MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing an Amended and Restated Loan Agreement with Mission Bay Block 7 Housing Partners, LP, a California limited partnership (consisting of The Related Companies of California, LLC, a California limited liability company, and Chinatown Community Development Center, a California nonprofit public benefit corporation), for a total aggregate loan amount of $16,975,000, for the development of a 200 unit low-income affordable family rental housing (including two manager’s units) development at 588 Mission Bay Boulevard North (Block 7 West), and adopting findings pursuant to the California Environmental Quality Act; Mission Bay South Redevelopment Project Area

 EXECUTIVE SUMMARY

Mission Bay Block 7 Housing Partners, LP, the development entity for Mission Bay South Block 7 West (the “Project”), and is now requesting permanent financing through a Loan Agreement (the “Loan”) for the construction of 198 affordable housing rental units that will serve low-income households and 2 manager’s units. On November 1, 2005, and March 2, 2010, the University of California San Francisco (“UCSF”) entered into Disposition and Development Agreements (“DDAs”) with the San Francisco Redevelopment Agency (“SFRA”) for Block 7 East (“Block 7E”) and Block 7 West (“Block 7W”), respectively, in the Mission Bay South Redevelopment Project Area. The DDAs provided terms for UCSF to develop affordable housing at its sole expense and mitigation for the loss of affordable housing tax increment occurring from the development of the UCSF hospital in Mission Bay South. Both parcels combined (the “Site”) were Affordable Housing Parcels pursuant to the Mission Bay South Owner Participation Agreement (“South OPA”). The DDAs required UCSF to develop the affordable housing by certain dates, or otherwise pay liquidated damages of $7.4 million ($5.0 million for Block 7E and $2.4 million for Block 7W) to the Office of Community Infrastructure and Investment (“OCIIP”), as successor to the SFRA.

UCSF determined that it would not construct affordable housing on Block 7E and paid the $5.0 million in liquidated damages in June 2013. UCSF has also determined that it would not construct affordable housing on Block 7W and intends to pay the additional $2.4 million in liquidated damages concurrent with the assignment of the Block 7W DDA from UCSF to Mission Bay Block 7 Housing Partners, LP.

On June 4, 2013, the OCIIP Commission (“Commission”) conditionally approved a Fourth Amendment to the South OPA (the “Fourth Amendment”) to remove the affordable housing restriction on Block 7E and to allow the Mission Bay master developer (“FOCIL”) to convey Block 7E to Family House, Inc., a nonprofit public benefit corporation (“Family House”). On
June 10, 2013, the Oversight Board approved the Fourth Amendment, which was submitted to the California Department of Finance (“DOF”) for review. DOF elected not to initiate a review of the transaction therefore the Oversight Board’s approval effectuated the Fourth Amendment.

Family House intends to develop a 96,000-square-foot facility with approximately 80 extended stay rooms to support families of seriously ill patients receiving treatment at the UCSF Benioff Children’s Hospital at Mission Bay (“New UCSF Hospital”), which will be opening in 2015 (“Family House Project”). Family House will pay an affordable housing fee of $2.5 million to OCII to be used for the development of affordable housing on Block 7W. This affordable housing fee, combined with the liquidated damages for Blocks 7E and 7W, will result in total of $9.9 million to be used for the construction of affordable housing on Block 7W.

On June 18, 2013, the Commission approved a $2.0 million predevelopment loan for Block 7W associated with the development of 200 units of low-income family rental housing. On December 3, 2013, per Article 10 of the Block 7W DDA, UCSF received approval from the OCII Commission to assign the Block 7W DDA to Mission Bay Block 7 Housing Partners, LP, which is comprised of The Related Companies of California, LLC and Chinatown Community Development Center (the “Developer”). On January 21, 2014, the Commission conditionally approved the schematic design for Block 7W.

