MEMORANDUM

TO: Community Investment and Infrastructure Commissioners
FROM: Tiffany Bohee
Executive Director
SUBJECT: Authorizing the transfer of ownership and assignment of the Predevelopment Loan, for 200 6th Street (Assessor’s Parcel Number 3731, Lot 001) to the Mayor’s Office of Housing and Community Development as Successor Housing Agency.

EXECUTIVE SUMMARY

Originally purchased through an act of eminent domain, which concluded on November 12, 2009 for the sum of $4,600,000, the 200 6th Street project (the “Project”) is poised to demolish the existing vacant building and begin construction in fall of 2014 to develop 66 very low-income family rental housing units, including 14 units for developmentally disabled adults, plus one manager’s unit. The former San Francisco Redevelopment Agency (“SFRA”) selected Mercy Housing (“Mercy”) as the developer of the Project, and Mercy has been completing predevelopment work under an SFRA predevelopment loan of $3,201,290 (the “Predevelopment Loan”), of which $179,748.59 remains to be disbursed. The construction financing plan called for OCII to contribute $1,100,000 in Redevelopment Property Tax Trust Funds (“RPTTF”), and then the Mayor’s Office of Housing and Community Development (“MOHCD”) would provide the majority of the local public subsidy needed. OCII put the request for the $1,100,000 on ROPS 13-14B, indicating that the funds would be tax increment generated through Senate Bill 2113 (“SB 2113”), which allowed SFRA, and now OCII, to collect tax increment from designated project areas in order to replace affordable units that were demolished by SFRA in the 1960’s and 1970’s (the Replacement Housing Obligation”). Similar to all of OCII’s other affordable housing projects, the plan was to transfer this asset to MOHCD as the Housing Successor Agency once the project was completed.

In December 2013, the California Department of Finance denied OCII’s request to utilize $1,100,000 RPTTF funds toward the gap financing for the project, stating that because there was no construction funding contract in place prior to the passage of the Dissolution Law in June 2011, there was no enforceable obligation. Since OCII cannot provide any future funding to the Project, and since MOHCD was already on planning to provide the majority of local subsidy, staff is recommending that the 200 6th Street land and improvements be transferred to MOHCD now, along with the Predevelopment Loan restrictions, rather than wait until the Project is completed. MOHCD will also provide the $1,100,000 that OCII would have provided.

Staff recommends authorizing the transfer of the land and the predevelopment loan to the Mayor’s Office of Housing and Community Development.
BACKGROUND AND PROJECT HISTORY

200 6th Street (Assessor’s Parcel Number 3731/001), formerly known as the Hugo Hotel, is located at the intersection of Sixth and Howard Streets (the “Site”). The Site is currently improved with an abandoned four-story building plus basement and has been vacant since approximately 1988. It was acquired by SFRA through an eminent domain action that concluded on November 12, 2009.

A site-specific, temporary sculpture known as Defenestration was installed on the building’s exterior in 1997. The artist has a Permit to Enter Agreement to maintain and ensure the public safety of the installation that expires June 30, 2014. The agreement requires the removal of the installation prior to the Project’s development.

On May 27, 2010, the former Agency issued a Housing Development Request for Proposals (the “RFP”) for the development and management of very low-income, rental housing and ground floor uses at the Site. Former Agency staff made extensive outreach efforts to attract submittals from qualified developers by the June 29, 2010 deadline. The RFP set forth specific submission requirements to be met in order to be fully reviewed by former Agency staff. The RFP also set forth that the former Agency would seek to enter into an exclusive negotiations agreement for development rights on the Site.

