

File No. 110239

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

March 15, 2011

Committee: Budget and Finance SUB-Committee

Date: March 16, 2011

Board of Supervisors Meeting

Date _____

Cmte Board

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OTHER

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Completed by: Victor Young

Date: March 11, 2011

Completed by: Victor Young

Date: _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [Redevelopment Agency FY2010-2011 Budget Amendment]

2
3 **Resolution approving an amendment to the budget of the Redevelopment Agency of**
4 **the City and County of San Francisco for FY2010-2011 Budget to: (1) authorize an**
5 **additional expenditure in an amount not to exceed \$ 75,440,000; and (2) approving the**
6 **issuance by the Redevelopment Agency of Bonds in an additional principal amount not**
7 **to exceed \$70,000,000 to finance a portion of redevelopment activities described in the**
8 **approved Budget, as amended for FY2010-2011.**

9
10 WHEREAS, The Redevelopment Agency of the City and County of San Francisco (the
11 "Agency") is implementing various Redevelopment Plans and programs in the City and
12 County of San Francisco (the "City") in accordance with the California Community
13 Redevelopment Law California Health and Safety Code section 33000 et. seq. (the "Law");
14 and,

15 WHEREAS, Section 33606 of the Law provides for approval of the annual budget of
16 the Agency, and any amendments to the budget, by the legislative body of the City (the
17 "Board of Supervisors"); and,

18 WHEREAS, The Board of Supervisors approved, by Resolution No. 320-10, the
19 Agency's budget for the fiscal year 2010-2011 (the "Budget") and approved the issuance of
20 bonds in the principal amount of not to exceed \$64 million for the purposes of financing a
21 portion of the Budget by Resolution No. 320-10; and,

22 WHEREAS, at the time of the development and approval of the FY 2010-2011 budget,
23 the Agency and the Tax Assessor did not have available tax roll information that resulted in a
24 significant increase in property taxes in Mission Bay due to the accelerated assessment
25 agreement between the Assessor and the Agency;

1 WHEREAS, with the increased assessed values and tax increment, the debt capacity,
2 funds available for Low/Moderate Housing and Project Cost reimbursements are also
3 increased and pursuant to the Tax Increment Allocation Pledge Agreements and Financing
4 Plan, all remaining funds after the pass through payments, housing set-asides, debt service
5 and project expenses are obligated to the developer;

6 WHEREAS, The Agency wishes to amend its Budget for the fiscal year 2010-2011 to
7 permit the receipt of additional tax increment of \$5.44 million, and bond proceeds in the
8 amount of \$70.0 million for the purposes of low moderate housing and for the reimbursement
9 of public improvements made by Catellus pursuant to the Tax Increment Allocation Pledge
10 Agreement between the City and County of San Francisco, San Francisco Redevelopment
11 Agency and Catellus made on November 16, 1998 For Mission Bay North and South; and

12 WHEREAS, Section 33640 of the Law provides that the issuance of Bonds is subject to
13 the approval of the Board of Supervisors; and

14 WHEREAS, the Agency seeks to undertake the above-described redevelopment
15 activities, as amended, whereby the Agency will enter into loans and/or issue and refund, as
16 necessary, or cause to be loaned and/or issued and/or refunded on its behalf by a public
17 finance authority, tax allocation bonds, notes, or other evidence of indebtedness (such loans,
18 bonds, notes or other evidence of indebtedness being referred to as the "Bonds") in an
19 additional principal amount of not to exceed \$70.0 million, which will be repaid form and
20 secured by the taxes allocated to and paid to the Agency pursuant to the Law (and in
21 particular but not limited to Sections 33670-33674) and to Section 16 of Article XVI of the
22 California Constitution; now, therefore, be it

23 RESOLVED, By the Board of Supervisors of the City and County of San Francisco that
24 it does hereby approve the following amendment to the Budget, which is on file with the Clerk
25

1 of the Board of Supervisors in File No. ¹¹⁰²³⁹_____ and is hereby declared to be a part of this
2 Resolution as if set forth fully herein: increasing the amount of tax increment bond proceeds
3 that the Agency receives in the amount of \$70.0 million and increasing the Agency's
4 expenditure authority by \$75.44 million; and be it

5 FURTHER RESOLVED, By the Board of Supervisors of the City and County of San
6 Francisco that it does hereby approve the issuance of the Bonds by the Agency in an
7 additional amount of not to exceed \$70.0 million for the purposes of financing a portion of the
8 Agency's Budget, as amended; and be it.

