MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Adopting environmental findings pursuant to the California Environmental Quality Act, authorizing an Assignment, Assumption and Release Agreement for Block 7 West with The Regents of the University of California, San Francisco and Mission Bay Block 7 Housing Partners, L.P., and authorizing an Amended and Restated Disposition and Development Agreement with Mission Bay Block 7 Housing Partners, L.P. to construct 200 affordable residential units on Block 7 West pursuant to the Mission Bay South Owner Participation Agreement; Mission Bay South Redevelopment Project Area.

EXECUTIVE SUMMARY

On September 17, 1998, the Commission of the former Redevelopment Agency (“former Agency”) of the City and County of San Francisco (“former Agency Commission”) approved the Mission Bay North and South Redevelopment Plans and Owner Participation Agreements (“OPAs”) with the Mission Bay Master Developer, first Catellus and now FOCIL-MB, LLC (“FOCIL”). As part of the negotiations in 1998, the City of San Francisco and the Mission Bay Master Developer donated 43 acres to The Regents of the University of California, San Francisco (“Regents” or “UCSF”) to build a new research campus in Mission Bay South. UCSF has also acquired an additional 14 acres of land in Mission Bay South (“Medical Center Site”). The Medical Center Site was initially envisioned to be developed with private, tax-producing uses that would generate tax increment to be used for the construction of infrastructure and affordable housing. Since UCSF is a tax-exempt entity, when it acquired the Medical Center Site the land became tax exempt and no tax increment was generated for infrastructure and affordable housing.

To address this loss, Catellus required UCSF to reimburse them for the costs of building infrastructure serving the Medical Center Site. UCSF also entered into a Memorandum of Understanding (“MOU”) and two Disposition and Development Agreements with the former Agency for Block 7 East and 7 West (“Original Block 7 East DDA” and “Original Block 7 West DDA”; together, “Original DDAs”). The Original DDAs required UCSF to purchase Block 7 East and 7 West, and construct 237 units of affordable housing on Block 7 in Mission Bay South. The former Agency Commission also adopted a Second Amendment to the South OPA which requires tax-exempt entities which purchase or lease land in Mission Bay South, or property owners who sell or lease space to such tax-exempt entities, to enter into a payment-in-lieu-of-taxes (PILOT) agreement, or otherwise secure the consent of the former Agency and the City.
UCSF has decided it will not construct the housing on Block 7 East and has released the interest it purchased in Block 7 East and paid an additional $5 million in liquidated damages to terminate the Original Block 7 East DDA. UCSF requested the assignment of the Original Block 7 West DDA ("Assignment, Assumption and Release Agreement" or "Assignment") to Mission Bay Block 7 Housing Partners, L.P., comprised of The Related Companies of California, LLC and Chinatown Community Development Corporation ("Developer") for the development of 200 units of affordable housing ("Block 7 West Project"). The 200 units would be rental units, affordable to households earning up to 60% of AMI, and the predevelopment loan for the Block 7 West Project was approved on June 18, 2013 by the Commission on Community Investment and Infrastructure ("Commission"). The remaining portion of Block 7, Block 7 East, will be developed by Family House for temporary housing for families receiving treatment at the UCSF Medical Center pursuant to the Fourth Amendment to the South OPA, approved by the Commission on June 4, 2013.

As part of the Assignment, UCSF is agreeing to release the interest it purchased in Block 7 West without reimbursement and in addition, pre-pay $2.4 million in liquidated damages associated with the Block 7 West transaction by March 1, 2014 to the Office of Community Investment and Infrastructure ("OCII") for use in the Block 7 West Project. In consideration for pre-paying the liquidated damages by approximately 20 years, employees of a public higher education institution or a public healthcare institution located in San Francisco will be given priority for 25% of the Block 7 West units. Once the Original Block 7 West DDA is assigned to the Developer, OCII would enter into an Amended and Restated Disposition and Development Agreement with the Developer ("Amended Block 7 West DDA").

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) and adopted findings under the California Environmental Quality Act ("CEQA") (Resolution No. 183-98). This FSEIR includes by reference a number of addenda. Staff has reviewed the Assignment and Amended Block 7 West DDA and finds them to be within the scope of the project analyzed in the FSEIR and addenda and no additional environmental review is needed.

