


**CITY AND COUNTY OF SAN FRANCISCO**  
**BOARD OF SUPERVISORS**  
**BUDGET AND LEGISLATIVE ANALYST**

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May 2, 2014

**TO:** Budget and Finance Committee  
**FROM:** Budget and Legislative Analyst   
**SUBJECT:** May 7, 2014 Special Budget and Finance Committee Meeting

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<p><b>Item 1</b>  <b>File 14-0423</b>  <i>(Continued from April 30, 2014)</i></p>	<p><b>Department:</b>                  Office of Community Investment and                  Infrastructure (OCII)</p>
<p><b>EXECUTIVE SUMMARY</b></p>	
<p><b>Legislative Objectives</b></p>	
<ul style="list-style-type: none"> <li>• File 14-0423 is a resolution consenting to the transfer of Blocks 33 and 34 in the Mission Bay South Plan Area to the Regents of the University of California, as a tax exempt entity, for the future development of 500,000 gross square feet in the Mission Bay South Redevelopment Project Area; and making environmental findings under the California Environmental Quality Act (CEQA).</li> </ul>	
<p><b>Key Points</b></p>	
<ul style="list-style-type: none"> <li>• Mission Bay consists of 303 acres between San Francisco Bay and Interstate 280, and is divided into two redevelopment project areas: North Plan Area and South Plan Area. The University of California originally acquired parcels in Mission Bay to develop the University of California San Francisco (UCSF) Campus Site. The University is now proposing to acquire two additional parcels in the South Plan Area, Blocks 33 and 34, to develop office buildings and parking.</li> <li>• Under the South Plan Area Owner Participation Agreement (South OPA) between the Office of Community Investment and Infrastructure (OCII), which is the Successor Agency to the former Redevelopment Agency, and FOCIL-MB, LLC (FOCIL), the South Plan Area master developer, tax-exempt entities acquiring parcels in the South Plan Area must make payments in lieu of taxes (PILOT) to OCII in the amount of property tax increment that the parcels would otherwise generate. Under the California Constitution, the University of California is not required to pay property taxes, but would be required to make the PILOT under the third-party contractual agreement (the South OPA) between OCII and FOCIL.</li> <li>• Under the proposed resolution, the University of California would make two one-time payments totaling \$32,100,000 rather than make the PILOT required by the South OPA: \$21,900,000 to FOCIL to pay a share of the costs of public infrastructure, and \$10,200,000 to OCII to pay a share of costs for affordable housing.</li> <li>• OCII and the Mayor’s Office of Economic and Workforce Development are recommending that the University of California be released from the requirement to pay a PILOT for Blocks 33 and 34, but instead make one-time payments for affordable housing and public infrastructure, because of the public benefits that would be generated by UCSF development on Blocks 33 and 34.</li> </ul>	
<p><b>Fiscal Impact</b></p>	
<ul style="list-style-type: none"> <li>• According to an analysis prepared by ALH Urban and Regional Economics, the net present value of the incremental property taxes is \$39,778,228, which is \$7,678,228 more than the one-time payments to be made by the University of California of \$32,100,000</li> </ul>	
<p><b>Recommendation</b></p>	
<ul style="list-style-type: none"> <li>• Approval of the proposed resolution is a policy matter for the Board of Supervisors.</li> </ul>	

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

The Mission Bay South Owner Participation Agreement Section 14.7, between the Office of Community Investment and Infrastructure (the Successor Agency to the former San Francisco Redevelopment Agency) and FOCIL-MB, LLC (the Mission Bay South Redevelopment Project Area master developer) requires the consent of the Board of Supervisors to transfer property to a tax exempt entity if a payment in lieu of taxes will not be required.

**Background****Mission Bay South Plan Area**

Mission Bay consists of 303 acres of land on the east side of the City between the San Francisco Bay and Interstate 280. Development consists of new housing units, commercial space and retail space, the University of California San Francisco (UCSF) research campus and medical center, open space and public facilities, and other development.

Mission Bay is divided into two redevelopment project areas: the Mission Bay North Redevelopment Project Area (North Plan Area) and the Mission Bay South Redevelopment Project Area (South Plan Area).

The Mission Bay South Redevelopment Plan (South Plan) describes the development in the South Plan Area, which contains a mix of primarily residential, retail and commercial/industrial uses, as well as the UCSF research campus and medical center. Development of the South Plan Area is governed by the South Plan, the Mission Bay South Owner Participation Agreement (South OPA) between the Office of Community Investment and Infrastructure (OCII) and the master developer for the Mission Bay South Redevelopment Project Area, FOCIL-MB, LLC (FOCIL), as well as other related documents.

