

File No. 110184

Committee Item No. 3  
Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance SUB-Committee      Date: March 16, 2011

Board of Supervisors Meeting      Date \_\_\_\_\_

#### Cmte Board

- |                                     |                          |  |
|-------------------------------------|--------------------------|--|
| <input type="checkbox"/>            | <input type="checkbox"/> | Motion                                       |
| <input type="checkbox"/>            | <input type="checkbox"/> | Resolution                                   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget Analyst Report                        |
| <input type="checkbox"/>            | <input type="checkbox"/> | Legislative Analyst Report                   |
| <input type="checkbox"/>            | <input type="checkbox"/> | Ethics Form 126                              |
| <input type="checkbox"/>            | <input type="checkbox"/> | Introduction Form (for hearings)             |
| <input type="checkbox"/>            | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/> | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/> | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/> | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/> | Application                                  |

#### OTHER (Use back side if additional space is needed)

<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____
<input type="checkbox"/>	<input type="checkbox"/>	_____

Completed by: Victor Young  
Completed by: Victor Young

Date: March 11, 2011  
Date: \_\_\_\_\_

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [De-Appropriating \$15,479,251 of Market Rate Bond Proceeds and Re-Appropriating to Below  
 2 Market Rate for the Seismic Safety Loan Program for FY2010-2011]

3  
 4 **Ordinance de-appropriating \$15,479,251 of Market Rate General Obligation Bond**  
 5 **Proceeds, Series 2007A, and re-appropriating \$15,479,251 to the Below Market Rate**  
 6 **Seismic Safety Loan Program in the Mayor's Office of Housing for FY2010-2011 and**  
 7 **maintaining on Controller's Reserve the appropriation equal to the unsold portion of**  
 8 **the bonds.**

9  
 10 Be it ordained by the People of the City and County of San Francisco:

11  
 12 Section 1. The sources of funding outlined below are herein de-appropriated to reflect the  
 13 funding available for Fiscal Year 2010-2011.

14  
 15 **SOURCES De-appropriation**

Fund	Index/Project Code	Subobject	Description	Amount
2S NDF 92B	MYRSSL2007	80111	Proceeds from Sale	\$15,479,251
1992 Seismic Safety	PBE010 MRL001		of Bonds – Face	
Loan GOB-2nd			Amount	
Series 2007A				
<b>Total SOURCES De-appropriation</b>				<b>\$15,479,251</b>

22  
 23  
 24  
 25

1 Section 2. The sources of funding outlined below are herein appropriated to reflect the  
 2 funding available for Fiscal Year 2010-2011.

3

4 **SOURCES Appropriation**

5	Fund	Index/Project Code	Subobject	Description	Amount
6	2S NDF 92B	MYRSSL2007	80111	Proceeds from Sale	\$15,479,251
7	1992 Seismic Safety	PBE010 BMR001		of Bonds – Face	
8	Loan GOB-2nd			Amount	
9	Series 2007A				
10	<b>Total SOURCES Appropriation</b>				<b>\$15,479,251</b>

11

12 Section 3. The uses of funding outlined below are herein de-appropriated to reflect the  
 13 funding available for Fiscal Year 2010-2011.

14

15 **USES De-appropriation**

16	Fund	Index/Project Code	Subobject	Description	Amount
17	2S NDF 92B	MYRSSL2007	06B00	Programmatic	\$15,479,251
18	1992 Seismic Safety	PBE010 MRL001		Projects – Budget -	
19	Loan GOB-2nd			Carryforward	
20	Series 2007A				
21	<b>Total USES De-appropriation</b>				<b>\$15,479,251</b>

22

23

24

25

1 Section 4. The uses of funding outlined below are herein appropriated in the Subobject 03961  
 2 (Seismic Safety Loans), and reflects the projected uses of funding to support the Below  
 3 Market Rate Seismic Safety Loan Program in the Mayor's Office of Housing for Fiscal Year  
 4 2010-2011.

5  
 6 **USES Appropriation**

7	Fund	Index Code /	Subobject	Description	Amount
8	Project Code				
9	2S NDF 92B	MYRSSL2007	03961	Seismic Safety Loans for	\$15,479,251
10	1992 Seismic	PBE010		Below Market Rate	
11	Safety Loan	BMR001			
12	GOB-2nd				
13	Series 2007A				
14	<b>Total USES Appropriation</b>				<b>\$15,479,251</b>

15  
 16 Section 5. The Controller is authorized to record transfers between funds and adjust the  
 17 accounting treatment of sources and uses appropriated in this ordinance as necessary to  
 18 conform with Generally Accepted Accounting Principles.

