MEMORANDUM

TO: Oversight Board

FROM: Tiffany Bohee, Executive Director

SUBJECT: Informational presentation of the Recognized Obligation Payment Schedule for July 1, 2013 to December 31, 2013 (ROPS 13-14A)

EXECUTIVE SUMMARY

Chapter 3 of Part 1.85 of ABx1 26 ("AB 26") describes the responsibilities required of Successor Agencies to dissolved Redevelopment Agencies, and the first requirement per section 34177(a)(1) is to “continue to make payments due for enforceable obligations.” 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. AB 1484 modified the requirements for preparing and submitting the ROPS by creating specific timeframes and procedures for submittal and imposing penalties for late submittals. To date the Successor Agency has submitted three ROPS to the Oversight Board and to the California Department of Finance ("DOF"): the “Initial ROPS”, covering the period of January to June 2012, “ROPS II”, for July to December 2012, and “ROPS III”, for January to June 2013.

After each ROPS submission, DOF has refined the requirements and instructions to Successor Agencies on how to prepare the ROPS, including the name of the ROPS. For this next ROPS, covering the period of July to December 2013, DOF has instituted a new naming convention that references the relevant half of the fiscal year of the given ROPS period. Therefore the next ROPS will be known as “ROPS 13-14A” to signify it is the first ROPS for Fiscal Year 2013-2014. The ROPS for January to June 2014 will be called “ROPS 13-14B”. ROPS 13-14A must be approved by the Oversight Board and submitted to DOF, State Controller’s Office, and City Controller no later than March 1, 2013. Staff is providing informational workshops on the draft ROPS 13-14A to the Commission on Community Investment and Infrastructure on February 19, 2013 and to the Oversight Board on February 20, 2013. The Oversight Board is scheduled to take action on ROPS 13-14A at its next regularly scheduled meeting on February 26, 2013.
DISCUSSION

ROPS

Definition of Enforceable Obligations
The ROPS sets forth the payments required to be made under “enforceable obligations.” The Dissolution Law (AB 26 & AB 1484, together, or “the Law”) defines "enforceable obligations" to include bonds, loans, judgments or settlements, any "legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy," contracts or agreements necessary for the administration or operation of the Successor Agency, and certain “amounts borrowed from or payments owing to the Low and Moderate Income Housing Fund of a redevelopment agency,” as well as certain other obligations.

The Dissolution Law requires that successor agencies complete approved development projects that are subject to enforceable obligations by mandating that successor agencies perform those obligations and continue to oversee development until the contracted work has been completed or the contractual obligations can be transferred to other parties. Importantly, the Law expressly requires that pledges of increment associated with enforceable obligations of former redevelopment agencies be honored. The Law also provides for Successor Agencies to make new pledges of property tax revenues (former tax increment) under pre-existing agreements comprising enforceable obligations, subject to approval of their oversight boards and review by the State Controller and State Department of Finance.

ROPS Background
At its meeting on August 26, 2011, the Commission of the former Redevelopment Agency adopted the first Enforceable Obligation Payment Schedule (“EOPS”). The EOPS showed the obligations of the Agency requiring payments for the months of September through December 2011. The Redevelopment Agency Commission approved six amendments to that original EOPS, with the last amendment occurring on January 31, 2012, which extended the payment period through June 30, 2012. The 6th Amended EOPS therefore became the basis for Initial ROPS, which focused only on the period of January through June 2012. The Initial ROPS was approved by the Oversight Board and submitted to DOF on April 10, 2012. ROPS II was required to be submitted very soon after the Initial ROPS, and it was approved by the Oversight Board and submitted to the State only one month later, on May 7, 2012. Both ROPS I and ROPS II were approved by DOF.

ROPS III was approved by the Oversight Board and submitted to the State on August 28, 2012. DOF staff initiated a review of some of the proposed expenditures and asked for supporting documentation of particular enforceable obligations. Agency staff provided the requested information over the subsequent two weeks. On October 12, 2012, DOF issued its determination letter which made five findings. The Agency disputed four of those five findings and submitted a request to Meet & Confer with DOF on October 19, 2012. The Meet & Confer took place at DOF’s offices in Sacramento on November 16, 2012 and DOF issued their final determination on ROPS III in its letter dated December 14, 2012.
(Exhibit A). Of the four disputed items, DOF removed its objections to three of the expenditures and reduced the proposed expenditure for the remaining disputed item.