On June 6, 2014, the Loan Committee approved an additional funding for construction activities, for a total loan amount not to exceed $16,975,000. This amount is included in the approved Recognized Obligation Payment Schedule (“ROPS”) 13-14B, for the period January 1, 2014–June 30, 2014, as Item #228, which was approved by DOF, and per DOF’s direction must be encumbered prior to submitting the Prior Period Payment Report that is due with the ROPS 14-15B submittal.

**Staff recommends authorizing an amended and restated loan agreement with Mission Bay Block 7 Housing Partners, LP, for an amount not to exceed $16,975,000, for the development of 200 low-income rental housing units including two manager’s units at 588 Mission Bay Boulevard North, Mission Bay South Redevelopment Project Area.**

**BACKGROUND**

**Mission Bay Affordable Housing Development**

The Site is part of a 303-acre redevelopment district that was administered by the former SFRA. Pursuant to State Assembly Bill 26 (“AB 26”) and Assembly Bill 1484 (“AB 1484”) (together, “Dissolution Law”), redevelopment agencies throughout the State of California were eliminated on February 1, 2012. OCII is the Successor Agency to SFRA and is responsible for implementing SFRA’s enforceable obligations. On January 24, 2014, the California Department of Finance (“DOF”) determined “finally and conclusively” that the Mission Bay OPAs and tax allocation pledge agreements are enforceable obligations under AB 26 and AB 1484.

On September 17, 1998, the former SFRA Commission approved the Mission Bay North and South Redevelopment Plans and Owner Participation Agreements (“OPAs”) with the Mission Bay Master Developer. The South OPA was amended by the former SFRA Commission on February 17, 2004, (Resolution No. 23-2004) and November 1, 2005 (Resolution No. 177-2005). A third amendment to the South OPA to allow up to 350 residential units on Block 1 was
conditionally authorized by the OCII Commission on May 21, 2013, (Resolution No. 16-2013) ("Third Amendment to the South OPA") and a fourth amendment for Block 7E was conditionally authorized by the OCII Commission on June 4, 2013 (Resolution No. 20-2013) ("Fourth Amendment to the South OPA").

The OPAs, as amended, require that approximately 1,750 of the 6,350 housing units in Mission Bay be affordable to low- and moderate-income households. The Mission Bay Master Developer is obligated to create approximately 255 affordable units as part of its development plans in Mission Bay North, with up to an additional 53 inclusionary affordable units on Block 1 in Mission Bay South if market-rate rental units are constructed on the site. The remaining 1,445 units will be developed by nonprofit housing developers selected by the Agency on approximately 15 acres of land that the Master Developer is required to contribute to the Agency in Mission Bay North and South. These 15 acres are known as “Agency Affordable Housing Parcels”, including the Site.

Mission Bay South includes the development of 3,440 housing units, of which approximately 1,150 units (32%) will be affordable. To date, 150 of those affordable units are in construction, leaving approximately 950 affordable units remaining. The development of the OCII-sponsored units will be subsidized through a minimum of 20% tax increment affordable housing set-aside generated by Mission Bay North and South, along with excess tax increment not needed for public infrastructure development, as required by the Mission Bay South OPA.

**Block 7 Background**

Block 7 in Mission Bay South was originally comprised of two Agency Affordable Housing Parcels, Blocks 7E and 7W, totaling approximately 2.6 acres, as defined in the South OPA. UCSF entered into DDAs for Block 7E and Block 7W, on November 1, 2005 and March 2, 2010, respectively, to develop, at its sole expense, affordable housing with occupancy preferences for UCSF employees and to mitigate the loss of affordable housing tax increment from the development of the new hospital in Mission Bay South. The DDAs required that UCSF develop the affordable housing by certain dates, or otherwise pay liquidated damages to the SFRA. The DDAs required that UCSF build a total of 237 affordable housing units and allow occupancy priorities targeted toward UCSF employees to the extent permitted under fair housing law; in exchange, UCSF paid the SFRA a total of $6.155 million for Blocks 7E and 7W.

