

File No. 161242

Committee Item No. 13

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date December 7, 2016

Board of Supervisors Meeting

Date _____

Cmte Board

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Completed by: Linda Wong Date December 2, 2016

Completed by: Linda Wong Date _____

1 [Successor Agency Affordable Housing Funding - Use of Redevelopment Property Tax Trust
2 Fund to Secure Bonds - Funding Affordable Housing Development Enforceable Obligations]

3 **Resolution consenting to the use of the Redevelopment Property Tax Trust Fund by the**
4 **Successor Agency to the Redevelopment Agency of the City and County of San**
5 **Francisco to secure bonds approved in the FY2016-2017 budget and authorized under**
6 **state law for affordable housing obligations, which include the Candlestick Point-**
7 **Hunters Point Shipyard Phases 1 and 2 under the Hunters Point Shipyard Phase 1**
8 **Disposition and Development Agreement and the Candlestick Point-Hunters Point**
9 **Shipyard Phase 2 Disposition and Development Agreement; Mission Bay North and**
10 **Mission Bay South under the Mission Bay North and South Owner Participation**
11 **Agreements; and the Transbay Project Area under the Transbay Implementation**
12 **Agreement.**

13
14 WHEREAS, The Successor Agency to the Redevelopment Agency of the City and
15 County of San Francisco, commonly known as the Office of Community Investment and
16 Infrastructure, ("Successor Agency" or "OCII"), is implementing enforceable obligations and
17 surviving redevelopment projects of the Redevelopment Agency of the City and County of San
18 Francisco ("Former Agency") in accordance with the Community Redevelopment Law, Cal.
19 Health & Safety Code, Sections 33000 et seq. (the "Law"), as amended by the
20 Redevelopment Dissolution Law, Cal. Health & Safety Code, Sections 34170 et seq. (the
21 "Redevelopment Dissolution Law"), and with Ordinance No. 215-12 (Oct. 4, 2012); and

22 WHEREAS, The Board of Supervisors approved, by Resolution No. 314-16 (July 29,
23 2016), OCII's budget for the FY2016-2017 (the "Budget") and its issuance of bonds in the
24 principal amount of not to exceed \$185,000,000 for the purpose of financing a portion of the
25 Budget, which includes funding for approximately 900 units of affordable housing,

1 approximately 460 of which are to be located in the Candlestick Point-Hunters Point Shipyard
2 Phase 2 Project Site; and

3 WHEREAS, The Law and Ordinance No. 314-16 authorize the Successor Agency
4 Commission (also known as the Commission on Community Investment and Infrastructure
5 "CCII") to issue, subject to approval by the Oversight Board and the California Department of
6 Finance, bonds to carry out enforceable obligations that satisfy the statutory criteria under
7 Cal. Health and Safety Code, Section 34177.7; and

8 WHEREAS, OCII has enforceable obligations to fund and develop (1) affordable
9 housing in Candlestick Point-Hunters Point Shipyard Phases 1 and 2 under the Hunters Point
10 Shipyard Phase 1 Disposition and Development Agreement and the Candlestick Point-
11 Hunters Point Shipyard Phase 2 Disposition and Development Agreement; (2) affordable
12 housing in Mission Bay North and Mission Bay South under the Mission Bay North and South
13 Owner Participation Agreements; and (3) affordable housing along with associated public
14 open space and streetscape infrastructure in the Transbay Project Area under the Transbay
15 Implementation Agreement (the "Enforceable Obligations"); and

16 WHEREAS, The California legislature enacted Section 9 of Senate Bill No. 107 (Stats.
17 2015, ch. 325) (codified at Cal. Health & Safety Code, Section 34177.7) ("SB 107")
18 authorizing OCII to issue bonds to finance the construction of 3,361 units of affordable
19 housing to be built under the Enforceable Obligations, which survived the dissolution of the
20 Former Agency; and

21 WHEREAS, Since the passage of SB 107 OCII has continued to fulfill its Enforceable
22 Obligations to fund affordable housing units using other available sources, leaving
23 approximately 2,800 affordable housing units to be funded; and

24 WHEREAS, SB 107 authorizes OCII to secure new bonded indebtedness with property
25 tax revenue available in the Redevelopment Property Tax Trust Fund from several project

1 areas that generated tax increment for the Former Redevelopment Agency upon its
2 dissolution (Stats. 2015, ch. 325, Section 29); and

3 WHEREAS, SB 107 declares that the state authorization of OCII to issue bonds is
4 special legislation “because of the unique circumstances relating to affordable housing in the
5 City and County of San Francisco in conjunction with the affordable housing and infrastructure
6 requirements of the enforceable obligations” (Stats. 2015, ch. 325, Section 29); and

