MEMORANDUM

TO: Oversight Board
FROM: Tiffany Bohee, Executive Director
SUBJECT: Informational presentation of the Recognized Obligation Payment Schedule items relating to Hunters Point Shipyard/Candlestick Point, Mission Bay, and Transbay Redevelopment Project Areas, and the obligations relating to all Tax Increment Bonds and Pass-Through Payments

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. 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.

Staff will present the ROPS for the former San Francisco Redevelopment Agency (“Agency”) in two informational sessions on March 27th and 29th in order to provide the Oversight Board time to review the items prior to voting on its approval. The subject of this memorandum will focus on the items scheduled to be presented at the workshop on March 27th. That presentation will include an overview of the ROPS itself, and then focus on items relating to the Major Approved Development Projects (Hunters Point Shipyard/Candlestick Point, Mission Bay, and Transbay), as defined by the Board of Supervisors Dissolution Resolution No. 11-12 (the “City Resolution”), as well as those items relating to payments related to Agency issued bonds and required pass-through payments to taxing entities. Items relating to administration, the remaining non-housing areas, and housing will be presented at the meeting on March 29th.

DISCUSSION

ROPS

Definition of Enforceable Obligations
The ROPS sets forth the payments required to be made under “enforceable obligations.” AB 26 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," “obligations imposed by state law,” 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.

AB 26 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, AB 26 expressly requires that pledges of increment associated with enforceable obligations of former redevelopment agencies be honored. AB 26 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 and Defined Terms**

At its meeting on August 26, 2011, the Agency Commission adopted an Enforceable Obligation Payment Schedule ("EOPS"). The EOPS showed the obligations of the Agency requiring payments for the months of September through December 2011. The 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 the first draft of the ROPS, which focuses only on the period of January through June 2012, and was submitted in draft form to the City's Office of the Controller on March 1, 2012. In summary, the EOPS set forth the payments required of the Redevelopment Agencies prior to dissolution, and then remains in effect until Successor Agencies prepare a ROPS for approval by the Oversight Board. Subsequent to Oversight Board Approval, the ROPS must be submitted to DOF by April 15th. The Controller's Office must also arrange for an agreed upon procedures audit of the ROPS, which must be completed and submitted to DOF prior to July 15th.

The ROPS is comprised of several worksheets which include information on obligations related to the various programs of the Agency (housing and non-housing), administrative costs, and bonds issued by the Agency. The workshop on March 27th focuses on the portion of the non-housing obligations related to the Major Approved Development Projects (Hunters Point Shipyard, Mission Bay, and Transbay) and the debt service and related costs of tax increment Bonds, as well as the required Pass-Through Payments of tax increment to the taxing entities.

The main worksheets of the ROPS include 20 columns. Below is a brief description of each column:

<table>
<thead>
<tr>
<th>Row #</th>
<th>Denotes Project area and item number within project area (e.g. BVHP1, BVHP2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Area</td>
<td>Name of the former redevelopment project area from which the payment was required</td>
</tr>
<tr>
<td>Project Name</td>
<td>Name of project/obligation</td>
</tr>
<tr>
<td>Payee</td>
<td>Recipient of debt or obligation payments</td>
</tr>
</tbody>
</table>
MAJOR APPROVED DEVELOPMENT PROJECTS

Designation of Major Approved Development Projects
In the City Resolution, the Board of Supervisors identified three major integrated, multi-phase revitalization projects that are vital to the City's future and will achieve numerous public benefits for the City, region and the State. These projects include (1) Phases One and Two of the Hunters Point Shipyard Redevelopment Project and Zone 1 of the Bayview Hunters Point Redevelopment Project ("Hunters Point Shipyard/Candlestick Point"), (2) the Mission Bay North and the Mission Bay South Redevelopment Projects ("Mission Bay"), and (3) parts of the Transbay Transit Center Redevelopment Project, including Zone 1 ("Transbay"). Collectively these are
designated the "Major Approved Development Projects." The Board of Supervisors found that the enforceable obligations for the Major Approved Development Projects include the continuing pledge for the duration of those projects of property tax revenues generated in the project areas (former tax increment) for building public infrastructure, public facilities and affordable housing.