On November 16, 2010, the former Agency authorized an Exclusive Negotiations Agreement (the “ENA”) with Mercy, for the development of very low-income family housing at 200 Sixth Street. The ENA authorization completed the initial phase of the Request for Proposals (“RFP”) process. The RFP sought submittals to develop one, two, and three bedroom family rental apartments for very low-income households earning up to 50% area median income. The ENA provided the developer with enough site control during the predevelopment period to apply to various funding sources such as the United States Department of Housing and Urban Development’s (“HUD”) 811 program and the California Department of Housing and Community Development’s (“HCD”) Transit oriented Development (“TOD”) program. On January 25, 2012 the project was approved by U.S. Department of Housing and Urban Development (“HUD”), for a Section 811 award of $2,377,000 to provide 14 units of supportive housing for developmentally disabled adults. The developer also received a TOD award letter on February 24, 2014 for an amount not to exceed $1,600,000.

On January 18, 2011 per Resolution No.5-2011 ("Agency Resolution"), the former Agency Commission authorized the former Agency Executive Director to execute the Predevelopment Loan in an amount not to exceed $3,201,909 with Mercy to provide funding for the predevelopment activities required by the RFP.

TRANSFER OF HOUSING ASSETS

Pursuant to Dissolution Law, housing assets may be transferred to the designated Housing Successor Agency. OCII has already transferred over land and/or affordability restrictions relating to over a thousand completed projects, however OCII retained projects and sites that were not yet complete, referred to as OCII’s “Retained Housing Obligations”. The Site was one of the Retained Housing Obligations and remains in OCII’s ownership. Since the Project is located in the South of Market Redevelopment Project Area, it is not subject to any of OCII’s Major Approved
Development Project obligations such as in Hunters Point Shipyard/Candlestick Point, Mission Bay or Transbay. Instead, staff had proposed funding the construction needs of the Project on the basis that SB 2113 funds would be used, and therefore those units funded with SB 2113 funds would be counted towards OCII’s fulfillment of the remaining Replacement Housing Obligation of approximately 5800 units. OCII included a request for $1,100,000 in SB 2113 RPTTF on ROPS 13/14B, and intended to transfer the Site and related Project agreements to MOHCD upon the Project’s completion.

Through the ROPS 13/14B review process, DOF denied the funding for the Project, stating that since there was no contract in place requiring construction funding prior to the passage of the Dissolution Law, there was no enforceable obligation. Staff appealed this decision through the Meet and Confer Process, and included the same analysis that the SB 2113 obligation is an enforceable obligation since State law requirements are included in the definition of enforceable obligation in the Dissolution Law. DOF upheld their denial of the funding, however the larger issue of SB 2113 funding and OCII’s Replacement Housing Obligation is still pending with DOF through a Request for a Final and Conclusive Determination. However, any resolution of the Replacement Housing Obligation status is unlikely to occur on a timeframe that would not significantly delay the Project. Therefore, staff is recommending that the transfer occur to MOHCD now in order to allow the Project to keep to its development schedule and not jeopardize its HUD funding. In order to complete the transfer, upon Commission approval, staff will seek the approval of the Oversight Board in May, and then submit the request to DOF for review and approval.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)
On August 1, 2013, the Planning Commission adopted a Final Environmental Impact Report (“FEIR”) for the proposed Project. The FEIR describes the proposed Project, assesses the potential environmental impacts of the Project, and identifies mitigation measures to preclude significant impacts or reduce such impacts to less than significant levels. The Planning Commission also approved a Conditional Use Application and the Mitigation Monitoring Program that attaches the mitigation measures contained in the FEIR and Adopted CEQA findings under motion no. 18937.

**Next Steps**
Staff will seek Oversight Board approval on May 12, 2014, and will then forward the matter on to DOF for review and approval. DOF will have 5 days to review the item; if they choose not to review it, the Oversight Board action will be considered final. If DOF does review the matter, they will have an additional 40 days to render a decision. The Project is scheduled to commence construction in the fall of 2014, and is expected to complete construction in 2016.

*(Originated by Kevin Kitchingham, Project Manager, Mayor’s Office of Housing and Community Development)*

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Tiffany Bohee
Executive Director