-be-formed community benefits district to maintain the park. This transfer is expected to occur in 2018.

- Block 10 is another parcel that is zoned residential but is too small and irregular to be developed as a residential project. The only appropriate use for this parcel is as a park. Block 10 is immediately adjacent to bus ramps and freeway ramps owned by the TJPA and Caltrans, and is identified in Transbay planning documents as part of a two-acre park that will be built under the bus ramps and freeway ramps owned by the TJPA and Caltrans. The Successor Agency does not own Block 10 now, but under the Transbay Option Agreement has an option to purchase it from the TJPA, which acquired the parcel from Caltrans under the Transbay Cooperative Agreement. Because this parcel is immediately adjacent to a future park the TJPA will own and manage as a park, staff propose not exercising the Successor Agency’s option to purchase this parcel from the TJPA. However, staff will use tax increment to build the park improvements on the TJPA-owned Block 10, pursuant to the Transbay Implementation Agreement. Once the park is complete, the TJPA can use funds generated from a to-be-formed community benefits district to maintain it along with the other parks the TJPA will own and maintain in the neighborhood.

Shipyard Park Parcels and Community Facilities Parcels

The Hunters Point Shipyard/Candlestick Point redevelopment project (the “Shipyard” or “Project”) is divided into two related parts, called Phase 1 and Phase 2, each with a separate disposition and development agreement with a private master developer (the two master developers are separate but affiliated entities) (the “DDAs”). The DDAs, together with a number of related binding agreements attached to or referenced in the text of the DDA, establish a comprehensive set of enforceable obligations that collectively govern the completion of the Project. The agreements contemplate that (1) the Successor Agency will acquire land in phases from the U.S. Navy (the “Navy”) after the Navy cleans up the land, which is a federal “Superfund” site, (2) the master developer will develop the Project over time, and (3) the Successor Agency has committed tax increment to, and has enforceable obligations with respect to, the Project throughout the development process. The DDAs remain in effect until the Project is complete or until the applicable redevelopment plan has expired, whichever is earlier. On
December 13, 2012, DOF issued a “final and conclusive determination” that the DDAs were enforceable obligations under Redevelopment Dissolution Law.

Phase 1 covers approximately 75 acres at the Shipyard and is governed by a DDA with HPS Development Co., LP (the “Phase 1 Developer”). Phase 2 covers more than 700 acres at the Shipyard and at adjacent Candlestick Point. It is governed by a DDA with CP Development Co., LP (the "Phase 2 Developer"). All references to the "Developer" shall mean the Phase 1 Developer or the Phase 2 Developer, as applicable. While planning for the Phase 1 and Phase 2 projects are closely intertwined, development of Phase 1 is not legally dependent on development of Phase 2, nor does the development of Phase 2 legally depend on the development of Phase 1.

Under the DDAs, the Successor Agency has enforceable obligations that require it to acquire and retain land for the development of certain uses. These uses include affordable housing, parks/open spaces (the “Shipyard Park Parcels”), and community facilities, which include buildings and vacant land reserved for future development with community-serving uses (the “Shipyard Community Facilities Parcels”). A map showing these uses is attached as Attachment 3. These relevant sections of the Shipyard enforceable obligations are discussed briefly below:

1. The 2004 Conveyance Agreement between the Successor Agency and the U.S. Navy (the “Navy”) (the “Conveyance Agreement”). Under the Conveyance Agreement, the Successor Agency is “obligated to accept title” to any property that the Navy transfers to the Successor Agency, assuming the Navy has met the closing conditions, including remediating the property consistent with its intended land use (See Article 3(e)) pursuant to the Hunters Point Shipyard Redevelopment Plan (the “Shipyard Redevelopment Plan”) for the Shipyard Project Area. The Navy’s property is comprised of all the land in Phase 1 and Phase 2, except Candlestick Point.

