November 14, 2013

MEMORANDUM

TO: City and County of San Francisco Board of Supervisors

FROM: Tiffany Bohee, Executive Director
Office of Community Investment and Infrastructure

SUBJECT: Resolution authorizing the Office of Community Investment and Infrastructure (OCII), operating as the Successor Agency to the San Francisco Redevelopment Agency to issue and expend bonds in an aggregate principal amount not to exceed $70,000,000 for the purpose of financing a portion of enforceable obligations in the Mission Bay South redevelopment project Area

EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure (OCII) requests the Board of Supervisors to conditionally approve an increase in OCII's Fiscal Year 2013-2014 authority to issue property tax allocation bonds from the budgeted level of $58.6 million to a new not-to-exceed level of $70.0 million and to expend the proceeds on approved project expenditures, subject to State Department of Finance concurrence. The proposed bond proceeds would be used to reimburse the Mission Bay South Developer for infrastructure costs pursuant to the Mission Bay South Owner Participation Agreement ("OPA"). Debt service costs would be paid from Mission Bay South tax increment already pledged to the developer pursuant to the OPA, so there would be no negative impact on the amount of funds passed through to taxing entities from approval of these bonds. A positive impact for taxing entities is likely to the extent that this bond financing for infrastructure speeds up the completion of high value taxable properties in the Mission Bay South project area, thus increasing the amount of AB 1290 pass-through funds provided to taxing entities. The proposed issuance has been conditionally approved by the OCII Commission and OCII's Oversight Board.

BACKGROUND

Mission Bay North and South Project Area

The Mission Bay North and South Redevelopment Project Areas ("Mission Bay") are comprised of roughly 303 acres of former rail yards, located adjacent and to the south of AT&T ballpark and the 4th and King Caltrain station. At full build-out Mission Bay is expected to house approximately 6,350 units of housing (29% affordable), 9 million square feet of research, medical, education, biotech, office and retail space, generate thousands of construction jobs and 30,000 permanent jobs, and spur $9 billion in total new investment in the City. The 2014 Bonds will fund public improvements within the Mission Bay South Project Area, which is comprised of the land bound by Mission Creek / China Basin Channel to the north, the Interstate-280 flyover and Caltrain tracks to the west, Mariposa Street to the south, and the San Francisco Bay to the east.

The Mission Bay South Project Area is in the middle of extensive new development of housing, commercial office and retail, a new public safety building, and the University of California, San Francisco ("UCSF") research campus and medical center. Approximately 620 of a total of 3,350+ units of housing have already been built in the Mission Bay South Project Area, with another 1,500 under construction, of which 150 are affordable. Over 1.7 million of a total of 4.4 million square feet of new office and lab space has been built to date. The $243 million public safety building, future home to San Francisco's police administrative headquarters and a new police station and firehouse, is currently under construction and scheduled to open in 2014. The UCSF research campus already has over 2 million square feet of new facilities built out of a total of 2.65 million square feet approved. Finally, the $1.6 billion first phase of UCSF's Mission Bay Medical Center, currently under construction and scheduled to open in early 2015.

Significant new public streets, utilities, parks and open space ("Improvements") are needed to serve this development and extend the street grid into this former rail yard. The Improvements are comprised of an estimated $700 million in new infrastructure across the Mission Bay Project Areas. In order to facilitate the development of the Improvements, the Former Redevelopment Agency entered into a series of agreements with Catellus, the original landowner of a majority of Mission Bay. In 2004, Catellus transferred its rights and obligations under these agreements to FOCIL-MB, LLC, the current Master Developer. The agreements, now between the Successor Agency and the Master Developer, include the OPA which contains both an Infrastructure Plan that specifies scope and phasing of the Improvements, and a Financing Plan for funding the Improvements. Under these agreements with the Master Developer, Improvements are first built by the Master Developer, and then reimbursed through a variety of funding sources, including tax increment, grants and community facilities district ("CFD") bonds, and tax allocation bonds proceeds like those from the 2014 Bonds.

