MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee, Executive Director

SUBJECT: Authorizing a Second Amendment to the Disbursement Agreement with HV Partners 2, LP, a California Limited Partnership, to extend the outside date permitted for the Ground Lease Closing to December 31, 2014 and to modify certain provisions related to the tax credit investor, in connection with the development of approximately 107 very low- and low-income rental units pursuant to the Hunters View Phase II-III Rental Housing Loan Agreement, Middle Point and West Point Roads; Bayview Hunters Point Redevelopment Project Area

EXECUTIVE SUMMARY

The revitalized Hunters View development will provide for full replacement of 267 extremely distressed, public housing units, plus an additional 84 units of affordable rental housing. The development will also include approximately 392 additional mixed-income rental, and for-sale housing units, all constructed in multiple phases and as part of a green and sustainable community (the “Project”), to ultimately total 743 units. The Hunters View development is the first to utilize the “HOPE SF” financing structure, an innovative program developed by the City in response to the lack of Federal HOPE VI funds which have historically been used for this type of project. The Project is also receiving funding from the Mayor’s Office of Housing and Community Development (MOHCD), City, State, Federal and private sources.

On April 19, 2011, the former Redevelopment Agency Commission approved a Phase II-III Rental Loan Agreement (the “Agreement”) for a total of $31,406,982, which fulfilled the Agency’s financial commitment for the completion of this multi-phased Project. Per the disbursement conditions set forth within the Agreement, the Developer is required to seek specific funding approvals for specific phases of development, through the HOPE SF Affordable Housing Loan Committee (“Loan Committee”) and Office of Community Investment and Infrastructure (“OCII”) Commission (“OCII Commission”) prior to disbursement of the loan amount. Furthermore, each request for approval under the Agreement must include a budget and schedule of performance.

On November 15, 2013, the Loan Committee recommended approval of $21,775,220 to be disbursed from the Agreement for gap funding associated with the development of Phase II, which consists of infrastructure work and one phase of vertical construction of affordable housing for a total of 106 affordable units plus one manager’s unit. The infrastructure work in Phase II includes a new public right-of-way and a new park. The first phase of vertical construction in Phase II, hereafter referred to as Phase IIA, will be located on Blocks 7 and 11.
On January 7, 2014, the OCII Commission authorized the OCII Executive Director to enter into the Disbursement Agreement (see Attachment 1).

On August 19, 2014, the OCII Commission authorized a First Amendment to the Disbursement Agreement (see Attachment 2) to provide: 1) additional time to extend the permitted outside date for the Ground Lease Closing Date; and, 2) an increase in the unsecured disbursement amount from $1.7 million to $3.4 million for horizontal development costs, including vertical predevelopment costs and infrastructure costs, associated with the development of Hunters View Phase IIA.

Due to unforeseen delays in obtaining a final legal description for the Phase IIA site, the HV Partnership 2, LP, a California limited partnership (“Developer) is requesting a Second Amendment to provide additional time, until December 31, 2014, for the Ground Lease Closing Date, and to modify the language in the Disbursement Agreement, Declaration of Restrictions and Leasehold and Construction Deed of Trust to modify the language for consistency with the Limited Partnership Agreement (“LPA”) with Wells Fargo.

Infrastructure construction commenced in Spring 2014 and vertical construction of Phase IIA will start in the Winter 2014.

Staff recommends authorization of a Second Amendment to the Disbursement Agreement for a time extension and to modify the language for consistency with the Limited Partnership Agreement both requests are associated with the development of Hunters View Phase IIA.

DISCUSSION

Background

In 2002, the San Francisco Housing Authority (“SFHA”) completed a comprehensive physical needs assessment of all SFHA properties and identified a number of sites with extensive physical problems. One of the sites identified was Hunters View, located within the Bayview Hunters Point Redevelopment Project Area.

In 2003, SFHA issued a Request for Qualifications for a developer to redevelop the Hunters View public housing site (the “Development”). In August 2005, SFHA selected the development team originally formed as Hunters View Community Partners “HVCP” (and now the currently formed HVA, L.P.). It is comprised of the John Stewart Company (“JSCo”), Devine & Gong, Incorporated (DGI), and Hunters Point Affordable Housing, Inc. (a subsidiary of Ridge Point Nonprofit Housing Corporation (“Ridge Point”).

