

## RESOLUTION NO. 58-2011

*Adopted May 3, 2011*

**AUTHORIZING A FIRST AMENDMENT TO THE RENTAL ACQUISITION AND REHABILITATION PROGRAM LOAN AGREEMENT WITH CONARD HOUSE, INC., A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION, FOR THE MIDORI HOTEL, 77 UNITS OF VERY LOW-INCOME RENTAL HOUSING FOR RESIDENTS LIVING WITH MENTAL ILLNESS, TO REDUCE THE INTEREST RATE, COMMENCING ON THE EFFECTIVE DATE OF THE FIRST AMENDMENT, FROM 10% TO 3%, TO EXTEND THE TERM TO 55 YEARS, AND TO CONVERT THE DEBT SERVICE REQUIREMENTS FROM MANDATORY MONTHLY PRINCIPAL REPAYMENTS TO RESIDUAL RECEIPTS, 240 HYDE STREET; CITYWIDE TAX INCREMENT HOUSING PROGRAM**

### BASIS FOR RESOLUTION

1. In furtherance of the objectives of the California Community Redevelopment Law (Health and Safety Code Section, 33000 *et seq.*), the Redevelopment Agency of the City and County of San Francisco ("Agency") undertakes programs for the reconstruction and rehabilitation of blighted areas in the City and County of San Francisco and encourages the development of residential rental developments as affordable housing.
2. Conard House, Inc., a California nonprofit public benefit corporation ("Sponsor"), has provided permanent housing and supportive services to mentally ill tenants at the Midori Hotel since 1983. The Midori Hotel, which is located at 240 Hyde Street, consists of 77 units of single-room occupancy ("SRO") housing and space for ground floor support services ("Project").
3. On August 20, 1990, the Agency and Sponsor entered into a Rental Acquisition and Rehabilitation Program Loan Agreement ("Rental Acquisition Loan") in the amount of \$1,114,157. The Rental Acquisition Loan was evidenced by a Promissory Note ("Note"), and the Note was secured by a Deed of Trust and Assignment of Rents. These funds leveraged additional financing from the California Department of Housing and Community Development.
4. The Rental Acquisition Loan carries an interest rate of ten percent (10%) per annum from the date of the execution of the Note until the end of the 50-year term. Beginning in the 16<sup>th</sup> year of the term, Sponsor agreed to pay equal monthly payments on the principal amount of the Rental Acquisition Loan, amortized over the remaining term. Accrued interest was deferred and forgiven for the entire term as long as Borrower complied with the conditions and requirements of the Rental Acquisition Loan. Outstanding principal and accrued

interest, if applicable, were due at the end of the term. As of December 31, 2010, the value of the Rental Acquisition Loan, including accrued interest, was \$3,185,268.


5. Since 1990, when the Rental Acquisition Loan was executed, the financial realities for supportive rental housing have changed significantly. Operating expenses have inflated well beyond projections, tenants with mental illness have been unable to manage rent increases to cover operating cost increases, and federal rental subsidies such as Shelter + Care have not kept pace with operating expense inflation.
6. The current underwriting guidelines used by the San Francisco Mayor's Office of Housing and the Agency include standard loan terms that reflect the financial challenges inherent in supportive housing operations, which include a 55-year term, a residual receipts repayment structure, and an interest rate between 1% and 3%.
7. The Sponsor has requested that the Agency modify the terms of the Rental Acquisition Loan to conform to current Agency and City underwriting standards for supportive housing developments. In particular, Sponsor seeks to amend the Rental Acquisition Loan by reducing the loan interest rate to three percent (3%), modifying the loan's debt service requirements to a residual receipts structure, and changing the term to 55 years.
8. The Sponsor's request to modify the interest terms of its Rental Acquisition Loan is prospective only, without effect on the value of the interest that has accrued under the original terms of the Rental Acquisition Loan.
9. The proposed First Amendment to the Rental Acquisition and Rehabilitation Program Loan Agreement ("First Amendment") will allow for modification of the loan terms, including reducing the interest rate from 10% to 3%, extending the term to 55 years from the effective date of the First Amendment, and converting the debt service payments from mandatory monthly principal repayments to residual receipts. Approval of the First Amendment is an Agency administrative activity that would not have any direct physical effects on the environment and is not a "Project" as defined in California Environmental Quality Act Guidelines Section 15378(b)(5).

## RESOLUTION

**ACCORDINGLY, IT IS RESOLVED** by the Redevelopment Agency of the City and County of San Francisco that the Executive Director is authorized to:

1. Execute a First Amendment to the Midori Hotel Rental Acquisition and Rehabilitation Program Loan Agreement with Conard House, Inc., a California nonprofit public benefit corporation, substantially in the form lodged with the Agency General Counsel, in order to 1) reduce the interest rate from 10% to 3%, commencing on the effective date of the First Amendment; 2) extend the term of the Rental Acquisition Loan to 55 years from the effective date of the First Amendment; and 3) make the Rental Acquisition Loan repayment obligation during the term of the loan subject to the availability of surplus cash.
2. Enter into any and all ancillary documents or take any additional actions necessary to consummate the transaction authorized by this Resolution, in forms to be approved by the Agency General Counsel.

**APPROVED AS TO FORM:**

  
for James B. Morales  
Agency General Counsel