7 WHEREAS, The Budget, as approved by the Board of Supervisors, explicitly relies on
8 the financing authority granted under SB 107 to fund, among other things, affordable housing
9 projects in the Candlestick Point-Hunters Point Shipyard area and to secure those bonds with
10 property tax increment generated from various redevelopment project areas, Budget at p. 9
11 (attached as Exhibit A to Resolution No. 314-16); and

12 WHEREAS, The enforceable obligations associated with the Candlestick Point-Hunters
13 Point Shipyard include a Tax Increment Allocation Pledge Agreement (“Tax Allocation
14 Agreement”) that irrevocably pledges tax increment from the Project Site for certain
15 development costs and that limits the use of tax increment from other redevelopment project
16 areas (“Outside Increment”) to fund the costs of development at the Candlestick Point-Hunters
17 Shipyard Project Site; and

18 WHEREAS, The limitation on the use of Outside Increment was consistent with the
19 Law before it was amended to dissolve redevelopment agencies; and

20 WHEREAS, Prior to dissolution, the Law required that tax increment generated in a
21 project area had to be spent for redevelopment purposes in that project area; and

22 WHEREAS, This limitation also had the effect of preserving funding for redevelopment
23 projects planned in other project areas; and

1 WHEREAS, The Redevelopment Dissolution Law terminated all funding of
2 redevelopment projects unless they were subject to an enforceable obligation that pre-dated
3 redevelopment dissolution and satisfied other statutory criteria; and

4 WHEREAS, Furthermore, the Redevelopment Dissolution Law requires that property
5 tax revenues previously characterized as project area tax increment shall be aggregated and
6 deposited into the Redevelopment Property Tax Trust Fund of each successor agency for use
7 in funding enforceable obligations, subject to any pledge agreement that may have earmarked
8 funding for certain projects; and

9 WHEREAS, The limitation on the use of Outside Increment in the Tax Allocation
10 Agreement prevents OCII from issuing bonds for the funding of affordable housing under SB
11 107, precludes OCII from accelerating its funding and development of affordable housing
12 development at the Candlestick Point-Hunters Point Shipyard Phase 2 Project Site, and is
13 inconsistent with the Budget approved by the Board of Supervisors in Resolution No. 314-16
14 and the Redevelopment Dissolution Law; and

15 WHEREAS, OCII has requested that the Board of Supervisors acknowledge that the
16 limitation of Outside Increment for affordable housing development is inconsistent with the
17 Budget and Redevelopment Dissolution Law and no longer fulfills its original purposes; now,
18 therefore, be it

19 RESOLVED, By the Board of Supervisors that it does hereby consent to the use of
20 Outside Increment deposited in the Redevelopment Property Tax Trust Fund for the exclusive
21 purpose of funding affordable housing development that OCII is required to build under its
22 Enforceable Obligations.

Item 13 File 16-1242	Department: Office of Community Investment and Infrastructure (OCII)
EXECUTIVE SUMMARY	
Legislative Objectives	
<p>The proposed resolution would provide the Board of Supervisors' consent, under the Tax Allocation Agreement for Candlestick Point-Hunters Point Shipyard, to permit the use of tax increment generated in other former redevelopment areas, and deposited in the Redevelopment Property Tax Trust Fund, to finance remaining affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area.</p>	
Key Points	
<ul style="list-style-type: none"> • The Office of Community Investment and Infrastructure (OCII) is the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, which was dissolved by State law in February 2012. OCII is responsible for implementing the enforceable obligations committed to by the former Redevelopment Agency. • The Redevelopment Dissolution Law permitted all tax increment financing generated in any of the former redevelopment areas in the City to be aggregated and deposited into the Redevelopment Property Tax Trust Fund, which can now be used to fund any remaining affordable housing enforceable obligations. California Senate Bill 107 (SB 107), passed in September 2015, authorized OCII to issue new bonds secured by property tax increment in the City's Redevelopment Property Tax Trust Fund to finance remaining affordable housing enforceable obligations. • The Candlestick Point-Hunters Point Shipyard Tax Allocation Agreement specifically prohibits the use of tax increment from other redevelopment areas to fund projects within the Candlestick Point-Hunters Point Shipyard former redevelopment area. Therefore, none of the pooled tax increment funds currently in the Redevelopment Property Tax Trust Fund, except for the small amount generated in the Candlestick Point-Hunters Point Shipyard, can be used in this project area, which is inconsistent with Redevelopment Dissolution Law. 	
Fiscal Impact	
<ul style="list-style-type: none"> • OCII plans to issue \$185 million in tax allocation bonds secured by monies in the Redevelopment Property Tax Trust Fund to finance affordable housing and infrastructure enforceable obligations. \$112 million of these bonds will be used for affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area. 	
Recommendations	
<ul style="list-style-type: none"> • Amend Page 1, Lines 3-12, of the proposed resolution to state, "Resolution consenting to the use of outside increment deposited in the Redevelopment Property Tax Trust Fund for the exclusive purpose of funding affordable housing development that the Office of Community Investment and Infrastructure is required to build under its Enforceable Obligations." • Approve the proposed resolution, as amended. 	

