MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing a First Amendment to the Amended and Restated OCII Loan Agreement with Bayview Supportive Housing, LLC, a California limited liability company, to reduce the interest rate from 3% to 1.46% and clarify the distribution of surplus cash, for the development of 120 very low-income senior rental housing units plus one manager’s unit at 1751 Carroll Avenue (formerly known as 5800 Third Street, Lot 3) (Assessor’s Block 5431A, Lot 042)

EXECUTIVE SUMMARY

The 5800 3rd St/Carroll Ave Senior Housing Site is Lot 3 of a parcel located at 5800 3rd Street (the “Site”), located at the intersection of Carroll Avenue. On September 21, 2010, the Commission of the former San Francisco Redevelopment Agency (“SFRA”) authorized an Assignment and Assumption Agreement of a Purchase and Sale Agreement for the Site, which allowed SFRA to take ownership of it. At that same meeting, the SFRA Commission also authorized an Exclusive Negotiations Agreement (“ENA”) with Bayview Hunters Point Multipurpose Senior Services, Inc. (“BHPMSS”) and McCormack Baron Salazar (“MBS”) (together, the “Developer”) for the purpose of developing the Site into a project that includes 120 units of affordable rental housing for very low-income seniors, one managers unit, and a multipurpose senior center (the “Project”).

On September 3, 2013, the OCII Commission (“Commission”) adopted Resolution No. 42-2013 to provide additional funding amount of $15,173,724, for a total aggregate loan amount of $19,111,224 (the “Loan”), which provided the Developer with evidence of site control and secured gap funding, both which were necessary for the bond and tax credit applications. The Project was successful in its bond and tax credit applications and since that time the Developer has been refining the financial projections in anticipation of negotiations with tax counsel and tax credit investors. For tax purposes it is important that the Loan can be shown to have been fully repaid at the end of its term, known as a “true debt analysis”. The Developer has completed such an analysis and is requesting an interest rate reduction from 3% to 1.46% in order to demonstrate full Loan repayment. Staff concurred with the Developer’s analysis and the Citywide Affordable Housing Loan Committee approved the request for the reduced interest rate on February 7, 2014. In addition, the distribution of surplus cash for this project was refined for the Ground Lease, which the Commission approved on November 13, 2013 through Resolution No. 56-2013, therefore the Developer has requested a similar change be made to the Loan in order to ensure consistency between the two agreements.
Staff recommends authorization of a First Amendment to the Amended and Restated OCII Loan Agreement with Bayview Supportive Housing, LLC.

BACKGROUND

The HPSY Phase 2 DDA obligates the Successor Agency to rebuild the severely distressed Alice Griffith Public Housing project ("Alice Griffith Replacement Projects"). The HPSY Phase 2 DDA also contemplates that the Successor Agency will seek other sources of funding to fulfill its housing obligation, including "federal, state or other local funds." To the extent that the Successor Agency obtains sources of funds other than property tax revenue, it will reduce reliance on the Redevelopment Property Tax Trust Fund and expedite completion of the Project.

Soon after the approval of the HPSY Phase 2 DDA, the San Francisco Housing Authority ("SFHA") and McCormack Baron Salazar ("MBS"), the affordable housing developer of the Alice Griffith project, submitted in October 2010 an application to the U.S. Department of Housing and Urban Development ("HUD") for Choice Neighborhoods Initiative ("CNI") Grant funding for the Alice Griffith Replacement Projects. On August 31, 2011, HUD awarded a $30,500,000 grant to fund the Alice Griffith Replacement Projects. As part of the CNI Grant, HUD agreed in April 2012 that the 5800 3rd/Carroll Avenue Senior Housing Project constitutes the first phase of the larger Alice Griffith revitalization as the Project's senior housing units will be set aside for senior Alice Griffith residents who wish to relocate there.