The South OPA requires FOCIL to construct the public infrastructure, consisting of right-of-way, utilities and other infrastructure directly related to each of the major phases of development under the South Plan. Under the South OPA, and the related Mission Bay South Tax Increment Allocation Pledge Agreement between the former San Francisco Redevelopment Agency and the City (Pledge Agreement), OCII is obligated to reimburse FOCIL for the direct and indirect costs of constructing the public infrastructure using property tax increment generated within the South Plan Area.

The Pledge Agreement also dedicates approximately 20 percent of the total property tax increment generated by development in Mission Bay to implement the affordable housing program contemplated by the South Plan. OCII will ultimately construct 1,108 affordable units in the South Plan Area on land donated to OCII by FOCIL. The units will target low income families, formerly homeless families and individuals, and seniors.

Under Redevelopment Dissolution Law, amendments to enforceable obligations, such as the South OPA, must include findings that the amendment creates a benefit to the affected taxing entities. In addition, under Redevelopment Dissolution Law, OCII is required to allocate funds

that it receives to the fulfillment of its enforceable obligations, which in Mission Bay South includes public infrastructure and affordable housing.

## DETAILS OF PROPOSED LEGISLATION

**File 14-0423** is a resolution consenting to the transfer of Blocks 33 and 34 in the Mission Bay South Plan Area to the Regents of the University of California, as a tax exempt entity, for the future development of 500,000 gross square feet in the Mission Bay South Redevelopment Project Area; and making environmental findings under the California Environmental Quality Act (CEQA).

### Transfer of Blocks 33 and 34 to the University of California

Under the proposed resolution, the Board of Supervisors would conditionally consent (as discussed below) to the transfer of Blocks 33 and 34 in the South Plan Area to the University of California. The University of California currently owns parcels in the South Plan Area, shown in the attached map (Exhibit A), that house the UCSF education and research facilities and medical center. Under the proposed resolution, two additional parcels - Blocks 33 and 34 shown in Exhibit A - would be transferred from the current property owner, Bay Jacaranda No. 3334 LLC (Bay Jacaranda), an affiliate of Salesforce.com, Inc., to the University of California for the expansion of UCSF's facilities.

Under the California Constitution, the University of California is exempt from local land use and redevelopment regulations and from local property taxes where the University uses its property for furtherance of its educational mission. However, the University of California is subject to third party contractual obligations, such as the South OPA between OCII and FOCIL.

### Requirements of South OPA Section 14.7

Section 14.7 of the South OPA states that prior to the transfer of property in the South Plan Area to a tax-exempt entity, such as the University of California, the tax exempt entity or the party transferring the property to the tax exempt entity (in this case, Bay Jacaranda), is required to take one of the following actions:

- Enter into an agreement for payment in lieu of taxes (PILOT) equal to the full amount of the property taxes that would have been assessed against the property notwithstanding such ownership by a tax exempt entity; or
- Obtain the written consent of OCII and the City.

The OCII Commission will consider a Memorandum of Understanding (MOU) with the University of California at the April 29, 2014 meeting. Under the proposed MOU, OCII would release the University of California from certain obligations of the South Redevelopment Plan, the South OPA, and the PILOT Agreement, including release from paying the PILOT, if the University of California makes one-time payments totaling \$32,100,000 as follows:

- A one-time payment of \$21,900,000 by the University of California to FOCIL, the master developer, to be used by FOCIL to pay for a share of the costs of public infrastructure in the South Plan Area; and

- A one-time payment of \$10,200,000 by the University of California to OCII for the development of affordable housing in the South Plan Area

The University would pay special taxes authorized by Community Facilities District No. 5 to fund park and open space maintenance and by Community Facilities District No. 6 to fund infrastructure costs in the South Plan Area.<sup>1</sup>

OCII and FOCIL would enter into a Fifth Amendment to the South OPA that would (1) consent to the transfer of Blocks 33 and 34 by Bay Jacaranda to the University of California, subject to the requirements of the MOU, and (2) release Bay Jacaranda from certain obligations under the South OPA pertaining to Blocks 33 and 34, conditioned on the one-time payments by the University of California for affordable housing and public infrastructure.

Under the proposed resolution, the Board of Supervisors would conditionally consent, under Section 14.7 of the South OPA, to the transfer of Blocks 33 and 34 from Jacaranda to the Regents of the University of California. The University of California would not be required to make a payment in lieu of taxes to OCII on the condition that the University makes a one-time payment of \$32.1 million for affordable housing and public infrastructure, subject to approval of the Fifth Amendment to the South OPA by DOF and in accordance with the terms of the MOU, Fifth Amendment to the South OPA, and Release Agreement.