The Board of Supervisors also found that the terms of the enforceable obligations for the Major Approved Development Projects specifically oblige the issuance of bonds or other evidences of indebtedness, with such bonds to be repaid through pledges of tax revenues. To fulfill the enforceable obligations with third parties under the Major Approved Development Projects, the City as successor agency must issue or otherwise ensure the issuance of new bonds secured by the pledges of property tax revenues from such areas or otherwise payable from such property tax revenues, subject to approval by the new oversight board and review by DOF under the process contemplated by AB 26.

**Hunters Point Shipyard/Candlestick Point (HPS/CP) – Project Overview**

The Hunters Point Shipyard/Candlestick Point development project covers approximately 750 acres along the southeastern waterfront of San Francisco in the area generally bounded by Donahue Street to the north, Third Street to the west, the San Francisco Bay to the east, and the San Mateo County line to the south. It includes the former Hunters Point naval Shipyard and Zone 1 of the Bayview Hunters Point Redevelopment Project Area, known as Candlestick Point. After more than a decade of planning efforts relating to these sites, Phase 1 development at the Hunters Point Shipyard is currently under construction. In August of 2010 all required approvals and entitlements for the Phase 2 of the development were secured.

Both Phase 1 and Phase 2 follow a horizontal land development model. Under this model, the master developer builds infrastructure and readies lots to be sold for vertical development in subphases. The master developer also completes parks and open spaces and provides other public benefits throughout the development, at pace with specific obligations linked to its private development of subphases. Once the master developer improves the land and subdivides it into marketable lots, the developer either sells the lots at fair market value to vertical developers or the City, as successor to the Agency, acquires or retains the lots for the development of affordable housing or other public purposes. The Hunters Point Shipyard/Candlestick Point projects at full build out will include:

**Phase 1 (75 acres on HPS):**
- 1,600 housing units, 27% to 40% of which will be affordable
- 26 acres of open space
- 10,000 sq.ft. of commercial space
- 1.2 acres set aside for the development of community facilities
- new utilities, streets, and other infrastructure improvements
- community-based economic development and job training programs.

**Phase 2 (422 acres on HPS and 280 acres on CP):**
- 10,500 housing units, 32% below market rate
- Rebuilding the Alice Griffith public housing development consistent with the City’s HOPE SF program
• More than 300 acres of parks (HPS/CP combined) including a renovation of the Candlestick Point State Recreation Area
• Approximately 125,000 sq. ft. of neighborhood-serving retail on Hunters Point Shipyard
• Approximately 3 million square feet of “clean” technology research and development space, a clean tech business incubator and the headquarters for the UN Global Compact Sustainability Center on HPS
• Permanent new and renovated space for the existing Shipyard artists
• Approximately 675,000 sq. ft. of regional and neighborhood-serving retail on CP
• A 150,000 sq. ft. (220 room) hotel on Candlestick Point
• Space for a 10,000-seat performance venue on Candlestick Point
• A 69,000 seat stadium opportunity site for the San Francisco 49ers on the Shipyard
• $83 million in additional community benefits
• 4.8 acres set aside for the development of community facilities.

These projects will invest nearly 3 billion dollars in new public infrastructure, including new roadways, transit facilities, open space, affordable housing and other community benefits and more than 8 billion dollars in private investment in new homes and job-generating uses. In addition, the US Navy has spent $814 million toward environmental remediation of the site.

The projects combined will produce 500-800 construction jobs per year and more than 12,000 permanent jobs over the next 20-25 years. The Phase 1 DDA horizontal improvements are financed by Developer sources, community facilities district (“CFD”) special taxes and the issuance of Mello-Roos or CFD bonds secured by those taxes, and the sale of completed market rate lots to vertical developers. Phase 1 does not include a pledge of property tax increment to the Developer; but the Agency agreed to build a specified amount of affordable housing in Phase 1 using property tax increment.