On September 3, 2013, the Commission approved the Loan that provided $15,173,724, in addition to the $3,937,500 in previously approved funds, for a total aggregate loan amount of $19,111,224. The Loan was consistent with ROPS 13-14A, which allowed for up to $20,000,000 in expenditures for the Project. The Commission also approved a Ground Lease Option which allowed the Developer to demonstrate site control for tax credit and bond allocation applications.

The Commission and the Oversight Board approved the long-term Ground Lease Agreement on November 19, 2013 and November 29, 2013 respectively, between the Successor Agency and Bayview Supportive Housing, LLC. On December 24, 2013 the State Department of Finance approved the Oversight Board's Ground Lease approval action.

Interest Rate Reduction

City and OCII loans typically carry a 3% simple interest rate, and interest is payable only to the extent that there is surplus cash from operations of the completed development, after certain costs are paid. Since many City and OCII sponsored projects do not generate significant cash flow due to the low-income populations that they serve, it is not unusual for the annual interest due to remain unpaid and accrue to a certain extent, depending on the terms of each loan. However, per tax counsel, a project must demonstrate that there is reasonable probability that the debt can be repaid after the 55 year term of the loan has ended.

The loan interest rate approved by the Loan Committee on August 2, 2013, and authorized by the OCII Commission on September 3, 2013, is 3% simple interest. Since that time the Developer has been working with tax counsel to refine the Project's financing and analyzed whether the Project could demonstrate that the Loan could be fully repaid at the end of the 55 year term. The analysis showed that an interest rate of 1.46% was necessary to meet that "true debt" test, and the
Developer therefore requested a reduction in the interest rate from 3% to 1.46%, which allows the project to pass the true debt test by showing the principal and interest on the OCII loan being paid off in year 55.

Staff reviewed the numbers, the assumed interest rate, and a proposed interest rate needed to pass the true debt test and consulted the City's financial advisor, CSG Advisors. Staff and CSG found that the requested interest rate amount of 1.46% is reasonable and not excessively low. Upon the Project's completion the Loan will be transferred to the Mayor's Office of Housing and Community Development ("MOHCD") as Housing Successor Agency, and the interest on the Loan would be repaid to MOHCD only to the extent that surplus cash is available. Due to this residual receipts structure, the reduction of interest from 3% to 1.46% will not create any significant negative impact to the Loan and will not change the nature of the enforceable obligation as approved by the Department of Finance. This request was approved by the Citywide Affordable Housing Loan Committee on February 7, 2014 (see Attachment 1). Staff recommends approval of a First Amendment to the Loan (see Attachment 2).

Clarified Distribution of Surplus Cash Language

In addition to the interest rate reduction the Developer is requesting to amend the Loan Agreement to clarify the distribution of surplus cash language so that the Loan terms will be made consistent with the surplus cash terms that were approved in the Ground Lease in November 2013. Therefore the Loan is being revised in the following manner: The lesser of one-third (1/3) of remaining Surplus Cash or $50,000 shall be paid to the Borrower, of which 10% will be paid to the Investor Limited Partner and 90% to the Developer General Partner as an incentive management fee; the remaining two-thirds (2/3) of Surplus Cash shall be paid to OCII which will be applied first to Accrued Base Rent, then the balance to Residual Rent and the remaining balance 77.15% to repayment of the OCII Loan and 22.85% to repayment of the MOHCD State Infill and Infrastructure Loan. The 10% share paid to the Limited Partner was also added to the definition of Surplus Cash for consistency.

Next Steps

Approval of the amendment will allow the Developer to move toward a March 24, 2014 closing and a construction start date of March 31, 2014. Construction for the housing and senior center is anticipated to take 20-24 months and should be complete no later than early 2016. The draft marketing plan will be submitted to staff six months prior to the completion of construction. Lease-up is anticipated to begin shortly after the project receives its Temporary Certificate of Occupancy.

(Originated by Pamela Sims, Development Specialist)

Tiffany Bolice
Executive Director

Attachment A: Loan Committee Memo dated February 7, 2014
Attachment B: 1751 Carroll Avenue Senior Housing Loan Agreement Amendment