MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing a Loan Agreement with Mercy Housing California 64, L.P., a California Limited Partnership, in the amount of $3,382,523, for predevelopment activities related to the construction of 84 affordable housing units plus one manager’s unit at 222 Beale Street on Transbay Block 7 for Transbay Block 7 Affordable Housing and adopting environmental findings pursuant to the California Environmental Quality Act; Transbay Redevelopment Project Area

Approving a revision to the Transbay Block 7 Schematic Design Package, originally approved by the Commission on April 16, 2013, to reorganize some of the ground floor uses to create building efficiencies and add a story to increase the number of affordable units from 77 to 85 (including one manager’s unit) and making environmental findings pursuant to the California Environmental Quality Act; Transbay Redevelopment Project Area

EXECUTIVE SUMMARY

The Transbay Redevelopment Project Area (the “Project Area”) was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State of California (the “State-owned parcels”) to generate funding for the Transbay Joint Powers Authority to construct the new Transbay Transit Center (the “TTC”) and meet the affordable housing requirements of Assembly Bill 812 (“AB 812”) (Cal. Pub. Res. Code § 5027.1(b).). AB 812 is an enforceable obligation that requires the Office of Community Investment and Infrastructure (“OCI”) as Successor Agency to the former San Francisco Redevelopment Agency (“Former Agency”), to ensure that 35 percent of the new housing units built in the Project Area are affordable to, and occupied by, low- and moderate-income households. The Transbay Redevelopment Project Area Implementation Agreement (“Implementation Agreement”) is another enforceable obligation that requires OCI to “prepare and sell [certain State-owned parcels that OCI is authorized to acquire] to third parties.” (Section 2.1 (a) of the Implementation Agreement at p. 4). On April 15, 2013, the California Department of Finance (“DOF”) determined "finally and conclusively" that AB 812 and the Implementation Agreement area enforceable obligations that will not require additional DOF review in the future, although expenditures under these enforceable obligations are subject to continuing DOF review.

On July 6, 2011, pursuant to the Implementation Agreement, the Former Agency issued a Request for Proposals (the “RFP”) from development teams to design and develop a high-
density, mixed-income residential project on Blocks 6/7 in the Transbay Redevelopment Project Area. On December 6, 2011, after a competitive selection process, the Former Agency Commission conditionally authorized staff to enter into negotiations for the development of Blocks 6/7 with the development team lead by Golub Real Estate Corp. ("Golub") and Mercy Housing California ("Mercy"). On April 16, 2013, the Commission approved a disposition and development agreement ("DDA") with Golub and Mercy for Block 6, requiring Golub to pay a total of $54.3 million for the site, including: 1) a purchase price of $30 million for Block 6 and 2) an affordable housing fee of $24.3 million ("Affordable Housing Fee"), of which $14 million would be applied to the affordable housing on Block 6 (to be constructed at the same time as the market-rate project) and $10.3 million would be applied to the future affordable housing on Block 7. Also, on April 16, 2013, the Commission approved the schematic designs for Blocks 6 and 7. On October 10, 2013, the sale of Block 6 closed and Golub paid the full $54.3 million. On April 15, 2014, Commission approved the $14 million Affordable Housing Fee loan to Mercy's development entity for the Block 6 affordable project and in May 2014 Mercy began construction on the Block 6 affordable project. Block 7 is currently being used for construction staging for Block 6. Staff anticipates that staging will be complete and funding will be available to proceed with construction by October 2015.

Mercy Housing California 64, L.P. ("MHC" or the "Developer") is now requesting that $3,382,523 in predevelopment funds be loaned to the Transbay Block 7 affordable housing project (the "Project"). The Project will be an 85 unit (34 1-bedroom units, 32 2-bedroom units, 18 3-bedroom units and 1 manager's unit) family project. It will include a child care facility, along with an associated open space. The Project is adjacent to Transbay Block 6, which includes a market-rate residential tower being constructed by Golub and a mid-rise 70-unit affordable small family project being developed and eventually operated by Mercy on a shared podium pursuant to the DDA. The source of the requested funds will be the Affordable Housing Fee paid to OCCI by Golub. On July 18, 2014, the Citywide Affordable Housing Loan Committee ("Loan Committee") recommended approval of this request.