2. 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, the Successor Agency, the City, and the Port of San Francisco (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 the Successor Agency (the “State Parks Agreement”). The Trust Exchange Agreement and the State Parks Agreement provide for the exchange of public lands at Candlestick Point (which the Navy does not own) and the Hunters Point Shipyard. These agreements require the Successor Agency to accept and exchange title to lands under the jurisdiction and or ownership of the State Lands Commission and the State Department of Parks and Recreation in both Candlestick Point and the Hunters Point Shipyard for the development of the public uses, including the parks, streets, and community facilities. There is also a separate and similar agreement that covers the exchange of City-owned land.

3. The 2003 Phase 1 Disposition and Development Agreement between the Successor Agency and the Phase 1 Developer (the “Phase 1 DDA”). The Phase 1 DDA only governs a portion (i.e., the Hilltop and Hillside properties) of the Shipyard Project Area. Once the former redevelopment agency accepted title to the Hilltop and Hillside properties pursuant to the Conveyance Agreement, it was required under the Phase 1
DDA to “convey the Project Site” to the Phase 1 Developer “for the purposes of developing and constructing” the infrastructure so that the improved land could be sold off to other developers (See Section 6.1 of the Phase 1 DDA). The “Project Site” is defined as all the Phase 1 land except the “Agency Parcels.” The Agency Parcels include the Shipyard Park Parcels, the Shipyard Community Facilities Parcels, and the affordable housing parcels the Successor Agency owns. Thus, the SFRA was required to transfer all the land slated for private development to the Phase 1 Developer, and retain all the land slated for public development (i.e., parks, community facilities, and affordable housing).

The following discusses what the Phase 1 DDA states about how the Shipyard Park Parcels and the Shipyard Community Facilities Parcels in Phase 1 are to be developed as parks and community facilities and managed as those uses over the long-term:

**Shipyard Park Parcels.** The Shipyard Park Parcels are defined in the Phase 1 DDA as “parcels retained by the (Successor) Agency and designated for parks, public recreation and other open space uses … .” (See Section 1.1). The Developer is required to finance and build the park improvements on the Successor Agency’s land as part of its overall obligation to build the horizontal infrastructure in Phase 1 at the Shipyard. Thus, the Successor Agency is required to retain these parcels and ensure the Developer constructs the park improvements on them in accordance with the Phase 1 DDA. In 2008, the SFRA established a community facilities district so that a funding stream would be available for the maintenance of the Shipyard Park Parcels in Phase 1, but the district has yet to generate any special taxes.

**Shipyard Community Facilities Parcels.** The Shipyard Community Facilities Parcels (1.2 acres) are defined in the Phase 1 DDA as “parcels retained by the (Successor) Agency and designated for ultimate disposition for community development or community facilities.” As to uses, the Phase 1 DDA states that the Shipyard Community Facilities Parcels “will be used to provide, preserve and leverage such critical local resources as social services, education and other community services as determined by the (Successor) Agency in collaboration” with the surrounding community. (See Section 1.1 of Attachment 23 to the Phase 1 DDA).

Under the Phase 1 DDA, the Developer is not required to build the improvements on the Shipyard Community Facilities Parcels. Before dissolution, the SFRA intended to use the Phase 1 tax increment to finance the development of these parcels. The Phase 1 DDA requires the Successor Agency to “identify certain land use restrictions, based on land uses determined in consultation” with the community for the Shipyard Community Facilities Parcels “which shall ensure that such parcels shall be dedicated to community purposes in perpetuity. The development of the Community Facilities Parcels will be determined by the (Successor) Agency as part of the collaborative planning process” with the surrounding community (See Section 1.3 of Attachment 23 to the Phase 1 DDA).

4. **The 2004 Interim Lease between the Successor Agency and the Developer (the “Interim Lease”).** Anticipating that the SFRA would acquire property as it was remediated, but have no tax increment to manage it, the Phase 1 DDA requires the Developer to maintain and manage any property conveyed to the SFRA, and now the Successor Agency. The Interim Lease covers all of the property that the Successor Agency currently owns and
requires the Developer to provide, at no cost to the Successor Agency, certain “baseline services” and “active services, which may include site management, operations, utilities, security, fencing, maintenance and repair services, and to indemnify the Successor Agency for certain losses caused by the Developer in performing its obligations under the Interim Lease. The Interim Lease remains in effect until the private property has been sold to a vertical developer or the Developer’s obligations as to the public property have been satisfied. The Interim Lease covers all the property in Hunters Point Shipyard, but not Candlestick Point.

