MEMORANDUM

DATE: February 7, 2014
TO: Citywide Affordable Housing Loan Committee
FROM: Pam Sims, Project Manager
RE: Bayview Senior Housing – Reduction of OCII Loan Interest Rate

A. Introduction

On August 2, 2013 the Loan Committee approved a loan to Bayview Senior Supportive Housing, LLC, a California limited liability company, in an amount not to exceed $16,062,500 in Office of Community Investment and Infrastructure ("OCII") funds for the development of 120 new affordable senior housing units (and 1 manager's unit) and a new senior center in the former Bayview Hunters Point Redevelopment Project Area.

Staff is seeking Loan Committee approval to change the interest rate Loan Committee approved on August 2, 2013 from 3% to 1.46% in order to pass the "true debt" test.

Staff recommends approval of this request.

B. History of Project Leading to this Request

On August 2, 2013, Loan Committee approved a loan amount not to exceed $16,062,500 for costs associated with the development of 1751 Carroll Avenue. Following that approval the OCII Commission authorized the Executive Director to enter into an Amended and Restated Loan Agreement for a total aggregate amount of $20 million. In September the Developer submitted requests for a bond allocation and tax credits from the California Debt Limit Allocation Committee and the Tax Credit Allocation Committee. In November the Project was awarded a bond allocation and tax credits. Since November the Developer has been refining the financial projections per discussions with its tax credit investors and tax counsel. Several topics have been discussed to date, including the OCII loan interest rate, annual rent per the ground lease, and the analysis for the project's ability to pay its loans at the end of their terms, aka "true debt analysis." Initially tax counsel proposed lowering the percentage used to calculate annual ground lease rent from 10% of Fair Market Value to something between 6-8%. Staff informed the Developer that 10% was the standard by which the annual ground rent was calculated, and 10% had been determined to be a reasonable rate. After providing several ground leases with the 10% rate included, the tax counsel became comfortable with the rate.
The current loan interest rate approved by the Loan Committee and authorized by the OCII Commission is 3%. The tax counsel pointed to the 3% interest rate on the loan and raised concerns that retaining that amount would not pass the "true debt" test in that all debt could be repaid at the end of their term when they are owed. 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, the project must demonstrate that there is reasonable probability that the debt can be repaid after the 55 year term of the loan has ended. Therefore, the tax attorney has 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.

The City's financial advisor, CSG Advisors, reviewed the numbers, the assumed interest rate, and a proposed interest rate needed to pass the true debt test (per the tax counsel). CSG found the requested interest rate amount of 1.46% to be reasonable and not excessively low. Attached is the worksheet showing the OCII loan amount being paid-off in year 55. As mentioned above, since the interest on the OCII loan is only paid to the extent that surplus cash is available, the reduction of interest from 3% to 1.46% will not create any significant negative impact to the OCII loan and will not change the nature of the enforceable obligation as approved by the Department of Finance.
LOAN COMMITTEE RECOMMENDATION

Approval indicates approval with modifications, when so determined by the Committee.

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

Olson Lee, Director
Mayor's Office of Housing and Community Development

Date: 2/7/14

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

Tiffany Boone, Executive Director
Office of Community Investment and Infrastructure

Date: 2/7/14

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

Joyce Clary, Director of Housing and Homeless Programs
Department of Human Services

Date: 2/7/14

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

Margot Antonetty, Acting Director of Housing and Urban Health
Department of Public Health

Date: 2/7/14

Attachment: Bayview Senior Housing True Debt Cash Flow