MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing an Amended and Restated Loan Agreement with Bayview Supportive Housing, LLC, a limited liability company (consisting of Bayview Hunters Point Multipurpose Senior Services, Inc. and McCormack Baron Salazar, Inc., a Missouri corporation), in a total amount not to exceed $19,111,224. and authorizing the Executive Director to enter into a Ground Lease Option Agreement with Bayview Supportive Housing, LLC, both for the development of 120 very low-income senior rental housing units plus one manager’s unit at 1751 Carroll Avenue (formerly known as 5800 Third Street, Lot 3) (Assessor’s Block 5431A, Lot 042)

EXECUTIVE SUMMARY

On September 21, 2010, the Commission of the former San Francisco Redevelopment Agency (“SFRA”) authorized an Assignment and Assumption Agreement of a Purchase and Sale Agreement for Lot 3 at a site located at 5800 3rd Street and Carroll Avenue (the “Site”), which allowed SFRA to take ownership of the Site. At that same meeting, the SFRA Commission also authorized an Exclusive Negotiations Agreement (“ENA”) with Bayview Hunters Point Multipurpose Senior Services, Inc. (“BHPMSS”) and McCormack Baron Salazar (“MBS”) (together, the “Developer”) for the purpose of developing the Site into a project that includes 120 units of affordable rental housing for very low-income seniors, one managers unit, and a multipurpose senior center. The Developer has previously received a total of $3,937,500 in predevelopment funding. The current request is for $15,173,724, for a total aggregate amount of $19,111,224, which will be used for gap financing for project related development costs. This amount is included in the approved Recognized Obligation Payment Schedule (“ROPS”) 13-14A, for the period July 1, 2013 to December 31, 2013 as Item #166, which was approved by DOF, and must be approved and encumbered before the end of the ROPS period.

The funding request is for the construction of 120 units (plus one manager’s unit) of very low-income senior rental housing and will also include a new senior center (the “Project”). The Site is adjacent to a market rate condominium development on Lot 1 (Carroll Avenue Station, which faces Third Street), and a soon-to-be-developed market rate project on Lot 2. A new, expanded and more accessible senior multi-purpose center (“Senior Center”) has been a priority of Bayview residents for over a decade. A Senior Center was included in the Bayview Hunters Point Concept Plan, as well as the Bayview Hunters Point Redevelopment Plan as part of the Aging Campus concept within the “Health Center Node” of the Project Area. The Citywide Affordable Housing Loan Committee (“Loan Committee”) recommended approval of the gap financing request at its August 3, 2013 meeting.
Additionally, in preparation for the submission of an application to the California Debt Limit Allocation Committee ("CDLAC") for funding by September 13, 2013, the Developer is now requesting the OCII Commission authorize the Executive Director to enter into a Ground Lease Option Agreement with the Developer. A Ground Lease Option is necessary to demonstrate to CDLAC a form of site control, which will allow the Developer to receive the maximum amount of readiness points on its application. The Ground Lease Option will lead to a Ground Lease which will be negotiated and finalized in the next few months and brought back to the OCII Commission for approval by December 2013.

The Project has been identified by the Developer, and approved by HUD, as the first phase of off-site housing for qualified Alice Griffith public housing residents, under the $30.5 million Choice Neighborhoods Implementation Grant ("CNI Grant") award to Alice Griffith public housing/Eastern Bayview neighborhood. OCII is obligated to rebuild the Alice Griffith project, including seeking funding such as the CNI Grant, through the Disposition and Development Agreement for the Candlestick Point -Hunters Point Shipyard Phase 2 Project ("Phase 2 DDA"). As the first phase of the Alice Griffith revitalization, the Project will prioritize qualified Alice Griffith residents who want to live in a senior housing environment. This housing provides an added option for seniors living at Alice Griffith now who are interested in senior housing and/or may need greater access to senior services.

