MEMORANDUM

TO: Oversight Board
FROM: Tiffany Bohee, Executive Director
SUBJECT: Informational presentation of the Recognized Obligation Payment Schedule items relating to Administrative Costs, Non-Major Approved Development Projects, and Housing

EXECUTIVE SUMMARY

As described in the memorandum provided for the meeting of March 27, 2012, AB 26 requires the creation of a Recognized Obligation Payment Schedule ("ROPS") to set forth the minimum payment amounts and due dates of payments required by those enforceable obligations for each six-month fiscal period. The ROPS must be submitted to the California Department of Finance ("DOF") no later than April 15, 2012. Staff seeks the Oversight Board’s approval of the ROPS before submitting the schedule to DOF and the State Controller.

At the meeting on March 27th, staff presented the ROPS for the non-housing items in the Major Approved Development Projects (Mission Bay, Transbay, and Hunters Point Shipyard/Candlestick Point) as well as for those items relating to payments related to Agency issued bonds and required pass-through payments to taxing entities. This memorandum describes the items that will be presented at the workshop on March 29th. The presentation will include a review of the non-housing items from the non-Major Approved Development Projects, the housing items, and the administrative costs required to support the efforts of the Successor Agency to the former San Francisco Redevelopment Agency.

DISCUSSION

Administrative Costs

The lines related to the administrative costs of the Successor Agency represent the payments needed to cover the ongoing administrative expenses needed to operate the required office space, provide supplies, and other related expenses. Staff has projected these costs based on a reduced staff and expenses. Some of these costs may be covered by what AB 26 calls "Administrative Cost Allowance," which is percentage of the amount of tax increment that is allocated to the Successor Agency to cover the approved Enforceable Obligations. For the period covering February through June 2012, that percentage is 5%, which Agency staff in consultation with the City’s Controller’s Office, has estimated to be approximately $2.67 million. For fiscal year 2012-2013, the Administrative Cost Allowance is calculated on 3% of the whole year, which is estimated to be approximately $3.6 million. AB 26 provides that some administrative costs can
be allocated to project funds as they are related to the ongoing work of those enforceable obligations.

Non-Housing/Non-Major Approved Development Projects

Project Areas
The Agency’s work program spanned numerous Redevelopment Project Areas (“Project Areas”) across the City. Some of that work was in process or had just begun in active Project Areas when AB 26 and the subsequent suspension of redevelopment activities went into effect in June 2011. In other cases, the Agency had completed the work program in those areas and the Agency’s role was either to manage the assets itself or to ensure compliance from other parties pursuant to long-term contractual agreements. Below is a chart describing the Project Areas that appear on the ROPS along with an indication if the Project Area was expired or active and the type of non-housing work as of June 2011, defined as either “Active Programs” for where the Agency had been working to implement economic development programs and eliminate blight, or “Asset Management,” where the work program had been completed and the Agency was responsible for ensuring ongoing compliance with the Redevelopment Plan and agreements with third parties.

<table>
<thead>
<tr>
<th>PROJECT AREA</th>
<th>YEAR ESTAB.</th>
<th>STATUS</th>
<th>TYPE OF WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>South of Market (SOM)</td>
<td>1990</td>
<td>Active</td>
<td>Active Programs</td>
</tr>
<tr>
<td>Bayview Hunters Point (BVHP)</td>
<td>2006</td>
<td>Active</td>
<td>Active Programs</td>
</tr>
<tr>
<td>Rincon Point – South Beach (RP-SB)</td>
<td>1981</td>
<td>Active</td>
<td>Asset Management; Includes South Beach Harbor facility</td>
</tr>
<tr>
<td>Western Addition A-2 (WA-A2)</td>
<td>1964</td>
<td>Expired 2009</td>
<td>Asset Management</td>
</tr>
<tr>
<td>Yerba Buena Center (YBC)</td>
<td>1966</td>
<td>Expired 2011</td>
<td>Asset Management</td>
</tr>
<tr>
<td>Visitacion Valley (VV)</td>
<td>2009</td>
<td>Active</td>
<td>Planning/Negotiation of Master Developer Agreements – NO ROPS</td>
</tr>
<tr>
<td>Mid-Market (MM)</td>
<td>--</td>
<td>Survey Area</td>
<td>Preliminary Planning – NO ROPS</td>
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ACTIVE PROJECT AREAS/PROGRAMS: South of Market & Bayview Hunters Point