DOF changed the format of the ROPS report significantly with ROPS III. For the first time DOF provided a standard template which required breaking out each payment by specific funding type. In addition, DOF required a “Prior Period Payments” report as part of the ROPS III submission which reported the actual payment for each ROPS item as compared to the original ROPS estimate for Initial ROPS period. The ROPS 13-14A submission will also include a Prior Period Payments report, focusing on the actual payments made during the ROPS II period (July to December 2012). The Prior Period Payments report highlights the fact that the amounts on the ROPS are only estimates. Given the early submission deadlines of the ROPS, staff bases the payment amounts on a number of factors including historical trends, project schedules, or any other relevant factors for the given obligation and payment, but the actual payment may differ from the estimate as long as it does not exceed the ROPS payment amount.

ROPS 13-14A Template
DOF has provided a new template for ROPS 13-14A. Unlike the ROPS III template, which was an excel spreadsheet that allowed the Successor Agency to provide additional columns of information or sort the data by project area or type of obligation, the ROPS 13-14A template has been “locked” by DOF and does not allow any changes with the exception of updating the payment amounts and a few other fields. Any new items must be added to the end of the ROPS schedule. Agency staff has requested that DOF provide a version of the ROPS that can at least be sorted by project area and are awaiting a reply.

There are now five separate worksheets included in the new ROPS template: Contact Info, Summary, ROPS, Prior Period Payments, and Notes. Detailed descriptions of each worksheet are included in Attachment A: ROPS Worksheet Definitions. Staff is continuing to compile the data for the Prior Period Payment worksheet, so for the purposes of this workshop, staff is presenting the ROPS itself and the Notes. Staff will provide the full ROPS package to the Oversight Board prior to the meeting on February 25, 2013.

SUMMARY OF OBLIGATIONS & PAYMENTS ON ROPS 13-14A

The Initial ROPS had separate schedules for obligations and payments for Non-Housing (including administrative costs), Housing, and Bonds. Within each of those schedules items were sorted by Project Area and in some cases were sorted further as sub-obligations underneath the major overarching agreements (such as the Hunters Point Shipyard Phase 1 DDA, etc). As DOF has changed the ROPS template requirements with each submission, the ability to group similar obligations together has become more limited. With the new ROPS 13-14A template, any new items must be added to the very end of the ROPS regardless of the obligation’s originating project area or relationship to other obligations. Since the template cannot be sorted or filtered in any way, staff has instead prepared the following summaries of the payments shown on ROPS 13-14a by Project Area or other relevant category:
Administration & Agency-wide obligations:
The lines related to the administrative costs of the Successor Agency represent the payments needed to cover staffing costs, the ongoing administrative expenses needed to operate the required office space, provide supplies, and other related expenses. On ROPS 13-14A they are Item #’s 1 through 5. Some of these costs may be covered by the Administrative Cost Allowance ("ACA"), which is defined in the Law as 3% of the amount of tax increment that is allocated to the Successor Agency to cover the approved Enforceable Obligations. For this ROPS period the maximum amount of ACA that could be requested is approximately $1.8 million, however the projected administrative costs are anticipated to be lower and therefore the ACA requested through this ROPS is instead $1.54 million. The ACA covers staffing (the indirect staffing costs not directly billable to a project or a developer) as well as operating expenses for the Agency. Staffing costs are also eligible to be covered by RPTTF for direct project work if there are no other funds available. In many cases there are other funds available, mostly in the form of developer reimbursements. Developer reimbursements are also available to cover their proportionate share of the Agency’s non-staffing operating expenses.

The total amount of staffing cost for this ROPS is projected to be $4.2 million. Our proposed budget assumes 54 authorized FTE, which is unchanged from the prior year. This includes Mayor’s Office of Housing staff supporting Successor Agency affordable housing-related enforceable obligations. The budget includes a salary savings assumption, acknowledging that some positions will be vacant at times during the year.