The Developer is now proposing a new revised schematic design for the Project that adds 8 units, bringing the total units from 77 to 85 units (including one manager's unit). OCCI staff recommends this new revised unit mix and revised ground floor plan because it both maintains a reasonable OCCI funding amount that is within the guidelines established in the original RFP, and provides additional affordable units that will help OCCI to achieve the 35 percent affordable housing for the Project Area as required under AB 812.

Staff recommends authorization of a Loan Agreement with Mercy Housing California 64, L.P., a California Limited Partnership, in the amount of $3,382,523, for predevelopment activities related to the construction of 85 affordable housing units plus one manager’s unit at 222 Beale Street on Transbay Block 7 for Transbay Block 7 Affordable Housing and adopting environmental findings pursuant to the California Environmental Quality Act; Transbay Redevelopment Project Area

Staff recommends approval of a revision to the Transbay Block 7 Schematic Design Package, originally approved by the Commission on April 16, 2013, to reorganize some of the ground floor uses to create building efficiencies and add a story to increase the number of affordable
units from 77 to 85 and making environmental findings pursuant to the California Environmental Quality Act; Transbay Redevelopment Project Area.

DISCUSSION

Project Description
Transbay Block 7 is a 29,209 square foot rectangular parcel on Clementina Street between Fremont and Beale Streets, two blocks south of the future Transbay Transit Center. The Project is the companion project to Transbay Block 6 which is directly adjacent to this project and includes a podium with both a market rate tower developed by Golub and an affordable project developed by Mercy. Block 7 is a stand-alone project that does not share the podium with Block 6.

The Project will be an 85 unit family project with 34 1-bedroom units, 32 2-bedroom units, 18 3-bedroom units and 1 manager’s unit. The Project will include a 4,500 sf day care center, along with an associated open space, that will serving approximately 40 children living in the building as well as local area families. Mercy is currently in the process of selecting a day care provider with experience serving lower income families and providing subsidized childcare. Mercy staff worked with the City’s Office of Early Care and Education to develop the request for proposals for this space, and they will continue to collaborate on the selection of a childcare provider.

OCI II owns the Project parcel and, subject to Commission approval, will enter into a ground lease with MHC to construct the Project, consistent with OCI II’s typical ground lease terms. MHC will own the improvements. After completion of the Project, OCI II will seek Oversight Board approval to transfer the parcel, ground lease, and loan agreement to MOHCD.

The Transbay Blocks 6/7 development program and schematic design were approved by Commission in April 2013 and conform to the goals and requirements of the Redevelopment Plan, the Development Controls and Design Guidelines (“DCDG”), and the Transbay Redevelopment Project Area Streetscape and Open Space Concept Plan (the “Streetscape and Open Space Plan”). The proposed revisions described below also conform to the DCDG and the Streetscape and Open Space Plan.

Background
On July 6, 2011, pursuant to the Implementation Agreement, the Former Agency issued a Request for Proposals (the “RFP”) from development teams to design and develop a high-density, mixed-income residential project on Blocks 6/7 in the Transbay Redevelopment Project Area. The RFP sought proposals that included approximately 550 market-rate and affordable housing units, neighborhood serving retail, and a child-care facility integrated into two master-planned blocks. Development teams were asked to submit qualifications, a basic development concept, and a financial proposal, including a minimum total purchase price of $18 million for the land attributable to the market-rate portion of the project and a maximum Former Agency subsidy of $200,000 per unit for the affordable housing.

On December 6, 2011, after a competitive selection process, the Former Agency Commission authorized staff to enter into negotiations for the development of Blocks 6/7
with the development team lead by Golub and Mercy, along with Solomon Cordwell and Buenz ("SCB") as the lead architect for the market-rate component of the development and Santos Prescott and Associates ("Santos Prescott"), a small business enterprise, as the architect for the affordable component. The proposal from Golub/Mercy included a purchase price of $30,000,000, 545 residential units (409 market-rate units, including 61 inclusionary units, and 136 stand-alone affordable units), and a requested subsidy from the Former Agency for the stand-alone affordable units of less than $200,000 per unit.

