MEMORANDUM

DATE: December 5, 2014
TO: HOPE SF LOAN COMMITTEE
FROM: ELIZABETH COLOMELLO, DEVELOPMENT SPECIALIST
RE: ALICE GRIFFITH PHASES 1 and 2 PERMANENT LOANS, FIRST AMENDMENT TO LOAN AGREEMENTS FOR LOAN MODIFICATIONS

THIS REQUEST

On May 16, 2014 the HOPE SF Loan Committee ("LC") approved two permanent loans for the first two phases of the Alice Griffith Public Housing redevelopment ("Phase 1" and "Phase 2"). The OCII Commission approved these loans on July 15, 2014. LC stipulated that the final financial plan ("Final Financial Plan") be subject to approval by OCII Director and MOHCD Executive Director prior to the close of construction financing for each of those phases. The sources of the OCII loans for each phase will include an OCII subsidy and the Master Developer Subsidy ("MDS") as shown below:

<table>
<thead>
<tr>
<th>Phase</th>
<th>OCII</th>
<th>Master Developer Subsidy (&quot;MDS&quot;)</th>
<th>Total Funds Approved/Requested</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Approved Predev)</td>
<td>$3,672,238</td>
<td>$0</td>
<td>$3,672,238</td>
</tr>
<tr>
<td>1 (Request Gap)</td>
<td>$3,421,679</td>
<td>$14,879,013</td>
<td>$18,300,692</td>
</tr>
<tr>
<td><strong>Subtotal Phase 1</strong></td>
<td><strong>$7,093,917</strong></td>
<td><strong>$14,879,013</strong></td>
<td><strong>$21,972,930</strong></td>
</tr>
<tr>
<td>2 (Approved Predev)</td>
<td>$3,562,238</td>
<td>$0</td>
<td>$3,562,238</td>
</tr>
<tr>
<td>2 (Request Gap)</td>
<td>$3,699,043</td>
<td>$14,631,970</td>
<td>$18,331,013</td>
</tr>
<tr>
<td><strong>Subtotal Phase 2</strong></td>
<td><strong>$7,261,281</strong></td>
<td><strong>$14,631,970</strong></td>
<td><strong>$21,893,251</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$14,355,198</strong></td>
<td><strong>$29,510,983</strong></td>
<td><strong>$43,866,181</strong></td>
</tr>
</tbody>
</table>

*Approved predevelopment funds roll into Phase 1 and 2 permanent loans.

The sources for the OCII subsidy are as follows:

<table>
<thead>
<tr>
<th>Phase</th>
<th>OCII Prior Year Bond Proceeds</th>
<th>Master Developer Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$3,421,679</td>
<td>$14,879,013</td>
</tr>
<tr>
<td>2</td>
<td>$3,699,043</td>
<td>$14,631,970</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,120,722</strong></td>
<td><strong>$29,510,983</strong></td>
</tr>
</tbody>
</table>
Double Rock Ventures LLC ("DRV"), the development entity for the redevelopment of Alice Griffith Public Housing is an affiliate of McCormack Baron Salazar ("MBS"). Alice Griffith Phase 1, LP and Alice Griffith Phase 2, LP will be the phase owners for Phases 1 and 2. CP Development Co, LP, is a partnership including the Lennar Corporation ("CP DEV CO" or "Lennar") created for the purpose of redeveloping Hunters Point Shipyards Phase 2 and Candlestick Point. On June 3, 2010, the former San Francisco Redevelopment Agency now the Office of Community Investment and Infrastructure, or ("OCII") executed a Development and Disposition Agreement ("DDA") with CP DEV CO that includes a Below Market-Rate Housing Plan ("Housing Plan").

The Housing Plan defines the roles and responsibilities of the OCII and CP DEV CO regarding the development of up to 10,500 housing units, including the revitalization of the Alice Griffith public housing developments as a mixed-income, service-enriched community, developed according to the principles of HOPE SF ("Project" or "AG").

The approved loan agreements with DRV require that Lennar provide OCII with the full MDS at the close of construction financing for each phase of the development. Lennar has requested that OCII accept an irrevocable Letter of Credit from a bank for a portion of the MDS.

Staff recommends approval of this request.