5. The 2010 Candlestick Point Hunters Point Shipyard Phase 2 Disposition and Development Agreement between OCII and the Phase 2 Developer (the “Phase 2 DDA”). Once the Successor Agency has accepted title to the Navy’s property in Phase 2, then the Successor Agency must “convey to Developer all real property” other than real property subject to the Public Trust (defined below) and real property defined as “Public Property” (See Section 3.4.2). The definition of Public Property includes the Shipyard Park Parcels and the Shipyard Community Facilities Parcels. It also includes property for affordable housing and other uses serving a governmental purpose, such as land held in “Public Trust” under the jurisdiction of the State Lands Commission.

The Successor Agency is required to transfer all the land slated for private development to the Phase 2 Developer, and retain all the land slated for public development in Phase 2 (i.e., parks, community facilities, and affordable housing). The Phase 2 DDA requires that the property reserved for the public uses be developed along the same schedule as the private development (See Section 1.5 of the Phase 2 DDA).

The following briefly discusses what the Phase 2 DDA states about how the Shipyard Park Parcels and the Shipyard Community Facilities Parcels are then to be developed as parks and community facilities in Phase 2 and managed as those uses over the long-term:

**Shipyard Park Parcels.** The Shipyard Park Parcels are defined in the Phase 2 DDA as part of the “Public Property” the Successor Agency retains for development of the public open spaces at the Shipyard. Again, the Developer is required to finance and build the park improvements on the Successor Agency’s land as part of its overall obligation to build the horizontal infrastructure on Phase 2 at the Shipyard. Thus, the Successor Agency is required to retain these parcels and ensure the Developer constructs the park improvements on them in accordance with the Phase 2 DDA. An additional community facilities district is envisioned as the funding mechanism for the maintenance of these parcels. (See Section 2.7 of Attachment H (Financing Plan) attached to the Phase 2 DDA).

**Shipyard Community Facilities Parcels.** The Shipyard Community Facilities Parcels (4.8 acres) are defined in the Phase 2 DDA as part of the “Public Property” the Successor Agency retains for development of the community facilities at the Shipyard. These parcels include vacant land and buildings reserved for community-serving uses:

- **Vacant Land.** This land “shall be provided in fee to the (Successor) Agency at no cost to the (Successor) Agency” and “shall be used” in a way that complies with the Shipyard’s planning and development documents, including the Shipyard Redevelopment Plan and the Shipyard development agreements (See Section 3.3
of Exhibit G to the Phase 2 DDA). Furthermore, the Successor Agency “shall use commercially reasonable efforts to (i) select the use of such land and the identity of such transferee as soon as reasonably feasible and (ii) secure the maximum feasible amount of third-party, local, state, and federal funding to pay for the completion of such selected uses so as to ensure that the benefits” to the Bayview-Hunters Point community “may be realized in a timely fashion.” The Successor Agency owns some of this land now (the land already conveyed by the Navy in Hilltop and Hillside (Phase 1)), but will own more land in the future as the Phase 2 lands are conveyed by the Navy. Neither the Phase 2 DDA nor its Tax Allocation Pledge Agreement, however, commits property tax revenue (i.e. former tax increment) to the development of this vacant land. All of the tax increment in Phase 2 is pledged to affordable housing and to the Developer to reimburse it for the construction of the infrastructure improvements.