#### Final Subsequent Environmental Impact Report

The Board of Supervisors approved the CEQA findings for the Mission Bay South Redevelopment Plans in October 1998 (File 98-1427). According to Ms. Catherine Reilly, OCII Project Manager, OCII has determined that the MOU, Fifth Amendment, and Release Agreement are within the scope of the Mission Bay South Redevelopment Plan analyzed in the 1998 Final Subsequent Environmental Impact Report.

### **FISCAL IMPACT**

Under the proposed MOU, Fifth Amendment, and Release Agreement, the University of California would not make a payment in lieu of taxes to OCII, but rather would make two one-time payments, totaling \$32,100,000 as follows:

- \$10,200,000 to OCII for affordable housing; and
- \$21,900,000 to FOCIL for public infrastructure.

OCII hired ALH Urban and Regional Economics (ALH Economics) to compare the benefit of the \$32,100,000 one-time payments to ongoing payments in lieu of taxes to OCII over 30 years to 2043, which is the last date that OCII can collect tax increment to pay for affordable housing and infrastructure bonds.

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<sup>1</sup> The State Legislature adopted the Community Facilities Act in 1982 (also known as Mello Roos), enabling local governments to establish community assessment districts, in which property owners in the district are assessed additional funds to pay for public infrastructure and facilities.

The preliminary development program for Blocks 33 and 34, proposed by UCSF and analyzed by ALH Economics, consists of two phases. Phase I is the development of an office building to be completed in approximately 2017, and a parking garage to be completed in approximately 2021. Phase II is the development of an additional office building consisting of medical and other offices to be completed in approximately 2022. ALH Economics estimated that the incremental increase in assessed property value from Phase I and Phase II development is \$336.4 million.

According to ALH Economics, the net present value of the incremental property taxes is \$39,778,228, which is \$7,678,228 more than the one-time payments to be made by the University of California of \$32,100,000, as shown in Table 1 below.

**Table 1: Net Present Value of Payment in Lieu of Taxes**

Estimated PILOT over 30 Years (Net Present Value)	\$39,778,228
Affordable Housing One-Time Payment	10,200,000
Infrastructure One-Time Payment	<u>21,900,000</u>
Total One Time Payments	32,100,000
Difference	\$7,678,228
Source: ALH Economics	

According to Ms. Catherine Reilly, OCII Project Manager, Section 14.7 of the South OPA only requires a PILOT during the life of the South OPA, which ends in 2043. Ms. Reilly states that the intent was to have the tax exempt entity make the payment in lieu of taxes to OCII during the life of the South Plan so that OCII could finance the public infrastructure and affordable housing.

Community Facilities Districts

Under the proposed resolution, the University of California would pay assessments to Community Facilities Districts No. 5 and No. 6, as noted above. The amount of the assessment would be based on the obligations of the community facility district, which generally would be the debt service on the special tax bonds issued by the community facility district, and the apportionment of the obligations among the property parcels contained in the community development district.

Development Impact Fees/ Transfer Taxes

The University of California is exempt from payment of development impact fees and transfer taxes under the California Constitution.

**POLICY CONSIDERATION**

As noted above, under the California Constitution, the University of California is exempt from local land use and redevelopment regulations and from local property taxes where the University uses its property for furtherance of its educational mission. However, the South OPA requires tax-exempt entities such as the University of California to enter into an agreement for payment in lieu of taxes (PILOT) equal to the full amount of the property tax increment that otherwise would have been assessed.

The University of California's Long Range Development Plan calls for a UCSF campus to be located in Mission Bay that includes UCSF medical facilities and housing for staff and students. The City and County of San Francisco, along with Catellus Development Corporation, which was the master developer for Mission Bay North and South at the time the South Plan was adopted, conveyed 43 acres to the University of California for the UCSF campus, which consists of UCSF educational and medical facilities and housing for students and staff. The UCSF Campus Site is not covered by either the Mission Bay North or the Mission Bay South Owner Participation Agreements, and therefore the University of California is not required to pay a PILOT for this property.

