MEMORANDUM

TO: Agency Commissioners

FROM: Fred Blackwell
Executive Director

SUBJECT: Authorizing First Amendments to the Acquisition Loan Agreement and Predevelopment Loan Agreement with Third and LeConte Associates, LP, a California limited partnership, to substitute Mercy Housing Calwest, a California nonprofit, public benefit corporation, for Third and LeConte Housing, LLC, as the managing general partner and substitute South of Market Mercy Housing, A California nonprofit, public benefit corporation, for Citizens Housing as the limited partner of Third and LeConte Associates, LP, in conjunction with the development of 73 units of low-income rental housing at 6600 Third Street; Bayview Hunters Point Redevelopment Project Area

EXECUTIVE SUMMARY

On February 17, 2009, the Commission authorized Acquisition and Predevelopment Loan Agreements in an amount not to exceed $4,887,059 (the “Agreements”) with Third and LeConte Associates, LP (“Sponsor”), a limited partnership formed for the sole purpose of developing 73 units of very low income supportive rental housing for formerly homeless individuals and families and on-site supportive services at 6600 Third Street in the Bayview Hunters Point Redevelopment Project Area (“Project”). The Sponsor originally consisted of the Providence Foundation (“Providence”) and Citizens Housing Corporation (“Citizens”), with Michael Simmons Development Corporation providing project consulting and day-to-day development oversight (“Project Manager”).

In September 2009, Citizens Housing Corporation informed its various partners in affordable housing developments across the region that, due to recent economic conditions and its consequent loss of capacity, it would be transferring its development interests to other nonprofit organizations and cease operations in 2010. Providence and the Project Manager interviewed potential replacement partners and selected Mercy Housing California (“Mercy”) to assume the role of Citizens, and are now requesting Agency approval of this substitution, as well as an amendment to the Agreements to document this change and update the Sponsor contact information. A Mercy affiliate will replace Citizens as the Sponsor general partner, and as the limited partner in the Sponsor partnership. The Providence Foundation will continue as a co-general partner in the partnership, and Michael Simmons will continue as the Project Manager. Mercy Housing has extensive experience in affordable and supportive housing development, management, and services delivery, and promises to be an excellent development team member.
Staff recommends authorization of the Amendments indicating Commission approval of the proposed change of ownership structure for 6600 Third Street.

DISCUSSION

The Project

6600 Third Street will provide permanent, supportive rental housing to 72 households of formerly homeless families and single adults (an additional unit will house the building’s manager). A service provider selected by the Sponsor and San Francisco’s Human Services Agency (“HSA”) will provide case management and referral services directly to the Project’s tenants from on-site offices, as part of HSA’s Housing and Homeless Programs. In addition to services funding, HSA will also bridge the gap between the amount of rent tenants are able to pay and the Project’s cost of operations through contributions from the City’s Local Operating Subsidy Program (“LOSP”). HSA’s LOSP and Housing and Homeless Programs are successfully operating in developments throughout the City, and their success at each site is significantly enhanced through selection of tenants from a pool of households already working with HSA towards stability and self-sufficiency.

Tenants for the supportive housing will be referred from HSA-identified “access points”, which include a Bayview homeless shelter operated by the Providence Foundation since 2001. The shelter includes 125 beds for homeless families and individuals at 1602 McKinnon. Other HSA access points, such as Larkin Street Youth Services, will serve as referrals for six units designated specifically for transition-aged youth. The case management-based services program that will be implemented at 6600 Third Street treats each household individually and will leverage existing programs and services for the maximum benefit of Project residents.

Ownership Structure

The typical ownership structure for affordable housing development owners using low-income housing tax credits to finance construction of the buildings is a limited partnership, consisting of a general partner (or two co-general partners), and an investor limited partner. 6600 Third Street’s ownership entity is exactly this type, with Citizens serving as both limited partner and general partner until such time as the investor limited partner was to be selected. Investor limited partners are typically admitted to tax credit partnerships once the California Tax Credit Allocation Committee makes an allocation of tax credits to the development and the general partner/developer completes a competitive bid process for the investor.

In September 2009, Citizens announced that it would be closing its operations, and Providence commenced a search for a new partner in the limited partnership. It sought a non-profit developer partner with extensive development experience, a successful ownership and management track record, the ability to facilitate the effective delivery of
services by the selected service provider, knowledge of San Francisco, and a commitment to the City’s southeast sector.

Mercy Housing California met all of Providence’s requirements. In operation since 1987, Mercy has built over 10,000 homes across the state, from supportive housing to large-scale, multi-family infill developments, to self-help homeownership housing. Specifically in San Francisco, Mercy has shown a commitment to the City’s southeast sector through successful development at All Hallows Community, John King Senior Community, Britton Courts, and Heritage Homes. These are among many other affordable San Francisco developments Mercy has built and currently owns and manages.

Loan Amendments

In order to reflect the substitution of Mercy for Citizens in the Project, the Agreements should be amended to include a description of this approval, as well as to update the Borrower’s contact information. Therefore, staff is requesting authorization for a First Amendment to the Loan Agreement for Acquisition and a First Amendment to the Loan Agreement for Predevelopment and Construction.

COMMUNITY REVIEW

Providence, the Project Manager and community members continue to have correspondence devoted to a smooth integration of 6600 Third Street into the community and establishing a clear means of reconciling any problems that may arise. At a meeting between members from the Bayview Hill Neighborhood Association (“Association”), members of the Bayview Hunters Point Project Area Committee (“PAC”), HSA staff, Agency staff, Providence, and the Project Manager, the Project Manager informed all parties of the pending change in ownership structure. These same parties have since been advised that Providence selected Mercy among the developers competing to replace Citizens. Neither the neighbors nor PAC members have expressed any concern over this choice. Mercy will begin meeting with the neighbors, the PAC, and other stakeholders as part of the development team immediately after the Commission’s approval of their admission to the partnership.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

Authorizing the First Amendments with Third and LeConte Associates are Agency administrative activities that will not cause any physical change in the environment and are not subject to environmental review under the California Environmental Quality Act (“CEQA”), pursuant to CEQA Guidelines Section 15378(b)(5).
CONCLUSION

Staff concurs with Providence that Mercy Housing California’s experience in development, management, ownership and services makes it an excellent choice for inclusion in the 6600 Third Street ownership entity, and recommends Commission approval. Staff will be returning to the Commission early in the next year for additional approvals related to the development of 6600 Third Street, including consideration of a permanent loan agreement and a ground lease.

(Originated by Kate Hartley, Development Specialist)

Fred Blackwell
Executive Director