Staff recommends adopting environmental findings pursuant to CEQA and authorizing an Assignment, Assumption and Release Agreement for Block 7 West with The Regents and Mission Bay Block 7 Housing Partners, L.P., and authorizing an Amended and Restated Disposition and Development Agreement with Mission Bay Block 7 Housing Partners, L.P.

BACKGROUND

Mission Bay Affordable Housing Development

On September 17, 1998, the former Agency Commission approved the Mission Bay North and South Redevelopment Plans and Owner Participation Agreements ("OPAs") with the Mission Bay Master Developer, first Catellus and now FOCIL-MB, LLC ("FOCIL"). The South OPA was amended by the former Agency Commission on February 17, 2004 (Resolution No. 23-2004) and November 1, 2005 (Resolution No. 177-2005), and was further amended by the
Commission on May 21, 2013 (Resolution No. 16-2013) and June 4, 2013 (Resolution No. 20-
2013).

The OPAs, as amended, require that approximately 1,700 to 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 qualified nonprofit housing developers selected by OCII on approximately 15 acres of land that the Master Developer is required to contribute to OCII in Mission Bay North and South. To date, 674 affordable housing units have been built in Mission Bay, with another 150 units under construction.

**UCSF Mission Bay Campus and Medical Center**

As part of the negotiations in 1998, the City of San Francisco and the Mission Bay Master Developer donated 43 acres to UCSF to build a new research campus in Mission Bay South and to help create a catalyst for Mission Bay’s emerging bio-technology cluster. Exhibit A depicts the location of the UCSF Mission Bay research campus.

Since the donation of 43 acres of land to UCSF, UCSF has acquired an additional 14 acres of land in Mission Bay South, consisting of Blocks 36 to 39 and X-3 (“Medical Center Site”), as shown on Exhibit A. UCSF acquired this land in two phases, the first phase consisting of Blocks 36 to 39 and the second phase consisting of Block X-3. UCSF plans to construct a 550-bed hospital on the Medical Center Site in two phases. The first phase, currently under construction, includes 289-hospital beds serving women, children, and cancer patients and will be finished and operational in early 2015. The design for the second phase of the hospital, which will increase the capacity of the hospital to 550-beds, has not yet begun. The start of construction, currently estimated in 2035, will be determined by the availability of future funding.

The Medical Center Site is located on land that was owned by the Mission Bay Master Developer and several other property owners and was designated in the Mission Bay South Redevelopment Plan for private, tax-generating office and bio-tech development. When developing the overall Mission Bay financing plan, property taxes from the Medical Center Site were anticipated to be available to finance affordable housing and infrastructure required by the South OPA. However, due to UCSF’s tax-exempt status, the purchase of these parcels by UCSF meant that they would no longer generate property tax. To address this loss, the Mission Bay Master Developer required UCSF to reimburse them for the costs of building infrastructure serving the Medical Center Site, which reimbursement would have otherwise been received in property taxes.

**Block 7 Background**

On November 1, 2005, to address the loss of property taxes for affordable housing resulting from UCSF’s acquisition of Blocks 36 to 39, the former Agency Commission approved a Memorandum of Understanding (“MOU”), and a Disposition and Development Agreement with
UCSF ("Original Block 7 East DDA"). It also adopted a Second Amendment to the South OPA which requires tax-exempt entities which purchase or lease land in Mission Bay South, or property owners who sell or lease space to such tax-exempt entities, to enter into a payment-in-lieu-of-taxes (PILOT) agreement with the Mission Bay Master Developer, or otherwise secure the consent of the Agency and the City.

The Original Block 7 East DDA required UCSF to construct 160 units of affordable housing on Block 7 East in Mission Bay South to off-set the loss of property tax from Blocks 36 to 39. When UCSF purchased the remainder of the Medical Center Site (ie, Block X-3), the MOU was amended and a second Disposition and Development Agreement was approved on March 2, 2010 that required UCSF to build an additional 77 units of affordable housing on the western portion of Block 7 ("Original Block 7 West DDA"), for a total of 237 units on Block 7. The Original Block 7 West DDA was provided as background to the Commission as part of an Informational Memo dated June 21, 2013.