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

In addition, state law governs the activities of the Office of Community Investment and Infrastructure, operating as the Successor Agency to the Redevelopment Agency of the City and County of San Francisco, which is a separate public entity from the City and County of San Francisco under the Community Redevelopment Law, as amended by the Redevelopment Dissolution Law, Cal. Health & Safety Code §§ 34170 et seq.

BACKGROUND

The Office of Community Investment and Infrastructure (OCII) is the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Redevelopment Agency), which was dissolved by State law in February 2012.¹

Former Redevelopment Agency Enforceable Obligations

OCII is responsible for implementing the enforceable obligations committed to by the former Redevelopment Agency. These enforceable obligations include the development of affordable housing and infrastructure projects in the following former redevelopment areas: (1) Candlestick Point-Hunters Point Shipyard; (2) Mission Bay North and South; and (3) Transbay Project Area. The California Department of Finance has authorized the funding and completion of these enforceable obligations; and the Board of Supervisors has delegated this state authority to OCII (Ordinance No. 215-12).

OCII develops a Recognized Obligation Payment Schedule each fiscal year which identifies specific expenditures to complete the enforceable obligations. OCII requests funds from the Redevelopment Property Tax Trust Fund, which maintains property tax increment pooled from all eleven former redevelopment areas, to fund these expenditures. The City allocates property tax increment from the Fund to OCII for approved expenditures.

The Board of Supervisors approved OCII's FY 2016-17 and FY 2017-18 two-year budget on July 19, 2016, which included \$185 million to finance OCII's enforceable obligations for affordable housing and infrastructure in the former redevelopment areas.

Senate Bill 107 – Expansion of OCII Bond Issuance Authority

Prior to the Redevelopment Agency's dissolution, state law required that tax increment generated in a redevelopment project area had to be spent on activities within the same project area. In addition, the City and the former Redevelopment Agency entered into a Tax

¹ Rules related to OCII as the Successor Agency are codified in California Health & Safety Code Sections 34170 et seq.

Increment Allocation Pledge Agreement (Tax Allocation Agreement) for some redevelopment projects, namely Mission Bay North and South and Candlestick Point-Hunters Point Shipyard that contractually committed tax increment to be spent in a specific project area for particular purposes including infrastructure and affordable housing.

The Redevelopment Dissolution Law² preserved, with state approval, these Tax Allocation Agreements, but otherwise permitted all tax increment financing generated in any of the eleven former redevelopment areas in the City to be aggregated and deposited into the Redevelopment Property Tax Trust Fund, which can now be used to fund any remaining affordable housing enforceable obligations in the City.

Additionally, California Senate Bill 107 (SB 107)³, passed in September 2015, authorizes OCII to issue new bonds secured by property tax increment in the City's Redevelopment Property Tax Trust Fund, to finance the construction of remaining affordable housing and certain Transbay infrastructure obligations as required by redevelopment agreements prior to the dissolution of the Redevelopment Agency. Since the dissolution of the former Redevelopment Agency, OCII has not issued new bonds secured by property tax increment for affordable housing. SB 107 now authorizes this bond financing for affordable housing development.

In OCII's FY 2016-17 budget, the Board of Supervisors approved OCII's use of the Redevelopment Property Tax Trust Fund to secure \$185,000,000 in bonds, authorized under state law, for enforceable affordable housing and infrastructure obligations for the Candlestick Point-Hunters Point Shipyard, Mission Bay North, Mission Bay South and Transbay projects.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would provide the Board of Supervisors' consent, under the Tax Allocation Agreement for Candlestick Point-Hunters Point Shipyard, to permit the use of tax increment generated in other former redevelopment areas, and deposited in the Redevelopment Property Tax Trust Fund, to finance remaining affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area.

The proposed resolution should be amended on Page 1, Lines 3-12 to read: "Resolution consenting to the use of outside increment deposited in the Redevelopment Property Tax Trust Fund for the exclusive purpose of funding affordable housing development that the Office of Community Investment and Infrastructure is required to build under its Enforceable Obligations" to clarify the intent of the legislation.

As discussed above, the Redevelopment Dissolution Law permits all tax increment generated in any of the former San Francisco redevelopment areas, except for increment that may be subject to a Tax Allocation Agreement, to be aggregated and deposited into the Redevelopment Property Tax Trust Fund, to be used to fund any remaining City affordable housing enforceable obligations. However, the Candlestick Point-Hunters Point Shipyard Tax Allocation Agreement

² California Health & Safety Code, Sections 34170 et seq.

