MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Tiffany Bohee
Executive Director

SUBJECT: Authorizing a Ground Lease with Carroll Avenue Senior Homes, LP, a California limited partnership, 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

The 5800 3rd St/Carroll Ave Senior Housing Site is Lot 3 of a parcel located at 5800 3rd Street (the “Site”), located at the intersection of Carroll Avenue. 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 the Site, which allowed SFRA to take ownership of it. 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 multi-purpose senior center (the “Project”).

On September 3, 2013, the OCII Commission (“Commission”) adopted Resolution No. 42-2013 and approved a Ground Lease Option and an additional funding amount of $15,173,724, for a total aggregate loan amount of $19,111,224 (the “Loan”), which provided the Developer with evidence of site control and secured gap funding, both which were necessary for the bond and tax credit applications.

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 (“HPSY 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.

Currently, in preparation for the closing of the construction financing, the Developer is now requesting the OCII Commission authorize the Executive Director to enter into a 55-year Ground
Lease (see Attachment A), with one option for 44 additional years, with Carroll Avenue Senior Homes, L.P. (the limited partnership created by the Developer as required for low income housing tax credit financing). The annual rent for the site will total $566,000, which will consist of a $15,000 base rent, and $551,000 in residual rent.

Upon completion of the project, OCI will transfer the property, the Ground Lease, and any related loan agreements to the Mayor’s Office of Housing and Community Development (“MOHCD”), as the Housing Successor under California Health and Safety Code Section 34181(c) (All future statutory references are to the California Health and Safety Code unless otherwise noted.) MOHCD will then perform long term asset management duties in compliance with Section 34176(b)(3)(c), and OCI’s obligation for this particular project will be complete.

Staff recommends authorizing of a ground lease with Carroll Avenue Senior Homes, L.P.

BACKGROUND

The HPSY Phase 2 DDA obligates the Successor Agency to rebuild the severely distressed Alice Griffith Public Housing project (“Alice Griffith Replacement Projects”). The HPSY Phase 2 DDA and its Tax Increment Allocation Pledge Agreement (“Pledge Agreement”) commit the Successor Agency to use property tax revenue for the Successor Agency’s housing obligation, pursuant to Sections 3.1 (c) and 3.2 (c) of Pledge Agreement. The HPSY Phase 2 DDA also contemplates that the Successor Agency will seek other sources of funding to fulfill its housing obligation, including “federal, state or other local funds,” and further requires that the Successor Agency and Developer “will work together to seek appropriate Project Grants for the Project.” To the extent that the Successor Agency obtains sources of funds other than property tax revenue, it will reduce reliance on the Redevelopment Property Tax Trust Fund and expedite completion of the Project.

Soon after the approval of the HPSY Phase 2 DDA, the San Francisco Housing Authority (“SFHA”) and McCormack Baron Salazar (“MBS”), the affordable housing developer of the Alice Griffith project, submitted in October 2010 an application to the U.S. Department of Housing and Urban Development (“HUD”) for Choice Neighborhoods Initiative (“CNI”) Grant funding for the Alice Griffith Replacement Projects. As part of the application, SFRA entered into a Partnership Memorandum of Understanding with the HPSY Phase 2 DDA developer and others (“Partnership MOU”) whereby the SFRA agreed to be a Principal Team Member for the purpose of “taking full responsibility for implementing the Neighborhood component of the Transformation Plan.”

In March 2011, HUD selected SFRA’s revitalization plan for the Alice Griffith Replacement Projects as a finalist for funding. Subsequently SFRA, in collaboration with other parties to the Partnership MOU, submitted an application for the second round. In the second round, the Agency certified its funding of the 5800 3rd/Carroll Avenue Senior Housing Project as a commitment to, and implementation of, the Transformation Plan required under the CNI Grant application. On May 26, 2011, SFRA entered into the Choice Neighborhood Implementation Agreement with MBS, SFHA and other parties identified in the Partnership MOU (“Implementation Agreement”). SFRA agreed to “be responsible for the implementation of the Neighborhood” component.
On August 31, 2011, HUD awarded a $30,500,000 grant to fund the Alice Griffith Replacement Projects. In March 2012, HUD executed the FY2010 Choice Neighborhoods Implementation Grant Agreement with MBS and the San Francisco Housing Authority as the Grantees for the implementation of the Transformation Plan identified in the Grant Agreement. On April 12, 2012, HUD confirmed that the 5800 Third Street senior housing project constitutes the first phase of the Alice Griffith revitalization, and as such, serves as a required deliverable of the Choice Neighborhoods Implementation Grant. Under section III.D.5 of the Choice Neighborhoods Grant Agreement, rehabilitation or construction of the first phase of replacement housing must begin within 18 months of the Grant Agreement execution date. HUD requires this adherence to this schedule as a condition of the Choice Neighborhoods grant in order to ensure timely completion of the Transformation Plan activities.