- **Buildings.** The community-serving buildings discussed in Section 3.4 of Exhibit G to the Phase 2 DDA include (1) artists studios (i.e., Building 101, and a new building the Developer is required to build adjacent to Building 101 (the “Artist Replacement Building”), and (2) economic development buildings (i.e., Building 813, a 260,000-square-foot building slated for a clean-tech business incubator, and the federally funded community facilities demonstration project known as the “Modular Building”). Each of these is discussed below:

1. **Artist Studios.** The Successor Agency already owns Building 101, and spent federal grant dollars recently to renovate it (For more information about the federal grant dollars, see discussion about Modular Building below). The Developer is required to “complete the infrastructure” serving Building 101 (See Section 3.4 of Exhibit G to the Phase 2 DDA).

The Artist Replacement Building will be built by the Developer on land the Successor Agency already owns. Once built, the Developer “shall convey to the (Successor) Agency, at no cost to the (Successor) Agency, fee title to new permanent artist studio space ... .” (See Section 3.4 of Exhibit G to the Phase 2 DDA). The Successor Agency Commission is required to approve a relocation plan before artists are asked to relocate and/or move into the Artist Replacement Building. The Successor Agency Commission is also required to approve a management agreement before artists move into the Artist Replacement Building (the “Management Agreement”). The Management Agreement must charge rents “necessary to reimburse the (Successor) Agency for its costs, including any operation and maintenance costs, reserves and any administrative fees, but the (Successor) Agency shall not charge more than is required to reimburse such costs to the (Successor) Agency.” (See Section 3.4 of Exhibit G to the Phase 2 DDA).

2. **Economic Development Buildings.** In regards to Building 813, the Developer “shall reasonably cooperate” with the Successor Agency, the City, and the community “to facilitate the rehabilitation of Building 813 ... for use as a center for the incubation of emerging businesses and technologies, including, but not limited to, clean tech, biotech, green business, arts and digital media.” (See Section 3.4 of Exhibit G to the Phase 2 DDA). Furthermore, the Developer “shall
reasonably cooperate with the (Successor) Agency to ensure the timely availability of interim and permanent infrastructure to support the renovated building.” The Phase 2 DDA, however, does not provide financing for the renovation of Building 813.

In regards to the Modular Building, the former redevelopment agency used federal grant funds to construct this building on one of the Shipyard Community Facilities Parcels in Phase 1. It was completed in 2011. These grant funds from the U.S. Department of Commerce (Economic Development Administration) ("EDA") carry with them certain restrictions that run with the land for 20 years. These restrictions require that the building be used to further the implementation of an "arts and technology district" at the Shipyard, even if the building is sold within the 20-year restriction period. There is no funding source to maintain this building, other than rental revenue generated from the building. It is currently vacant.

Disposition Plan -- Shipyard Park Parcels and Shipyard Community Facilities Parcels

Based on the foregoing analysis of the Phase 1 DDA and the Phase 2 DDA (together, the Shipyard Development Agreements”), staff proposes the following disposition plan for the Shipyard Park Parcels and the Shipyard Community Facilities Parcels:

Shipyard Park Parcels. The Successor Agency currently owns about 26 acres of land designated as parks/open space in Phase 1 (i.e., Hilltop and Hillside). In Phase 2 (i.e., the rest of the Shipyard), the Successor Agency is required under the Conveyance Agreement and the Phase 2 DDA to accept another 231 acres of land from the Navy in the future that has been designated as parks/open space in the Shipyard Redevelopment Plan and Shipyard Development Agreements. Together, this acreage totals approximately 257 acres of new and improved public parks, recreational fields, open spaces and waterfront trails and plazas at the Shipyard (together, the "Shipyard Park Parcels"). Staff propose disposition plan #2 (i.e., retain property temporarily to fulfill an enforceable obligation, then transfer it to the City). Once the Developer has completed a “major phase” of development at the Shipyard (as those phases are defined in the Shipyard Development Agreements) then any Shipyard Park Parcels included in that “major phase” will transfer to the City for a governmental purpose (i.e., a public park) to own and manage with funds generated from the community facilities district.

