

MEMORANDUM**TO:** Oversight Board**FROM:** Tiffany Bohee
Executive Director**SUBJECT:** Adopting environmental review findings pursuant to the California Environmental Quality Act and conditionally authorizing a Third Amendment to the Mission Bay South Owner Participation Agreement with FOCIL-MB, LLC, a Delaware limited liability company, to allow a mixture of hotel, residential, and retail use on Block 1; Mission Bay South Redevelopment Project Area**EXECUTIVE SUMMARY**

Block 1 is a vacant, 2.73-acre parcel located in the Mission Bay South Redevelopment Project Area ("Mission Bay South"), as shown on Exhibit A. Under the Mission Bay South Redevelopment Plan ("South Redevelopment Plan"), Block 1 has a land use designation of Hotel that permits a 500-room hotel and up to 50,000 square feet of retail space.

Pursuant to the Mission Bay South Owner Participation Agreement ("South OPA") between the former San Francisco Redevelopment Agency ("Former Redevelopment Agency") and FOCIL-MB, LLC ("FOCIL"), the Mission Bay Master Developer, FOCIL sold the Block 1 site to Block 1 Associates, LLC, a Delaware limited liability company ("Block 1 Owner"). The Block 1 Owner has analyzed the economic feasibility of a 500-room hotel under current market conditions and has concluded that such a large hotel is not financially feasible and developed a proposal that would include a mixed-use development of up to 350 residential units, a 250-room hotel, and up to 25,000 square feet of retail uses ("Block 1 Project") in order to create an economically feasible project. The Office of Community Investment and Infrastructure ("OCII") engaged PKF Consulting USA ("PKF") to complete a peer review study to determine if the Block 1 Project would be feasible. PKF found that in the current market, a 500-room hotel would not be feasible, but a smaller, 250-room hotel as proposed would be feasible.

In order to implement the Block 1 Project, amendments to the South Redevelopment Plan and the South OPA are necessary ("Amendments"). The South Redevelopment Plan would be amended to allow up to 350 dwelling units as a secondary use on the Block 1 Site and provide for a corresponding increase in the total number of dwelling units permitted within Mission Bay South ("Plan Amendment"). Consistent with Community Redevelopment Law, the Plan Amendment was conditionally approved by the Successor Agency Commission, commonly known as the Commission on Community Investment and Infrastructure ("Commission"), on May 21, 2013, and will require approvals from the Planning Department (for General Plan consistency findings) and the Board of Supervisors before becoming final.

The amendment to the South OPA would provide for development on Block 1 of either a 500-room hotel with up to 50,000 square feet of retail, as currently allowed by the South

Redevelopment Plan, or an alternative development of up to 350 dwelling units, 250 hotel rooms, and 25,000 square feet of retail (“OPA Amendment”). Any residential development on Block 1 would be required to pay an in-lieu fee for affordable housing if condominiums are built, and provide affordable inclusionary units for rental projects. The OPA Amendment was conditionally approved by the Commission on May 21, 2013. Consistent with Redevelopment Dissolution Law, the OPA Amendment also requires (1) approval and a determination of the benefit to the taxing entities from the Oversight Board and (2) final review and approval from the California Department of Finance (“DOF”).

Allowing for residential use of Block 1 will: (1) support the full economic use of Block 1, including development of a hotel; (2) accelerate the completion of development under the South Redevelopment Plan and the South OPA; and (3) generate more property tax revenues than the existing, undeveloped conditions.

As part of its actions on September 17, 1998, establishing the Mission Bay Redevelopment Project Areas, the former Redevelopment Agency Commission (“Former Agency Commission”) certified the Final Subsequent Environmental Impact Report (“FSEIR”) (Resolution No. 182-98) and adopted findings under the California Environmental Quality Act (“CEQA”) (Resolution No. 183-98). This FSEIR includes by reference a number of addenda. In accordance with CEQA, OCII has prepared an eighth Addendum for the FSEIR that studies the possible environmental impacts of the proposed Amendments. Addendum #8 concludes that the proposed actions will not create any significant environmental impacts not already studied in the FSEIR or cause a substantial increase in the severity of previously identified significant impacts. OCII staff has reviewed the Amendments and found them to be within the scope of the Project analyzed in the FSEIR and addenda and no additional environmental review is needed.