**BACKGROUND**

The Housing Plan requires that CP DEV CO provide a subsidy to the AG vertical development equal to $90,000 per AG Replacement Unit and $70,000 per LIHTC Unit (described in the DDA as the "Alice Griffith Subsidy" and the "Agency Subsidy", but together for purposes of this evaluation known as the "Base MDS"), another $62 million from OCII in tax increment gap financing, and projected tax credit equity of $97.6 million (based upon $.85 per credit for the two 9% deals and .90 for the four 4% deals). Should total development cost ("TDC") for any phase exceed the TDC initially projected in the DDA, CP DEV CO must cover the proportion of cost overruns attributable to the public housing units ("Additional MDS") and the Agency must cover the cost overruns attributable to the LIHTC units (the ratio is approximately 50%-50% for the all five phases of the development).

Also, OCII is responsible for covering any gaps in projected tax credit equity and/or AHP funds below what was projected at the time the DDA was executed. Unanticipated financing sources, such as HUD's Choice Neighborhoods Grant, reduce OCII's obligation. OCII's obligation, therefore, set at $62,017,200 in the Housing Plan, will increase on a pro-rated basis as Project costs go up (as described above), but will be offset by any additional funding the Project secures. Since the Project has secured CNI funding, of which $21,350,000 is to be used for AG development, OCII's base contribution, prior to any cost overruns is $40,667,200.

The Developer does anticipate Additional MDS, in accordance with the DDA definition described above, for each phase of AG. The DDA requires Lennar to pay the Base MDS for each phase of development at the close of construction financing for that phase. The DDA does not specify when the Additional MDS must be paid, though the timing of the payment must not jeopardize the feasibility of the project.

Since the permanent loans for Phases 1 and 2 were approved, MBS has selected a lender and investor for those Phases. Chase will be the construction lender with CCRC providing permanent loans of about $3 million per phase and RBC providing tax credit equity. The tax
credit pricing is $1.12 provided by RBC Capital Markets for Phases 1 and 2. MBS is still awaiting final construction cost information and anticipates having the Guaranteed Maximum Price ("GMP") in place by mid-December. Staff anticipates that the Final Financial Plan will be completed and ready for OCII and MOHCD review by the end of December.

**LOAN AMENDMENT REQUESTS**

Lennar has requested that, rather than provide the Base MDS and Additional MDS for Phases 1 and 2 at the close of construction financing for those phases, that they provide the Base MDS at that time, as required by the DDA, and provide irrevocable standby bank Letters of Credit ("LOC") for the Additional MDS, currently estimated at just under $5 million per phase for a total of approximately $9.8 million. The Base MDS will be sufficient to provide the funds needed during construction. Lennar will provide the Additional MDS at construction completion in September 2016, or earlier as needed, and will provide the LOCs at the close of construction financing for Phase 1 and Phase 2. This request is consistent with the DDA requirements related to provision of the MDS for AG as described above. The following table shows the updated sources for the Phases 1 and 2 OCII loans that reflect actual equity pricing, but does not reflect final GMP construction pricing:

<table>
<thead>
<tr>
<th>Alice Griffith Phases 1 and 2</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phases 1 and 2</th>
<th>PHR</th>
<th>114</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of Units</strong></td>
<td>93</td>
<td>91</td>
<td>184</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sqft</strong></td>
<td>136,067</td>
<td>135,719</td>
<td>271,786</td>
<td>LIHTC</td>
<td>70</td>
</tr>
<tr>
<td><strong>Number of Bedrooms</strong></td>
<td>197</td>
<td>189</td>
<td>386</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cost Per Unit</strong></td>
<td>$2,743,650</td>
<td>$2,797,550</td>
<td>$5,541,200</td>
<td>$30,115</td>
<td>$14,355</td>
</tr>
<tr>
<td><strong>Cost Per Bedroom</strong></td>
<td>$2,966,925</td>
<td>$3,069,523</td>
<td>$6,036,448</td>
<td>$32,807</td>
<td>$15,638</td>
</tr>
<tr>
<td><strong>Cost Per Sqft</strong></td>
<td>$5,710,575</td>
<td>$5,867,073</td>
<td>$11,577,648</td>
<td>$62,922</td>
<td>$29,994</td>
</tr>
</tbody>
</table>

**OCII Permanent Sources**

| OCII Funding Base | $7,670,000 | $7,490,000 | $15,160,000 | $82,391 | $39,275 | $56 |
| Additional MDS "Cost Overruns" | $4,916,618 | $4,911,236 | $9,827,854 | $53,412 | $25,461 | $36 |
| PROPOSED LOC AMOUNTS | $12,586,618 | $12,401,236 | $24,987,854 | $135,804 | $64,735 | $92 |
| Total Master Developer Subsidy | $18,297,193 | $18,268,309 | $36,565,502 | $198,726 | $94,729 | $135 |