Shipyard Community Facilities Parcels. The Shipyard Community Facilities Parcels are comprised of (1) the vacant land in Phase 1 and 2, (2) artist studios, and (3) economic development buildings. The proposed disposition plan for each is presented below:

- **Vacant Land.** The Successor Agency currently owns about 1.2 acres of land designated as community facilities parcels in Phase 1 (i.e., Hilltop and Hillside). In Phase 2 (i.e., the rest of the Shipyard), the Successor Agency is required under the Conveyance Agreement and the Phase 2 DDA to accept another 4.8 acres of land from the Navy in the future that has been designated as community facilities parcels in the Shipyard Redevelopment Plan and Shipyard Development Agreements. Together, this acreage totals approximately 6.0 acres of land reserved for community-serving uses at the Shipyard (together, the “Shipyard Community Facilities Parcels”). Staff propose disposition plan #2 (i.e., retain
property temporarily to fulfill an enforceable obligation, then transfer it to the City for future development). Under the Shipyard Development Agreements, the Successor Agency has an obligation to ensure the Developer completes the infrastructure serving these parcels. At the same time, these parcels are under the Interim Lease, making an earlier transfer to the City impractical. Once the Developer has completed a “major phase” of development at the Shipyard (as those phases are defined in the Shipyard Development Agreements) then any Shipyard Community Facilities Parcel included in that “major phase” will transfer to the City for future development.

• **Artist Studios.** The Successor Agency currently owns Building 101, which has been designated as permanent artist studio space at the Shipyard. In addition, the Phase 2 DDA requires the Successor Agency to own the Artist Replacement Building in the future, after the Developer has built the building (using its own funds) on Successor Agency-owned land (on which Building 110 currently sits and is serving as temporary artist studio space). As mentioned for the Modular Building, the former redevelopment agency used federal grant funds from the EDA to renovate Building 101. As such, the building carries EDA land use restrictions for 20 years. These restrictions require that the building be used to further the implementation of an “arts and technology district” at the Shipyard, even if the building is sold within the 20-year restriction period. There is no funding source to maintain this building, other than rental revenue generated from the building. Thus, no tax increment has been or will be used in the rehabilitation and/or development of these artist studios.

Staff proposes disposition plan #2 (i.e., retain to fulfill an enforceable obligation, then sell the property with use restrictions). Staff proposes retaining Building 101 until the Artist Replacement Building has been completed, pursuant to the Successor Agency’s enforceable obligations to ensure (1) that the Developer has built the Artist Replacement Building and the infrastructure serving Building 101 and the Artist Replacement Building, and (2) that the artists are relocated pursuant to state relocation law. Once the Developer has completed its development obligations, and the artists have been relocated per state relocation law, then the Successor Agency will transfer Building 101 and the Artist Replacement Building to the City or a third party at their appraised value with the use restrictions determined by the Shipyard Redevelopment Plan, the Shipyard Development Agreements, and the EDA grant (i.e., that these buildings must be used as permanent artist studio space at controlled rents and/or in a way that furthers the Shipyard’s “art and technology” district). Any proceeds from the sale of Building 101 will be used to pay back the EDA grant.

• **Economic Development Buildings.** The Successor Agency currently owns the Modular Building, which has been designated as community-serving space to further the Shipyard’s “arts and technology district.” In addition, the Phase 2 DDA requires the Successor Agency to own Building 813 in the future, which has been designated as a clean-tech small business incubator. Both of these buildings have temporary infrastructure now, but the Developer is required to construct the permanent infrastructure serving both buildings.

Staff proposes disposition plan #3 (i.e., sell the property with use restrictions). Staff proposes selling these two buildings at their appraised value with the use restrictions
determined by the Shipyard Redevelopment Plan, the Shipyard Development Agreements, and the EDA grant (i.e., that these buildings must be used for community-serving uses and/or in a way that promotes the “arts and technology” district at the Shipyard). Any proceeds from the sale of the Modular Building will be used to pay back the EDA grant.