As with all of OCII’s affordable housing obligations, OCII will provide the required funding and process the necessary approvals for the project until it is complete. OCII staff is working with staff at the Mayor’s Office of Housing and Community Development ("MOHCD") to underwrite the transaction. Upon completion, OCII’s loans will be assigned to MOHCD and the land and accompanying Ground Lease will also transfer to MOHCD and our obligation for this particular project will be complete.

Staff recommends authorizing an amended and restated loan agreement with Bayview Supportive Housing, LLC, in an amount not to exceed $19,111,224, and authorizing the ground lease option agreement with Bayview Supportive Housing, LLC.

BACKGROUND

Enforceable Obligation: Loan Agreement (construction funding) and the Alice Griffith Choice Neighborhood Initiatives Award

The construction of the Project fulfills a condition of a $30.5 million federal grant awarded in 2011 by the U.S. Department of Housing and Urban Development (HUD) under its Choice Neighborhoods Initiative Program to Alice Griffith Homes/Eastern Bayview Neighborhood. ("CNI Grant"). The Executive Summary of CNI Grant states as a goal the "improvement of the existing housing stock in the Eastern Bayview, new mixed-income and affordable development on Neighborhood infill parcels." Under the CNI Grant, SFRA, now OCII, is a Principal Team Member and Neighborhood Implementation Entity obligated to implement the neighborhood component of the Transformation Plan, which requires the revitalization of a severely distressed...
public housing development, Alice Griffith Public Housing, and its surrounding neighborhood. Although a primary goal of the CNI Grant is the replacement of the Alice Griffith Public Housing, it also requires OCII and other partners to develop other affordable housing in the area. HUD has determined that OCII’s funding for the Project fulfills obligations under the first phase of the CNI Grant. Importantly, compliance with the CNI Grant will ensure that the HUD funds are available for the revitalization of the Alice Griffith Public Housing, which is also an enforceable obligation under Phase 2 DDA.

**Project History**

An expanded and accessible Senior Center has been a priority of the Bayview neighborhood for approximately 15 years. In that time BHPMSS has been attempting to locate and secure an appropriate site for a new Senior Center that would also include low-income senior housing. Realizing it did not have the expertise to develop an affordable housing Site, in 2007 BHPMSS put out a request for qualifications for a development partner, and selected MBS as a result of the process. In December 2008, BHPMSS entered into a Purchase and Sales Agreement with SF Third Street Equity Partners, LLC to purchase Lot 3 at 5800 Third Street. BHPMSS and MBS assigned the Agreement to SFRA, and SFRA completed the purchase of Lot 3 in February 2011. Lot 3 is currently entitled for 121 units. The overall 5800 Third Street project consists of three parcels including the completed for-sale units and a Fresh and Easy grocery store on Lot 1, which fronts Third Street, and Lot 2 that SF Third Street Equity Partners, LLC will develop with market-rate and inclusionary housing.

To date, a total of $8,800,000 in acquisition funding, and $684,000 in predevelopment funding has been authorized by former Redevelopment Agency Commission actions on September 21, 2010 and January 18, 2011 respectively. On June 15, 2012, Loan Committee approved an additional $3,253,500 in predevelopment funding through the Mayor’s Office of Housing and Community Development as the understanding at that time was that all funds from SFRA’s Low and Moderate Income Housing Fund (“LMIHF”) were transferred to MOHCD upon SFRA’s dissolution on February 1, 2012. MOHCD then entered into a first amendment to the predevelopment loan agreement for a total of $3,937,500 on October 1, 2012. Subsequently through the State Department of Finance’s (“DOF”) Due Diligence Review process, DOF invalidated the transfer of SFRA’s funds to MOHCD, and required that the funds be returned to OCII as the Successor Agency. Due to this change in how the LMIHF should be treated, MOHCD’s predevelopment loan is cancelled and the $3,253,500 in additional predevelopment funding is now incorporated into this request. The initial predevelopment funding was used for expenses to get the project through to schematic design, site testing, and initial planning entitlement processes. The current request is for $15,173,724, for an aggregate amount of $19,111,224, which will be used for gap financing for project related development construction costs.