The developer has reported that approximately $55 million of completed infrastructure work in Mission Bay South is still pending reimbursement and a further $120 million is needed and scheduled to be completed through June 2015. The proposed $70 million bond issuance would reimburse just a portion of those costs. The balance would have to be reimbursed from future tax increment or future tax increment bond proceeds supported by increases in assessed valuation in the Mission Bay South project area.

Enforceable Obligation: Mission Bay South Owner Participation Agreement

The Mission Bay South Owner Participation Agreement ("OPA") between the former San Francisco Redevelopment Agency ("Former Redevelopment Agency") and now, the Successor Agency, and FOCIL-MB, LLC, ("Master Developer"), establishes the protocols for financing infrastructure improvements in the Mission Bay South Project Area, including the sale of bonds. The OPA is an enforceable obligation consistent with Assembly Bill No. 1X 26 (Chapter 5, Statutes of 2011-12, First Session) ("AB 26") and has been included on all Recognized Obligation Payment Schedules ("ROPS") to date, including ROPS 13-14A for the period of July to December 2013 and on the ROPS 13-14B for the period January 2014 to June 2014, approved by the Oversight Board on September 23, 2013 (Resolution No. 9-2013) and currently under review by the California Department of Finance.

Under the OPA, including the Financing Plan and the Tax Increment Allocation Pledge Agreement, tax increment generated from the Mission Bay South Redevelopment Project Area is pledged to the Master Developer to reimburse Infrastructure costs. Under the Financing Plan, the Successor Agency is obligated to issue Tax Allocation Debt as long as any of the Infrastructure has not been completed or the costs of Infrastructure have not been reimbursed to the Master Developer. Pursuant to the Financing Plan, the Master Developer has submitted a written request to the Successor Agency and the staff of the Successor Agency, appropriate Successor Agency consultants and the Master Developer have met and conferred and have determined that, pursuant to the Financing Plan and the Pledge Agreement, the Successor Agency, subject to necessary approvals, will issue Tax Allocation Debt to reimburse the Master Developer for Infrastructure Costs.

Section 34177.5(a)(4) provides that a successor agency may issue bonds or incur other indebtedness to make payments under enforceable obligations when the enforceable obligations include the irrevocable pledge of property tax increment, formerly tax increment revenues, or other funds and the obligation to issue bonds secured by that pledge.

The OPA, including the Financing Plan and the Pledge Agreement contain an irrevocable pledge of property tax increment to the payment of Infrastructure Costs, and the Successor Agency is obligated, under those agreements, to issue these bonds or incur other indebtedness.

Successor Agency Debt Policies and Authorizations

In June of 2012, the California legislature adopted Assembly Bill 1484 (Chapter 26, Statutes of 2011-12, Regular Session) (“AB 1484”) amending certain provisions of AB 26 (collectively the “Dissolution Law’). Section 34177.5(a)(4) of AB 1484 provides that a successor agency may issue bonds or incur other indebtedness to make payments under enforceable obligations when the enforceable obligations include the irrevocable pledge of property tax increment, formerly tax increment revenues, or other funds and the obligation to issue bonds secured by that pledge.

Subsequent to the adoption of AB 1484, the City and County of San Francisco Board of Supervisors (“Board of Supervisors”) adopted Ordinance No. 215-12 to create a new Successor Agency Commission and provide it with certain authority to act as the Successor Agency of the Former Redevelopment Agency. Specifically, Ordinance No. 215-12 allows the Successor Agency Commission to approve the issuance of bonds to carry out the enforceable obligations, subject to any approval of the Oversight Board.

On June 4, 2013, the Commission adopted a budget for the period of July 1, 2013 to June 30, 2014 (Resolution No. 23-2013), which envisioned potential issuance and associated expenditure of up to $58.6 million in bond proceeds for the Mission Bay North and South project areas, subject to Oversight Board and Department of Finance approval. On July 16, 2013, the Board of Supervisors, through Resolution 237-13, approved the Agency budget (Resolution 237-13) and the issuance of up to $58.6 million in bonds, subject to Oversight Board and Department of Finance approval.

