107-0222023-002

Agenda Item **No. 5(A)**
Meeting of April 7, 2023

MEMORANDUM

TO: Oversight Board

FROM: Thor Kaslofsky, Executive Director

SUBJECT: Approving, under Sections 34177.7(a)(1)(A), 34177.7(a)(1)(B) and 34177.7(f) of the California Health and Safety Code, the issuance of new money tax allocation bonds by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, and related actions; affordable housing obligations; Transbay Infrastructure Obligations

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EXECUTIVE SUMMARY

The Successor Agency to the Former Redevelopment Agency of San Francisco, doing business as the Office of Community Investment and Infrastructure ("OCII") proposes issuing two new money tax allocation bonds to fund affordable housing in an amount not exceeding $30 million and Transbay infrastructure improvements in an amount not exceeding $45 million. If approved, these bonds would be known, respectively, as the 2023 Series A Taxable Third Lien Tax Allocation Bond (Affordable Housing Projects) and the 2023 Series B Third Lien Tax Allocation Bond (Transbay Infrastructure Projects). As described in OCII's proposed fiscal year annual budget, staff anticipates using the proceeds from the 2023A Bonds to fund affordable housing in Transbay (184 units at Transbay 2 East, 151 units at Transbay 2 West, and predevelopment costs of the affordable project with 202 units at Transbay 4); and, using the proceeds of the 2023B bonds for infrastructure improvements in the Transbay Project Area (Block 3 Park project).

Issuing the 2023 Series A and 2023 Series B Bonds requires the Oversight Board to approve a resolution approving the issuance of new money tax allocation bonds and related actions. The related actions include: making certain findings, approving the First Supplemental Indenture of Trust and the Bond Purchase Agreement, and authorizing Agency staff to take all actions necessary to execute the transaction.

After Oversight Board approval, staff will submit the Oversight Board resolution approving the proposed issuance to the California Department of Finance ("DOF") for its review. If DOF declines to review or approves the issuance, the Commission will consider additional action to finalize the bond issuance.

Staff recommends the Oversight Board authorize: 1) the issuance of the 2023 Series A Taxable Third Lien Tax Allocation Bonds (Affordable Housing Projects) to fund affordable housing and, 2) the issuance of the 2023 Series B Third Lien Tax Allocation Bonds (Transbay Projects).

DISCUSSION

The Fiscal Year 2023-24 budget proposes that OCII issue new money taxable tax allocation bonds to fund affordable housing in an amount not-to-exceed $30 million. This not-to-exceed amount was projected based on information available during OCII's budget process. Since that time, project costs and market conditions have evolved. Current estimates for sources and uses are described below.

Table 1: Sources by Uses

	2023A Bonds Affordable Houising	2023B Bonds Transbay Infrastructure	Total
SOURCES			
Bond Proceeds	26,865,000	40,490,000	67,355,000
Premium		1,893,466	1,893,466
Total Sources	**26,865,000**	**42,383,466**	**69,248,466**
USES			
Project Fund	24,000,000	37,000,000	61,000,000
Debt Service Reserve Fund	1,976,661	3,980,557	5,957,218
Cost of Issuance	199,428	300,572	500,000
Underwriter's Discount	96,632	145,640	242,272
Insurance	592,233	955,687	1,547,920
Other Uses of Funds	47	1,010	1,057
Total Uses	**26,865,000**	**42,383,466**	**69,248,466**

Monies in the Project Fund are used to fund affordable housing and infrastructure projects. Cash in the debt service reserve fund is a backstop, should OCII be unable to make debt service payments. Debt service reserve funds are a standard characteristic of a normal bond structure. Depending on market conditions, the cash funded reserve fund could be replaced with a reserve funded by an insurance policy. The cost of issuance is the cost of consultants, such as municipal advisors, bond counsel, disclosure counsel, and the property tax consultant, as well as the cost of OCII staff time required to issue the bonds. The underwriter's discount is the underwriter's fee to issue the bonds. The additional proceeds balance the sources and uses and will be allocated to the project funds when the issuance numbers are finalized.

The proposed resolution authorizes OCII to issue the full $30 million (2023 Series A) and $45 million (2023 Series B) proposed in the FY 23-24 budget. The actual issuance amounts will be finalized in the weeks before the bond issuance and will be based on the most up-to-date project costs and market conditions. OCII will only issue the amount of bonds necessary to fund project costs.

OCII's use of bonds to fund affordable housing, and park construction, both long-term capital assets, is an appropriate use of long-term debt.

Enabling Authority

The proposed 2023 Series A and Series B bonds would be issued pursuant to Section 34177.7 of the California Health and Safety Code, which is a section of the Redevelopment Dissolution Law that gives OCII special authority, with approval of the Oversight Board and the Department of Finance ("DOF"), to issue bonds to fund its Affordable Housing Obligations in Mission Bay, Transbay, and the Candlestick Point-Hunters Point Shipyard areas and to fund infrastructure required by the Transbay Implementation Agreement.

OCII's Affordable Housing Obligations were established under certain agreements approved by DOF as enforceable obligations. These agreements are:

- Disposition and Development Agreement Hunters Point Shipyard Phase 1,
- Disposition and Development Agreement (Candlestick Point and Phase 2 of the Hunters Point Shipyard),
- Mission Bay North Owner Participation Agreement,
- Mission Bay South Owner Participation Agreement, and
- the Transbay Implementation Agreement.