Due to the dissolution of the Former Agency on February 1, 2012, and funding challenges for the affordable component of the development, the original proposal from Golub/Mercy was revised. Instead of providing 61 inclusionary units in the market-rate component of the project, Golub paid a fee of $24,300,000 ("the "Affordable Housing Fee" or "Fee"), similar to an inclusionary housing in-lieu fee, to cover a portion of the anticipated OCII subsidy for the affordable components. The Fee covers the entire subsidy needed for the Block 6 Affordable Project, and a portion of the subsidy needed for Block 7 ($10,300,000). On April 15, 2014, Commission approved the $14 million Affordable Housing Fee loan to Mercy’s development entity for the Block 6 affordable project and in May 2014 Mercy began construction on the Block 6 affordable project.

Based on this revised proposal, OCII and MOHCD staff negotiated the terms of the DDA with Golub/Mercy for the sale of Blocks 6/7 in April 2013. The revised Block 6 development included 409 market-rate units, 70 affordable units, shared open space, and a shared underground parking garage. The DDA does not cover the Block 7 development, which, at that time contemplated 77 affordable units, a child care facility and shared open space to be constructed at a future date by Mercy. Block 7 will start construction with Block 6 is complete and additional affordable housing funding becomes available (staff estimates mid-2015). OCII will own Block 7 until it is developed by Mercy, prior to which time the DDA authorizes Golub and Mercy to use Block 7 for staging related to the construction of Block 6. Once Block 7 is ready to begin construction OCII will ground lease the land to MHC.

On October 10, 2013 Golub completed the purchase of Block 6 and paid the Affordable Housing Fee of $24,300,000 in two payments: $20,553,039.29 directly to OCII and $3,746,961.71 to an escrow account held by Mercy (the "Escrow Amount") from which predevelopment and shared garage and podium expenses for the Block 6 & 7 Affordable Housing Projects are paid, subject to OCII approval and consistent with the terms of the DDA. Of the Escrow Amount, $3,277,208.84 was designated for Block 6 predevelopment and shared costs and $469,752.87 was designated for Block 7 predevelopment and shared costs.

On April 15, 2014, Commission approved the $14 million Affordable Housing Fee loan to Mercy’s development entity for the Block 6 affordable project and in May 2014 Mercy began construction on the Block 6 affordable project.

Affordable housing projections for the Project Area are on target to achieve the 35% affordable housing requirement despite the elimination of the inclusionary affordable housing units on Block 6 from the original proposal from Golub/Mercy. On April 15, 2013
DOF approved the OCII’s request determining “finally and conclusively” that the Implementation Agreement and other Transbay obligations are enforceable obligations that will not require additional DOF review in the future. This Final and Conclusive Determination acknowledging OCII’s obligations to dispose of the State-owned parcels, means that OCII’s acquisition and disposition of Blocks 6/7 will not be subject to additional review and approval by the Oversight Board of the City and County of San Francisco and DOF.

**Project Financing**

In addition to the OCII subsidy, the Project will be financed with low income housing tax credit equity and tax exempt bond financing. The OCII subsidy will be consistent with the DDA and the RFP, which included a $200,000 maximum subsidy per unit. The sources for the total anticipated OCII subsidy of $17,000,000 will be the remaining $10,300,000 of the Affordable Housing Fee and other OCII sources including developer payments from Transbay Jobs Housing Linkage Fees. OCII will not be obligated to increase the per unit subsidy in the event of substantial development cost increases. MHC and staff also anticipate an award of Federal Home Loan Bank Affordable Housing Program funds.

Construction costs are based on an extrapolation of an estimate prepared by Cahill Contractors in February 2014 of the conceptual drawings. The estimate was extrapolated to include the addition of the 6th floor onto the Building B (Beale facing building). The per unit costs are comparable to other recent OCII and MOHCD-funded projects and considered reasonable given the size, configuration and finish of the project. The design and development team, in collaboration with OCII and MOHCD staff, are pursuing value engineering strategies to ensure cost containment through the development process. Soft costs are reasonable compared to other recent OCII and MOHCD-funded projects.