**Project Rationale and Description**

The City’s 2010-2014 Consolidated Plan discusses the need for affordable senior housing. It states:

“the 2000 Census counted 136,369 or 18% of San Francisco’s population as 60 years or older. San Francisco’s elderly population is expected to grow to
173,200 by 2010 and to 279,800 by 2030...” Fifty-three percent of San Francisco’s seniors are 75 years old or older, and advances in medical technology will likely increase the relative size of this “older old” population as life expectancies increase in the future. This segment of the population is more likely to be poor and in need of fully accessible housing to maintain their quality between 2010 to 2020...As the generation of baby-boomer renters reaches retirement age, their incomes will decline, and the need for accessible low-cost rental housing and affordable senior housing will rise. ...Older and disabled adults who require long-term care have a need for a broad range of on-site and off-site services including central dining, transportation services, limited or complete medical care, recreational and other services...For seniors living independently, there is a need for small, safe, easily maintained dwelling units. The maximum SSI payment for a single adult over age 65 is $845, and the average rent for a one-bedroom in San Francisco is $2,388.”

Additionally, the need for a new, larger and more accessible senior center has been a priority for the Bayview area of the City for over 15 years. A Senior Center was included in the Bayview Hunters Point Concept Plan, as well as the Bayview Hunters Point Redevelopment Plan as part of the Aging Campus concept within the “Health Center Node” of the Project Area.

In addition to the Consolidated Plan, as part of the City and County of San Francisco’s effort to address the problem of homelessness, the City has prioritized the development of non-profit owned and operated permanent supportive housing for formerly homeless individuals and families. Therefore, of the 120 affordable housing units, a total of 23 will be set-aside for formerly chronically homeless seniors. Referrals will be made by the Department of Public Health’s Direct Access to Housing (“DPH DAH”) community access points, such as Providence Foundation and Southeast Community Health Center.

For 97 of the remaining 120 units, the residents currently residing at Alice Griffith will have first priority because the Project is the first Phase of the Alice Griffith development, per the CNI Grant requirements for that project. After the CNI Grant priority is fulfilled, the units will be offered through a lottery and the Bayview Hunters Point Redevelopment Plan occupancy preferences will be implemented, which include:

1) Hunters Point Certificate of Preference Holders,
2) Western Addition Certificate of Preference Holders,
3) rent burdened or assisted housing residents, defined as persons paying more than fifty percent (50%) of their income for housing, or persons residing in public housing or Project-Based Section 8 housing,
4) San Francisco residents and workers, and
5) members of the general public.

Project Design
The design has 120 affordable senior residential units (1-bedroom (117) and 2-bedroom (3)) and one 2-bedroom manager’s unit above parking and a new senior multi-purpose services center, which complies with the site entitlements for 5-stories of housing over a podium. The building
construction will consist of one base level of concrete construction with four levels of wood construction above. The basement garage will accommodate 54 parking spaces. The first level will consist of housing related property management, services space for one full-time employee, offices and sitting, dining, and exercise rooms. Upper level housing common areas will include informal lounges and laundry rooms.

The senior center will also be located at the first level, and will be approximately 15,000 square feet and will be operated as the new site for the existing program currently offered at 1706 Yosemite. The BHPMSS Senior Center, in addition to providing information and referral, social services, recreation activities, health and wellness screenings, groceries, money management services and noon meals, will now be able to organize and accommodate large scale community events, more specialized medical and wellness services, more extensive educational programming and more intensive counseling services. The Senior Center’s operations are funded by the Department of Aging and Adult Services, the Human Services Agency, and the General Fund.

**Project Financing**

The Developer sought Loan Committee approval for the gap funding request at the August 3rd Loan Committee meeting and Loan Committee approved a total of $20,000,000 in funding for the Project. However, Loan Committee directed the Developer to keep working to reduce OCII’s contribution. The Developer complied, and simultaneously sought other ways to structure the deal to further reduce OCII’s funding commitment, as outlined below.