A summary chart of Items 1 through 5 is below:

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<th>ROPS Item #</th>
<th>Description</th>
<th>ACA</th>
<th>RPTTF</th>
<th>OTHER</th>
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<th>FY 13-14 Total</th>
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**Major Approved Development Projects:**

**Hunters Point Shipyard/Candlestick Point – Enforceable Obligations**

Both Phases 1 and 2 of the Hunters Point Shipyard Project are public/private partnerships that are considered enforceable obligations due to several existing, inter-related agreements between the former Redevelopment Agency, now the Successor Agency, and two separate (but related) master developers. Phases 1 and 2 each have a separate disposition and development agreements ("DDA") that generally provide for the transfer of land from the Agency to the master developers, the master developers' and the Agency's rights and obligations relating to the construction of specified improvements, and the financing mechanisms for completing these development projects. The items on the ROPS in the next few years relate primarily to fulfilling the obligations described above with funds which are fully reimbursed by the Developer as required by the DDAs.

The HPS/CP project has two grants from the United State Economic Development Administration ("EDA"), totaling approximately $9 million and one grant from the State of California Pollution Finance Control Authority in the amount of $5 million. Each of these grants is subject to grant agreements between the Agency and the granting entities. The items on the ROPS related to these agreements relate primarily to completing the Shipyard Public Arts program and environmental remediation and stabilization of former Navy buildings, including Building 813.

The contracts identified on the ROPS allow for the provision of the services, support, and resources ("Contracted Services") necessary to implement the Successor Agency’s obligations under the Phase 1 and 2 DDA’s. The wide range of Contracted Services include, but are not limited to, security services to secure the Shipyard and perform patrol functions; environmental analysis of air monitoring and the Navy’s environmental clean-up program; design and construction management and inspection of the infrastructure and parks construction; real estate economics analysis of the fiscal and financial outcomes of the Shipyard's development along with administrative and community outreach support to ensure that there is neighborhood involvement and communication throughout the development process.

Virtually all costs associated with implementing the obligations described above are reimbursed, either from the Developer or the State or Federal Government. Therefore, the ROPS will list these expenditure under the “Other” funding source column with an explanation of the reimbursement source in the Notes field. A few exceptions exist whereby the Agency has committed tax increment to ensure the proper implementation of the obligation, including a) where a local match is required by the EDA grants and b) where tax increment may be required to maintain Agency assets during the wind-down period, c) where tax increment is required under the Phase 1 DDA to develop affordable housing, and d) where tax increment is irrevocably pledged under the Phase 2 DDA to the Developer for the infrastructure and other approved Project costs.

The ROPS includes payments for costs associated with the following categories of activity during the July to December 2013 period:
- Leases and property management: $733,000
- Design review and document approval: $875,000
- Development of an “Arts & Technology District”: $4.5 million
- Transfer of Navy, State Parks, State Lands and Alice Griffith property: $8.3 million
- Pursuit of Federal and State financing for project components such as transportation improvements, parks, infrastructure, and other costs: $1.1 million

*Mission Bay – Enforceable Obligations*

The Mission Bay project is a public/private partnership that is considered an enforceable obligation due to several existing, inter-related agreements between the former Redevelopment Agency, now the Successor Agency, and the Mission Bay Master Developer, FOCIL-MB, a private entity (“Master Developer”). The overarching enforceable obligation stems from the Mission Bay North and South Owner Participation Agreements (“OPAs”) and several related or attached documents including the Infrastructure Plans and the Tax Allocation Pledge Agreements (“Pledge Agreements”). Taken together, these agreements require that all available property tax increment generated in the project area, for the life of the Mission Bay Redevelopment Plans, is used to fund the construction of public infrastructure and affordable housing in Mission Bay. They require the Master Developer to construct the infrastructure consistent with an approved Infrastructure Plans. In turn, the Successor Agency is required to reimburse the Master Developer using available tax increment revenues.

The OPAs and their attachments outline other contractual obligations of the Successor Agency, such as requiring the Successor Agency to CFDs and issue CFD-backed debt; build affordable housing using property tax revenues; and process land use approvals and entitlements for vertical development. The OPAs require the prior consent of the Master Developer to amend the existing Mission Bay Redevelopments Plans and associated land use controls. The items on the ROPS for Mission Bay relate primarily to flow of tax increment funds pursuant to the Pledge Agreements, as well as other funding sources required to fund the Master Developer’s build out of the project.