**Marketing and Occupancy Preferences**

The Project will serve households up to 50% of Area Median Income as published by MOHCD. Consistent with other Transbay affordable housing projects, first preference for the units will be given to Certificate of Preference Holders (“COP”). Since the Commission recently approved the inclusion of a preference for Ellis Act Housing Preference (“EAHP”) certificate holders, staff anticipates including such a preference (to come after COP). The marketing plan requirements will be included in the future gap funding loan and ground lease, both of which will come before the Commission for approval.

**Current Request**

**Predevelopment Loan**

The Developer is now requesting a total loan of $3,382,523 to complete predevelopment activities for the Project (the “Loan”). This loan amount was approved by Loan Committee on July 18, 2014. The Loan will be entirely funded by the Affordable Housing Fee paid by Golub. The expenditure by OCII of the $3,382,523, including the Escrow Amount for Block 6 described above, is listed as part of item no. 239 of the ROPS 13-14B. As part of the negotiated terms of the DDA, Golub was allowed to pay directly for any predevelopment costs for the Block 6 Affordable Project, up to $2,000,000 and either subtract that amount from or be reimbursed from the Affordable Housing Fee once approved by MOHCD/OCII staff. Therefore pursuant to the
DDA, to date OCII has approved the payment of $469,753 for Block 7 from the Escrow Amount for Block 6 to Golub and Mercy based on documentation of predevelopment expenses and shared project costs. The Loan will include this amount of expenses as the previously paid portion of the Loan. The remaining $2,912,770 of the Loan will be used for remaining predevelopment costs of the Project. The total predevelopment budget is shown below:

<table>
<thead>
<tr>
<th>Number of Units</th>
<th>85</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sqft</td>
<td>90,605</td>
</tr>
<tr>
<td>Number of Bedrooms</td>
<td>151</td>
</tr>
</tbody>
</table>

**City/Agency Predev Sources**

<table>
<thead>
<tr>
<th>Escrow Amount</th>
<th>$469,753</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCII Additional Predev -this request</td>
<td>$2,912,770</td>
</tr>
<tr>
<td>Total Permanent City/Agency Subsidy</td>
<td>$3,382,523</td>
</tr>
</tbody>
</table>

**Uses**

<table>
<thead>
<tr>
<th>Acquisition</th>
<th>$35,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction (Shared Costs)</td>
<td>$106,604</td>
</tr>
<tr>
<td>Architecture and Engineering</td>
<td>$1,549,630</td>
</tr>
<tr>
<td>Survey and Engineering Studies</td>
<td>$230,000</td>
</tr>
<tr>
<td>Financing Costs</td>
<td>$36,100</td>
</tr>
<tr>
<td>Legal Costs</td>
<td>$82,183</td>
</tr>
<tr>
<td>Other Soft Costs</td>
<td>$647,969</td>
</tr>
<tr>
<td>Soft Cost Contingency</td>
<td>$211,037</td>
</tr>
<tr>
<td>Construction Management/Financial Consultant</td>
<td>$84,000</td>
</tr>
<tr>
<td>Developer Fee</td>
<td>$400,000</td>
</tr>
<tr>
<td>Total</td>
<td>$3,382,523</td>
</tr>
</tbody>
</table>

Funding for acquisition will cover legal and any title and escrow costs related to the ground lease of the site. Construction costs reflect the Project’s portion of shared infrastructure costs that are being constructed with the Block 6 development. Architecture and engineering costs are in conformance with the MOHCD and OCII Architecture and Engineering Fee Policy and Schedule and will cover design costs through the completion of construction drawings, permitting and to the start of construction. Other soft costs are reasonable and consistent with MOHCD Underwriting Guidelines. The Developer Fee reflects the portion of fee to be distributed throughout the predevelopment period. The proposed fee is consistent with MOHCD Underwriting Guidelines. Overall, predevelopment costs are reasonable and comparable to similar OCII and MOHCD-funded projects.