In 2011, UCSF determined that it would not construct affordable housing on Block 7E and paid the $5 million in liquidated damages. UCSF has also determined that it would not construct affordable housing on Block 7W and will pay the additional $2.4 million in liquidated damages for that parcel upon execution of the Block 7W Amended and Restated DDA.

On June 4, 2013, the Commission conditionally approved the Fourth Amendment to the South OPA, which removed the affordable housing restriction on Block 7E and allows FOCIL to transfer Block 7E to Family House. On June 10, 2013, the Oversight Board approved the Fourth Amendment to the South OPA. DOF elected not to initiate a review of the Fourth Amendment, so the Oversight Board resolution was deemed approved.
Family House intends to develop a 96,000 square foot facility with approximately 80 extended stay rooms to support families of seriously ill patients primarily receiving treatment at the UCSF Benioff Children's Hospital at Mission Bay, which will be opening in 2015. The Fourth Amendment requires Family House to pay a $2.5 million Affordable Housing Fee, which will be used to fund the Block 7W project. Block 7W requires these funds in order to submit a competitive application for bond or tax credit financing. OCII staff is working closely with Family House to ensure the Affordable Housing Fee is paid to OCII prior to August 4, 2014, and Family House has committed to pay the fee at prior to that date.

**Project Rationale**

Block 7W is the second OCII sponsored affordable housing development in the Mission Bay South, and is adjacent to the proposed Family House development located on Block 7E. The first occupancy priority will be given to income-eligible applicants ("Applicants") who are also eligible for a priority in OCII-assisted affordable housing under the Property Owner and Occupant Preference Program (October 1, 2008), as amended from time to time. Additionally, the Project will have certain occupancy preferences on 25% of the Project units for employees of universities and health care institutions in San Francisco, which will benefit UCSF (the occupancy preferences are further described on page 14 of the attached Loan Evaluation). UCSF determined that family rental housing comprised of one- and two-bedroom units was most in demand by their employees who may benefit from this housing. The former Agency’s experience with recent demand for affordable housing in Mission Bay has also been strongest for units from families with smaller household sizes.

1180 4th Street was the first Mission Bay South Affordable Housing Parcel to be developed, and construction is completing in August 2014. Four Affordable Housing Parcels have been developed in Mission Bay North. The first was Rich Sorro Commons, a 100-unit family rental housing development. The second development was Mission Creek Senior Community, a 140-unit senior development for independent and frail seniors. The third and fourth sites are Mission Walk, 131 homeownership units built together as one project on two parcels across the street from each other and completed in 2009. An additional 236 “work-force” units, 134 serving very low-income households and 100 serving low-income households (and two manager’s units), were developed at 420 Berry Street (Crescent Cove) by the Related/CCDC development team.

**Block 7W Project**

Article 10 of the Block 7W DDA permits UCSF, with OCII approval, to assign, under certain conditions, the Block 7W DDA to a “qualified housing developer,” as defined in the South OPA. The transferee must have “the qualifications and financial responsibility, as determined by the Agency, necessary and adequate to fulfill the obligations undertaken in this Agreement by The Regents,” and must expressly assume in writing the DDA obligations. On December 3, 2013, the OCII Commission approved the assignment of the 7W DDA to the Developer through the payment of $2.4 million in liquidated damages for Block 7W to OCII. OCII will use the liquidated damages from Blocks 7E and 7W and the $2.5 million affordable housing fee from Family House to finance a portion of the construction cost of the Block 7W Project.
UCSF benefits from this structure by being released of their obligations of the DDAs. OCII benefits by the development through the following ways:

- Development of affordable housing on Block 7W will occur much sooner than previously planned at the Site.
- UCSF will pay the $2.4 million 10 to 20 years earlier than it would be required to pay the liquidated damages under the Block 7W DDA.
- With the Family Housing affordable housing fee and liquidated damages as a funding source for the Block 7W Project, the creation of affordable housing units will occur at a per unit OCII subsidy much lower than recent comparable projects.