The ROPS identifies that direct tax increment will be used in both Mission Bay North and South, as well as a new tax increment bond anticipated for Mission Bay South, to reimburse the Master Developer for infrastructure, pay existing debt, and fund affordable housing. In addition, proceeds from a new tax increment bond will be used in Mission Bay North to retire existing CFD#4 debt. Two California State grants, a Catalyst grant and a Prop 1C grant, also are included in the ROPS and will be used to reimburse the Master Developer for infrastructure already required under the Mission Bay South OPA, thereby reducing the overall need for tax increment in the South for infrastructure reimbursement. The ROPS also includes two lines for funding of outside consultants to provide third party review of reimbursement requests and compliance with workforce goals. Finally, the ROPS includes a line to allow for the expenditure of Mission Bay Art Fees, which are required for any development with 25,000 square feet or more of commercial or retail space, for the installation of art in Mission Bay public open spaces.
A summary of the spending activity is shown below:
- Infrastructure costs: $64.2 million
- Refinancing of CFD#4: $23.6 million
- Consultant costs: $458,000
- Art Fees: $1.3 million

**Transbay – Enforceable Obligations**
Similar to the Hunters Point Shipyard/Candlestick Point and Mission Bay, Transbay is subject to a number of existing, inter-related agreements that create an enforceable obligation. These agreements include, but are not limited to: 1) the 2008 Tax Increment and Sales Proceeds Pledge Agreement between the Successor Agency, the Transbay Joint Powers Authority ("TJPA") and the City ("Pledge Agreement"), which irrevocably commits tax increment and sales proceeds from formerly State-owned parcels for the Transbay Transit Center; 2) the 2006 Transbay Redevelopment Project Implementation Agreement between the Successor Agency and the TJPA ("Implementation Agreement"), which requires the Successor Agency to prepare and sell, with TJPA reimbursement of staff costs, the formerly State-owned parcels and to construct and fund new infrastructure improvements (such as parks and streetscapes) and affordable housing obligations; and 3) AB 812 (codified in Section 5027.1 of the California Public Resources Code), which mandates that 25 percent of the residential units developed in the Project Area shall be available to low-income households and an additional 10 percent shall be available to moderate-income households. Based on these agreements, in 2010, the TJPA entered into a Transportation Infrastructure Finance and Innovation Act ("TIFIA") Loan Agreement with the United States Department of Transportation. The TIFIA loan is a necessary part of the funding package for the TTC.

There are four rows on the ROPS that are currently not available for updating in the ROPS 13-14A template: Items 102 through 105. DOF has “locked” these rows based on their ROPS III determination, where they determined that the Agency should not use bond proceeds for Items 103 and 104 (costs associated with the developer selection process and legal review) until a Finding of Completion has been issued by DOF. DOF elected to include the Pledge Agreement and the Implementation Agreement in that ROPS III determination although they did not provide any reasons for why those lines were selected. In any case, the Agency has submitted a request to DOF for a Final & Conclusive Determination for the Transbay enforceable obligations, and once approved, DOF would then “unlock” those lines on the ROPS.

The items on the ROPS for Transbay demonstrate the flow of funds between the Successor Agency and the various implementation components of Transbay pursuant to the above agreements. In addition, the ROPS includes payments to be made pursuant to the Intergovernmental Agreement, which further defines how the TJPA would reimburse the Agency for the cost of preparing and selling the State-owned parcels. During the ROPS 13-14A time period the Successor Agency will spend approximately $4.7 million on projects within the Transbay Redevelopment Project Area. This is comprised of $4.3 million from prior year funds and $400,000 in new RPTTF, spent on the following activities:
• Streetscape & open space design documents: $1 million
• Reconfiguration of the Folsom Street Off-Ramp: $3.3 million
• Inter-agency coordination & consulting services: $400,000

This total does not include an additional $30 million that will be received by the Successor Agency for the sale of Transbay Block 6 and immediately transferred to the TJPA pursuant to the Pledge Agreement.

**ACTIVE PROJECT AREAS IN “WIND DOWN”**

While the redevelopment plans for these areas are still in effect, the passage of AB 26 severely limited the Agency 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.

**Bayview Hunters Point**
In this project area, payments are obligated to provide funding as a match to a federal grant for the renovation of the Bayview Opera House plaza for $785,000.

**Rincon Point-South Beach**
Rincon Point-South Beach is still an active redevelopment project area. The Redevelopment Plan for this project area expires on January 5, 2021; however, the Agency’s work program has been largely completed, and therefore its activities are of an asset management nature. Since 1981, the area has been transformed into a new mixed-use neighborhood. The majority of the private development was developed under owner participation agreements, or OPAs, which are considered existing enforceable obligations. Only one OPA in this project area is still active, and that is for the development of 74 condominiums over a rehabilitated historic warehouse at 72 Townsend Street. That project is shown on the ROPS even though it does not involve any payments. Staff costs for this project will be reimbursed by the developer.