*Changes Requested by Loan Committee*

As a condition of that approval, Loan Committee directed the Developer to revise certain financing assumptions, with the goal of lowering OCII’s funding commitment. Specifically, Loan Committee requested that the Developer work with the private lenders and tax credit investor to reduce the Debt Coverage Ratio (“DCR”). A high DCR results in the Project having more cash flow over and above the amount needed to service its debt. Because most other costs are fixed, this is typically achieved by a lower debt service payment, which means less private investment in the Project, and a higher contribution from public sources. MOHCD staff and leadership and the Developer worked with both the lender and the tax credit investor to reduce the DCR from 1.30 to 1.20 percent, and the pay-in equity from the Low Income Housing Tax Credits increased from $1.09 to $1.11. This resulted in an additional $1,030,000 in these private sources to the Project. In order to facilitate this increased investment, MBS agreed to guarantee the private debt if the Section 8 income drops below a certain amount.

*Developer Suggested Changes*

Coinciding with the above financing analysis, the general contractor, Nibbi Brothers General Contractors, refined their cost estimate for the housing and build-out of the senior center based on more detailed construction documents. This exercise resulted in an increase of the gap amount for which BHPMSS would need to fundraise for construction of the senior center. The Developer had been assuming that the most cost effective way to fund the build out of the Senior Center was to use the New Markets Tax Credit program (“NMTC”), which provides funding for non-residential projects in low income areas, and this structure is described in the August 3rd
Loan Evaluation. In reviewing the increased cost estimates from the general contractor, the Developer determined that the NMTC credit program would not be the most efficient tool to build out the Senior Center due to program requirements and additional soft costs. Therefore the Developer has proposed funding the Senior Center directly with funds from the private mortgage and from the Low Income Housing Tax Credit Equity. This structure reduced the OCII loan amount, and therefore the Developer is requesting a total of $19,111,224 in OCII funding, which is a savings of $888,776 from the $20,000,000 amount approved by Loan Committee. Staff has reviewed the new structure and agrees that this is a more efficient and cost effective way to structure the deal.

Other Funding Sources

The total development cost of the Project is $62,330,064, and other funding sources include: equity raised from the sale of 4% Low-Income Housing Tax Credits; private loan funds; state funds; and, tax-exempt bond financing in the form of mortgage revenue bonds to be issued by the City. Also, the Developer will apply for Affordable Housing Program (“AHP”) funds in the Spring 2014, and will continue to apply until a funding award is secured. Once that funding is secured, OCII’s loan amount would be reduced commensurately.

In 2009, SF Third Street Equity Partners, LLC, the seller of the Site, and SFRA applied for and were awarded over $10.4 million in state Prop 1C Infill Infrastructure Grant (“IIG”) funds to be allocated across both the market rate project on Lot 2 and the affordable senior project on Lot 3. The IIG program documents were not finalized prior to the passage of the Redevelopment Dissolution Law, so the State has agreed that SFRA’s role in providing the IIG funds to the project transferred to the City via MOHCD. Therefore MOHCD will finalize the IIG documents with the State pending Board of Supervisors approval. The IIG program requires the two projects combined achieve certain affordability requirements. Together the affordability requirements for Lots 2 and 3 are 15% of the proposed 223 units to be constructed on both lots (67 units). The application received maximum scoring consideration due to the deep affordability targeting. The Developer will build and operate its proportional share of the affordable IIG units (37 units) based on its pro-rated amount of the total IIG grant used.