Unlike the Major Approved Development Projects, there are no master developers or entities for the SOM and BVHP Project Areas. These were “infill” Project Areas, where the Agency’s focus was on revitalizing existing neighborhoods through targeted economic development grant and loan programs, limited public improvements, and other efforts to eliminate blight including the
creation of affordable housing. With the passage of AB 26, the Agency was limited in its ability to continue some of this work or implement any new programs. Therefore the items on the ROPS reflect those contracts or obligations that are in the process of winding down and additional funds cannot be provided in the future. There are, however, some payments needed going forward, for instance for any maintenance costs required for Agency owned properties in the Project Areas, or for situations where the Agency was obligated to provide funding as a match to a federal grant.

**ACTIVE PROJECT AREA/ASSET MANAGEMENT: Rincon Point – South Beach**

Rincon Point-South Beach is still an active Project Area. The Redevelopment Plan expires on January 5, 2021; however, the Agency's work program has been largely completed, and therefore its activities were of an asset management nature rather than the implementation of new programs. Since 1981, the area has been transformed into a new mixed-use development. The majority of the private development in Rincon Point-South Beach project area was developed under Owner Participation Agreements ("OPAs"), which are considered existing enforceable obligations. Since there are no financial payments from the Successor Agency associated with the RP-SB OPAs, these existing enforceable obligations are not shown on the ROPS. However, there will be a need for additional staffing within the City, as the Successor Agency, to continue to implement these OPAs. The Project Area also includes various parcels, some of which include open space and parks, under the Agency's management through a lease structure with the Port of San Francisco. Additionally, the Agency owns and operates South Beach Harbor, a 700-berth facility that is fully occupied. Since the Agency's dissolution, discussions have been ongoing with the Port about the transfer of the administration of the Port owned land and the Harbor facility itself to Port control. It is anticipated that such a transfer occur would occur by July 1, 2012. Payments on the ROPS therefore reflect the administrative costs associated with those parcels and South Beach Harbor; however, it is important to note that none of the funds used for those payments are tax increment. Revenues from the leases and the Harbor itself are the source for those payments.

**EXPIRED PROJECT AREAS**

**WA-A2:** The Redevelopment Plan for the former Western Addition A-2 Redevelopment Project Area expired on January 1, 2009. The program for the WA-A2 included thousands of units of new and rehabilitated housing, the revitalization of the Nihonmachi and Fillmore business districts, public infrastructure improvements, small business assistance, job training, and workforce development. Since the Project Area expired in 2009, no new economic development programs could be initiated and the Agency moved into an asset management role for both its real property assets as well as other contractual obligations. While the ROPS includes only three WA-A2 items, two related to the Fillmore Heritage Center and one related to an administrative audit, there are numerous contractual obligations, such as owner participation agreements, disposition and development agreements, and loan agreements, which do not include financial obligations and are therefore not reflected on the ROPS, but require various levels of ongoing enforcement and monitoring. These obligations currently include owner participation agreements for 1450 Franklin, 1822 Eddy, 1301 Divisadero, 1480 Ellis, 238 Olive, 368 Elm, 1300 Eddy, Sacred Heart, 1746 Post, 1600 Webster, and Sacred Heart; disposition and
development agreements for 1210 Scott, 1310 Fillmore, the Fillmore Center, Webster Towers, the Avenue, and San Francisco Ballet; and economic development loans for Yoshi's, 1300 on Fillmore, Sheba Lounge, and Rasselas Jazz Club and Restaurant. It is anticipated that there will be staffing costs associated with the ongoing enforcement and monitoring of these agreements.