On November 5, 2013, Commission Resolution 52-2013 approved issuance of up to $70 million in bonds for Mission Bay South, conditional upon Board of Supervisors, Oversight Board, and

Department of Finance concurrence (Attachment A). On November 13, 2013, the Oversight Board approved the bond issuance through Resolution 11-2013 (Attachment B).

The proposed bond issuance is being planned under the provisions of the former Redevelopment Agency's Debt Policy.

Financing Team

In addition to OCII staff, the Financing Team is comprised of:

- **Bond Counsel:** Jones-Hall
- **Financial Advisor:** Public Financial Management
- **Disclosure Counsel:** Schiff-Hardin
- **Fiscal Consultant:** Urbics
- **Underwriters:** De La Rosa & Company (Managing Underwriter) and Backstrom McCarley Berry and Company (Co-manager).
- **City and County of San Francisco Liaison:** Office of Public Finance (Controller's Office)

Proposed Bond Issuance

The proposed issuance is to sell up to $70 million in tax allocation bonds ("2014 Bonds") for the purpose of reimbursing developer-funded infrastructure projects in the Mission Bay South Project Area, pursuant to the Mission Bay South Owner Participation Agreement (OPA). The increase to $70 million from the $58.6 million in anticipated bond proceeds included in the Agency's Fiscal Year 2013-2014 budget is proposed in order to take advantage of recent changes in Mission Bay South bonding capacity and potential changes in market conditions. The actual amount of bonds proceeds realized would be dependent on market conditions at the time of the sale and could be significantly less than $70 million. Pursuant to Dissolution Law, issuance of the bonds would be conditional upon approval by the Oversight Board and California Department of Finance. Bond proceeds in excess of approved ROPS amounts would be proposed for expenditure on future ROPS submissions.

OCII, in consultation with Financial Advisor PFM recommends that credit and market conditions require a negotiated bond sale in order to secure the best terms for these bonds. This method of sale allows the underwriter to assist prospective investors in a detailed analysis of the credit supporting the bonds. The events of recent years have increased investor attention to the specific credit of each bond issue. Additionally this will likely be the first successor agency "new money" bond issuance under authority granted in AB1484. Under these circumstances, a negotiated sale should result in broader investor interest in the Agency's bonds and lower interest rates than would be otherwise achieved.

The bonds will be issued with a final maturity not later than exceed August 2043. In order to maximize available proceeds from the sale, it is anticipated that the debt service for the 2014 Bonds will be structured to use tax increment made available when the 2011 Series D bonds retire in 2041, respectively. This would result in the overall combined Mission Bay South Debt annual service being level at about $10 million through the final maturity of the 2014 Bonds.

Previously, the 2011 Bonds were structured in the same way with respect to the 2009 Mission Bay South bonds, maximizing bond proceeds under debt capacity constraints.

The Bonds are anticipated to be priced as soon as possible in the first calendar quarter of 2014. The true interest cost is expected to be around 5.25%. This estimate is based on the current market and the actual rate will be determined by market conditions at the time of the bond pricing. As the amount available to pay debt service is fixed, the interest rate will determine the total amount of bonds that can be issued.

Potential Impact to Taxing Entities: Debt service costs would be paid from Mission Bay South tax increment already pledged to the developer pursuant to the OPA, so there would be no negative impact on the amount of funds passed through to taxing entities from approval of these bonds. A positive impact for taxing entities is likely to the extent that this bond financing for infrastructure speeds up the completion of high value taxable properties in the Mission Bay South project area, thus increasing the amount of AB 1290 pass-through funds provided to taxing entities.

Attachment A: Commission on Investment and Infrastructure Resolution 52-2013
Attachment B: Oversight Board Resolution 11-2013