The Phase 2 DDA relies on the same financing tools, but due to the complexity and significant cost of the Phase 2 build-out, the Agency and the City made an enforceable pledge and allocation of all of the available property tax increment generated within the development area for eligible project costs in accordance with CRL. The Agency also agreed to issue tax allocation bonds and to use the 20% tax increment set aside under CRL (the “Housing Increment”) for the Agency affordable housing. These public funding sources, including the CFD and tax increment financing, were required to obtain the significant upfront private investment required for development and achieve a commercially reasonable return on that investment.

**Hunters Point Shipyard/Candlestick Point – Enforceable Obligations**
Both Phases 1 and 2 are public/private partnerships that are considered an 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 agreement (“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 Phase 1 DDA includes obligations to: (i) issue development project approvals and certificates upon completion of work, and cause City agencies to issue permits, approvals, licenses, maps or other authorizations in a timely manner; (ii) comply with obligations under the "Interim Lease," under which the Agency leases property at the site to the Developer primarily for use by a long-standing artists community; and (iii) acquire and maintain certain public improvements, including as trustee for the California State Lands Commission. The Phase 1 DDA also requires the Agency to transfer real property to the Developer upon the satisfaction of certain standard conditions, to build a specified number of affordable housing units on specified lots completed by the Developer, and to create CFDs and issue CFD bonds for the financing of infrastructure improvements.

Within the Phase 2 DDA there are a variety of enforceable obligations including: (i) the pledge of all available property tax increment generated from the Phase 2 project site to finance the build out of infrastructure for the project and the construction of affordable housing, including the covenant to issue bonds or other indebtedness secured by the pledge of increment; (ii) the obligation to create CFDs to finance the build out of infrastructure and to maintain park land and open spaces for public purposes; (iii) the obligation to acquire property from the Navy, the State of California, the City, and others and to exchange public trust parcels and interests, under the various real property conveyance agreements; and (iv) the obligation to process land use approvals under the approved Project Redevelopment Plans and associated land use controls.

Further, the DDA includes the obligation to fulfill the terms of the Interagency Cooperation Agreement which requires various City departments to review and approve the detailed plans and documents required as part of the Agency’s obligations to process land use approvals. 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.

Finally, the HPS/CP project has two grants from the United States Economic Development Administration, totaling approximately $7 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 DDAs. 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.
Mission Bay — Project Overview
The Mission Bay North and South Redevelopment Project Areas ("Mission Bay") were established in 1998 by the Board of Supervisors. Similar to the Hunters Point Shipyard/Candlestick Point Project, it is a horizontal land development project. The project is divided into two project areas, Mission Bay North and Mission South, covering 303 acres of former industrial land. Mission Bay is bounded generally by King Street, the I-280 Freeway, the San Francisco Bay and Mariposa Street. Mission Bay is a mixed-use, transit-oriented development that has become a model for sustainable development and smart growth. Development in Mission Bay began in 2000 and complete build-out is expected to take 25 to 30 years. The Mission Bay development program, at full build-out, includes:

- 6,000 housing units, including 1,900 units (30%) affordable to moderate, low, and very low-income households.
- 4.4 million sq. ft. of private high-tech/life science/biotechnology lab and office space, creating a new economic engine for San Francisco.
- A new UCSF research campus containing 2.65 million sq. ft. of building space on 43 acres of land donated by the master developer and the City,
- A state-of-the art UCSF hospital complex serving children, women, and cancer patients,
- 500,000 sq. ft. of city and neighborhood-serving retail space,
- A 500-room hotel,
- 41 acres of new public parks and open space, plus eight acres of open space on the UCSF campus, and
- A new 500-student public school, a new public library, new fire and police stations and other community facilities including a grocery store.