9 FURTHER RESOLVED, The Agency is authorized to refund such Bonds if the sale of
10 refunding Bonds produces a minimum net debt service savings (net of reserved fund earnings
11 and other offsets) of at least 3% of the par value of Bonds that are refunded to achieve a more
12 favorable debt to debt service coverage ratio.

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Item 2
File 11-0239

Department:
San Francisco Redevelopment Agency (SFRA)

EXECUTIVE SUMMARY

Legislative Objective

- The proposed resolution would amend the San Francisco Redevelopment Agency's FY 2010-2011 budget to (a) issue an additional not-to-exceed \$70,000,000 of Tax Increment Bonds, and (b) appropriate an additional \$75,440,000 (\$70,000,000 bond proceeds plus \$5,440,000 tax increment).

Key Points

- The SFRA's FY 2010-2011 budget included an estimated \$108,885,000 of tax increment. However, an additional \$5,440,000 in tax increment was available after the August 2010 assessment. If the proposed resolution is approved, the total tax increment available for FY 2010-2011 would total \$114,325,000.
- Of the \$5,440,000 in additional tax increment, an estimated \$3,481,600 would be used to fund a portion of the SFRA's required Educational Revenue Augmentation Fund (ERAF) payment to the State for FY 2010-2011. The remaining \$1,958,400 would be distributed to tax entities (\$1,088,000) and expended for the Low and Moderate Income Housing Fund (\$870,400).
- The proposed sale of \$70,000,000 in Tax Increment Bonds will provide \$60,345,000 bond proceeds, including (a) \$12,069,000 to fund the construction of 1180 4th Street, which is a development of 150 units of family rental housing, including 25 units for formerly homeless families, and (b) \$48,276,000 to reimburse FOCIL-MB, LLC for public infrastructure developments constructed by FOCIL-MB, pursuant to the Tax Increment Allocation Pledge Agreements between the SFRA and FOCIL-MB.

Fiscal Impacts

- In the SFRA's FY 2010-2011 budget, previously approved by the Board of Supervisors, the SFRA is authorized to issue \$64,000,000 of Tax Increment Bonds, which would increase by \$70,000,000 or 109.4 percent to \$134,000,000. Of the requested not-to-exceed \$70,000,000 Tax Increment Bonds, (a) \$56,000,000 will be tax-exempt, and (b) \$14,000,000 will be taxable interest bonds.
- For the \$70,000,000 Tax Increment Bonds, the estimated annual debt service payment is \$6,400,000 beginning in FY 2011-2012. Over the life of the bonds, total debt service is estimated at \$177,000,000, including \$30,000,000 over 20 years for the taxable bonds, with \$14,000,000 principal and \$16,000,000 interest expense, and (b) \$147,000,000 over 30 years for the tax-exempt bonds, with \$56,000,000 principal and \$91,000,000 interest expense.
- If the proposed resolution is approved, of the \$177,000,000 total estimated debt service, \$100,890,000 or 57 percent would be paid from the City's General Fund. The City's General Fund estimated additional annual cost would be \$3,648,000 for the first 20 years, decreasing to \$2,793,000 for the next ten years.

Recommendation

- Because approval of the proposed resolution would result in additional General Fund costs of \$3,648,000 annually for the first 20 years, decreasing to \$2,793,000 annually for the next ten years, resulting in total City General Fund costs of \$100,890,000, approval of the proposed resolution is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

In accordance with Section 33606 of the California Community Redevelopment Law, the California Health and Safety Code requires the legislative body of the City, which is the Board of Supervisors in San Francisco, to approve the annual budget of the San Francisco Redevelopment Agency (SFRA). In addition, State Redevelopment Law requires that the issuance of bonds by the Redevelopment Agency be subject to the approval by the Board of Supervisors.

Background

On July 13, 2010, the Board of Supervisors approved the FY 2010-2011 San Francisco Redevelopment Agency (SFRA) budget totaling \$225,600,000, and approved the issuance of Tax Increment bonds not-to-exceed \$64,000,000, to finance a portion of the FY 2010-2011 budget (File 10-0727, Resolution 320-10). According to Ms. Amy Lee, Deputy Executive Director of the SFRA, the FY 2010-2011 budget included an estimated \$108,885,000 in tax increment financing¹.