Staff recommends approval of the Third Amendment to the Mission Bay South Owner Participation Agreement.

BACKGROUND

Mission Bay South Owner Participation Agreement

On September 17, 1998, by Resolution No. 190-98, the Former Agency Commission approved the South Redevelopment Plan. On the same date, the Former Agency Commission adopted related documents, including Resolution No. 193-98 authorizing execution of the South OPA and related documents between the former Mission Bay Master Developer, Catellus Development Corporation (“Catellus”), and the Former Redevelopment Agency. FOCIL subsequently assumed the rights and responsibilities of the Mission Bay Master Developer from Catellus in 2004. The South OPA has been amended twice by the Former Agency Commission, the first time on February 17, 2004 (Resolution No. 23-2004) and the second time on November 1, 2005 (Resolution No. 177-2005). A third amendment to the South OPA for Block 1 was conditionally authorized by the Commission on May 21, 2013 (Resolution No. 16-2013).

With approval from a successor agency’s oversight board and DOF, a successor agency may continue to implement “enforceable obligations” — existing contracts, bonds, leases, etc. —

which were executed prior to the suspension of redevelopment agencies' activities on June 28, 2011, the date that AB 26 was approved. Redevelopment Dissolution Law defines "enforceable obligations" to include bonds, loans, judgments or settlements, and any "legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy," (Cal. Health & Safety Code Section 34171(d)(1)(E)) as well as certain other obligations, including but not limited to requirements of state law and agreements made in reliance on pre-existing enforceable obligations. The South OPA meets the definition of "enforceable obligations" under the Redevelopment Dissolution Law.

Process for Amending Existing Obligations

AB 1484 authorizes Oversight Boards to approve amendments to enforceable obligations if it finds that the amendments would be in the best interest of the taxing entities. (Cal. Health & Safety Code Section 34181(e)). Therefore, the approval of the Third Amendment to the South OPA is conditioned upon the Oversight Board approval of the amendment and its determination of the benefit to the taxing entities, and then DOF's subsequent review and approval of the Oversight Board's action.

Block 1 Site

Block 1 is bounded by Channel Street to the south, Third Street to the east, Fourth Street to the west and Mission Bay Park P3 to the north (see Exhibit A). It is currently undeveloped and is used during baseball season as overflow parking for the nearby AT&T Park. The South Redevelopment Plan assigns a land use designation of Hotel to the site, and permits a 500-room hotel, and associated facilities, including banquet and conference facilities and up to 50,000 square feet of entertainment-oriented commercial uses. Block 1 is the only block within Mission Bay South with a Hotel land use designation.

Despite its prime location at the gateway to Mission Bay South, Block 1 has remained vacant in the 15 years since the South Redevelopment Plan was first adopted in 1998. The Block 1 Owner analyzed the economic feasibility and concluded that a 500-room hotel is not financially viable in today's market. Staff reviewed the Block 1 Owner's assumptions and engaged PKF, a national firm specializing in the hospitality field, to perform a detailed analysis of the viability of both a 500-room hotel and the proposed 250-room hotel (see Exhibit B) ("Feasibility Report"). The Feasibility Report concluded that a 500-room hotel is not feasible on Block 1 in the current market, largely because the cost to develop a 500-room hotel on Block 1 as contemplated by the South Redevelopment Plan exceeds its market value under current market conditions, deeming it economically infeasible. In addition, the Feasibility Report states that hotel investors typically require an internal rate of return ("IRR") between 15 to 20%, and that a 500-room hotel would only result in an IRR of 7.8%, while a smaller 250-room select-service hotel would result in an IRR of 17%.