The redevelopment project requires more than $700 million in new public infrastructure, including new roadways, bicycle and pedestrian facilities and new storm water and sewer utilities, financed through Mello-Roos Community Facilities Districts (CFDs) and tax increment generated by the project areas. This $700 million dollars of public financing will create well more than five billion dollars in private, vertical development. Over the 30-year life of the project, Mission Bay is expected to create more than 31,000 new permanent jobs and hundreds of construction jobs. Mission Bay North is nearly complete, and work in Mission Bay South is ongoing and extensive.

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.

Transbay – Project Overview
The Transbay Redevelopment Project Area ("Transbay") is about 40 acres and is bounded by Mission Street in the north, Main Street in the east, Folsom Street in the south and Second Street in the west. Folsom Street will be the centerpiece of this new neighborhood and will feature widened sidewalks with cafes, markets and views of the San Francisco Bay. Transbay was adopted in June 2005 and includes several publicly-owned parcels that were previously owned by the State of California ("State-Owned Parcels"). The State-Owned Parcels were formerly occupied by the Transbay Terminal, which was demolished in 2010, and a portion of the Embarcadero Freeway, which was demolished after the 1989 Loma Prieta Earthquake. To date, the Agency has selected developers for the first two State-Owned Parcels, including one market-rate and affordable residential project and one stand-alone affordable housing project. At full build out, Transbay will include the following on the State-Owned Parcels:

- a total of more than 3,000 new residential units, with 35% required to be affordable
- more than 3 million square feet of new Class A commercial space
- 200,000 square feet of neighborhood retail
- A public park and other open space
- A new state-of-the-art Transbay Transit Center ("TTC"), which is being constructed by the Transbay Joint Powers Authority ("TJPA") on the site of the former Transbay Terminal

Transbay will generate two categories of tax increment: 1) tax increment from the State-Owned Parcels, which will be used primarily to fund the TTC and also for affordable housing; and 2) tax increment from the other parcels in the Project Area ("Non State-Owned Parcels"), which will be used to fund affordable housing, streetscape improvements, open space and other public infrastructure.

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 Cooperative Agreement, which establishes the State’s obligation to transfer the State-Owned Parcels, (2) the Implementation Agreement, which requires the Agency to prepare and sell the State-Owned Parcels to third parties, to deposit the sale proceeds into a trust account to help the TJPA pay the cost of constructing the TTC, and to execute all other activities related to the implementation of the Transbay Redevelopment Plan,
including constructing new public parks, new pedestrian-oriented alleys, widened sidewalks and other infrastructure, and (3) the Pledge Agreement, which creates the commitment of tax increment from the State-Owned Parcels for use in funding the TTC. The Transbay project also has the obligation imposed by state law to ensure that 35 percent of all housing produced in the area is affordable to low or moderate income households. Cal. Public Resource Code § 5027.1. 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.

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.

**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 AB 26’s definition of “Enforceable Obligation.” Furthermore, AB 26 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 Bond worksheet 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.

**AB 1290 Pass-Through Payments**

Payments of tax increment are required to be made to the San Francisco’s various taxing entities. The payments of those “Pass-Through Payments” based upon the December 2011 tax increment distribution to the Agency prior to dissolution are included in the ROPS. These are payments related to property tax increment distributed through January 31, 2012, and owed to the City and County of San Francisco, the San Francisco Community College District, the San Francisco Unified School District, the Bay Area Air Quality Management District, the Bay Area Rapid Transit District, and the Educational Revenue Augmentation Fund.
NEXT STEPS

The above mentioned items will be presented to the Oversight Board on Tuesday, March 27th, and then staff will return on Thursday, March 29th to continue the presentations on the remaining Non-Housing program areas, the Housing program, and the Administrative obligations. Compiling the ROPS has been a complex process involving staff members from every division of the Agency, and has evolved over time as various forms of guidance has been provided from the Sate and other interested parties on how the ROPS should be constructed. 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, Kelley Kahn, Mike Grisso, Wells Lawson and John Daigle)

Tiffany Bohse  
Executive Director

Attachments:  
Attachment 1: ROPS – Non-Housing Major Approved Projects  
Attachment 2: ROPS – Bonds  
Attachment 3: ROPS – Pass-through Payments