The Block 7W Project will comply with the City’s affordable housing underwriting guidelines and the OCII’s contract compliance and purchasing guidelines. The proposed affordability level for the Block 7W Project is an average of 60% of Tax Credit Allocation Committee Area Median Income (“TCAC AMI”). As an example of the average income limits, in 2014 the maximum income allowed for a four-person household earning up 60% of TCAC AMI is equal to $66,420. This is consistent with the Mission Bay Housing Policy and will be in compliance with Fair Housing Law.

The Project will be a significant 230,000 square foot mixed-use building with an interior courtyard at both grade and podium level (see attached site plan). The building will be bounded on the west by 4th Street, on the north by China Basin Street, on the south by Mission Bay Boulevard North, and on the east by a private walkway, or pedestrian mews. Because of the large size of the lot, the design uses variations in massing to break up the building into distinct components.

The west portion of the Project that fronts 4th Street is four stories of residential uses above a ground floor podium that accommodates the project’s retail and parking. Retail is located along the 4th Street frontage and wraps around the corner at Mission Bay Boulevard North. This corner serves as the focal point of the project – located across from UCSF – and uses variations in materials – including Cor-ten steel siding, galvanized metal siding, and steel and composite lumber awnings – variations in colors, and various sized projections on upper floors to distinguish it from the rest of the project which features smooth-troweled cement plaster in four color variations. The retail includes glass storefronts and includes locations for future signage to create an interesting pedestrian experience.

The eastern portion of the building that is bounded by the pedestrian mews includes four stories of residential uses. The ground floor is set back 20 feet from the pedestrian mews and includes walk up residential units with stoops. The north side of the building features stoops leading to ground floor units, a secondary lobby to the residential component of the Project, and the entrance to the covered parking. The south side of the building also has stoops to street-accessible ground floor units, the primary entrance to the residential component of the Project, and a break in the massing where the courtyard is visible from the street.

There will be a large (28,000 square foot) central courtyard, which will be visible from Mission Bay Boulevard North and will provide private open space for building residents and their guests.
The internal courtyard is divided into two open space areas: approximately 9,000 square feet above the parking podium and approximately 14,000 square feet at-grade. Both spaces are programmed with walkways, planters, and small green open spaces. The podium-level courtyard features an open, turf covered area as a place where children can play, among other activities and the project is located a two block walk from a 1.12-acre Children’s Park that will be completed in late 2015. The park across the street features a fenced playground occupying two thirds of the site, which is divided into four play zones. Outside of the enclosed playground, on the western side of the site is a more general park use area with a large turf area, picnic seating area, a plaza and a landscaped bioswales used to treat stormwater. In addition, the courtyard open spaces connect with the project’s community center with laundry and fitness facilities for the residents.

The Mission Bay South Design for Development allows a maximum of one parking space for each residential unit and requires a minimum of one bicycle parking space for every 20 vehicular parking spaces. Consistent with the Design for Development, the project provides 52 parking spaces for residents (.25/unit), accessed by a single entry on China Basin Street. The Project also includes 306 secure bicycle parking spaces, exceeding what is required by 303 spaces. The low parking ratio is made possible by the rich transit access of the site, which is described in the following paragraph. Additionally, the Project is required to include 1 space for car sharing in its parking facility.

As stated above, the Project will be well-served by transit; it is located approximately two blocks from the Muni Third Street Mission Rock Light Rail station and approximately six blocks from the San Francisco Caltrain station. The San Francisco Municipal Transportation Agency (“MTA”) anticipates having a temporary connector bus from the 16th Street BART station to Mission Bay along the Muni 22 route in early 2015 that will stop in front of the Project.