Together, these agreements constitute OCII's Affordable Housing Obligation of approximately 4,223 affordable housing units. As of July 1, 2022, 1,961 units of OCII's Affordable Housing Obligation were complete, 140 were in construction, and 981 were in predevelopment. The proposed bonds would provide funding for the completion of 335 units, and provide predevelopment funding for an additional 202 units, together comprising 17 percent of OCII's remaining Affordable Housing Obligation.

Proposed Action

As a first step in issuing the proposed bonds, the OCII Commission has approved, by Resolution No. 2-2023 (March 21, 2023), the proposed issuance, approving and directing the execution of the Second Supplement to Indenture of Trust and of the Bond Purchase Agreement, approving the bond underwriter selection, and authorizing and directing OCII staff to take all actions necessary to complete the proposed transaction.

Proposed Issuance

OCII proposes to issue two series of new money tax allocation bonds: 2023 Series A (taxable) and 2023 Series B (tax-exempt) in amounts not-to-exceed $30 million and $45 million, respectively. These bonds will be secured by property tax revenues generated from certain former and current redevelopment areas and will comply with the provisions of the Successor Agency's debt policy (the "Debt Policy"), adopted by Resolution 72-2014 of the Successor Agency Commission on August 19, 2014, unless such compliance is waived in accordance with the Debt Policy. The proceeds of the Series A bonds are programmed for several affordable housing funding actions proposed in the FY23-24 budget. Details on the proposed 2023A affordable housing projects that may utilize these funds are summarized below.

Table 2: Affordable Housing Project Detail

Location	Name	Units
Transbay	Transbay 2 East	184
Transbay	Transbay 2 West	151
Transbay	Transbay 4 Affordable Housing Pre-Development	202
Total		**537**

The proceeds of the 2023 Series B bonds are programmed for the Block 3 Park in Transbay.

If these projects are delayed or otherwise not ready for funding, OCII may apply the proceeds of the proposed bond issuance to other eligible projects that the Commission has approved in the annual budget.

Determinations Required by the Health Safety Code

Sections 34177.7(a)(1)(A), and 34177.7(f) of the California Health and Safety Code require the Oversight Board to make certain determinations regarding the proposed issuance of bonds. These determinations include:

- authorizing OCII to recover its issuance costs from the proceeds of the 2023 Bonds,
- authorizing OCII to expend bond proceeds to finance Affordable Housing Obligations and infrastructure improvements in the Transbay Project Area, and to pay costs of issuance of the 2023 Bonds,
- authorizing OCII to receive its full Administrative Cost Allowance ("ACA") without any deductions related to continuing post-issuance compliance and administrative costs related to the 2023 Bonds, and
- entitling OCII to recover costs of issuance incurred with respect the issuance of the 2023 Bonds from property tax without reduction in its ACA if the Successor Agency is unable to complete the issuance of the 2023 Bonds for any reason.

The ACA is the property tax, paid to the agency from the Redevelopment Property Tax Trust Fund ("RPTTF"), that OCII may use to funds its administrative costs. The RPTTF is a fund that pools property tax revenues generated from certain former and current redevelopment areas. The proposed resolution makes the determinations required by the Health and Safety code.

Second Supplement to Indenture of Trust and Bond Purchase Agreement

The proposed resolution approves the form of the Second Supplement to Indenture of Trust ("Second Supplement"), which is a contract between OCII and U.S. Bank Trust Company, National Association, the trustee of the proposed bonds. The Second Supplement describes the date, manner of payment, interest rate or rates, interest payment dates, denominations, form, registration, privileges, manner of execution, place of payment, terms of redemption and other terms of the 2023 Series A and 2023 Series B Bonds.

The proposed resolution also approves the form of the Bond Purchase Contract, which is a contract between OCII and the Underwriters. The Bond Purchase Contract describes the principal amount, the underwriters' discount, and the coupons and yields of the proposed 2023A and 2023B Bonds, all of which will be determined at pricing. The underwriters' discount is the difference between the price the underwriters pay the issuer and the price at which they sell the bonds to the public. The underwriter's discount reflects the underwriter's fee for issuing the bonds. All these factors will be finalized at bond pricing and will determine OCII's cost of borrowing, provided they do not exceed the amounts established by the proposed resolution.

Actions Necessary to Complete the Proposed Transaction

The proposed resolution authorizes and directs OCII staff to take all actions necessary to complete the proposed transaction. The table below identifies the critical next steps required to complete the transaction.

Table 3: Next Steps

April 7, 2023	Oversight Board consideration of indenture and bond purchase agreement
April 7, 2023	Submission of approved Oversight Board resolution and related documents to DOF for review and approval
June 1, 2023	Final date for DOF determination regarding issuance
June 20, 2023	After DOF approval, Commission consideration of preliminary official statement and other actions necessary for issuance
July 10, 2023	Bond Pricing
July 24, 2023	Bond Closing

Municipal Advisors Analysis

Attached to the proposed resolution is the Municipal Advisors' Analysis. The Municipal Advisors' Analysis was prepared by the municipal advisors and is required by Section 34177.7(h) of the Government Code. The analysis confirms that the proposed financing meets the requirements of the law as set forth in Section 34177.7(h) of the Health and Safety Code. The analysis affirms that OCII has made diligent efforts to ensure it obtains the lowest long-term cost of financing, the proposed bond issuance does not provide for any bullets or spikes and does not use variable interest rates, and OCII has made use of an independent financial advisor.

California Environmental Quality Act

The issuance and sale of the 2023 Bonds do not constitute a "project," as defined under CEQA Guidelines Section 15378(b)(4), because the actions will not independently result in a physical change in the environment and are therefore not subject to environmental review under CEQA.

(Originated by John Daigle, Debt Manger)

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Executive Director