The infeasibility of the 500-room hotel can be explained, in part, by the site's distance from the Moscone Convention Center and major tourist attractions, and San Francisco's relatively high hotel development and operating costs and relatively low average room rates compared to other major cities. The Feasibility Report also found that a smaller ± 250-room boutique, select-

service, or extended stay hotel on the site would be economically feasible, as such hotels have much lower operating costs and are inherently more efficient than full-service hotels.

DISCUSSION

Pursuant to the South OPA, FOCIL sold the Block 1 site to the Block 1 Owner. In order to realize the development potential of Block 1, the Block 1 Owner has proposed a mixed-use development, which includes an economically-feasible, smaller hotel together with residential dwelling units and retail space. To allow for this economically-feasible project, the South Redevelopment Plan and South OPA need to be amended.

Proposed Amendments to South Redevelopment Plan and South OPA

The Block 1 Owner is seeking amendments to the South Plan and the South OPA to allow a smaller 250-room hotel with up to 350 residential units and 25,000 square feet of retail on Block 1 as an alternative to the already permitted 500-room hotel and 50,000 square feet of retail uses. The Plan Amendment, which is subject to approval by the Board of Supervisors, would allow up to 350 dwelling units as a secondary use on Block 1 and provide for a corresponding increase in the total number of dwelling units permitted within Mission Bay South. The OPA Amendment (see Exhibit C) would provide for development on Block 1 of either a 500-room hotel with up to 50,000 square feet of retail, as currently allowed by the South Redevelopment Plan, or an alternative development of up to 350 dwelling units (with a corresponding increase the total number of housing in Mission Bay South), 250 hotel rooms, and 25,000 square feet of retail. Allowable retail would include both entertainment retail and local-serving retail.

If the smaller hotel with residential mixed use project is built, the OPA Amendment would require as a condition of approval for any residential project on Block 1 that the developer pay an affordable housing in-lieu fee equal to 20% of the residential units if the project is comprised of ownership units, which is consistent with the City's Inclusionary Affordable Housing Program ("Inclusionary Program"); the affordable housing in-lieu fee will be used by the Agency to fund affordable housing units within the Mission Bay South Project Area. If the residential project is a rental project, the owner will be required to construct 15% of the units as on-site affordable inclusionary housing, which is also consistent with the Inclusionary Program. These inclusionary units will be affordable to low-income households earning up to sixty percent (60%) of the area median income ("AMI"), as adjusted only for household size, which is consistent with the typical maximum affordability of stand-alone affordable housing projects that OCII is constructing in Mission Bay South. Rent increases for the affordable units will be limited to the percentage increase in the AMI from the preceding year. The OPA Amendment includes declarations of restrictions to ensure that the inclusionary units remain affordable for 75 years.

In the event that the residential project converts from rental to ownership after occupancy, there will be restrictions in place to provide certain tenant protections. Specifically, current tenants at the time of conversion will be offered a right of first refusal to purchase their unit at a price that is affordable based on their current income level, and they would be offered down payment assistance by the owner in the amount of 5% of their purchase price. Should a tenant decide not to purchase their unit, the owner will offer relocation assistance consistent with the City's

Inclusionary Affordable Housing Program and the relocation allowances required under the San Francisco Rent Ordinance. Vacant affordable rental units, or units of affordable renters who decide not to purchase, will be offered to households earning up to 110% AMI, which is consistent with the affordability restrictions in the South OPA. The terms and conditions of the sale of affordable ownership units will conform to OCII's Limited Equity Program, which ensures long-term affordability (45 years) and requires restrictions on resales to eligible affordable buyers. These restrictions will be incorporated into a form of a Declaration of For-Sale Restrictions and Limited Equity Program documents, which will be finalized prior to OCII's approval of the First Amendment to the Assignment & Assumption Agreement for Block 1 (as described below).