On October 26, 1998 (Mission Bay North) and on November 2, 1998 (Mission Bay South), the Board of Supervisors approved two Tax Increment Allocation Pledge Agreements between the City and County, the SFRA, and Catellus Development Corporation, which was subsequently sold to FOCIL-MB, LLC² for the redevelopment of Mission Bay North and South (Files 98-1432 and 98-1433). Under the Tax Increment Allocation Pledge Agreements, of the total tax increment generated in the Mission Bay Redevelopment Area³, 20 percent of the tax increment is distributed to the tax entities⁴ as required by Assembly Bill 1290⁵, 16 percent is distributed to the SFRA's Low and Moderate Income Housing Fund and the remaining 64 percent is expended to reimburse FOCIL-MB for approved public infrastructure improvements.

¹ Ms. Lee states that Property Tax assessments are not available until August each year, such that the SFRA estimated \$108,885,000 in tax increment financing for FY 2010-2011. See Expenditure Authority section below for further discussion of SFRA's actual available tax increment financing.

² Catellus Development Corporation was the primary developer at the time the Tax Increment Allocation Pledge Agreements were approved. In 2004, Catellus sold its remaining interests in undeveloped property to FOCIL-MB, LLC, which now serves as the primary developer for Mission Bay.

³ The Mission Bay North and the Mission Bay South Redevelopment Areas are two separate redevelopment areas, encompassing 303 acres bounded by King Street and AT&T Park on the north, the San Francisco Bay and the I-280 Freeway on the east and west, and Mariposa Street on the south. This report refers to both redevelopment areas collectively as the Mission Bay Redevelopment Area.

⁴ Tax entities in the City include the City and County of San Francisco (Children's Fund, Library Preservation Fund, Open Space Acquisition Fund, and the General City Bond Debt Fund), Community College District, San Francisco Unified School District, Bay Area Rapid Transit District, and the Bay Area Air Quality Management District.

⁵ AB 1290 (Statutes 1993, Chapter 942), also known as the California Community Redevelopment Reform Act of 1993, requires redevelopment agencies to make pass-through payments to affected tax entities from redevelopment project areas adopted on or after January 1, 1994.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would amend the SFRA's FY 2010-2011 budget to authorize (a) the issuance of an additional principal amount not-to-exceed \$70,000,000 of Tax Increment Bonds by the Redevelopment Agency, and (b) the expenditure of \$75,440,000 (\$70,000,000 in bond proceeds plus \$5,440,000 in tax increment) to fund a portion of the FY 2010-2011 budget.

The proposed resolution would also authorize the SFRA to subsequently refund the \$70,000,000 of Tax Increment Bonds, if the sale of the refunding bonds would result in a minimum net debt service savings (net of reserved fund earnings and other offsets) of at least three percent of the par value of bonds that are refunded to achieve a more favorable debt to debt service coverage ratio.

FISCAL IMPACT

Bond Issuance

Under the proposed resolution, the SFRA would be authorized to issue an additional not-to-exceed \$70,000,000 of Tax Increment Bonds to fund a portion of the SFRA's FY 2010-2011 budget. The sources and uses of the proposed not-to-exceed \$70,000,000 in additional Tax Increment bond proceeds for FY 2010-2011 are shown in Table 1 below.

Table 1: Sources and Uses of \$70,000,000 Tax Increment Bond Proceeds

Sources of Funds	
Bond Issuance - Par Amount	\$ 70,000,000
Uses of Funds	
Bond Proceeds (to fund the construction of 1180 4 th Street and the reimbursement to FOCIL-MB)	\$ 60,345,000
Capitalized Interest	1,575,000
Cost of Bond Issuance	450,000
Debt Service Reserve Fund	7,000,000
Underwriters Discount	630,000
Total Uses	\$ 70,000,000

Ms. Lee states that of the \$60,345,000 in bond proceeds, (a) \$12,069,000 or 20 percent will fund the construction of 1180 4th Street, which is a development of 150 units of family rental housing, including 25 units for formerly homeless families, and (b) \$48,276,000 will reimburse FOCIL-MB for public infrastructure developments constructed by FOCIL-MB, pursuant to the Tax Increment Allocation Pledge Agreements between the SFRA and FOCIL-MB.

As noted above, based on the FY 2010-2011 SFRA budget, as previously approved by the Board of Supervisors, the SFRA is currently authorized to issue \$64,000,000 of Tax Increment Bonds. The proposed resolution would increase the amount of Tax Increment Bonds authorized

to be issued by a not-to-exceed \$70,000,000, or 109.4 percent, from \$64,000,000 to \$134,000,000.

Debt Service Payments

According to Ms. Lee, the requested not-to-exceed \$70,000,000 of Tax Increment Bonds would be sold in late March of 2011, such that no debt service payments would be required in FY 2010-2011. Table 2 below shows the type of the tax increment bond, length of the bond, projected interest rates, amount, annual debt service payments, total estimated debt service and the additional cost to the City's General Fund for the total requested not-to-exceed \$70,000,000 Tax Increment Bonds.