This project area also includes various parcels along the waterfront, some of which include open space and parks, under the Agency’s management through a lease structure with the Port of San Francisco (the “Port”). The Agency then subleases some of this Port-owned land to various subtenants, including the South Beach Yacht Club. The Agency also manages South Beach Harbor, a 700-berth facility that is fully occupied, and a community facilities district that pays for additional landscaping and property maintenance on some of the project area’s open spaces.

Port staff and Successor Agency staff are currently negotiating a Memorandum of Understanding that describes the transfer of the Port properties and the future management

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1 In 2007, the Board of Supervisors and Redevelopment Agency authorized the use of new tax increment financing from Rincon Point-South Beach exclusively for affordable housing to fulfill the Agency’s replacement housing obligations.
of South Beach Harbor (the "MOU"). The draft MOU states that all the Port leases will be terminated except the three leases that are associated with South Beach Harbor (Port Leases N-2, N1-A and N1-B). These leases will remain in place until the Successor Agency pays off the outstanding debt associated with the construction of the harbor facilities, which is expected to occur in 2017. The lease payments (totaling $260,579 for this ROPS period) associated with these three leases will still need to be made to the Port. The funding source for these lease payments is harbor revenues. Staff is currently negotiating with the Port and the final MOU will be brought before the Commission and the Oversight Board for approval as soon as possible. Staff costs associated with this work are covered by the administrative cost allowance, because currently the Agency has no other source of funds to cover such expenses. Since July 1, 2012, all revenues the Agency used to receive from its subtenants have been going to the Port.

Therefore the Rincon Point-South Beach items on the ROPS are for costs associated with the following activities:

- Port Leases: $260,579
- South Beach Harbor operations: $536,000

**EXPIRED PROJECT AREAS**

**Hunters Point**

In Hunters Point, the Agency still has obligations as property owner. Costs for property management/water for Shoreview Park are shown on the ROPS ($8,300).

**Western Addition A-2**

The Redevelopment Plan for the former Western Addition A-2 Redevelopment Project Area expired on January 1, 2009 ("Western Addition"). The former San Francisco Redevelopment Agency’s ("SFRA") program for the Western Addition 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 January 1, 2009, no new economic development programs could be initiated and the SFRA moved into an asset management role for both its real property assets as well as other contractual obligations.

The Agency still owns property in the Western Addition and has the responsibility to maintain this property, insure it, and plan for its eventual disposition. This property includes the Fillmore Heritage Center Public Parking Garage, the Fillmore Heritage Center Commercial Space, and the Ellis Street driveway parcel, and the ROPS includes costs associated with these parcels as follows:

- Fillmore Garage: $335,000
- Developer CAM charges: $70,000

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2 Similar to the Yerba Buena Center, the Board of Supervisors and Redevelopment Agency authorized the continuing use of tax increment from the Western Addition to fund affordable housing because of the Agency's unfulfilled replacement housing obligation.
There are also numerous contractual obligations, such as owner participation agreements, disposition and development agreements, and loan agreements, which do not include financial obligations but are nevertheless enforceable obligations that require various levels of ongoing enforcement and monitoring. These are also shown on the ROPS. These obligations currently include owner participation agreements for unfinished private development at 1450 Franklin Street and 1301 Divisadero, disposition and development agreements (i.e., 1210 Scott Street and Fillmore Heritage Center), and economic development loans for Yoshi's jazz club and restaurant, 1300 on Fillmore restaurant, Sheba Lounge, and Rasselas jazz club and restaurant. Staffing costs are associated with the ongoing enforcement and monitoring of these agreements. Some of these costs are reimbursed by the project sponsors, and others are covered by the administrative cost allowance. Staff has also shown funds on the ROPS for legal counsel related to all of these enforceable obligations.

**Yerba Buena Center**
The Yerba Buena Center Redevelopment Project Area expired on January 1, 2011 (“Yerba Buena”)³. The SFRA implemented a redevelopment program in Yerba Buena that centered on destination cultural facilities, public spaces, museums, hotels, and market-rate and affordable housing. Since January 1, 2011, no new development could be initiated and the SFRA moved into an asset management role for both its real property assets as well as other contractual obligations.