The Original Block 7 East DDA and the Original Block 7 West DDA (together, "Original DDAs") required 71 of the 237 units to be affordable to households earning up to 100% of the area median income ("AMI") and 166 units to be affordable to households earning up to 60% of the AMI for a period of 75 years. The Original DDAs gave first priority for 100% of the units to UCSF employees who are certificate holders under the former Redevelopment Agency’s Certificate of Preference Program ("Certificate Holders"), followed by non-Certificate Holder UCSF employees. If UCSF was unable to rent all of the units to its employees, UCSF was permitted to rent the units to any qualified non-UCSF tenant, with first priority given to Certificate Holders. The Original DDAs also committed UCSF to make good faith efforts to accommodate a diverse tenant population on Block 7, but as a state agency, UCSF was not subject to any of the former Redevelopment Agency’s equal opportunity policies.

At the time of execution of the Original DDAs, UCSF paid a non-refundable purchase price for each block, for a total amount of $6.155 million, which was used for the construction of affordable housing in Mission Bay. The Original DDAs also included liquidated damages totaling $7.4 million ($5 million for Block 7 East and $2.4 million for Block 7 West) to be paid by UCSF if it was unable to construct the affordable housing per the agreed upon timelines.

**DISCUSSION**

**Block 7 East**

Earlier this year, UCSF determined that it would not construct the affordable housing on Block 7 East in accordance with the schedule of performance in the Original Block 7 East DDA and released its interest in Block 7 East and would be paying the $5 million in liquidated damages due under the Original Block 7 East DDA. Additionally, UCSF requested that FOCIL transfer a portion of the original Block 7 East to Family House, Inc. to develop a 96,000 square foot facility with approximately 80 extended stay rooms to support primarily low income families of patients receiving treatment at the new hospital. On June 4, 2013, the Commission approved a Fourth Amendment to the South OPA to remove the affordable housing restriction on Block 7
East and allow FOCIL to transfer Block 7 East to Family House. Subsequently, UCSF has paid the $5 million in liquidated damages to be used for affordable housing in Mission Bay South, and the Original Block 7 East DDA has been terminated. The Fourth Amendment to the South OPA also requires Family House to make a $2.5 million payment for affordable housing, which would be used for the Block 7 West affordable housing development.

**Block 7 West**

UCSF is now seeking to release its purchased interest in Block 7 West and to pre-pay the $2.4 million in liquidated damages due under the Block 7 West DDA under the following conditions: 1) to assign the Original Block 7 West DDA to Mission Bay Block 7 Housing Partners, L.P., comprised of The Related Companies of California, LLC and Chinatown Community Development Corporation ("Developer"); 2) to be released from any responsibility for that project; and, 3) to include a preference for a portion of the units in the Block 7 West project (which preference is further described below). Under the Original Block 7 West DDA, the rights to develop Block 7 West and the $2.4 million in liquidated damages would not be due if and until UCSF failed to meet the schedule of performance contained in the Original Block 7 West DDA, which is tied to the commencement of the second phase of the hospital, not currently anticipated until 2035 or beyond.

**Block 7 West Project**

As was discussed in detail at the June 18, 2013 Commission meeting, the Developer proposes to develop 200 units on Block 7 West along with 10,000-square-feet of neighborhood-serving retail serving the Fourth Street retail corridor ("Block 7 West Project"). The 200 units would be rental units, affordable to households earning up to 60% of AMI. Because the underlying land would continue to be owned initially by OCII and after completion, by the Mayor's Office of Housing and Community Development ("MOHCD"), the units would remain affordable in perpetuity through a long-term ground lease. The Block 7 West Project would comply with the City's affordable housing underwriting guidelines and OCII's contract compliance and purchasing guidelines.

The proposed massing for the Block 7 West Project includes three main parallel wings running north to south on the Site for a total of about 241,000 square feet and 200 units. The building will be wood-frame construction over a concrete podium with parking at grade and wrapped by 10,000 square feet of retail along Fourth Street and residential units elsewhere. The residential units will be 71 one- and 129 two-bedroom units of approximately 570 and 800 square feet, respectively. Unit plans will be reviewed by OCII staff to ensure maximum livability. One large community room opens onto the podium level courtyard, and one smaller community room per floor is also provided. Parking will be provided in a garage at a ratio of 0.5 spaces per unit (100 spaces) through the use of parking lifts. Thirty bike parking spaces are located adjacent to the garage, which is six times the number required by the Mission Bay South Design for Development. Pursuant to the OCII's requirements, the Block 7 West Project will incorporate concepts that satisfy standards of the City's Green Building Requirements Ordinance as specified in the City of San Francisco, Department of Building Inspection, Administrative Bulletin No.
AB-093. The schematic design of the building will be brought to the Commission for consideration later in early 2014.