HVA has created a master plan of streets, parks, housing, and community facilities and incorporated a phasing plan to accommodate on-site relocation of existing residents while a new, mixed-income community is constructed. This development will, over multiple phases, provide for full replacement of 267 significantly distressed public housing units plus an additional 84 units of affordable rental housing serving households earning up to 50% of Area Median Income (AMI). The development will, ultimately, also include approximately 392 additional units of mixed-income for-sale and/or market-rate rental housing in a green and sustainable community anticipated to ultimately total approximately 743 units. The completed 22 acre site will further include parks and open space, landscaped courtyards, transit improvements, pedestrian and vehicular connections to the adjacent neighborhoods and community space to support the existing and future residents.
Phase I vertical and infrastructure was completed in November 2013, and includes three blocks of rental housing totaling 106 new affordable housing units, plus one manager’s unit. Of the affordable housing units, a total of 26 are tax credit units which are affordable to households earning up to 50% Area Median Income (“AMI”). The remaining 80 units are public housing (Annual Contribution Contract and Section 8 assisted) units which are affordable to households earning up to 80% AMI. Additionally, Phase I includes a new park, additional open space, landscaped courtyards, transit improvements, pedestrian and vehicular connections to the adjacent neighborhoods and community space to support the existing and future residents. The Phase IIA development consists of infrastructure work and one phase of vertical construction of affordable housing for a total of 106 affordable units plus one manager’s unit, on Blocks 7 and 11. Future phases will complete the infrastructure and housing development work to meet the City partner’s commitment of replacing all existing 267 public housing units, adding 57 additional low-income affordable rental units and parcels for the development of approximately 392 market-rate units, whose sales are intended to help cross-subsidize the cost of the infrastructure work.

**Project Rationale and Description**

According to the 2010-2014 Consolidated Plan, producing in-fill affordable rental and first-time homeownership housing on underutilized Housing Authority sites is a key strategy in creating affordable housing opportunities for individuals and families. This foundation is also addressed more specifically in the “HOPE SF Taskforce Summary Recommendations to the Mayor and Board of Supervisors” (“Task Force Summary”) dated March 23, 2007. In the Task Force Summary, the vision of HOPE SF is stated as follows: *Rebuild our most distressed public housing sites, while increasing affordable housing and ownership opportunities, and improving the quality of life for existing residents and the surrounding communities*.

Therefore, the Agreement includes a hybrid of marketing, outreach and preferences, including:

For the Hunters View Public Housing Replacement Units resident occupancy preference will be in the order below:

1. All eligible Hunters View residents currently residing at Hunters View or those who resided at Hunters View at the Initiation of Negotiation (ION) in November of 2005 will be given first right to occupy the new units at Hunters View;
2. Second preference for occupancy of replacement units will be given to Certificate of Preference Holders from the Bayview Hunters Point area (because the project lies within the Bayview Hunters Point Project Area);
3. Third preference will be given to SFHA applicants on the Housing Authority waitlist. Specifics of these preferences will need to be further refined with the assistance of the Housing Authority and following HUD regulations.

For Hunters View low-income rentals, resident occupancy preference will be per the Bayview Hunters Point Redevelopment Plan, as described below:

1. First preference will be given to Certificate of Preference Holders from the Bayview Hunters Point Redevelopment Project Area;
2. Second preference will be given to Certificate of Preference Holders from the Western Addition Redevelopment Project Area;
3. Third preference will be given to rent burdened or assisted housing residents defined as persons paying more than 50% of their income for housing, or persons residing in Public Housing or Project Based Section 8 housing;
4. Fourth preference will be given to residents of San Francisco;
5. Fifth preference will be given to the general public.

Consistent with OCII Resolution No. 64-2014 dated August 5, 2014, authorizing a preference to households holding an Ellis Act Housing Program ("EAHP") preference certificate, the EAHP preference will not apply to Hunters View as it is a project that has already received a funding in the form of a loan from OCII.

**Project Financing**

In December 2011, the Loan Committee recommended approval to the Mayor for a loan from the Mayor's Office of Housing and Community Development in an amount not to exceed $2,500,000 to fund predevelopment activities associated with the development of Phase II. On October 4, 2013, Loan Committee recommended approval to the Mayor for a loan from MOHCD in amount of $1,702,705 for demolition of the vacant public housing units in Phase II. The demolition of these units was ahead of the construction schedule in order to address health and safety issues associated with these vacant units. Demolition has been completed, as well as the initial infrastructure work.

On November 15, 2013, the HOPE SF Loan Committee approved a total of $21,775,220 in OCII funding from the Agreement for Phase IIA of the Project. The OCII funding will pay for costs associated with the vertical (primarily unit construction) on Blocks 7 and 11, and infrastructure (grading and earthwork) development of Phase IIA. The term of the OCII funding is 57 years, with repayment through residual receipts.

Staff returned to the HOPE SF Loan Committee on December 20, 2013 to present: 1) a clarification that Phase IIA includes Phase IIA(1) (vertical construction of blocks 7 and 11, plus onsite horizontal work) and Phase IIA(2) (park and pathways); 2) a corrected interest rate of 0.25%, per the executed Agreement; and 3) a request by the Developer to allow up to $1,700,000 be made available for disbursement prior to the close of the Ground Lease with the SFHA.