**Mission Bay Park Parcels**

The Mission Bay Park Parcels are comprised of (1) completed parks the Successor Agency leases from the City for property management purposes (the “Completed Parks”), and (2) to-be-built parks the Successor Agency has options to lease from the City in the future for property management purposes (the “Future Parks”) (together, the “Mission Bay Park Parcels”). The Mission Bay Park Parcels are within the Mission Bay North and South Redevelopment Project Areas (the “Mission Bay Project Area”). The Completed Parks total about 13.2 acres (11 public parks) and the Future Parks total about 27.3 acres (19 public parks), for a total of about 40.5 acres (30 parks).

As mentioned, the underlying property owner is the City (acting through the Department of Real Estate, the Port of San Francisco, and the Public Utilities Commission). The City’s ownership interests are shown on the attached map (Attachment 4). The Port controls about half of the Mission Bay Park Parcels, some of which are further restricted as Public Trust Lands.

Under the existing Mission Bay Development Agreements (defined below), the Successor Agency, acting in a property management function, is required to lease the Mission Bay Park Parcels (once they are developed as public parks) from the City under a ground lease and maintain them using funds from a community facilities district (the “Maintenance CFD”), which runs until fiscal year 2043-44. The Successor Agency is the administrator of the Maintenance CFD, which was formed in 1999.

The Mission Bay Development Agreements include two owner participation agreements executed in November 1998 between the SFRA and the Mission Bay master developer, one for Mission Bay North (the “North OPA”) and one for Mission Bay South (the “South OPA”). Under the Mission Bay Development Agreements, the Mission Bay master developer is required to finance and build the park improvements on the publicly owned Mission Bay Park Parcels. The Successor Agency then “shall enter into the Agency Lease” within a certain time period (between 30 and 60 days) after the Mission Bay master developer begins the park improvements on a Mission Bay Park Parcel (See Section 7 of the North and South OPAs) for the purpose of providing the park maintenance.

To finance the park maintenance, the SFRA agreed to form the Maintenance CFD “for the purpose of providing monies to pay the ongoing maintenance” of the Mission Bay Park Parcels and use the taxes collected from the Maintenance CFD to “operate, maintain, and repair, or cause to be operated, maintained, and repaired” the Mission Bay Park Parcels for a period of 45 years (i.e., until 2043). (See Financing Plans attached as Attachment E to the North and South OPAs.)

**Disposition Plan.** The Successor Agency has an enforceable obligation to ensure the Mission Bay Park Parcels are developed as a cohesive, financially self-sustaining park system and to lease the parcels for property management purposes, using the funding from the Maintenance
CFD. After 2043, the City would be responsible for operating the Mission Bay Park Parcels. Given staff's understanding of DOF's position on the retention of long-term property management obligations, staff proposes the following disposition plan for the Mission Bay Park Parcels. Staff propose disposition plan #2 (i.e., retain property temporarily to fulfill an enforceable obligation, then transfer it to the City). Pursuant to the Mission Bay Development Agreements, staff will lease and manage the Completed Parks and the Future Parks (as they are developed) until the Mission Bay master developer has completed the park improvements on the Mission Bay Park Parcels. Once all the Mission Bay Park Parcels are complete, which is expected to occur in 2022 (about eight years from now), staff will terminate the Successor Agency's leasehold interest in the Mission Bay Park Parcels and transfer the maintenance responsibility for these properties to the City for a governmental purpose (i.e., a cohesive public park system). The City can use funds generated from the Maintenance CFD to maintain the Mission Bay Park Parcels. Staff is recommending that administration of the CFD itself should remain with the Successor Agency because of the complexity of transferring this responsibility. (In the Rincon Point-South Beach Redevelopment Project Area, for example, the Successor Agency is the administrator of maintenance CFD, but does not control the property to which the funds are dedicated.)

Successor Agency staff have discussed a more expedited disposition plan with City staff, but they have expressed a strong preference for the disposition plan outlined above, whereby the Successor Agency would continue managing the Mission Bay Park Parcels until all the park improvements are complete and the Mission Bay Park Parcels can transfer to the City as a package of interlocking parks. This preference coincides with feedback the Successor Agency has received from the Mission Bay community and master developer, who would like the Mission Bay Park Parcels to: (1) remain together and continue to be managed as a single asset by a single entity (i.e., either one City entity or a separate non-profit), (2) continue to be professionally managed under a competitive bidding process, and (3) continue to be managed in a way that allows for direct community involvement and oversight.