FOCIL has assigned its rights and obligations to the development of Block 1 with respect to the Block 1 Owner, pursuant to an Assignment and Assumption Agreement, dated May 17, 2012, approved by the Successor Agency. Concurrent with execution of the OPA Amendment, FOCIL, Block 1 Owner and OCII will enter into a First Amendment to Assignment and Assumption Agreement so that the Block 1 Owner is able to develop Block 1 with residential units and a smaller hotel pursuant to the OPA Amendment. Under the First Amendment to the Assignment and Assumption Agreement, the Block 1 Owner will (i) agree to comply with all of the applicable terms and conditions of the OPA Amendment, (ii) enter into a card check agreement governing any hotel developed on Block 1; and (iii) comply with the Successor Agency's Small Business Enterprise Policy, as adopted by Agency Resolution No. 82-2009 (July 27, 2009) ("SBE Policy"). Since the OPA Amendment is considered a material change to the South OPA, and it triggers the applicability of the SBE Policy for FOCIL and any future developer that they assign the South OPA to in the future, including the Block 1 Owner through the First Amendment to the Assignment and Assumption Agreement; however, the original Mission Bay Program in Diversity, with its minority and women-owned enterprises, will continue to apply to developers that were assigned the South OPA prior to this OPA Amendment.

Findings – Compliance with Redevelopment Dissolution Law

By allowing for residential use and an economically-feasible hotel, the OPA Amendment will support the full economic use of Block 1 and will accelerate the completion of development under the South Redevelopment Plan, the South OPA and the related enforceable obligations. The change in permitted uses on Block 1 is expected to result in its development, which would generate more revenues from property taxes payable to the taxing entities, including the City and County of San Francisco, the Bay Area Rapid Transit District, the San Francisco Community College District, and the San Francisco Unified School District, compared with the existing, undeveloped conditions. These revenues are summarized in the table below, which shows that property tax revenues are projected to increase from \$16,000 per year under current conditions to approximately \$968,000 per year upon completion of the Block 1 Project. More detailed calculations, and the assumptions used to generate these calculations, are included in Exhibit D.

Block 1 Project Estimated Annual Property Tax Allocations
(Base Secured Tax Rate - 1% Total)

Taxing Entity	Allocation (of 1% Base Secured Tax Rate)	Development Scenario	
		Vacant (As-Is)	250-Room Hotel/ 350 Residential Units/ 25,000 SF Retail
City and County of San Francisco	64.6%	\$ 8,095	\$ 482,067
Educational Revenue Augmentation Funds	25.3%	\$ 5,841	\$ 347,853
SF Unified School District	7.7%	\$ 1,776	\$ 105,743
SF Community College District	1.4%	\$ 332	\$ 19,775
BART	0.6%	\$ 145	\$ 8,652
BAAQMD	0.2%	\$ 48	\$ 2,884
County Office of Education	0.1%	\$ 23	\$ 1,373
Total	100.0%	\$ 16,260	\$ 968,347

As shown in the table below, the Block 1 Owner estimates that the Block 1 Project will also generate net new sales tax revenues of approximately \$1,794,000 on an annual basis to the taxing entities, including the State of California, the City, and the Bay Area Rapid Transit District.

**Block 1 Project
Estimated Annual Net New Sales Tax Allocations**

Taxing Entity	Assumptions	Total
State Purposes	6.50% of taxable sales	\$ 1,332,516
City General Fund	1% of taxable sales	\$ 205,002
BART	0.50% of taxable sales	\$ 102,501
San Francisco County Transportation Authority	0.50% of taxable sales	\$ 102,501
SF Public Financing Authority	0.25% of taxable sales	\$ 51,251
	8.75% of taxable sales	\$ 1,793,771

Note: The Block 1 Project is expected to generate approximately \$1,971,000 of sales tax revenues annually. The calculations above represent the marginal increase in sales tax from the Block 1 Project, assuming that a portion of new retail space sales will compete with existing retailers in the City resulting in a shift of sales.