**YBC:** With the exception of the Bloomingdale's/Emporium site, which expires in 2030, the Yerba Buena Center Redevelopment Project Area expired on January 1, 2011. In total, over 2,500 new housing units were built in YBC with more than 1,400 of them targeted for low to moderate-income residents. The Agency has also continued working to complete its last developable parcel of land in YBC, the Mexican Museum site, located at the north side of Mission Street between Third and Fourth Streets, which is subject to a 1993 agreement with the Mexican Museum. The proposed project is a public-private partnership between the Agency and Millennium Partners, owner of the adjacent property 706 Mission Street. The project, which would span both properties and would be developed by Millennium Partners, includes a residential tower with new museum space for The Mexican Museum in the base, renovation of the adjacent historically important building at 706 Mission Street, and purchase of the Agency-owned Jessie Square Garage for both project-related uses and public parking.

The signature feature of YBC is Yerba Buena Gardens, which includes four major hotels, six acres of gardens, retail, recreational, amusement, convention, parking, and cultural facilities and a five-acre children’s center. The public facilities in Yerba Buena Gardens were constructed with Agency funds and represent a civic investment of around $118 million. Since these assets were not purchased with tax increment and are planned to be retained for governmental purposes, they are not subject to the requirement in AB 26 that non-housing assets be sold.

As core components to Yerba Buena Gardens, cultural facilities such as Yerba Buena Center for the Arts (“YBCA”) and the Children’s Creativity Museum, formerly Zeum (“CCM”), were constructed entirely with Agency funding (tax increment bonds and developer funds) and were provided with ongoing annual funding support sufficient to sustain their basic maintenance, operations, and security requirements. Long-term, sustainable funding for the cultural facilities/users and overall Gardens maintenance comes from community stakeholders to whom the Agency is contractually committed.

In 1989, the Agency established the Yerba Buena Gardens “Separate Account” as required in various governing contractual documents with community stakeholders. These governing documents are enforceable obligations under AB 26. The Separate Account is a restricted, segregated bank account, into which certain lease revenue and developer exactions are deposited. The governing documents also define and restrict expenditures from the Separate Account, which are used exclusively for maintenance, operations, and security of Yerba Buena Gardens structures, landscaping, and open space, as well funding for the cultural facilities. In 1999, the Agency established a capital account budget within the Separate Account to account for capital reserves necessary to assure long-term replacement and renovation of the public facilities at Yerba Buena Gardens. The capital account is funded from an operating account set-aside line item and, before the expiration of the YBC Project Area, from occasional infusions of tax increment bond financing.
Revenue is deposited into the operating account from several funding streams including existing short- and long-term commercial and operating leases and an annual development fee from the St. Regis Hotel. According to the Exclusive Negotiating Agreement with Millennium Partners for the 706 Mission mixed-use project, a similar development fee is earmarked for the Separate Account beginning in FY 2016/17. The Agency contracts with a third party, MJM Management Group, to provide on-site property management, maintenance, operation, and security at Yerba Buena Gardens.

The ROPS includes only YBC enforceable obligations with payments that relate primarily to Yerba Buena Gardens asset management, the Jessie Square Garage, the Mexican Museum, and the Museum of the African Diaspora. There are numerous other contractual obligations, such as exclusive negotiation agreements, owner participation agreements, disposition and development agreements, and easement agreements, which do not include financial obligations and are therefore not reflected on the ROPS, but require various levels of ongoing enforcement and monitoring. These obligations currently include owner participation agreements for 660 Folsom and the Bloomingdales site; disposition and development agreements and/or land disposition agreements for the Paramount, the Mexican Museum, Alice Street Garden, the Jewish Museum, and Whole Foods; exclusive negotiation agreements for 706 Mission Street and the Mexican Museum; coordination agreements for Central Block-2 and Central B-3; and the Cooperation and Tax Increment Reimbursement Agreement for Jessie Square Garage. It is anticipated that there will be staffing costs associated with the ongoing enforcement and monitoring of these agreements.