Project Based Section 8 Subsidy

In order to ensure that the Project can serve the Alice Griffith residents who want to live in a senior housing environment and who may need better access to senior services, the formerly homeless seniors who will be referred by the Department of Public Health, and to deepen the affordability for all the other seniors who make the Project their home, an operating subsidy is needed to keep the rents low while still making the Project financially feasible. To this end, the Developer applied for 120 project-based Section 8 vouchers the San Francisco Housing Authority (“SFHA”). Section 8 vouchers allow the tenants to pay 30% of their income toward rent, whatever that may be, and the Section 8 program pays the difference between the tenants’ payment and the approved rent on the unit. When Section 8 vouchers are “project-based” it means that the rent subsidy stays with the unit, or the project, and not the individual tenant, so that there can be certainty in terms of the total amount of the subsidy for the project over the life of the Section 8 contract. The SFHA Commission approved of the Developer’s application for 120 project-based Section 8 vouchers at the June 27, 2013 SFHA Commission meeting.
Ground Lease Option Agreement

In preparation for submitting funding applications to the California Debt Limit Allocation Committee (“CDLAC”) and the Tax Credit Allocation Committee (“TCAC”) by September 13, 2013, the Developer needs to show control of the Site in order to demonstrate project readiness. Since OCII is the current owner of the land, the Developer is now requesting authorization for the Executive Director to enter into a Ground Lease Option Agreement. The Ground Lease Option Agreement will be in effect for approximately nine months, or until an executed Ground Lease is in place. The future Ground Lease would go into effect at the start of construction allows the Developer to construct their Project on our land, but will also allow for the land and Ground Lease to transfer to MOHCD at project completion. MOHCD, as the Housing Successor Agency under Dissolution Law, will then be responsible for the long-term monitoring of the project to ensure it complies with all affordability requirements.

Project Schedule

Approval of the funding and ground lease option requests will allow the Developer to submit a CDLAC and Tax Credit Allocation Committee (“TCAC”) application by September 13, 2013. The Developer will be notified in mid-November of these funding awards. Subsequent to receiving CDLAC and TCAC approvals, the Developer will make every effort to close the funding by December 31, 2013, subject to OCII Commission approval of a Ground Lease with the Developer. The project financing must close no later than March 30, 2014 due to CDLAC funding deadlines. The start of construction will begin immediately after closing the construction financing. Construction for the housing and senior center is anticipated to take 20-24 months and should be complete in late 2015 or early 2016.

Equal Opportunity Program and Compliance with OCII Policies

The Developer complies 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 Bayview Hunters Point Employment and Contracting Policy (“BVHP ECP”) Program on this development. To date, the Developer has achieved 35% SBE participation for professional services consultants. David Baker and Associates is collaborating with Michael Willis and Partners, a local minority-owned architectural firm that is no longer economically disadvantaged. Please refer to Attachment B for a summary of the professional services consultants for this Project.

During the construction phase of this project, the Developer is committed to meet the 50% SBE construction subcontracting participation goal. The general contractor for the project is a joint venture between Nibbi Brothers and the Baines Group, an African American-owned SBE. The project is also subject to OCII's Construction Workforce Program's 50% local San Francisco hiring with first consideration for residents of the BVHP area and the payment of prevailing wages.
Community Support

Throughout the years, the community continued to be an enthusiastic supporter of this Project. BHPMSS has been generating this support as part of its overall plan for an “Aging Campus”. This development was presented to the Bayview Hunters Point Project Area Committees (“PAC”) in November 2009, January 2010, and February 2010. At each meeting the PAC supported the development of the project. The Sponsor has continued to meet with the community on numerous occasions to discuss the project and provide an opportunity for people to weigh in on the design and proposed program uses. The most recent community meeting was held in May 2013, when a design update and an interior design presentation were provided. Also the Developer has recently met with the 5800 Third Street Home Owners Association (“HOA”) who were supportive of the project.

NEXT STEPS

Staff will return to the OCII Commission later this year for the approval of the Ground Lease, and any additional actions that may be required for the construction closing.

(Originated by Pamela Sims, Project Manager, Mayor’s Office of Housing and Community Development)

Tiffany Bohee
Executive Director

Attachment A: Loan Evaluation – August 2, 2013
Attachment B: Professional Consultants Summary
Attachment C: Loan Agreement
Attachment D: Option to Ground Lease