The Agency has the responsibility to maintain, insure, and plan for the eventual disposition of its Yerba Buena properties, which include:

- **The Mexican Museum Site** (part of the 706 Mission project): $1.1 million. Payments to the Mexican Museum, for pre-development and development expenses related to the new museum space, are listed on the ROPS.

- **Jessie Square Garage**: $1.4 million: Reimbursements to the garage operator for garage-related expenses, parking taxes to the City, and a portion of the debt service payments to the City are listed on the ROPS.

- **Yerba Buena Gardens (“YBG”)**: $5.7 million. Expenditures from the Separate Account, a restricted bank account created to hold deposits of lease revenue and developer exactions, which are listed on the ROPS, are used exclusively for (1) on-site property management, maintenance, operations, and security of YBG (MJM Management Group contract), (2) funding for the maintenance and operations of Yerba Buena Center for the Arts and the Children’s Creativity Museum, (3) programming activities in the open space areas at YBG (Yerba Buena Arts and

³ Although the Yerba Buena Plan expired, the Board of Supervisors and Redevelopment Agency authorized the continuing use of tax increment to fund affordable housing because of the Agency’s unfulfilled replacement housing obligation. The Successor Agency has asserted that this authority remains in effect and is seeking state clarification.
Events contract, (4) capital repairs and replacements, and (5) a community benefit assessment, property insurance, and legal services.

In addition to enforceable obligations related to the Successor Agency’s responsibility as property owner, there are other enforceable obligations in Yerb Buena. The Agency was instrumental in helping to establish the Museum of the African Diaspora (“MoAD”) as a new cultural institution in YBG. Through the disposition of an SFRA parcel, MoAD is currently housed in a portion of the St. Regis Hotel. Based on a series of pre-existing agreements, the SFRA provided funding to MoAD to pay for concept planning, programming, and tenant improvements to the space. Currently, the Agency provides annual operating support (through 2015) and has set-aside some capital funding for an upcoming renovation project. These funding commitments to MoAD are included in the ROPS as approximately $553,000.

There are also numerous contractual obligations, such as owner participation agreements, disposition and development agreements, and operating agreements, some of which do not include financial obligations but are nevertheless enforceable obligations that require various levels of ongoing enforcement and monitoring. These are also shown on the ROPS. The obligations currently include owner participation agreements (i.e., 660 Folsom Street and Bloomingdales), disposition and development agreements (i.e., the Paramount Apartments, the Contemporary Jewish Museum, and the Whole Foods store on Harrison Street), and multiple YBG easement agreements.

**AFFORDABLE 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 agreements for the Major Approved Development Projects.

The City, acting through the Mayor’s Office of Housing (“MOH”), is the Housing Successor Agency pursuant to the Dissolution Law, and a significant portion of the Agency’s housing obligations were transferred to MOH including completed housing projects for which the Agency either provided loans, owned the underlying land, or both. However, the affordable housing obligations that are not yet complete remain as obligations of the Successor Agency. Specifically, these remaining housing obligations include: (1) Agency funded affordable housing projects still in construction, (2) future affordable housing projects designated as Agency parcels through the master agreements
for the Major Approved Development Projects, and (3) the remaining projects to be funded in order to meet the Agency’s replacement housing obligation. Examples of these three types of retained housing obligations are described below.

**Existing Projects In Construction**

The Agency had provided funding to a number of projects that were in construction at the time of dissolution and several remain under construction and have not yet drawn down the loan funds provided by the Agency. An example of such a project is for the Hunters View public housing revitalization project. The Agency has provided loans for all three phases of the project; Phase 1 of the project is currently finishing construction and tenants have begun moving in, while Phases 2 & 3 are in the predevelopment phase. Until the loan funds are fully disbursed and the terms of the loans are met, such as the completion of the project, Hunters View remains an obligation of the Successor Agency. There are several other projects in construction in the Bayview, South of Market, and Western Addition neighborhoods, and the remaining payments associated with those loans are shown on ROPS 13-14A.

**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) in over 860 replacement housing units located across the City, of which over 700 are either completed or are in construction, leaving approximately 5800 housing
units remaining to be funded. The Law recognizes replacement housing plans as enforceable obligations; therefore, funding from the SB2113 Project Areas can continue to be drawn down from the RPPTF in order to satisfy the remaining replacement housing obligation.