**NO BASIS FOR ROPS: Visitacion Valley & Mid-Market (Proposing to Delete)**

**VV:** Visitacion Valley is actually similar to the Major Approved Development Projects in that there was a master developer selected to oversee the development of the former Schlage Lock industrial site and the neighborhood’s commercial corridor of Leland Avenue. The project plan called for the demolition of the majority of the existing vacant buildings on the former Schlage Lock site, environmental remediation of the site, and the construction of a mixed-use residential, retail and office development. However, negotiations with the master developer with regard to the creation of an Owner Participation Agreement were still underway when the Agency was dissolved. Therefore, there are no underlying enforceable obligations on which to base any payments.

**MM:** Mid-Market was in the Survey Area stage of a Redevelopment Project Area, meaning no Redevelopment Plan had been adopted. Since AB 26 precludes the adoption of any new Redevelopment Project Areas, the Successor Agency cannot engage in any work related to this neighborhood. Therefore there are no items that need to be shown on the ROPS.

**MULTIPLE PROJECT AREAS:**

There are certain lines on the ROPS that refer to multiple Project Areas. These are primarily for the Agency’s Job Readiness Initiative (“JRI”) program that provides workforce readiness assistance through contracts with third party community based organizations. Those contracts
will terminate in June of this year, and therefore any new expenditure related to this program will need to be through new contracts entered into by the City and not the Successor Agency.

**HOUSING:**

The Agency had one of the most robust affordable housing programs in the State, which created over well 10,000 units of housing for low- and moderate-income households, spanning all types of housing including supportive, senior, and family rental housing as well as first-time homeownership opportunities. The Agency assisted in the creation of this housing in two major ways: first, by providing financing in the form of loans and grants to third party developers, and second, by owning the parcels underneath the housing and entering into long-term ground leases with affordable housing developers, both of which ensured long-term affordability for the projects and residents. In some cases, the Agency acquired the land through standard real estate transactions, but in many other cases, the sites were designated for affordable housing through the Redevelopment Project Area planning process, in particular through the master developer agreements for the Major Approved Development Projects.

At the meeting of March 6, 2012, the Oversight Board adopted a resolution acknowledging that the housing assets associated with the Low- and Moderate-Income Housing Fund (“LMIHF”) have been transferred to the Mayor’s Office of Housing and are not under the purview of the Oversight Board. However, the Board does have an ongoing role to oversee how any housing tax increment funds are disbursed. The items shown on the ROPS represent all housing related payments; however, it also includes housing projects funded with federal grants or other non-tax increment sources.

**Existing Projects/Activities**

Many of the items on ROPS are related to ongoing project where the Agency entered into contracts prior to the June 2011 suspension of activities, and simply represent the implementation of those projects, such as payments of loan funds for projects currently under construction, or those about to start construction. Other payments relate to ongoing maintenance costs for Agency owned properties, such as single family condominium units purchased back from participating homeowners through the Limited Equity Homeownership program and have yet to be resold to new homebuyers.

**New Projects**

Prior to the passage of AB 26, the Agency was involved in a number of important housing projects throughout the City, but had not yet entered into contracts to provide the funds needed to construct the housing. In some of those cases, there are underlying enforceable obligations that require funding to be committed in the future. Those projects fall into several categories. First, there are the affordable housing projects that are required to be built in the Major Approved Development Projects pursuant to the relevant OPA (Mission Bay), DDA’s (Phases 1 & 2 of the Hunters Point Shipyard), or State law (Transbay). Second, there are projects that are part of a matching requirement of a federal grant, such as HUD’s Choice Neighborhood Grant which not only requires the rebuild of the Alice Griffith Public Housing development and is also required
per the Hunters Point Shipyard Phase 2 DDA, but also for an associated senior rental project located nearby at 5800 3rd Street.