Letter, Dominique Blom, Deputy Assistant Secretary, HUD, to Yusel Freeman, V. President, MBS (April 12, 2012). In April 2013 HUD extended the deadline to start construction on the project until December 31, 2013 and MBS is currently in the process of requesting an additional extension to ensure the financial closing is consistent with the timeframes of the California Debt Limit Allocation Committee (“CDLAC”), to which the project has applied for an allocation of tax-exempt mortgage revenue bonds.

In the final ROPS III Meet and Confer Determination letter dated December 14, 2012, DOF removed its objection and approved that the funding for the 5800 3rd/Carroll Avenue Senior Housing project. DOF then approved additional funding, requested through ROPS 13-14A, to provide up to $20 million for the construction of the project. Subsequently DOF provided assurances to CDLAC that there were no pending issues with the funding of the project.

Once the project receives an allocation from CDLAC, the project has 90 days to secure site control and close all financing. To ensure the project can meet the CDLAC and CNI Grant timeframes, the Successor Agency is seeking Oversight Board and OCII Commission approval of the Ground Lease between the Successor Agency and Bayview Supportive Housing, LLC simultaneously with the Long Range Property Management Plan (“PMP”). This provides an opportunity for the Ground Lease to be approved within the CDLAC 90 day timeframe should the PMP review still be pending at that time.

Project History
The 5800 3rd/Carroll Avenue Senior Housing Site is located on Lot 3 of the larger 5800 3rd parcel. The overall 5800 Third Street project consists of three parcels including the completed for-sale units and a retail space 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. SF Third Street Equity Partners, LLC, who was the owner of the original larger 5800 3rd parcel, entered into a Purchase and Sale Agreement in December 2008 with Bayview Hunters Point Multipurpose Senior Services (“BHPMSS”), a local nonprofit, who had been attempting to locate and secure an appropriate site for a new Senior Center that would also include low-income senior housing. In 2007 BHPMSS put out a request for qualifications for a development partner BHPMSS selected MBS, the Alice Griffith Replacement Housing Projects developer, as its co-developer and together
created Bayview Supportive Housing LLC to act as the 5800 3rd/Carroll Avenue Senior Housing Site development entity. In September 2010, BHPMSS assigned the Purchase and Sale Agreement to SFRA, and SFRA purchased Lot 3 for the purpose of developing 121 units of affordable senior rental housing. SFRA provided a loan for predevelopment activities to Bayview Supportive Housing, LLC in 2011. In April 2012, HUD designated the 5800 3rd/Carroll Avenue Senior Housing project as the first phase under the Transformation Plan of the CNI Grant. Most recently the Successor Agency provided gap loan funds in September 2013 using funds approved on Item #166 on ROPS 13-14A.

**Site Information**

The following presents the information requested pursuant to Section 34191.5 of the California Health and Safety Code for the Site.

- Lot size - totals 64,369 square feet
- Acquisition date – September 21, 2010
- Property value at time of acquisition - $8,380,733
- Estimated current value - $5,810,000 (per May 15, 2013 updated appraisal)
- Purpose of acquisition – to develop senior rental housing which would serve households over the age of 62 that is affordable to households earning up to 50% of Area Median Income (“AMI”), including an on-site senior community center. The project was designated as the first phase of the Alice Griffith public housing revitalization under the Federal CNI Grant.
- Current zoning – M-1 (Light Industrial), which allows industrial, retail, office and residential, with a height limit of 65 feet.
- Current use – undeveloped vacant lot.
- Future Address - Once the project is completed the final address of Lot 3 will be 1751 Carroll Avenue.

**Project Design**

The design has 120 affordable senior residential units (117 one-bedroom units and 3 two-bedroom units) and one two-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 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. Additionally, the Developer applied for and received San Francisco Housing Authority (“SFHA”) Commission approval for 120 project-based Section 8 vouchers on June 27, 2013. 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.

**Marketing of the Units**

As required by the OCII Loan, a total of 23 units will be set aside for the formerly chronically homeless population. For the remaining 97 units, the Developer is required to prepare a marketing plan for OCII and MOHCD review and approval. The units will be marketed, and made available through a lottery, to the public in the following priority order:

1) Senior residents of Alice Griffith housing development per the CNI Grant
2) Hunters Point Certificate of Preference Holders
3) Western Addition Certificate of Preference Holders
4) Rent burdened or assisted housing residents (public housing or Project Based Section 8)
5) San Francisco Residents
6) Members of the general public.