³ Codified in Cal. Health & Safety Code § 34177.7

specifically prohibits the use of tax increment from other redevelopment areas to fund projects within the Candlestick Point-Hunters Point Shipyard former redevelopment area (“Outside Increment”). Therefore, none of the pooled tax increment funds currently in the Redevelopment Property Tax Trust Fund, except for the small amount generated in the Candlestick Point-Hunters Point Shipyard, can be used in this project area.

According to Ms. Bree Mawhorter, Deputy Director of Finance and Administration at OCII, this provision is inconsistent with Redevelopment Dissolution Law, SB 107, as well as with other Tax Allocation Agreements that allow OCII to use other project areas’ tax increment to fund affordable housing.

FISCAL IMPACT

As previously discussed, SB 107 authorizes OCII to issue new debt secured by the property tax increment revenue available in the Redevelopment Property Tax Trust Fund. OCII plans to issue \$185,000,000 in tax allocation bonds secured by monies in the Redevelopment Property Tax Trust Fund to finance affordable housing and infrastructure, as shown in Table 1 below. This would be OCII’s first issuance of new debt under the new SB 107 guidelines.

Table 1: Budget for \$185M Tax Allocation Bonds

Former Redevelopment Area	Enforceable Obligation	Amount
Candlestick Point – Hunters Point Shipyard	536 units of affordable housing	\$112,000,000
Transbay	Infrastructure	\$50,000,000
Mission Bay	316 units of affordable housing	\$23,000,000*
Total		\$185,000,000

Source: OCII

*In addition to issuing \$23 million in new bonds, OCII plans to refund \$32 million in previously issued bonds, plus financing costs, for a total issuance of \$55 million for the Mission Bay former redevelopment area.

Given that the Transbay and Mission Bay former redevelopment areas are not subject to Tax Allocation Agreements restricting the use of Outside Increment, the proposed resolution only applies to the \$112 million bond issuance for current and future affordable housing enforceable obligations in the Candlestick Point-Hunters Point Shipyard former redevelopment area.

Bond Financing Terms and Debt Service for Candlestick Point-Hunters Point Shipyard

OCII plans to issue an initial \$112 million in tax allocation bonds (Series 2017A) to finance 536 units of affordable housing enforceable obligations, as shown in Table 1 above. According to Ms. Mawhorter, OCII estimates annual interest rates for the Series 2017A affordable housing bonds of to be 8 percent, with a 28-year term. The estimated interest rate is “true interest cost” which includes the cost of financing, and is therefore higher than market interest rates. Ms. Mawhorter notes that this is a conservative estimate, given current market volatility, and the

final interest rate will be subject to market conditions at the time of issuance. The bonds are expected to be issued in February 2017.

Based on a conservative 8 percent interest rate for 28 years, OCII estimates the total debt service for the \$112 million bonds to be \$235,199,389 over the 28-year term, including \$139,529,389 in interest payments. Annual debt service is estimated to be \$8,399,978 per year, as shown in Table 2 below.

Table 2: Debt Service Terms for \$112M in Affordable Housing Bonds for Candlestick Point-Hunters Point Shipyard

Series	Par Amount*	Term	Total Interest	Total Debt Service	Average Annual Debt Service
2017A Taxable Affordable Housing	\$112,000,000	28 years	\$139,529,389	\$235,199,389	\$8,399,978

Source: OCII

*Includes cost of issuance, reserve fund, and project fund

In FY 2015-16, property tax increment from the City’s former redevelopment areas generated \$206,143,505 for the Redevelopment Property Tax Trust Fund. OCII drew down \$122,312,283 in FY 15-16. OCII anticipates there will be sufficient funding in the Fund to pay the additional financing costs over the next 28 years.

Any unused funds in the Redevelopment Property Tax Trust Fund will be distributed to the taxing entities, of which the City and County of San Francisco is the largest.


RECOMMENDATIONS

1. Amend Page 1, Lines 3-12, of the proposed resolution to state, “Resolution consenting to the use of outside increment deposited in the Redevelopment Property Tax Trust Fund for the exclusive purpose of funding affordable housing development that the Office of Community Investment and Infrastructure is required to build under its Enforceable Obligations.”
2. Approve the proposed resolution, as amended.

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *for* Mayor Edwin M. Lee 
RE: Successor Agency Affordable Housing Funding
DATE: November 15, 2016

Attached for introduction to the Board of Supervisors is a resolution consenting to the use of the Redevelopment Property Tax Trust Fund by the Successor Agency to the Redevelopment Agency of the City and County of San Francisco to secure bonds approved in the FY 2016-2017 budget and authorized under state law for enforceable obligations related to affordable housing development.

Please note that this legislation is co-sponsored by Supervisor Cohen.

I respectfully request that this item be calendared in Budget & Finance Committee on November 30, 2016.

Should you have any questions, please contact Nicole Elliott at (415) 554-7940.

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