

LEGISLATIVE DIGEST

[Approval of First Amendment to Option Agreement for the Purchase and Sale of Real Property - Transbay Joint Powers Authority - Consent to Conditions of Transbay Joint Power Authority's Bridge Loan - \$171,000,000]

Resolution authorizing the Director of Property to execute the First Amendment to Option Agreement for the Purchase and Sale of Real Property between the City, Transbay Joint Powers Authority, and Successor Agency to the Redevelopment Agency of City and County of San Francisco; execute a consent to the conditions of the Transbay Joint Powers Authority's Bridge Loan with a value of \$171,000,000; and acknowledge the Subordination of the Option Agreement for the Purchase and Sale of Real Property for Transbay Parcels F, O, O', and O''.

Existing Law

The Redevelopment Plan for the Transbay Redevelopment Project (the "Plan") applies to the redevelopment of the area (the "Project Area") generally bounded by Mission, Main, Second, and Folsom Streets in downtown San Francisco, and the construction and funding of a new Transbay Terminal and Caltrain downtown extension (the "Project"). Under the Plan, at least 25 percent of all dwelling units developed in the Project Area must be affordable housing for persons and families whose incomes do not exceed 60 percent of the area median income, with an additional 10 percent of all dwelling units developed in the Project Area to be affordable housing for persons and families whose incomes do not exceed 120 percent of the area median income (the "Transbay Affordable Housing Obligation").

When the Plan was adopted, the State of California ("State") owned approximately ten (10) acres of land in the Project Area, including the former Transbay Terminal building and its bus access ramps (the "State-Owned Parcels"). Under a Cooperative Agreement between the State, the City, and the Transbay Joint Powers Authority ("TJPA") entered into on July 11, 2003 (the "Cooperative Agreement"), the State has or will transfer the State-Owned Parcels to the City or to the TJPA for the construction, or to fund the construction, of the Project. The State retains a Power of Termination for any transferred State-Owned Parcel (the "Power of Termination") that permits the State to re-take title to such State-Owned Parcel if certain Cooperative Agreement conditions are not met. The Cooperative Agreement requires the State to release its Power of Termination over a State-Owned Parcel if it is sold to a third party for no less than fair market value, and the Gross Sales Proceeds (as defined in the Cooperative Agreement) from that sale are deposited into a Trust Account (as defined in the Cooperative Agreement) dedicated to fund certain Project construction costs.

To further the objectives of the Cooperative Agreement, the Plan, and the Project, the City, TJPA, and the former Redevelopment Agency of the City and County of San Francisco ("Former Agency") entered into an Option Agreement for the Purchase and Sale of Real

Property (“Option Agreement”) on January 31, 2008, granting the Former Agency an option (“Option”) to acquire specific State-Owned parcels (the “Agency Transfer Parcels”). If the Former Agency transfers an Agency Transfer Parcel to a third party for development, the Option Agreement requires that transfer to be for no less than fair market value, and that all resulting Gross Sales Proceeds be placed in the Trust Account. The City, TJPA, and the Former Agency also executed a Transbay Redevelopment Project Tax Increment Allocation and Sales Proceeds Pledge Agreement (the “Pledge Agreement”), dated January 31, 2008, which irrevocably pledged Net Tax Increment (as defined in the Pledge Agreement) to TJPA to fund Project construction and design costs.

The Former Agency dissolved in 2012, and the Successor Agency to the Redevelopment Agency of City and County of San Francisco (“Agency”) now holds the Former Agency's rights, title and interest in the Option Agreement and the Pledge Agreement. The Agency Transfer Parcels include the property commonly known as Agency Transfer Parcel F, which is currently used by TJPA for bus ramp and train box construction purposes, and Agency Transfer Parcels O, O’, and O”, which are currently used by TJPA for a temporary bus terminal. The Agency cannot exercise its Option for those Agency Transfer Parcels until they are no longer needed for Project construction purposes.

TJPA and the Agency currently expect TJPA’s use of Agency Transfer Parcel F, and Agency Transfer Parcels O, O’, and O”, to continue until late 2016 and late 2017, respectively. Once that occurs, the Agency plans to acquire and transfer Agency Transfer Parcel F to a third party for primarily office use, to acquire and transfer the northern third portion of Agency Transfer Parcels O, O’, and O” commonly known as “Redevelopment Block 4” to a third party for primarily residential use, and to use the remainder of Agency Transfer Parcels O, O’, and O” for a park, affordable housing developments, and public rights of way.

Amendments to Current Law

The TJPA has a \$171,000,000 loan under the Transportation Infrastructure Finance and Innovation Act (the “TIFIA Loan”) to partially fund Project costs, but it does not currently expect to be able to draw on the TIFIA Loan until late 2015. To obtain cash flow funding needed for Project construction during the interim, TJPA intends to obtain a \$171,000,000 bridge loan (the “Bridge Loan”) under a Credit Agreement with Goldman Sachs Bank USA, as syndication agent, administrative agent, collateral agent and as sole lead arranger, and other lenders.