The current flow of funds for Phases 1 and 2 has the CNI funds per phase spent first, followed by the OCII loans which include OCII funds and the full MDS as shown above. Current projections show approximately $6 million of the OCII loan being spent during construction per phase before the bond financing must be spent to ensure compliance with the 50% test, requiring that more than 50% of project costs are paid for with bond proceeds. The Base MDS portion of the OCII loan, along with the remaining OCII funds should be sufficient to cover costs during the construction period with the remainder of the OCII Loan, including the Additional MDS, being used to repay the construction loan at the end of construction. In the event that any portion of the MDS is needed sooner than the close of construction, Lennar will provide the necessary funds at that earlier date.

It is important to note that the "cost overrun" portion of Lennar and OCII's portions of the OCII loans for Phases 1 and 2 could increase or decrease and as long as those changes are within the amounts approved by Commission in July, Lennar and OCII must provide those subsidies to the
projects, subject to reasonable review and input by all parties. The loan amounts shown above reflect the benefit of the added equity to the projects, thereby reducing the OCII loan amounts below what was approved by LC in May, but until the GMP is in place, the loan amounts cannot be finalized. Given the increases in construction costs industry-wide and on other affordable projects that have recently received construction pricing, staff anticipates an increase in costs from the estimates in place, but staff anticipates the higher than estimated equity pricing will offset higher construction pricing, and that the approved loan amounts will be sufficient. The final loan amounts will be approved by the OCII Executive Director and the MOHCD Director as a part of their approval of the Final Financial Plan prior to the close of construction financing for Phases 1 and 2 by January 15, 2015.

OCII staff has worked with financial advisor CSG Advisors to develop an LOC term sheet that does not amend Lennar’s obligations per the DDA to provide to the funding for the Base MDS and Additional MDS for Phases 1 and 2 and that:

- allows Phases 1 and 2 to maintain the current schedule of performance, in conformance with the HUD CNI funding deadlines;
- minimizes additional financial risk and provides no additional cost to Phases 1 and 2; and
- minimizes additional risk and provides no additional cost to OCII.

The proposed LOC term sheet has been reviewed and approved by Chase as lender and RBC as investor for Phases 1 and 2, subject to review and comment on the final LOC and related documents.

STAFF RECOMMENDATIONS

Staff recommends approval of the proposed LOC Term Sheet subject to the following requirements (as further described in the attached Letter of Credit Term Sheet):

- The Base MDS for Phase 1 and 2 will be deposited in cash with the OCII on the day prior to construction loan closing so that the OCII can certify to Chase, the senior lender for the Project, that it is holding the funds for this portion of the OCII Loan.
- The Additional MDS, with the approval of OCII and Chase, may be in the form of an approved irrevocable standby LOC for each Phase 1 and 2.
- The LOC must be a Standby LOC, to be drawn upon in the event that Lennar does not make a payment of the Additional MDS when needed.
- The LOC amount must be equal to the Additional Amount for each Phase 1 and 2 (to be determined prior to construction loan closing; currently estimated at $9.8 million).
- The LOC provider must be must be rated in the AA category or better by Moody’s or Standard & Poor’s or rated Moody’s Prime 1 and not on a watchlist for negative downgrade and must be approved by both OCII and Chase.
- The LOC must have a term that expires no later than January 1, 2017 plus 120 days for any clawback period.
- If Lennar fails to make any of the payments of the Additional Amount for Phase 1 or Phase 2 in full when due, OCII will submit a draw certificate stating the amount drawn
and presented by facsimile (or SWIFT depending on the issuing bank) for the full remaining amount of the LOC and the LOC provider will pay such funds within 48 hours.

- There will thus be a maximum of one draw under a Standby Letter of Credit (either if Lennar does not make a payment or if there is any amount outstanding 15 days prior to expiration). Such draw, if any, will be for the total outstanding amount.

- The final executed LOCs must be provided no later than the day of construction loan closing.

- The draft LOCs, including draw instructions contained therein, the draft Reimbursement Agreement and any related documents that may affect OCII or Developer’s obligations under the DDA or the Project schedule or financing must be provided to OCII and Chase no later than January 5, 2015.

- OCII will entirely fulfill its obligation to Chase and Developer to fund the Additional MDS portion of the OCII Loan by assigning to Chase, at construction loan closing OCII’s right to request and receive all draws, while still retaining the right to review and approve draw requests, under the LOCs.