The Agency is intending to provide approximately $113 million in funding for affordable housing projects through this ROPS, all of which is from prior funds. The only new RPPTF request for the affordable housing program will be to collect the pledged amount of the tax increment from Mission Bay for housing uses (20% of gross project area tax increment, per the Pledge Agreement) and hold those funds in a reserve until they can be used to fund an eligible Mission Bay project.

BONDS & PASS-THROUGH PAYMENTS

Bonds
Bonds and their required debt services, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of the outstanding bonds are listed first under the Law’s definition of “Enforceable Obligation.” Furthermore, the Law directs County Auditor-Controller’s to make debt service payments first, after any pass-through payments to taxing entities, before any other obligations. The items on the ROPS’s relating to the Agency’s bond obligations therefore show the debt service required to be paid on all outstanding tax increment bonds that were issued by the Agency. In addition, payments to Bond Trustees are also included. The Trustee in a bond issue performs all fiscal and custodial functions from the time the bonds are sold until they are retired. The governing contracts are the Indenture of Trust for that particular bond issue and the loan agreements between the Financing Authority and the Successor Agency. These documents specify the Trustees obligations as fiduciary for the bond holders (investors). It governs the flow of funds and maintenance of accounts from the time the bonds are sold until they are paid off. Bond debt service payments are made to the Trustee who then passes them through to the bond holders. The Trustee also holds the bond reserve funds. The Trustee is responsible for declaring an event of default and taking specific actions if certain critical covenants of the bond issuer are not upheld. Other ancillary expenditures, such as for the arbitrage rebate calculations required by the IRS, are also included in the ROPS.

This ROPS include funding of two reserve lines for debt service. The first is to cover a shortfall in ROPS III tax increment distributed on January 2, 2013. ROPS III included $104,094,958 in enforceable obligations approved for payment from RPPTF, including tax allocation bond debt service payments to trustees required in January and June 2013, but only $75,467,795 was available for distribution to the Successor Agency, leaving a shortfall of $28,627,163. The reason for the shortfall is that all of the debt service payments are due on January 31 and June 30, meaning that they fall in one ROPS period rather than spread equally over two periods. Any property taxes collected in April of 2013 are to be part of the June 1st RPPTF distribution, which is supposed to be based on the ROPS 13-14A request. Therefore in order to capture the remaining amount of tax
increment needed for debt service to be paid on June 30th from the April property tax collection, a “reserve” needs to be included on ROPS 13-14A.

There will be $97,026,964 in tax allocation bond debt service payments due on January 20, 2014 and June 30, 2014 during the ROPS 13-14B period, and staff expects those amounts will significantly exceed the tax increment available from the January 2014 distribution. Accordingly, staff is anticipating the need to budget for a $28,627,163 deposit to a debt service reserve from available funds in the ROPS 13-14A distribution, which is equal to the shortfall reported during FY 2012-13 ROPS III. This reserve will allow for full funding of ROPS 13-14B requirements from available tax increment distributions.

NEXT STEPS

This ROPS must be approved by the Oversight Board and submitted to the State and City Controller (“Controller”) no fewer than 90 days before the date of the next property tax distribution, which in this case is March 1, 2013. In order to meet that deadline, staff will be presenting the draft ROPS to the Oversight Board at a special meeting on February 20th. The Oversight Board will take action on the item at its regular meeting on February 25th and staff will then transmit the ROPS to the State and Controller immediately thereafter. DOF will make its determination of the enforceable obligations, and the amounts and funding sources of the enforceable obligations, within 45 days of submission.

Should the Agency wish to dispute any of DOF’s determinations on ROPS 13-14A, then the Agency may request an opportunity to meet and confer with DOF. The meet and confer request must be made within five business days of DOF’s determination, and DOF will notify the Agency and the Controller as to the outcome of that review at least 15 days before the date of the next property tax distribution, which is set for June 1, 2013. Staff will provide ongoing updates to the Oversight Board as we receive feedback from DOF on this ROPS.

(Originated by Sally Oerth, Deputy Director)

Tiffany Boheec
Executive Director

Attachment A: ROPS Worksheet Definitions
Attachment B: Draft ROPS 13-14A – ROPS Worksheet
Attachment C: Draft ROPS 13-14A – Notes