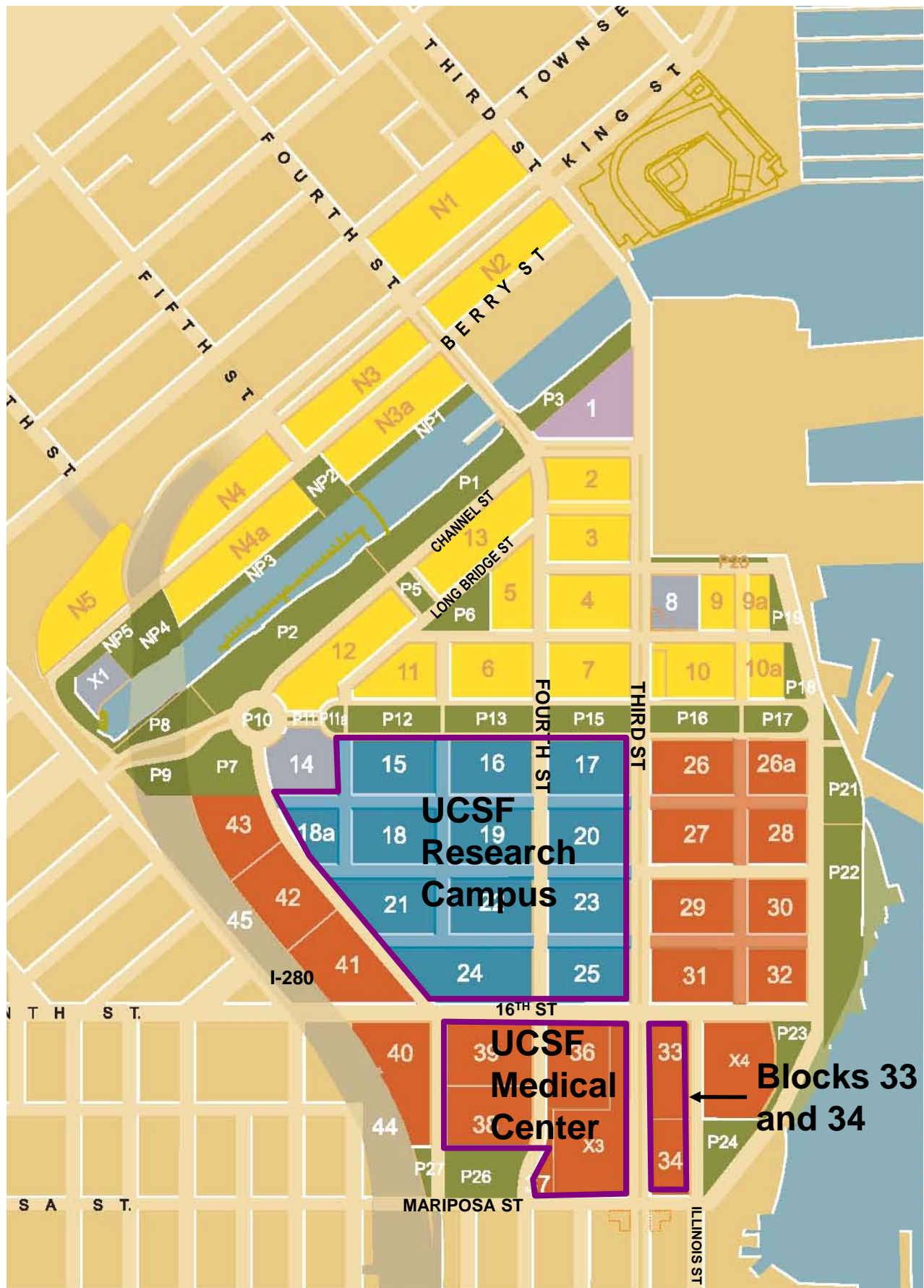
In addition to the UCSF Campus Site, the University of California acquired Blocks 36 through 39 and X3 in the South Plan Area for expansion of UCSF medical facilities. These parcels are not subject to the PILOT Agreement under the Mission Bay South OPA. However, while not subject to a PILOT or Section 14.7 of the South OPA, UCSF entered into agreements with the former San Francisco Redevelopment Agency and the master developer to address the loss of property tax increment for both affordable housing and public infrastructure related to Blocks 36 through 29 and X3.

According to Ms. Reilly, OCII and the Mayor's Office of Economic and Workforce Development are recommending that the University of California be released from the requirement to pay a PILOT for Blocks 33 and 34, but instead make one-time payments for affordable housing and public infrastructure, because of the public benefits that would be generated by UCSF development on Blocks 33 and 34. These benefits include: (1) generation of jobs by UCSF, which is one of San Francisco's largest employers; (2) UCSF's role as a catalyst for the developing biotechnology industry; (3) education and health services provided by UCSF; (4) UCSF's investments in the Campus Site and Blocks 36 through 39 and X3; and (5) facilitating the completion of the affordable housing and infrastructure programs of the South OPA.

Because the University of California would pay \$7,678,228 less under the proposed MOU, Fifth Amendment, and Release Agreement than if the University of California made payments in lieu of taxes to OCII under the South OPA Section 14.7, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

**RECOMMENDATION**

Approval of the proposed resolution is a policy matter for the Board of Supervisors.



Mission Bay South Location Map