

RESOLUTION NO. 118-2008

Adopted October 7, 2008

AUTHORIZING A LOAN AGREEMENT IN AN AMOUNT NOT TO EXCEED \$3,600,000 TO FUND A PORTION OF THE CONSTRUCTION OF A HEALTH CENTER AND A GROUND LEASE TO LEASE A PORTION OF THE SITE LOCATED AT 227-255 SEVENTH STREET, FOR THE DEVELOPMENT AND OPERATION OF A HEALTH CENTER, WITH THE SAN FRANCISCO MEDICAL CENTER OUTPATIENT IMPROVEMENT PROGRAMS, INC., A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION, D/B/A SOUTH OF MARKET HEALTH CENTER, AND ADOPTING ENVIRONMENTAL FINDINGS PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT; SOUTH OF MARKET REDEVELOPMENT PROJECT AREA

BASIS FOR RESOLUTION

1. In furtherance of the objectives of the California Community Redevelopment Law (Health and Safety Code Section 33000 et seq., the "Law"), the Redevelopment Agency of the City and County of San Francisco (the "Agency") undertakes programs for the reconstruction and rehabilitation of slums and blighted areas in the City and County of San Francisco (the "City").
2. Pursuant to the Law, the Board of Supervisors of the City established the South of Market Earthquake Recovery Redevelopment Project Area (the "Project Area") and adopted the South of Market Earthquake Recovery Redevelopment Plan (as amended, the "Redevelopment Plan").
3. The Agency is authorized pursuant to the Law to increase and maintain the affordability of the housing stock in the City for affordability by very-low, low- and moderate-income households and to develop commercial, public or other structures or spaces as may be appropriate or necessary in the interest of the general welfare.
4. The existing South of Market Health Center facility, operated by the San Francisco Medical Center Outpatient Improvement Programs, Inc., a California nonprofit public benefit corporation, d/b/a South of Market Health Center ("SMHC"), does not meet earthquake standards and is inadequate to satisfy the primary health needs of existing and future residents. SMHC identified the property at 227-255 Seventh Street (the "Property") and approached the Agency and Mercy Housing California, a California nonprofit public benefit corporation ("MHC"), to assist with negotiations to build a mixed-use project on the Property. MHC and SMHC entered into a purchase agreement, dated January 9, 2003, with the seller, the Living Trust of Wayne & Therese Batmale, and together MHC and SMHC acquired the Property for \$5,459,000 in April 2003.

5. MHC and SMHC entered into a Memorandum of Understanding (the “MOU”) on February 6, 2003 describing their roles and responsibilities relating to the proposed mixed-use development. MHC and SMHC agreed in the MOU to subdivide the Property into two separate legal parcels and construct a mixed-use development consisting of approximately 49 units of affordable rental housing on one parcel (owned and operated by MHC) (the “Housing Project”) and the construction of a new 20,000 square-foot health center on the second parcel (owned and operated by SMHC) (the “Clinic Project”, together with the Housing Project, the “Project”).
6. SMHC and MHC entered into an amended MOU on July 22, 2003 to further define their roles and responsibilities as they relate to the collaborative effort to build the Project. SMHC and MHC shall work exclusively with each other to develop the Project. The parties agree SMHC will independently finance, own, and operate the health center. SMHC and MHC intend to transfer the Property to the Agency. The Agency will then execute separate ground leases with SMHC and MHC respectively.
7. On March 18, 2003, by Resolution No. 40-2003, the Agency Commission authorized a grant agreement with SMHC for a predevelopment grant (the “Grant Agreement”) in the amount of \$216,567 and an acquisition grant in the amount of \$1,204,350 for a total aggregate amount not to exceed \$1,420,917 (the “Grant Amount”). The Grant Amount was intended to enable SMHC to pay for its prorated share of acquisition costs of the Property.
8. On November 18, 2003, by Resolution No. 175-2003, the Agency Commission authorized a First Amendment to the Grant Agreement to require SMHC and MHC to jointly manage the Property prior to the start of construction. The initial term of the Grant Agreement expired on June 30, 2005. At that time, SMHC had raised over \$1,370,925 in capital funding and had \$1,000,000 in equity to be used for construction of the new health center.
9. On November 7, 2006, by Resolution No. 144-2006, the Agency Commission authorized execution of a Second Amendment to the Grant Agreement with SMHC to increase the Grant Agreement amount by \$588,061 for additional predevelopment expenses for a total aggregate amount of \$2,008,978 and extend the schedule of performance from June 30, 2005 to December 31, 2007.
10. On March 18, 2008, by Resolution No. 8-2008, the Agency Commission authorized a Third Amendment to the Grant Agreement to extend the term from December 31, 2007 to March 31, 2009, and to increase the Grant Amount by \$170,476 for a total aggregate amount of \$2,179,454 for additional predevelopment costs.