*Loan Terms*
The proposed Loan is for $3,382,523 and the outstanding principal balance of the Loan will bear simple interest at a rate of 3 percent per annum, as provided in the Promissory Note. If the Developer, or its approved successors or assigns, and OCII have not executed a permanent loan agreement that incorporates the proposed Loan amount and all accrued interest the Developer must repay all amounts owing under the OCII Documents on the earlier of the date of the close of construction financing for the Project, or three (3) years from the date of the Loan. The loan was approved subject to the condition that Mercy will work with OCII staff and during the predevelopment period to determine the most appropriate financing terms for the Project that conform to MOHCD Underwriting Guidelines, which is typical for projects at this stage of development.

Schematic Design Revision
In March of 2014, Mercy proposed a new revised plan for the Project that eliminates the need to excavate a basement while also increases the unit count by 8 units through an additional floor on building 7B. Golub/Mercy’s approved Schematic Design for the Project included 77 units, and the new revised plans include 85 units (including one manager’s unit). This increase brings the below market rate percentage for Transbay Blocks 6 and 7 up from 26% in the initial revised plan to 28% in the new revised plan. The revised design is consistent with the DCDG. OCII staff recommends this new revised unit mix and revised ground floor plan because while these revisions increase the total amount of OCII subsidy required (increasing the total subsidy from $15.4 million to $17 million, based on the maximum subsidy of $200,000 per unit), the additional affordable units will help OCII to more easily achieve the 35 percent affordable housing for the Project Area as required under AB 812.

The approved schematic design for the three Block 7 buildings, along with the requested revisions, is described below (see Attachment 3 for renderings of the proposed revised schematic design):

- Building 7A faces Fremont St. and contains 28 units. It is constructed in four stories of wood frame over a concrete podium. The ground floor of building 7A includes the management service offices for the entire block, as well as a community room serving all of the residents. Adjacent to the community room a garden provides exterior gathering space with barbecue facilities and moveable chairs and tables as well as built-in seating. This building also includes a partial basement with bike parking and a maintenance shop.

  Requested Revisions: Mercy has proposed removing the basement from Building A. The estimated cost of the excavation and shoring for the basement is $500,000 to $1 million, which, particularly given the limited uses of the basement, adds excessive cost to the Project. The bike parking would be moved to the ground floor and a stacking mechanism for bike parking would be implemented to maintain the 32 approved bike parking spaces. One of two residential units would be removed from the ground floor to allow for the property management uses at the southwest corner of Clementina Street. The total unit count for this building would be reduced from 28 units to 25 units. The building elevation without basement would be very similar to the approved schematic design as shown in the attached schematic design elevations.

- The townhouse building faces Clementina St. (a private way) with 15 units in four stories of wood-frame construction. Level 1 and 2 consist of townhouse units with raised stoops
facing the street. Two levels of gallery-access flats above make up levels 3 and 4, and those are connected to building 7A for access and services.

*Requested Revisions:* None.

- Building 7B is the third building and not physically connected to the other two buildings. It faces Beale Street and consists of 34 units in five stories of type 3 wood-framed, over a concrete podium (child care on ground floor requires type 3 construction). The ground floor of building 7B includes a laundry room for the residents and a child care center (core and shell only at this point). The child care center opens to a fenced play area which will be shared with the residents after hours.

*Requested Revisions:* Mercy has proposed adding one story, for a new total of six stories, and 11 units to this building for a net increase of 8 units to the Project. Other than the addition of one floor, the revised design of the building would remain consistent with the approved schematic design. The addition of one floor brings the height of the building to just over 62 feet which is within the height limit included in the DCDG.

The following conditions of approval, which were approved with the original schematic design, remain conditions of approval of the revised schematic design:

1. The building materials, colors, finishes, architectural detailing (including window details) shall be subject to further review and approval by OCII staff during the Design Development phase. Materials and colors shall be provided as part of the review. Mock-ups of sufficient size shall be built on construction sites during an early phase of construction for OCII staff review and approval to ensure consistency with this Schematic Design.

2. The design of the trash and recycling areas shall be subject to further review and approval by OCII staff during the Design for Development phase to ensure that they allow for direct pick-up by the solid waste collector from the service areas to avoid trash and recycling bins on-street.