Yerba Buena Gardens

Yerba Buena Gardens ("YBG") spans three blocks between Market and Folsom Streets, and Third and Fourth Streets, which the SFRA acquired during the 1960s and 1970s with urban renewal grant funds from the federal government. YBG was constructed by the SFRA 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 SFRA. 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 staff 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 Marriot 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 SFRA 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 SFRA’s governing body (the “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.

Disposition Plan. 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. Staff propose disposition plan #1 (i.e., transfer to the City for a governmental purpose). The City has agreed to accept the YBG properties for a governmental purpose (i.e., parks, recreational facilities, children’s facilities, and cultural facilities) and manage them as a single, unified set of properties using the fees and payments currently generated from the YBG properties. The City has stated publicly that it is committed to keeping the YBG properties together and managing them as a "one-stop shop," meaning all property/asset management work will be handled by a single entity (i.e., a City department or a separate non-profit or a separate authority).

Several management structures are currently under discussion. One involves a non-profit entity, controlled by the City, which would manage the YBG properties on behalf of the City under a master lease with the City. Another involves the City transferring the YBG properties to a separate legal entity (i.e., some kind of authority or trust), which would manage the YBG
properties on behalf of the City. Still another involves a City department, such as the Department of Real Estate, coordinating the management of the YBG properties. Community stakeholders have expressed a strong preference in the management models involving a separate non-profit or legal entity. The City is considering a variety of management models. The final management structure will be determined by the City at a later date, after the Successor Agency’s PMP has been submitted to DOF for approval.

To help in this decision-making process, OCII staff have facilitated a series of community meetings and hired a consultant 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. This consultant, The PFM Group (“PFM”), has attended many of the YBG community meetings and shared the results of its draft research to date. PFM’s final report, which will summarize the results of this research effort, will be available in a few weeks. The hope is that these community meetings will continue after the Successor Agency submits its PMP to DOF for approval. City staff has stated publicly that they are committed to working with the community to find the best ownership/management structure for this important civic gem.

Other Properties

**Fillmore Heritage Center Garage and Commercial Air Rights Parcel**

The Fillmore Heritage Center is an $80.5 million public-private partnership that includes 80 condominiums, about 50,000 square feet of commercial space (the “Commercial Air Rights Parcel”), and a 112-space public parking garage (the “Garage Parcel”). Of that $80.5 million, about 35% ($28.4 million) was financed using public funds from the City and the SFRA. The public investment of dollars built the public parking garage and the commercial space, which was intended to help revitalize the lower Fillmore Street commercial corridor. The City financed the construction of the Commercial Air Rights Parcel by borrowing $5.5 million from the U.S. Department of Housing and Urban Development (“HUD”) and then loaning that money to the developer to build the Commercial Air Rights Parcel. The SFRA financed the construction of the Garage Parcel and also contributed the land, and allowed the developer to pay the purchase price for the land over time under a ground lease on the Commercial Air Rights Parcel. For more information about this project, and how it was financed, please see Attachment 5.

The Successor Agency continues to own the Commercial Air Rights Parcel and the Garage Parcel. These are briefly discussed below:

- **The Commercial Air Rights Parcel.** This air rights parcel totals about 50,000 square feet, and is ground leased to an affiliate of the project’s developer (“Fillmore Development Commercial” or “FDC”) who subleases the space to commercial tenants. FDC is currently in default on its construction loan to the City and owes the City about $1.4 million (See Attachment 6). FDC is supposed to make 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 FDC has missed more than $1.4 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.
In addition, the main tenant in the commercial space (Yoshi’s San Francisco) is in bankruptcy and will likely not continue operating in this space for much longer. Yoshi’s San Francisco filed a petition for Chapter 11 bankruptcy in November 2012. Since that time, representatives of Yoshi’s San Francisco have been in mediation talks (under the supervision of the federal bankruptcy court) with FDC’s investor group to devise a path forward. All workout agreements proposed to date involve replacing Yoshi’s San Francisco with a new club/restaurant. This transition involves an investment of $1.0 million in new working capital by FDC’s investors at a 12% return. In exchange, FDC’s investor group is asking the City and OCII for a number of changes to existing agreements, none of which have been acceptable to the City (See Attachment 7).