**Ground Lease Terms**

OCII will retain ownership of the land while construction is being completed. Once completed the development, the Site, along with the related Ground Lease and Loan will be transferred to MOHCD as the Housing Successor Agency, who will perform long-term asset management duties. Carroll Avenue Senior Homes, L.P., (the “Tenant”) will maintain ownership of the building or “improvements” on the land. A summary of some of the key terms of the Ground Lease are below.

**Rent**

The Ground Lease terms provide for an Annual Rent set at 10% of the fair market value of the property. The Annual Rent is then paid in two ways: first, a Base Rent of $15,000, which comes out of the project’s annual operating expenses and accrues if not paid, and second, a Residual Rent
that is equal to the Annual Rent less the $15,000 Base Rent. Residual Rents are paid for only to the extent that there is surplus cash after a project pays all of its operating expenses, and does not accrue if it is not paid. The Annual Rent for the Project is $566,000, therefore the maximum Residual Rent that could be paid in any given year would be $551,000, to the extent this amount is supportable by the Project. This Ground Lease structure in essence creates a public land trust that maintains affordability even in the event of an ownership change and offers the best assurance against market rate conversion. The Tenant will be required to begin paying Annual Rent beginning in the year after the Project receives its final Certificate of Occupancy.

**Affordability Restrictions**
The Ground Lease imposes long term affordability restrictions, in this case requiring the Project service very low-income seniors with one household member over the age of 62 whose initial income does not exceed 50% of Area Median Income, and whose subsequent income does not exceed 120% of Area Median Income. The Ground Lease also provides for the manner in which rent increases can be applied, limiting them to no more than the change in annual Area Median Income in a given year, as published by MOHCD.

**Construction of the Improvements**
The Ground Lease requires the Tenant to construct the Project in compliance with the approved construction documents and according with an agreed-upon Schedule of Performance. The MOHCD Construction Manager has reviewed the construction documents on behalf of OCII and will continue to monitor progress on the Project until completion. The Ground Lease requires any changes to the construction plans after construction has commenced must be approved by OCII, and such change requests must be submitted to OCII with a copy to the MOHCD Construction Manager.

**Transfer of Property and Ground Lease**
The Ground Lease acknowledges that the Site and the Ground Lease will be transferred to MOHCD as the Housing Successor pursuant to Dissolution Law.

**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.

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 Developer 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.

California Environmental Quality Act

On September 1, 2005, the Planning Commission adopted a Final Mitigated Negative Declaration (“FMND”) for the proposed Project. The FMND 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 FMND to the Conditional Use Authorization. On October 12, 2012, an Addendum to the FMND, was prepared and certified to reflect the Project, and the incorporation of streetscape and pedestrian improvements along the northern portion of the site and Carroll Avenue. On October 25, 2012, the Planning Commission found the FMND and the Addendum to FMND were adequate, accurate and objective, reflected the independent analysis and judgment of the Planning Department and the Planning Commission, and is in compliance with the California Environmental Quality Act (“CEQA”). The Ground Lease Agreement will provide for the leasing of the Site for the construction and operation of the Project, and staff has reviewed the Ground Lease Agreement and finds it to be within the scope of the Project analyzed in the FMND (per CEQA) and addenda and no additional environmental review is needed.

Next Steps

Approval of the Ground Lease is an approval of a disposition of an OCII-owned property. Under Dissolution Law, successor agencies must seek approval of disposition plans through a PMP. The disposition of the Site through a Ground Lease and the future transfer to MOHCD as the Housing Successor is described in the PMP. Staff is seeking separate Oversight Board approval of the Ground Lease at its meeting on November 25th, concurrent with the PMP, and will subsequently submit the Oversight Board resolution to DOF. Having the Oversight Board approve the disposition of the Site through a Ground Lease resolution and through the PMP provides an opportunity for DOF to approve the Ground Lease transaction within the CDLAC 90 day timeframe to close the project financing, should the PMP review still be pending at that time. In early 2014 staff will also seek approval to dispose of the Site from the Board of Supervisors pursuant to California Health and Safety Code Section 33433, which requires the Board of Supervisors to approve the disposition of properties acquired with tax increment funds. Once OCII
receives authorization for disposition from the State, the Developer will close construction financing, and begin construction. Construction for the housing and senior center is anticipated to take 20-24 months and should be complete in late 2015 or early 2016.

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

Tiffany Bohee
Executive Director

Attachment A: 1751 Carroll Avenue Senior Housing Ground Lease