The Credit Agreement requires the following actions to protect and create certain Bridge Loan security interests (the “Security Conditions”): (1) ending the State’s Power of Termination on Agency Transfer Parcel F and Redevelopment Block 4, and Caltrans’ interest in the sales proceeds of such parcels, in exchange for the deposit of certain Bridge Loan proceeds into the Trust Account at the closing of the Bridge Loan; (2) TJPA’s pledge of the Net Tax Increment; (3) TJPA’s execution and delivery of a deed of trust, assignment of leases and rents and security agreement against Agency Transfer Parcel F (the “Parcel F Deed of

Trust”); (4) TJPA’s execution and delivery of a recordable negative covenant against Agency Transfer Parcels O, O’, and O”, which would prohibit TJPA from selling or encumbering them during the Bridge Loan term unless TJPA deposits a specified amount into a lockbox account (the “Lockbox Account”) created under the Credit Agreement (the “Negative Pledge”); and (5) the subordination of the Option Agreement and the Agency’s Option to the Parcel F Deed of Trust, and to the Negative Pledge as to Agency Transfer Parcels O, O’, and O”, pursuant to Subordinations of Option Agreement for the Purchase and Sale of Property (the “Subordinations”).

If the Bridge Loan is not prepaid within eighteen months of its closing, the Credit Agreement requires the TJPA endeavor to cause Redevelopment Block 4 to be a separate legal parcel and to execute and deliver a deed of trust against Redevelopment Block 4 in substantially the form of the Parcel F Deed of Trust (a “Block 4 Deed of Trust”). Meeting the Security Conditions will require an amendment to the Option Agreement, which must be signed by the City, TJPA, and the Agency. It will also require that City acknowledge, but not be a party to, the Subordination, and to expressly consent to the Security Conditions.

Background Information

The Bridge Loan will subordinate the Option Agreement and Agency’s Option to acquire Agency Parcels F, O, O’, and O”. Until the Bridge Loan is repaid, there will be a Parcel F Deed of Trust encumbering Agency Parcel F and a Negative Pledge encumbering Agency Parcels O, O’, and O”, which Negative Pledge may be replaced with a Block 4 Deed of Trust encumbering on Redevelopment Block 4 if the Bridge Loan is not prepaid within eighteen months. The Bridge Loan has a four year term, but may be prepaid by TJPA after the first anniversary of the closing of the Bridge Loan. TJPA expects to repay the Bridge Loan with TIFIA Loan proceeds in late 2015, although the schedule is subject to change.

TJPA and the Agency currently expect that TJPA will need to use Agency Parcel F through late 2016 for Project construction purposes. If the Bridge Loan is still unpaid after that time, the Subordination allows the Agency to exercise its Option for Agency Parcel F if it is immediately sold to a third party for no less than the Lien Release Price, as defined in Credit Agreement, with the resulting Gross Sales Proceeds to be placed into the Lockbox Account during the Bridge Loan term. Any funds remaining in the Lockbox Account after the Bridge Loan is repaid will be placed in the Trust Account.

TJPA and the Agency currently expect that TJPA will need Agency Parcels O, O’, and O” for Project construction purposes through late 2017. If the Bridge Loan is still unpaid after that time, the Subordination allows the Agency to exercise its Option for Agency Parcels O, O’, and O” if they are first subdivided into separate legal parcels. If the Option is being exercised for Redevelopment Block 4, there must be an immediate third party sale that generates Gross Sales Proceeds no less than the specified Lien Release Price, which must be placed into the Lockbox Account during the Bridge Loan term. Any funds remaining in the Lockbox Account after the Bridge Loan is repaid will be placed in the Trust Account. Any

Gross Sales Proceeds resulting from a transfer the remaining portions of Parcels O, O', and O'' would be placed in the Trust Account at the time of transfer.

The Agency determined that the Lien Release Price for Agency Parcel F and Redevelopment Block 4 is reasonably achievable, even after taking into consideration the Plan development restrictions, environmental contamination, legally required affordable housing, and other conditions that reasonably affect their fair market value. TJPA and the Agency have also determined that nothing in the Credit Agreement, the Parcel F Deed of Trust, the Negative Pledge, the Subordinations, or any Block 4 Deed of Trust prevents the Agency from fulfilling the Transbay Affordable Housing Obligation with respect to Agency Transfer Parcel F, Redevelopment Block 4, or any other portion of Agency Transfer Parcels O, O', and O''.

If there is a default under the Credit Agreement, and a resulting foreclosure under the Parcel F Deed of Trust or any Block 4 Deed of Trust, the purchaser or purchasers and their successors and assigns, and the property, will continue to be subject to the Transbay Affordable Housing Obligation, and the Agency will retain the obligation and authority to determine the infrastructure, affordable housing, and open space requirements that apply to any development on all or any portion of Agency Transfer Parcel F or Redevelopment Block 4.

TJPA, the Agency, and the Director of Property believe that the Option Agreement Amendment and the Bridge Loan are in the best interests of the taxing entities, including the City and TJPA, to (1) facilitate timely completion of construction of Phase 1 of the Project, which is a public benefit, will help to revitalize the Project Area and stimulate private investment, and is a central part of the Project; (2) facilitate the Agency's timely implementation of the disposition and development of Redevelopment Block 4 and Agency Transfer Parcel F under the Plan; (3) facilitate the Agency's fulfillment of the Transbay Affordable Housing Obligation; and (4) generate timely receipt of property tax revenues by the taxing entities.