

RESOLUTION NO. 122-2006

Adopted September 19, 2006

**AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE WITH
MERCY HOUSING XVII, L.P., A CALIFORNIA LIMITED
PARTNERSHIP: (1) A FIRST AMENDMENT TO A FINANCIAL
ADJUSTMENT FACTOR CAPITAL LOAN AGREEMENT IN AN
AMOUNT OF \$1,560,000 FOR A TOTAL AGGREGATE AMOUNT
NOT TO EXCEED \$2,626,000; AND (2) A SECOND AMENDMENT TO
THE GROUND LEASE; IN CONJUNCTION WITH THE
REFINANCING OF 68 UNITS OF VERY LOW-INCOME RENTAL
HOUSING UNITS AT THE DEREK SILVA COMMUNITY, 20
FRANKLIN STREET; HOUSING OPPORTUNITIES FOR PERSONS
WITH AIDS PROGRAM**

BASIS FOR RESOLUTION

1. Pursuant to the HUD Appropriations Act of 1994, the HUD Appropriations Act of 1995, the Balance Down Payment Act II, and the HUD Appropriations Act of 1997, the Redevelopment Agency of the City and County of San Francisco (the "Agency") is authorized under a Refunding Agreement, dated as of December 3, 1997, between the United States Department of Housing and Urban Development ("HUD") and the Agency, to administer funds (the "Financial Adjustment Factor Funds" or "FAF Funds") recaptured from the refinancing of qualified projects, as defined by Section 1012(a) of the Stewart B. McKinney Homeless Assistance Amendments Act of 1988, as amended by the Housing and Community Development Act of 1992, enabling the Agency to implement the Plan for Use of McKinney Act Savings (the "Plan").
2. The Plan, developed by the Agency and approved by HUD, requires that the FAF Funds are used to provide housing or housing assistance for very low-income persons.
3. On December 31, 2001, Mercy Housing California XVII, a California limited partnership (the "Developer"), acquired the Derek Silva Community, consisting of 61 residential units and approximately 6,400 square feet of ground floor commercial space, located at 20 Franklin Street in San Francisco, California, and the improvements thereon (the "Property" or "Project"), in part with a loan of federal Housing Opportunities for Persons With AIDS ("HOPWA") funds approved by the Commission on December 4, 2001, pursuant to Resolution Number 212-2001.
4. The Developer secured financing to rehabilitate the Property to increase the number of residential units available to very low-income people living with

HIV/AIDS from 61 to 68, and to make needed structural and electrical improvements.

5. The Commission approved a resolution expressing its intent to issue tax-exempt mortgage revenue bonds to provide permanent and construction financing for the Project on February 19, 2002, pursuant to Resolution Number 29-2002. The California Debt Limit Allocation Committee awarded the Project a bond allocation of up to \$13,300,000 in September 2002. The Developer also secured a 4% tax credit allocation from the California Tax Credit Allocation Committee and an award from the State of California's Multifamily Housing Program.
6. The Developer obtained a Section 8 project-based voucher allocation from the San Francisco Housing Authority ("SFHA") for 90% of its 68 units (61 units). The projected rent levels that determine the subsidy amount for these vouchers were estimated at a significantly higher amount than was finally approved by the SFHA due to the decline in the rental housing market over the last few months. This reduction created a shortfall in the amount of funding available to rehabilitate and operate the Project.
7. The Developer then requested additional funds in the amount of one million sixty six thousand dollars (\$1,066,000) to meet this shortfall and fully fund the rehabilitation.
8. On December 10, 2002, the following actions were completed:
 - A. the execution of a loan in the amount of \$1,066,000 of federal FAF Funds to rehabilitate the Property (the "Loan"), pursuant to Agency Resolution Number 214-2002;
 - B. the issuance of Multifamily Housing Revenue Bonds in the amount of \$11,650,000, pursuant to Agency Resolution Number 215-2002;
 - C. the transfer of the land portion of the Property to the Agency as repayment of the HOPWA Loan, and the execution of a Ground Lease to lease the land back to the Developer, pursuant to Agency Resolution Number 216-2002; and
 - D. the execution of a Standby Payment Agreement to guarantee the payment of the Multifamily Housing Revenue Bonds in an amount not to exceed \$5,440,000, pursuant to Agency Resolution Number 216-2002.
9. On December 16, 2003, by Resolution No. 2003-187, the Agency executed a First Amendment to the FAF Capital Loan Agreement with the Developer to amend the rehabilitation completion date.
10. On December 10, 2002, the land portion of the Property was transferred to the Agency as repayment of the HOPWA Loan, and the Ground Lease to lease the

land back to the Tenant was executed, pursuant to Agency Resolution Number 216-2002. On March 2, 2004, pursuant to Agency Resolution Number 29-2004, the Ground Lease was amended to clarify the accounting of contingent rent.

11. The Project was completed in 2004 and has been in operation since that time. However, the Project has since received a reduction in Section 8 funding and several unanticipated increases in operating expenses.
12. The Developer has requested additional funds in the amount of one million five hundred and sixty thousand dollars (\$1,560,000) to pay down existing mortgage debt on the Property, thereby allowing sufficient operating income to maintain financial stability of the Project.
13. The second amendment to the Ground Lease requires a reduction in rent to allow for the ongoing financial feasibility of the Project.
14. On August 18, 2006, the Citywide Affordable Housing Loan Committee reviewed the requested actions and recommended Commission approval of such actions.
15. The Agency now desires to execute a FAF Capital Loan Agreement with the Developer for loan funds in an amount not to exceed \$1,066,000 and to amend the Ground Lease to reduce annual payments to the Agency.

RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that the Executive Director is authorized to execute with Mercy Housing California XVII, a California limited partnership, the following: a First Amendment to a Financial Adjustment Factor Capital Loan Agreement, for \$1,560,000 for a total aggregate amount not to exceed \$2,626,000; and (2) a Second Amendment to the Ground Lease; for the continued operation of 68 units of very low income housing at the Derek Silva Community at 20 Franklin Street, substantially in the form lodged with the Agency General Counsel.

APPROVED AS TO FORM:



for James B. Morales 9/14/04
Agency General Counsel