Finally, there are projects that must be funded in order to satisfy a replacement housing obligation of the Agency. In 1977, the State Community Redevelopment Law changed, requiring Redevelopment Agencies to replace any housing it demolished. Prior to that date, the Agency had demolished over 6,700 units of housing during the urban renewal era of 1960’s and 1970’s that was not replaced. In the early 2000’s, the Agency sought a way to begin to fund new housing that could replace some of those demolished units, and successfully obtained the ability to finance replacement housing through the passage of Senate Bill 2113 (“SB2113”). That legislation allowed the Agency to convert Project Areas that had either expired or had reached its debt limit under SB2113 to allow for the continued collection of tax increment solely for the creation of replacement housing. The Agency has used tax increment funding from SB2113 Project Areas (India Basin, Hunters Point, Golden Gateway, Rincon-Point South Beach, Western Addition A-2, and Yerba Buena Center) to assist in the development of almost 900 replacement housing units located across the City, leaving approximately 5800 housing units to be replaced. AB 26 recognizes replacement housing plans as enforceable obligations; therefore, funding from the SB2113 Project Areas can continue to be deposited into the LMIHF in order to satisfy the remaining replacement housing obligation.

The ROPS includes lines that reflect estimates of the overall maximum amount of tax increment due to the LMIHF by Project Area, including Major Approved Development Projects and SB2113 Project Areas. Also included are the affordable housing projects needing such funding in the near term (e.g. in Fiscal Year 12/13) within the relevant Project Area section of the ROPS. The actual deposits into the LMIHF will be depended on the actual project budget needs in the given fiscal year. As the ROPS evolves over time, additional lines will be added to reflect the next set of parcels and projects are readied for development.

UNSPENT BOND PROCEEDS:
The Agency has unexpended proceeds from the issuance of bonds (either non-housing or affordable housing bonds) that were not yet in contractual agreements at the time of dissolution. Some of these bond proceeds are nevertheless still obligated to certain projects, for example the housing bond proceeds for the Alice Griffith Public Housing rebuild that are part of a matching funds requirement to a federal grant. In other cases, the applicable bond documentation contains bond covenants to spend the proceeds for redevelopment-related purposes, in particular for bonds issued on a tax-exempt basis. There is some ambiguity in ABx1 26 regarding the path for a Successor Agency or a Housing Successor to spend such unencumbered bond proceeds as contemplated by the bond documentation. To maximize the ability to spend these proceeds as intended, the ROPS include independent enforceable obligation line items (in addition to the debt service payment enforceable obligation related to such bonds) identifying the applicable bond issuance date and series with references to the original purpose of the bond, as stated in the bond and loan agreements. If it were determined that any bond proceeds that were not subject to enforceable obligations as described above could not be spent for the purpose for which the bonds were issued, then the proceeds would be used to defease the bonds. In other words, none of those funds would be distributed to the taxing entities.
NEXT STEPS

As discussed at the March 27th meeting, once approved by the Oversight Board, the ROPS will be submitted to DOF by April 15th. DOF will then have three days to indicate any questions on any selected items. There is then a ten day period following that in which any additional materials or analysis must be submitted to DOF in order to assist them in their review. Payments may not be made on any selected items until DOF is satisfied in its review.

The action taken by the Oversight Board prior to April 15th is to approve the ROPS covering the period from January through June 2012 only. A new ROPS must be prepared for the period covering July through December 2012 and approved by the Oversight Board and sent to DOF by May 11, 2012. Staff will begin compiling that new ROPS upon approval of the current ROPS and will present that to the Oversight Board in early May.

(Originated by Sally Oerth, Amy Lee, Denise Zermani, Christine Maher)

Tiffany Bohoe
Executive Director

Attachments:
Attachment 1: ROPS – Administrative Costs
Attachment 2: ROPS – Non-Housing Non-Major Approved Development Projects
Attachment 3: ROPS – Non-Housing Unspent Bond Proceeds
Attachment 4: ROPS – Housing
Attachment 5: ROPS – Housing Unspent Bond Proceeds