Table 2: Debt Service on the Tax Increment Bonds

Type of Tax Increment Bond	Length	Interest Rate	Amount	Estimated Annual Debt Service Payment	Total Estimated Debt Service	Estimated Annual Cost to the City's General Fund (57 percent of annual debt service payment)
Taxable Interest	20 years	8.9%	\$ 14,000,000	\$ 1,500,000	\$ 30,000,000	\$ 855,000
Tax-Exempt Interest	30 years	7.6%	56,000,000	4,900,000	147,000,000	2,793,000
Total			\$ 70,000,000	\$ 6,400,000	\$ 177,000,000	\$ 3,648,000

As shown in Table 2 above, \$56,000,000 will be a tax-exempt issue, because according to Ms. Lee these funds will be exclusively used for a public purpose, to reimburse public infrastructure improvements. The remaining \$14,000,000 will be taxable interest bonds because those funds will be used for housing, which do not qualify as tax-exempt interest bonds.

As also shown in Table 2 above, the estimated total annual debt service payment, beginning in FY 2011-2012, for the total not-to-exceed \$70,000,000 Tax Increment Bonds is \$6,400,000, including \$1,500,000 for the taxable interest bonds and \$4,900,000 for tax-exempt interest bonds. The total debt service is estimated at \$177,000,000, which includes (a) \$30,000,000 over 20 years for the taxable interest bonds, including \$14,000,000 principal and \$16,000,000 interest expense, and (b) \$147,000,000 over 30 years for the tax-exempt interest bonds, including \$56,000,000 principal and \$91,000,000 interest expense.

If the proposed resolution is approved, the net effect of each Property Tax dollar expended for tax increment that is provided to the SFRA would result in a reduction of \$0.57 on each dollar from the City's General Fund. In other words, for every tax increment dollar provided to the SFRA, the City would no longer have to provide payments to other tax entities, including the City and County of San Francisco (Children's Fund, Library Preservation Fund, Open Space Acquisition Fund, and the General City Bond Debt Fund), Community College District, the San Francisco Unified School District, the Bay Area Rapid Transit District, and the Bay Area Air Quality Management District which total approximately \$0.43 of each Property Tax dollar. Therefore, as shown in Table 2 above, if the proposed resolution is approved, the additional annual cost to the City's General Fund for the proposed increased debt service would be \$3,648,000 over the first 20 years, which includes (a) \$855,000 (57 percent of \$1,500,000) for

the \$14,000,000 of taxable interest bonds and (b) \$2,793,000 (57 percent of \$4,900,000) for the \$56,000,000 of tax-exempt interest bonds. Because the taxable bonds would extend for 20 years and the tax-exempt bonds would extend for 30 years, after the first 20 years, the annual debt service costs to the City's General Fund would decrease to \$2,793,000 for the next ten years. Of the \$177,000,000 total estimated debt service, \$100,890,000 or 57 percent would be paid from the City's General Fund, including (a) \$17,100,000 (\$855,000 times 20 years) for the taxable interest bonds and (b) \$83,790,000 (\$2,793,000 times 30 years) for the tax-exempt interest bonds.

Expenditure Authority

Under the proposed resolution, the SFRA would also be authorized to expend a not-to-exceed \$75,440,000, including (a) the not-to-exceed \$70,000,000 Tax Increment Bonds discussed above, and (b) \$5,440,000 in additional tax increment which was not anticipated in the SFRA's FY 2010-2011 budget. Ms. Lee states that at the time of the FY 2010-2011 budget, final Property Tax assessments were not available, such that the SFRA budgeted an estimated \$108,885,000. When assessed values were completed in August 2010, an additional \$5,440,000 of tax increment was available. Accordingly, the proposed resolution would authorize the SFRA to expend the \$5,440,000 of additional tax increment, such that the total tax increment for FY 2010-2011 would total \$114,325,000 (budgeted tax increment of \$108,885,000 plus \$5,440,000 of additional tax increment).

The \$5,440,000 of additional tax increment would be expended as shown in Table 3 below. Ms. Lee states that FOCIL-MB has agreed not to seek reimbursement for \$3,481,600 of public infrastructure improvements, such that the \$3,481,600 or 64 percent reimbursement will now be used to assist the SFRA with the SFRA's required Educational Revenue Augmentation Fund (ERAF)⁶ payment to the State for FY 2010-2011. The Redevelopment Agency's required ERAF payment of \$6,000,000 is due to the State by May 1, 2011. Ms. Lee states that the remaining \$2,518,400 (\$6,000,000 less \$3,481,600) will be funded with existing available tax increment included in the SFRA's FY 2010-2011 budget.