**Project Financing**

On June 18, 2013, the OCII Commission approved a $2,000,000 predevelopment loan amount to fund predevelopment activities. On June 6, 2014, the Loan Committee approved a total local subsidy amount of $16,975,000, which includes the $2,000,000 in existing predevelopment funds, $1,600,000 in additional predevelopment funding that will be made available to the development through the Loan prior to construction financing closing in early 2015, and $13,375,000 for construction period activities. The Developer is now seeking approval of the Loan (see Attachment C) in order to apply for additional financing. In addition to the OCII financing, the Block 7W Project will be financed with multifamily housing revenue bonds to be issued by the City through the Mayor’s Office of Housing and Community Development, Low Income Housing Tax Credits, developer equity, deferred developer fee, the liquidated damages of $7.4 million from UCSF, and the Family House affordable housing fee of $2.5 million. Other funding sources include: tax credit equity of approximately $31.3 million, a permanent mortgage of $24 million, sponsor equity of $500,000, deferred interest on the OCII loan of approximately $1.061 million, and deferred developer fee funds of $1 million. Currently construction financing totals approximately $51.230 million. Total development costs will be approximately $75 million, which is $10 million higher than the estimated total development costs a year ago, when the OCII Commission previously approved project funding. However, the projected OCII per unit contribution has remain fixed, and is significantly lower than other OCII/MOHCD funded
family projects, due in part to the leveraging of the other external funding sources to cover the development costs.

**Equal Opportunity Program and Compliance with OCII Policies**

The Developer shall comply with the OCII's Nondiscrimination in Contracts, Minimum Compensation and Health Care Accountability policies and has worked closely with contract compliance staff to comply with the Small Business Enterprise (SBE) Program on this development. To date, the Developer has achieved 53% SBE participation for professional services consultants (Attachment B). Gonzales Architects, a local Latino-owned SBE has been selected as the associate architect for this project working in collaboration with David Baker Architects.

During the construction phase of this project, the Developer is committed to meet OCII's requirements and goals which include the 50% SBE construction subcontracting participation goal, payment of prevailing wages and the 50% local construction workforce hiring goal.

**Mission Bay Citizens Advisory Committee**

The Mission Bay Citizens Advisory Committee ("CAC") has consistently been supportive of the development of Block 7W. The development was discussed the September 8, 2011 and May 16, CAC 2013 meetings. At both meetings, the CAC was very supportive of the 7W development. The CAC members were primarily interested in open space and emphasized the need to have appropriate activities available for the population anticipated to be living on site.

**CALIFORNIA ENVIRONMENTAL QUALITY ACT**

As part of its actions on September 17, 1998, establishing the Mission Bay Redevelopment Project Areas, the former Agency Commission certified the FSEIR (Resolution No. 182-98), adopted findings under CEQA, adopted a series of mitigation measures, and established a comprehensive system for mitigation monitoring (Resolution No. 183-98). The Board of Supervisors, the Planning Commission and various City departments adopted similar findings and mitigation measure monitoring plans. This FSEIR includes by reference a number of addenda.

Copies of the full four-volume FSEIR were distributed to the former SFRA Commission prior to the 1998 certification and adoption of the environmental findings. Copies of the FSEIR were provided to this Commission as part of the March 5, 2013 Commission memo for Block 40, and are available for review at OCII's offices.

Staff has reviewed the predevelopment loan and has considered and reviewed the FSEIR and addenda. Staff has determined that the action is within the scope of the Block 7W Project analyzed in the FSEIR and subsequent addenda and no additional environmental review is required pursuant to State CEQA Guidelines Sections 15180, 15162, and 15163.
NEXT STEPS

According to the current schedule, staff expects to return to the Commission for ground lease approval in early 2015. Prior to ground lease approval, the Developer will apply for tax credits from TCAC in September 2014, and a multifamily housing revenue bond allocation from the California Debt Limit Allocation Committee ("CDLAC") in October 2014; complete construction bidding by March 2015; start construction in April 2015; and complete construction by September 2016. Upon completion of the Project, the land, ground lease, and Loan would be transferred to the Mayor’s Office of Housing and Community Development as the Housing Successor Agency under Dissolution Law.

(Originated by Pamela Sims, Development Specialist)

[Signature]

Tiffany Bohee
Executive Director

Attachment A: Loan Evaluation – June 2014
Attachment B: Contract Compliance Spreadsheet
Attachment C: Loan Agreement