- All costs for and related to the Letters of Credit and associated OCII Loan Amendments, including but not limited to OCII staff costs, origination fees, legal costs, drawing fees, reimbursement obligations, etc., are solely the responsibility of Lennar. All such costs, including legal and advisory costs related to review of the LOCs and related documents that are incurred by OCII must be paid by Lennar on or prior the day before construction loan closing. Any such costs incurred after closing or any costs related to enforcement of Lennar’s obligations with respect to the additional amount, other than OCII staff costs, shall be paid within 15 days. OCII staff costs shall be paid by Master Developer to OCII as consistent with the requirements for Agency Costs under the DDA.

- The LOC term sheet is subject to review and approval by Chase.

**ADDITIONAL LOAN CONDITIONS/MODIFICATIONS:**

- Borrower must seek lender and investor approval of the final Letters of Credit and related documents, as approved by OCII.

- Reasonable changes to the terms provided here that are not inconsistent with the DDA and OCII Loan Agreement and do not materially increase the burdens and responsibilities of OCII or materially decrease the benefits to OCII with respect to the Project or negatively affect the Project schedule or financing may be approved as part of approval by the OCII Director and MOHCD Executive Director of the Final Financial Plan as required in the Loan Agreement.

**LOAN COMMITTEE MODIFICATIONS:**

**Attachment:** Letter of Credit Term Sheet
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

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

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

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

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

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

Tiffany Boyes, Executive Director
Office of Community Investment and Infrastructure

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

Barbara Smith, Interim Executive Director
San Francisco Housing Authority

Date: 12/5/14

Date: 12/5/14

Date: 12-5-14

Date: ____________________
Office of Community Investment and Infrastructure  
Alice Griffith Phase I and II  
DRAFT TERM SHEET FOR  
LETTERS OF CREDIT FROM CP DEVELOPMENT CO., LP (“MASTER DEVELOPER”)  
December 2, 2014

<table>
<thead>
<tr>
<th>Master Developer’s Obligation to Office of Community Investment and Infrastructure (“OCII”)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funding Amount</strong></td>
</tr>
<tr>
<td>Master Developer is obligated to provide to OCII:</td>
</tr>
<tr>
<td>a. $7.67 million for Phase 1 and $7.49 million for Phase 2 for a total of $15.16 million of Alice Griffith Subsidy and Agency Subsidy per the Below Market Rate Housing Plan of the Disposition and Development Agreement for Candlestick Point and Phase 2 of the Hunters Point Shipyards, (“Base Amount”) and</td>
</tr>
<tr>
<td>b. Additional amount referenced as Cost Overruns portion of the subsidy per the DDA (“Additional Amount”), currently estimated to be $4.9 million for Phase 1 and $4.9 million for Phase 2, totaling approximately $9.8 million, subject to change until construction loan closing.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Use of Master Developer’s funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCII will use both the Base Amount and the Additional Amount to fund, in part, the OCII loans to the Project (i.e. the Phase 1 and Phase 2 Replacement Projects), all consistent with the DDA.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Base Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monies for each Phase 1 and 2 Base Amount will be deposited in cash with OCII in accordance with the DDA on the day prior to construction loan closing so that OCII can certify to Chase, the senior lender for the Project, that it is holding the funds for this portion of the OCII Loan at initial loan closing of each Phase.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The total Additional Amount for both Phases shall be either:</td>
</tr>
<tr>
<td>a) deposited in cash with OCII in accordance with the DDA at initial loan closing, in the same way as the Base Amount, or</td>
</tr>
<tr>
<td>b) with the approval of OCII and Chase, may be in the form of an approved irrevocable letter of credit for each Phase 1 and 2.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Conditions for Approval of Letters of Credit for Additional Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Relationship to Base Amount</strong></td>
</tr>
<tr>
<td>a) The million Base Amount must be funded in full and in escrow on the day before construction loan closing</td>
</tr>
<tr>
<td>b) Lennar makes no request that any portion of the Base Amount be funded later than the day before construction loan closure</td>
</tr>
</tbody>
</table>

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2. Type of Letters of Credit

Standby Letter of Credit, as provided below. May provide one Standby Letter of Credit for each Phase or one for both Phases if agreed to by OCII and Chase.