11. A subdivision map will be filed that will subdivide the Property into two air rights parcels, based on the amount of space that will be occupied by the health center and the Housing Project and subject to the Agency Commission's authorization, the Agency will enter into a Ground Lease with SMHC.
12. The proposed terms of the Ground Lease include: (a) an initial term of 60 years, with an option to extend the lease for one, 39-year period for a total lease term not to exceed 99 years; (b) payment by SMHC to the Agency of \$1 per year to lease the site; and (c) SMHC maintenance of the site as a health center for the term of the lease.
13. In addition, SMHC is requesting a forgivable loan in an amount not to exceed \$3,600,000 (the "Loan Amount") to pay for work associated with the construction of its new health center.
14. The proposed terms of the loan agreement (the "Loan Agreement") include the forgiveness of the Loan Amount over 40 years. The Loan Amount includes \$1,000,000 of Community Development Block Grant ("CDBG") funds and the distribution of such federal funds requires the approval of the U.S. Department of Housing and Urban Development ("HUD"); thus, the Agency Commission's approval of the CDBG portion of the Loan Amount is conditioned on the Agency's receipt of HUD's approval of the release of the funds for SMHC's project.
15. The Project also is in the process of receiving the State Office of Historic Preservation's approval for historic resources pursuant to Section 106 of the National Environmental Protection Act.
16. Based on the analysis contained in the Final Environmental Impact Report for the Project (the "FEIR"), and the findings pursuant to the California Environmental Quality Act ("CEQA") adopted by the San Francisco Planning Commission (the "Planning Commission") on June 7, 2007, in Motion No. 17441 certifying the FEIR, and in Motion No. 17442 approving the conditional use authorization for the Project and establishing a Mitigation Monitoring Program that attaches mitigation measures identified in the FEIR to the conditional use authorization, Agency staff requests that the Agency Commission adopt findings in accordance with CEQA that the Loan Agreement and Ground Lease are Implementing Actions for the construction of the Project, pursuant to the approvals granted by the Planning Commission. Staff, in making the necessary findings for the Implementing Actions contemplated herein, considered and reviewed the FEIR. Documents related to the Implementing Actions and the FEIR have been and continue to be available for review by the Agency Commission and the public and are part of the record before the Agency Commission.

FINDINGS

1. The Agency Commission hereby finds that the approval of the Loan Agreement and Ground Lease, and the use of funds for the development of the health center, will be of benefit to the South of Market Redevelopment Project Area.
2. The Agency Commission hereby further finds and determines that the Loan Agreement and Ground Lease are Implementing Actions for the construction of the Project pursuant to the approvals granted by the Planning Commission and requires no additional environmental review pursuant to State CEQA Guidelines Section 15096 for the following reasons:
 - a. The Implementing Actions will not change the scope of the Project analyzed in the FEIR and no major revisions are required due to the involvement of new significant environmental effects or a substantial increase in the severity of significant effects previously identified in the FEIR.
 - b. No substantial changes have occurred with respect to the circumstances under which the Project analyzed in the FEIR was undertaken that would require major revisions to the FEIR due to the involvement of new significant environmental effects, or a substantial increase in the severity of effects identified in the FEIR.
 - c. No new information of substantial importance to the Project analyzed in the FEIR has become available that would indicate that (a) the Implementing Action will have significant effects not discussed in the FEIR; (b) significant environmental effects will be substantially more severe; (c) mitigation measures found not feasible that would reduce one or more significant effects have become feasible; or (d) mitigation measures or alternatives that are considerably different from those in the FEIR will substantially reduce one or more significant effects on the environment.
3. The Agency Commission hereby further finds, pursuant to State CEQA Guidelines Section 15091, that the FEIR and Planning Commission Motions No. 17441 and 17442 were and remain adequate, accurate and objective and are applicable to the Implementing Actions.
4. The Agency Commission hereby declares the following Statement of Overriding Considerations, pursuant to CEQA Guidelines Sections 15096(h) and 15093:
 - a. As detailed in Planning Commission Motion No. 17441, that the Project will contribute to a significant and unavoidable impact on historical resources associated with the demolition of the 227 Seventh Street Building and a cumulative significant and unavoidable effect on the potential South of Market historic district, and cumulative significant and

unavoidable land use impacts associated with the anticipated future loss of Production, Distribution and Repair (“PDR”) space in San Francisco and the associated loss of PDR businesses and jobs.

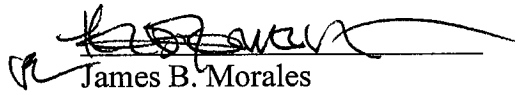
- b. The following specific overriding economic, legal, social, and other considerations outweigh the identified significant effects on the environment:
 - i. Project implementation will alleviate blight and encourage revitalization of the Project Area.
 - ii. Project implementation will improve residential conditions and encourage residential activity through the creation, retention and rehabilitation of housing affordable by very low-income families.
 - iii. Project implementation will promote the development of commercial and industrial facilities that will lead to increased business activity and improved economic conditions in and around the Project Area.
 - iv. Project implementation will lead to improved housing opportunities and help alleviate City and regional housing needs, especially the high demand for affordable housing.
 - v. Project implementation will facilitate transit-oriented development in the area in support of the City’s Transit First Policy.
 - vi. Project implementation will assist with coordinated land use planning and revitalization strategies between the existing South of Market Redevelopment Project Area and the surrounding South of Market planning area.
- 5. Having considered these Project benefits, the Agency finds that the Project’s benefits outweigh the unavoidable adverse environmental effects, and that the adverse environmental effects are therefore acceptable.
- 6. The Agency Commission hereby further finds that, based on the FEIR and Planning Commission Motions No. 17441 and 17442, all other impacts of the Project would either be less than significant or could be mitigated to less than significant levels, with implementation of the Mitigation Monitoring Program.

RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that (1) it has reviewed and considered the Final Environmental Impact Report and hereby adopts the CEQA findings set forth herein and (2) that the Executive Director is authorized to enter into a the Loan Agreement in an amount not to exceed \$3,600,000 to fund a portion of the construction of the health center and a Ground

Lease for the development and operation of the health center located at 227-255 Seventh Street, with San Francisco Medical Center Outpatient Improvement Programs, Inc., a California nonprofit public benefit corporation, d/b/a South of Market Health Center, to lease a portion of the site located at 227-255 Seventh Street, substantially in the form lodged with the Agency General Counsel.

APPROVED AS TO FORM:


James B. Morales
Agency General Counsel