On June 18, 2013, the Commission conditionally approved a $2.0 million predevelopment loan agreement for the Block 7 West Project ("Loan Agreement"). The Commission conditioned the approval of the Loan Agreement such that no funds could be paid to the Developer until the Commission approves the Amended Block 7 West DDA.

The Block 7 West project requires additional OCII funding for construction, and that request is anticipated to come before the Commission in Spring 2014. The plan to provide the additional OCII funding relies on existing OCII funds, new property tax funds (or "RPPTF") through ROPS 13-14B, the affordable housing payment from Family House related to the Block 7 East transaction, the liquidated damages already paid by UCSF for Block 7 East, and then a prepayment of the liquidated damages from UCSF for Block 7 West that would otherwise be due sometime after 2035.

**Assignment, Assumption and Release Agreement**

Article 10 of the Original Block 7 West DDA permits UCSF to assign, with OCII approval and under certain conditions, the Original Block 7 West 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 Original Block 7 West DDA obligations. UCSF proposes to assign, with OCII approval, the Original Block 7 West DDA to the Developer, which complies with the definition of a Qualified Housing Developer.

The terms of this proposed assignment are detailed in the Assignment, Assumption and Release Agreement ("Assignment") (Exhibit B). As part of the Assignment, UCSF is agreeing to early release of its previously purchased interest in Block 7 West and to pre-pay $2.4 million in liquidated damages for Block 7 West to OCII for use in the Block 7 West Project. The $2.4 million will be paid no later than March 1, 2014, which is the date the Developer anticipates submitting funding applications to the California Debt Limit Allocation Committee ("CDLAC") and the Tax Credit Allocation Committee ("TCAC") which regulations require all funding in hand to demonstrate project readiness. In consideration for the prepayment of the Block 7 West liquidated damages, UCSF had proposed that the Block 7 West Project provide priority for 33% of the units for income-eligible employees of San Francisco public educational and healthcare institutions. At the June 18, 2013 Commission meeting, the Commission raised concerns regarding that priority for 33% of the units. In response to that concern, UCSF is currently proposing that such a preference will be given for 25% of the Block 7 West units. The 25% is a reduction from the initially proposed 33% of the units in response to concerns raised by the Commission at the June 18, 2013 meeting.

Income-eligible applicants who are also eligible for the OCII's Property Owner and Occupant Preference Program ("Certificate of Preference Holders") will be given priority for renting units in the Block 7 West Project. This includes the units with first preference to income-eligible
employees of San Francisco public educational and healthcare institutions. These preferences are outlined in greater detail in the Tenant Selection Criteria Leasing System, included as an exhibit to the Assignment and Assumption Agreement (See Memorandum Exhibit B), as well as Attachment No. 7 to Memorandum Exhibit C, the Amended Block 7 West Disposition and Development Agreement.

**Amended Block 7 West DDA**

In addition to assigning the original Block 7 West DDA to the Developer, the transaction requires that the DDA itself be amended in order to reflect the current structure of the Block 7 West Project. The Amended and Restated Disposition and Development Agreement, included as Exhibit C, reflects the current legal description of the parcel (which underwent a lot line adjustment), and includes an updated Schedule of Performance and Scope of Development for the Block 7 West Project.

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

The Developer shall comply with OCII's Small Business Enterprise ("SBE"), Nondiscrimination in Contracts, Minimum Compensation and Health Care Accountability policies and has worked closely with contract compliance staff to comply with the SBE Program's 50% goal on this project. To date, the Developer has achieved 50% SBE participation for professional services consultants. 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 includes 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") discussed the Block 7 West Project at its September 8, 2011 and May 16, 2013 meetings. At both meetings, the CAC was very supportive of the Block 7 West Project. 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. These issues will be addressed during the schematic design process.

**NEXT STEPS**

Staff will return to the Commission for additional actions including schematic design approval, the permanent gap loan, and a long-term ground lease. The schematic design is anticipated to be brought to the Commission for consideration in January 2013, the permanent gap loan in spring 2014 and the long-term ground lease in summer 2014.
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 Agency 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 Assignment and the Amended Block 7 West DDA and has considered and reviewed the FSEIR and addenda. Staff has determined that the action is within the scope of the Mission Bay 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.

(Originated by Catherine Reilly, Project Manager)

Exhibit A: Mission Bay Location Map
Exhibit B: Assignment, Assumption and Release Agreement
Exhibit C: Amended Block 7 West Disposition and Development Agreement