3. Stated Amount

Equal to Additional Amount for each Phase 1 and 2. (to be determined prior to construction loan closing; currently estimated at $9.8 million-$4.9 million each for Phases 1 and 2)

4. Standby Letter of Credit Provider ("Provider")

Must be:

a) Per by Moody's or Standard & Poor's:
   a. Rated in the AA category or better, or
   b. Rated Moody's Prime 1
   c. Not on watchlist for negative downgrade
b) Approved by both OCII and Chase

5. Maximum Term of Standby Letter of Credit

a) Expires no later than January 1, 2017 plus 120 days for any clawback period
b) Except upon prior written certification from Beneficiaries that Master Developer has made its payment of the Additional Amount in full, the entire remaining amount of each Standby Letter of Credit will be automatically drawn down 15 business days prior to expiration.

6. Applicant for Standby Letter of Credit

Master Developer

In accordance with a reimbursement agreement with both OCII and Chase providing review and comment to ensure consistency with the DDA and related bond documents and loan agreements.

7. Payee / Beneficiary of Standby Letter of Credit

OCII

8. When Additional Amount or Standby Letter of Credit Will Be Dawn

a) Master Developer is obligated under the DDA to provide payments totaling the full Additional Amount at closing.

b) The Payee will submit each payment request to Master Developer with a copy to the Standby Letter of Credit Provider, including the date due and the amount.

c) i) If Master Developer makes such payment, the Payee will approve an equal reduction in the total amount of the Standby Letter of Credit upon expiration of the clawback period.

ii) If Master Developer fails to make any such payment in full when due, the Payee will submit a draw certificate stating the amount drawn and presented by facsimile (or SWIFT depending
on the issuing bank) for the full remaining amount of the
Standby Letter of Credit and the Provider will pay such funds
within 48 hours.
d) There will thus be a maximum of one draw under a Standby
Letter of Credit (either if Master Developer does not make a
payment as set forth under (c)(ii) above or if there is any amount
outstanding 15 days prior to expiration). Such draw, if any, will
be for the total outstanding amount.

<table>
<thead>
<tr>
<th>9. When Standby Letters of Credit are provided</th>
</tr>
</thead>
</table>
| One day prior to construction loan closing to be held in escrow
  and released upon construction loan closing in accordance with
  escrow instructions approved by Master Developer, Chase and
  OCII.
  The draft Letters of Credit, including draw instructions
  contained therein, the draft Reimbursement Agreement and any
  related documents that may affect OCII or Developer’s
  obligations under the DDA or the Project schedule or financing
  must be provided to OCII and Chase no later than January 5,
  2015.

<table>
<thead>
<tr>
<th>10. Assignment of Standby Letters of Credit</th>
</tr>
</thead>
</table>
| OCII will entirely fulfill its obligation to Chase and the Phase 1
  and 2 Developer to fund the Additional Amount of the OCII
  Loan by assigning to Chase, at construction loan closing, OCII’s
  right to receive all direct payments of the Additional Amount by
  Master Developer and to draw under the Standby Letter of Credit.
  OCII will still retain the right to review and approve
  payment requests from the Phase Developer and any draw under
  the Standby Letters of Credit.

<table>
<thead>
<tr>
<th>11. Chase’s Draws under Letters of Credit</th>
</tr>
</thead>
</table>
| The Draw requests must be approved by:
  (a) Chase and
  (b) OCII, confirming the request is in accordance with the
      OCII Loan Agreement
  Any draw against the Letter of Credit or direct payment by
  Master Developer as described in paragraph 8 shall be credited
  toward satisfying Master Developer’s obligation to fund the
  Additional Amount to OCII under the DDA upon expiration of
  the clawback period.

<table>
<thead>
<tr>
<th>12. Costs Related to Letters of Credit</th>
</tr>
</thead>
</table>
| All costs related to the Letters of Credit and associated OCII
  Loan Amendments, including but not limited to OCII staff
  costs, origination fees, legal costs, drawing fees, reimbursement
  obligations, etc., are solely the responsibility of Master Developer
  All such costs, including legal and advisory costs related to

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| 13. Chase Review of Term Sheet | This term sheet is subject to review and approval by Chase. |

Review of the Letters of Credit and related documents that are incurred by the OCII must be paid by Master Developer on or prior the day before construction loan closing. Any such costs incurred after closing or any costs related to enforcement of Lennar's obligations with respect to the additional amount, other than OCII staff costs, shall be paid within 15 days. OCII staff costs shall be paid by Master Developer to OCII as consistent with the requirements for Agency Costs under the DDA.