Under the existing ground lease, FDC has rights and responsibilities to the Commercial Air Rights Parcel, including a right to own the Commercial Air Rights Parcel after paying the Successor Agency about $3.1 million in deferred land payments. However, if a workout deal cannot be reached between the City and FDC, the City will likely foreclose on its construction loan and step into the shoes of FDC under the ground lease with the Successor Agency. Under this scenario, OCII (as owner and landlord) would work with the City (as master tenant) to sell the Commercial Air Rights Parcel as soon as possible.

- **The Garage Parcel.** The Successor Agency also owns this parcel, which is improved with a 112-space public parking garage located in the base of the Fillmore Heritage Center. It is currently operated by a private garage operator under a management agreement with the Successor Agency. The Successor Agency has no enforceable obligations associated with this parcel.

**Disposition Plan.** Based on the foregoing, staff propose disposition plan #3 (i.e., sell the property). Staff believes it is highly likely that the City will foreclose on its leasehold interest in the Commercial Air Rights Parcel and take over as tenant under the ground lease with the Successor Agency. Under this scenario, the Successor Agency would either (i) sell the property for the City, or (ii) transfer its fee interest in the Commercial Air Rights Parcel to the City, so that the City can sell the property and recover as much as possible of its $5.5 million investment. Any excess proceeds above and beyond $5.5 million would be considered CDBG program income because the land was purchased with federal urban renewal grant funds.

In the unlikely event that the City does not foreclose, staff propose disposition plan #1 (i.e., transfer to the City for a governmental purpose). Staff believes there is a governmental purpose in the City’s ownership of the Commercial Air Rights Parcel due to the direct investment of CDBG funds. City ownership will make it easier for the City to fulfill its obligations to HUD under its loan agreement with HUD and ensure the City recovers its investment of CDBG funds.

**Property leased to Kroger’s Grocery Store**

The Successor Agency 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. Before dissolution, Kroger’s was in discussions with the SFRA and the City to buy this parcel for the expansion of its grocery store. Based on feedback from City staff, who has continued to discuss this possibility with Kroger’s, the grocery store chain is still interested in purchasing this property. Therefore, staff propose disposition plan #3 (i.e., sell the property). Staff would
continue to work with Kroger's and the City to dispose of this property as soon as possible. Any proceeds from a sale would be considered CDBG program income because the land was purchased with federal urban renewal grant funds.

COMMUNITY OUTREACH

Ongoing discussions about the PMP have been occurring at the regularly scheduled monthly meetings of the citizen advisory committees in Mission Bay, Transbay, and Hunters Point Shipyard. Special meetings in Yerba Buena Gardens have been occurring every two weeks with community stakeholders, OCII staff, and City representatives.

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.

To meet this schedule, staff will be holding the second and final workshop before the Successor Agency Commission on November 5, 2013. Staff will then seek the approval of the Successor Agency’s PMP by the OCII Commission on November 19, 2013, and of the Oversight Board on November 25, 2013.

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

Tiffany Bohee
Executive Director

Attachment 1: Workshop Memorandum dated September 9, 2013 (w/o attachments)
Attachment 2: Map -- Transbay Park Parcels
Attachment 3: Map -- Shipyard Park Parcels and Community Facilities Parcels
Attachment 4: Map -- Mission Bay Park Parcels and City Ownership Interests
Attachment 5: Informational Memorandum dated September 23, 2013 (w/o attachments)
Attachment 6: Default Letter dated October 16, 2013
Attachment 7: Offer Rejection Letter dated September 20, 2013