The Block 1 Owner estimates that the Block 1 Project will also generate a number of other fiscal benefits, including: up to approximately \$21 million in one-time development revenues and impact fees; approximately 300 permanent jobs; and new ongoing revenues from parking, hotel, and gross receipts taxes.

The proposed OPA Amendment does not propose any new capital expenditures by OCII or any change in OCII’s overall method of financing the redevelopment of Mission Bay South.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

As part of its actions on September 17, 1998 establishing the Mission Bay North and South Redevelopment Project Areas, the Former Agency Commission certified the FSEIR, adopted CEQA findings, adopted a series of mitigation measures, and established a comprehensive system for mitigation monitoring. The Board of Supervisors, the Planning Commission, and various City departments adopted similar findings and mitigation monitoring plans.

Copies of the full four-volume FSEIR were distributed to the Former Agency Commission prior to the 1998 certification and adoption of the environmental findings, and have subsequently been made available to members of the Oversight Board as part of their June 11, 2012 meeting. Copies can also be found online at <http://www.sfiredvelopment.org/index.aspx?page=61>.

The FSEIR includes by reference the following addenda:

- Addendum #1 - Analyzed the ballpark parking lots (dated March 21, 2000).
- Addendum #2 – Addressed Infrastructure Plan revisions related to 7th Street bike lanes and relocation of a storm drain outfall (dated June 20, 2001).
- Addendum #3 – Analyzed revisions to the South Design for Development related to the maximum allowable number of towers, tower separation and required step-backs (dated February 10, 2004).
- Addendum #4 – Analyzed revisions to parking requirements (dated March 9, 2004).
- Addendum #5 – Analyzed the UCSF proposal to establish a 400-bed hospital in Mission Bay South (dated October 4, 2005).
- Addendum #6 - Addressed revisions of the UCSF Medical Center at Mission Bay (dated September 10, 2008).
- Addendum #7 – Analyzed the Public Safety Building proposed for Block 8 in Mission Bay South (dated January 7, 2010).

In preparation for approval of the Amendments, Addendum #8, dated May 15, 2013, has been prepared to analyze the Amendments (see Exhibit E). Addendum #8 concludes that the Amendments will not create any significant environmental impacts not already studied in the FSEIR nor cause a substantial increase in the severity of previously identified significant impacts. Therefore, no additional mitigation measures are required for the Amendments.

OCII staff has reviewed the proposed Amendments and has considered and reviewed the FSEIR and addenda, specifically Addendum #8. OCII staff finds the Amendments to be within the scope of the project analyzed in the FSEIR and subsequent addenda and no additional environmental review is required pursuant to State CEQA Guidelines Sections 15180, 15162, and 15163.

NEXT STEPS

Upon approval by the Oversight Board, the OPA Amendment will be referred to DOF for approval. DOF has a 5 day period to request a review of an Oversight Board action, and then 40 days from the date of that request to either approve the Oversight Board's action or return it to the Oversight Board for reconsideration. Provided that the Oversight Board approves the OPA Amendment in early June, DOF's review period would be concluded by mid-July.

STAFF RECOMMENDATION

Staff recommends approval of the Third Amendments to the Mission Bay South Owner Participation Agreement, conditioned upon the final approval by the California Department of Finance.

*(Originated by Christine Maher, Development Specialist, and
Catherine Reilly, Project Manager)*



Tiffany Bohee
Executive Director

- Exhibit A: Mission Bay Location Map
- Exhibit B: PKF Feasibility Study
- Exhibit C: Third Amendment to the Mission Bay South Owner Participation Agreement
- Exhibit D: Estimated Property Tax Revenues
- Exhibit E: Addendum #8 to the FSEIR