The total development cost of blocks 7 and 11, and a portion of associated infrastructure costs is $83,527,790, and other funding sources include: MOHCD HOPE SF funds; City General Funds, and San Francisco County Transportation Authority Prop AA funds, which are both eligible to pay for infrastructure related costs; Housing Authority Replacement Housing Factor Funds; California Department of Housing and Community Development (HCD) - Infill Infrastructure Grant Program (IIG); HCD – Multifamily Housing Program (MHP); equity raised from the sale of 4% Low-Income Housing Tax Credits ("LIHTCs"); private loan funds; and, tax-exempt bond financing in the form of mortgage revenue bonds to be issued by the City. The IIG funding was awarded in June 2009 and will be used to address public space improvements (right of way, utilities, surface improvements, landscaping) and related demolition & grading. The MHP funding for the Phase II development was awarded in January 2012 and will be used for the vertical component of Phase II. Any additional funding received by the Developer from cost savings measures will be used to reduce the OCII and MOHCD loans.
**Ground Lease Closing Date Requirements**

While the Developer will own the completed improvements at Hunters View Phase IIA, the SFHA will continue to own the underlying land, which will be subject to a long-term ground lease with the Developer. Typically construction funds are first secured on the leasehold prior to disbursing the funds. In the case of Hunters View Phase II, the ground lease between the Developer and the SFHA required initial approval by the U.S. Department of Housing and Urban Development (HUD). However, the infrastructure work needed to begin immediately following the completion of the demolition work in order to keep the Phase IIA development on schedule for an early Fall 2014 vertical construction start date and closing the State Multifamily Housing Program (MHP) funding ($10,000,000) by May 2016. (The State requires closing of its $10 million loan by May 2016 or it would rescind its commitment.) Approximately $3.4 million of the Phase II Disbursement Agreement amount was designated for infrastructure related costs.

At the time of execution of the Disbursement Agreement, Borrower anticipated needing to expend both predevelopment funds and a portion of the horizontal infrastructure construction funds prior to entering into the SFHA ground lease for Phase IIA and recording a Memorandum of the SFHA ground lease (the “Ground Lease Closing Date”), which was expected to occur no later than August 31, 2014, at which time Borrower would execute and record the Deed of Trust and Declaration of Restrictions for the Loan. Typically OCII only allows the disbursement of predevelopment funds, and not construction funding, prior to the recording of the Deed of Trust, Declaration of Restrictions and Memorandum of Ground Lease. In order to ensure that the Project remained on schedule, the Disbursement Agreement allowed OCII to disburse $1,700,000 of the Disbursement Amount prior to the SFHA ground lease closing date, with the intention that those funds were related to a portion of the horizontal infrastructure construction that needed to be completed in advance of the Ground Lease Closing Date. However disbursement authority should have also been included for predevelopment costs, such as architecture and other soft costs related to the vertical development, as is typical in OCII funded affordable housing projects.

Therefore, in order to ensure that the infrastructure and predevelopment work will continue uninterrupted, in August 2014, the OCII Commission approved a First Amendment to: (1) extend the permitted outside date for the SFHA ground lease closing (and recording of a Memorandum of Ground Lease) date; and (2) increase the amount of the Disbursement Amount available for disbursement prior to the SFHA ground lease closing date to allow $1,615,300 for predevelopment expenses and $2,049,000 for horizontal infrastructure construction expenses, for a total amount of $3,664,300. The total Disbursement Amount remained unchanged as $21,775,220.

**Current Request**

While HUD approved the ground lease in May 2014, and the SFHA executed the ground lease in June 2014, the Memorandum of ground lease could not be recorded until after a Quit Claim (for a portion of West Point Road (in Phase IIA) from the City and County of San Francisco to the SFHA) had been approved by the SFHA Commission and then further approved by the San Francisco Board of Supervisors. The Board of Supervisors approved this action on November 25, 2014. Thus, to comply with the Ground Lease Closing Date, the only remaining action is for the SFHA to record the ground lease.
The Developer is now requesting a Second Amendment to: (1) extend the ground lease execution date to December 31, 2014, which will allow time for the Board of Supervisors to take action as well as recordation of the Memo of Ground Lease; and, (2) modify the language in the Disbursement Agreement to: amend the Project Expenses language to explicitly detail the permitted expenses, in agreement with the Limited Partnership Agreement; include investor noticing requirements; recognize the John Stewart Company as the property manager; clarify definitions; and administrative clean-up edits to the Disbursement Agreement and related documents. Authorization of this request will assist in the construction finance closing in December 2014.

**NEXT STEPS**
The SFHA ground lease is expected to be recorded during the week of December 12, 2014, and the construction closing is scheduled for December 19th, with the, vertical construction beginning in January 2015. Construction completion is expected the Spring 2017.

(Originated by Pamela Sims, Development Specialist)

Tiffany Bolee
Executive Director

Attachment 1: Disbursement Agreement
Attachment 1a: First Amendment to the Disbursement Agreement
Attachment 2: Second Amendment to the Disbursement Agreement