Table 3: Expenditure of the \$5,440,000

Use	Amount
Tax Entities (20 percent)	\$ 1,088,000
Low and Moderate Income Housing Fund (16 percent)	870,400
Educational Revenue Augmentation Fund (ERAF) (64 percent)	3,481,600
Total	\$ 5,440,000

Ms. Lee states that of the \$60,345,000 in bond proceeds, shown in Table 1 above, (a) \$12,069,000 or 20 percent will fund the construction of 1180 4th Street, which is a development

⁶ Assembly Bill 26 (Statutes 2009, Chapter 21), approved on July 24, 2009, as part of the State's FY 2009-2010 budget, requires all California redevelopment agencies to make State Education Revenue Augmentation Fund (ERAF) payments, as determined by the State, to provide funding for education. In accordance with State law, redevelopment agencies are permitted to make their ERAF payments using any funds that are legally available and not legally obligated for other uses, including but not limited to taxable bond proceeds or other indebtedness.

of 150 units of family rental housing, including 25 units for formerly homeless families, and (b) \$48,276,000 will reimburse public infrastructure improvements constructed by FOCIL-MB, including public parks, open space, and roadways.

According to Ms. Lee, the 1180 4th Street project is estimated to cost \$77,406,085, which includes (a) \$36,583,092 in Tax Increment Bonds issued by the SFRA and (b) the remaining \$40,822,993 provided by FOCIL-MB. The SFRA has sold \$24,514,092 in Tax Increment Bonds in previous years, and will fund the remaining \$12,069,000 (total of \$36,583,092 in Tax Increment Bonds less \$24,514,092 in previously issued Tax Increment Bonds) by issuing \$70,000,000 of additional Tax Increment Bonds, the subject of the proposed resolution. Currently, the 1180 4th Street project is in the design phase, with construction scheduled to begin in late 2011 and be completed in October 2013.

In accordance with the Tax Increment Allocation Pledge Agreements, the costs for public infrastructure improvements in the Mission Bay Redevelopment Area are first incurred by FOCIL-MB and then reimbursed by the SFRA through bond proceeds or tax increment. While Ms. Lee does not have an estimate for the completion of public infrastructure improvements in the Mission Bay Redevelopment Area, according to Ms. Lee, the overall redevelopment in Mission Bay North is 95 percent completed and Mission Bay South is 40 percent completed.

Ms. Lee states that if the proposed resolution is not approved, (1) the construction of 1180 4th Street will be delayed until other funds are identified to complete the project, and (2) the SFRA would not be complying with the Tax Increment Allocation Pledge Agreements that requires the SFRA to pay FOCIL-MB for public infrastructure improvements.

POLICY ISSUE

On January 10, 2011, Governor Brown, as part of his proposed FY 2011-2012 State budget, proposed the elimination of local redevelopment agencies. The proposal would effectively eliminate tax increment financing and redirect an estimated \$5 billion to cities and counties to fund local services, such as police and fire departments and schools. Under the Governor's proposal, beginning on July 1, 2011, redevelopment agencies will be disbanded and their debts from Tax Increment Bonds would be assumed by local successor agencies yet-to-be determined. Tax increments remaining after paying debt service and other contractual obligations, such as the Tax Increment Allocation Pledge Agreements between the City, SFRA, and FOCIL-MB, would be distributed to cities, counties, K-12 schools, under a yet-to-be determined formula.

According to Ms. Lee, the requested bond issuance of up to \$70,000,000 and the requested expenditure of up to \$75,440,000 is part of the SFRA's normal course of fulfilling its obligations under the Tax Increment Allocation Pledge Agreements between the City, SFRA, and FOCIL-MB, and not as a result of the Governor's proposal to eliminate local redevelopment agencies. Ms. Lee states that, as of the writing of this report, the impact of the Governor's proposal on the Mission Bay Redevelopment Project is currently unclear and ambiguous as to whether approval of the Governor's proposal would affect the requested bond issuance and expenditure authority.

RECOMMENDATION

Because approval of the proposed resolution would result in additional General Fund costs of \$3,648,000 annually for the first 20 years, decreasing to \$2,793,000 annually for the next ten years, resulting in total City General Fund costs of \$100,890,000, approval of the proposed resolution is a policy decision for the Board of Supervisors.

