MEMORANDUM

TO: Agency Commissioners

FROM: Fred Blackwell, Executive Director

SUBJECT: Authorizing a First Amendment to a Ground Lease with 275 10th Street LLC, a California limited liability company for 1350 Folsom Street, 275 10th Street, and 72 Dore Street in conjunction with the development of 134 very low income rental units; Citywide Tax Increment Housing Program

EXECUTIVE SUMMARY

In July 2009, Episcopal Community Services (“ECS”), through their affiliate 275 10th Street LLC, a California limited liability company (the “Developer”), completed the development of 134 units of supportive housing plus one manager’s unit, at 1350 Folsom Street, 275 10th Street and 72 Dore Street (the “Project”). The building consists of four stories of residential units over ground floor uses including common areas, residential lobby, service space, property management offices, one small commercial space, and parking. The 134 SRO units are approximately 350 square feet and include a private bathroom and kitchenette. All residents are formerly homeless and referred from the City’s Human Services Agency (“HSA”). HSA also provides operating subsidies in the form of a Local Operating Subsidy Grant to supplement revenue received from rent payments. The Agency owns the land at the Project site and the Agency and the Mayor’s Office of Housing (“MOH”) provided funds for the development of the Project. MOH is managing the Project on behalf of the City.

On April 19, 2005, the Commission approved the Agency’s funding commitment of $4 million for site acquisition along with a ground lease with ECS (the “Ground Lease”) for the Project site. On June 22, 2005 the Ground Lease was assigned to the Developer. On July 17, 2007, the Commission approved a loan to the Developer in an amount not to exceed $5,250,000 for the development of the Project.

Permanent financing includes a Tax Increment Loan from the Agency, tax-exempt multifamily bonds, low income housing tax credit equity, McKinney SHP funds, Affordable Housing Funds from the Federal Home Loan Bank, an Affordable Housing Fund Loan from the City and County of San Francisco and a State Multifamily Housing Program (“MHP”) loan. In order to comply with MHP regulations, the Agency is changing the initial term of the Ground Lease from 65 to 70 years and removing the Developer’s right of first refusal to purchase the land in the event that the Agency sells the land. The full term of the Ground Lease would remain 99 years.

Staff recommends authorization of a First Amendment to the Ground Lease with 275 10th Street LLC.
DISCUSSION

Background
On March 22, 2004, Episcopal Community Services entered into a purchase agreement for the Site, with Milgran Family Trust ("Site Owner") for a purchase price of $4 million. On December 17, 2004, ECS submitted a proposal in response to a NOFA issued by the Agency and MOH for the development of supportive housing for formerly chronically homeless individuals and families. ECS’ proposal was for acquisition and predevelopment funding to acquire the Site and pay for predevelopment expenses related to the development of 140 SRO units for very low-income homeless individuals. On April 19, 2005 the Commission authorized the Agency’s acquisition of the Site along with the Ground Lease for the Project. On July 17, 2007, the Commission approved a loan in an amount not to exceed $5,250,000 for the Project. MOH has provided over $6.5 million for development of the Project.

Tax credit, bond, City and Agency financing closed in November 2007 and construction started in December 2007. Construction was completed in July 2009. The building is fully leased up and currently serving 134 formerly homeless residents.

Ground Lease Amendment
The original ground lease terms are $1 per year for an initial 65-year term with an option for extension for a 34-year term, for a total term of 99 years. A permanent State of California MHP loan in the amount of $7 million is the last financing source to be closed. In order to comply with MHP requirements, MHP has requested that the Agency extend the initial term of the Ground Lease to ensure that it ends at least 10 years after the 55 year term of the MHP loan. The First Amendment to the Ground Lease will change the initial term to 70 years and the extension term to 29 years. The total term of the Ground Lease will remain 99 years. In order to accommodate MHP’s requirements, the Agency is also removing the Developer’s right of first refusal to purchase the land in the event that the Agency sells the land.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

Authorizing the First Amendment to change the terms of the ground lease is an Agency administrative activity that will not cause any physical change in the environment, and is not subject to environmental review under the California Environmental Quality Act ("CEQA"), pursuant to CEQA Guidelines Section 15378(b)(5).

Staff recommends authorization of a First Amendment to the Ground Lease with 275 10th Street, LLC.

(Originated by Joan McNamara, Mayor’s Office of Housing and Elizabeth Colomello, Development Specialist)

Fred Blackwell
Executive Director