3. The generator and transformer rooms and other utility spaces shall be minimized and located along Clementina Street to the maximum extent possible.

4. All building signage shall be subject to further review by OCII staff review and approval. A signage plan shall be prepared prior to or concurrent with Design Development for OCII staff approval.

**Compliance with OCII’s Contracting 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 98.8% SBE participation for professional services consultants. Of the total fees, 93.5% of the firms are San Francisco-based SBEs, 22.5%
are MBEs and 65.5% WBEs. Santos-Prescott Architects, a local woman-owned SBE is working on this project. Please see Attachment 4 for further details.

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

**Upcoming Actions**
Staff anticipates returning to Commission for approval of a request for a permanent loan for and a Ground Lease for the Project early in 2015.

**CALIFORNIA ENVIRONMENTAL QUALITY ACT**
On April 20, 2004, the Former Agency Commission adopted Resolution No. 45-2004, certifying the Final Environmental Impact Statement/Environmental Impact Report (the “Final EIS/EIR”) for the Transbay Redevelopment Project, and on January 25, 2005 adopted Resolution No. 11-2005, adopting findings under the California Environmental Quality Act (“CEQA”), a Statement of Overriding Considerations and a Mitigation Monitoring and Reporting Program in connection with the adoption of the Redevelopment Plan. The Board of Supervisors and the Planning Commission adopted similar findings. Because the Final EIS/EIR includes evaluation of the proposed Transbay Terminal, the TJPA also adopted environmental findings.

The Final EIS/EIR includes by reference a number of addenda. The addenda include the following:

- Addendum #1 – adopted by the TJPAs on June 2, 2006, assessed the additional use of the temporary Transbay Terminal by Greyhound, another transit carrier.
- Addendum #2 – adopted by the TJPA on April 19, 2007, assessed modifications of the rail tracks and underground tunnels leading to the new Transit Center.
- Addendum #3 – adopted by the TJPA on January 17, 2008, evaluated the addition of 546 Howard Street to the Transit Center.
- Addendum #4 – adopted by the TJPA on October 17, 2008, evaluated the configuration, boarding platforms and passenger waiting areas, and bus staging areas of the temporary Terminal, and associated modifications to bus lanes on surrounding streets.
- Addendum #5 – adopted by the TJPA on April 9, 2009, evaluated the building design of the new Transit Center.
- Addendum #6 – adopted by the TJPA on December 8, 2011, evaluated minor refinements to the proposed bus ramp component of the Transit Center.

In adopting each Addendum, the TJPA determined that modifications to the Project would not require subsequent environmental review and would not require major revisions to the Final EIS/EIR.

The Final EIS/EIR is a program EIR under CEQA Guidelines Section 15168 and a redevelopment plan EIR under CEQA Guidelines Section 15180. The Final EIS/EIR is also a project EIR under CEQA Guidelines Section 15161 for certain structures and facilities, including the Temporary Terminal. The Block 6 DDA is an undertaking pursuant to and in furtherance of
the Redevelopment Plan in conformance with CEQA Sections 15180 and 15168 (the “Implementing Action”).

Staff has reviewed the Loan Agreement, and revised Transbay Block 7 Schematic Design Package and related actions for 222 Beale Street and has considered and reviewed the Final EIS/EIR and addenda and finds the proposed action is an Implementing Action and within the scope of the Project analyzed in the Final EIS/EIR and subsequent addenda and no additional environmental review is required pursuant to State CEQA Guidelines Sections 15180 and 15168. The Final EIS/EIR and addenda were distributed to the Commission in advance of the April 16, 2013 Commission Meeting and are available for review at OCII’s offices.

(Originated by Elizabeth Colomello, Development Specialist)

Tiffany Bollea
Executive Director

Attachment 1: Transbay Block 7/222 Beale Street Loan Evaluation – July 18, 2013
Attachment 2: Transbay Block 7/222 Beale Street Predevelopment Loan Agreement
Attachment 3: Revised Schematic Design Renderings
Attachment 4: SBE Participation List