19  
 20  
 21  
 22  
 23  
 24  
 25

FUNDS AVAILABLE

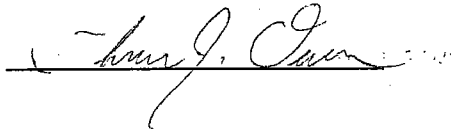
APPROVED AS TO FORM:

BEN ROSENFELD

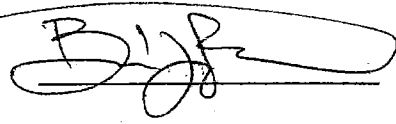
DENNIS J. HERRERA, City Attorney

Controller

By:



By:



Deputy City Attorney

Date: February 7, 2011

**Item 3**  
**File 11-0184**

**Department(s):**  
 Mayor's Office of Housing (MOH)

### EXECUTIVE SUMMARY

#### Legislative Objective

- File 11-0184: Ordinance (a) de-appropriating \$15,479,251 of Market Rate General Obligation Bond Proceeds, Series 2007A, (b) re-appropriating \$15,479,251 to the Below Market Rate Seismic Safety Loan Program administered by the Mayor's Office of Housing and (c) maintaining the Controller's reserve on the unsold Bond portion of the appropriation.

#### Key Points

- In 1992, San Francisco voters approved up to \$350,000,000 of General Obligation Bonds for a Seismic Safety Loan Program including (a) \$150,000,000 for Below Market Rate Loans and (b) \$200,000,000 for Market Rate Loans. In 1994, the City issued the first \$35,000,000 of General Obligation Bonds for this Seismic Safety Loan Program. However, due to lack of demand, in June 2002, the City retired \$27,865,025 of the initial \$35,000,000 bond issuance.
- In 2007, the Board of Supervisors appropriated the second issuance of \$35,000,000 of General Obligation Bonds for the Seismic Safety Loan Program, appropriating \$15,000,000 for Below Market Rate Loans and \$20,000,000 for Market Rate Loans. To date, there has been significantly more demand for Below Market Rate Loans, with (a) interest rates charged at one-third of the City interest and related costs for the issuance of the General Obligation Bonds, and (b) all principal and interest payments potentially deferred for 55 years. As a result, a total of \$14,615,428 from the 2007 \$35,000,000, appropriation has been committed to projects, of which \$14,355,988 or approximately 98.2 percent is for Below Market Rate Loans.

#### Fiscal Impacts

- The proposed re-appropriation of \$15,479,251 would enable the Mayor's Office of Housing to make \$16,458,406 of additional loans, including (a) an additional \$11,000,000 Below Market Rate Loan for the Arlington Hotel, (b) \$498,000 for one Market Rate Loan, and (c) \$4,960,406 for three other Below-Market Rate Loans, as shown in Table 4 below.
- Based on the total of \$35,000,000 of General Obligation Bonds previously appropriated in 2007, the proposed re-appropriation of \$15,479,251, excluding bond issuance costs, will result in a total of \$30,479,251 or 87.1 percent allocated to Below-Market Rate loan projects and 4,520,749 or 12.9 percent allocated to Market Rate loan projects.
- The lower interest rates on the Below-Market Rate loans as compared to expected interest rates on the Market Rate loans and the 55-year deferral of payments on the Below-Market Rate loans results in insufficient revenues from loan repayments to cover annual debt service costs and related administrative costs on the outstanding General Obligation Bonds, which must be paid back over a total of 25 years.

#### Recommendation

Approval of the proposed ordinance is a policy decision for the Board of Supervisors because although this adheres to the terms of Proposition A as approved by voters in 1992, the actual uneven distribution of loan funding has resulted in this Seismic Safety Loan Program being primarily a Below-Market Rate affordable housing loan program.

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

Charter Section 9.105 requires that amendments to the annual appropriation ordinance be approved by ordinance of the Board of Supervisors, subject to the Controller certifying the availability of funds.

**Background**

In 1992, San Francisco voters approved the issuance of up to \$350,000,000 of taxable General Obligation Bonds for a Seismic Safety Loan Program (Proposition A) in order to provide loans and administrative support to private property owners to seismically strengthen their unreinforced masonry buildings<sup>1</sup> in San Francisco. The Seismic Safety Loan Program was intended to support the 1992 Unreinforced Masonry Building Ordinance that required approximately 2,000 unreinforced masonry buildings (UMB), consisting of five or more units which were identified by the Department of Building Inspection, to be seismically upgraded by February 2006. In accordance with Administrative Code Sections 66.3(b) and 66.3(d), of the total up to \$350,000,000 General Obligation Bonds, "a maximum of \$150,000,000 of the fund shall be available for Below Market Rate loans under the Program for Seismic Strengthening of UMBs" and "a maximum of \$200,000,000 of the fund shall be made available for Market Rate Loans for Seismic Strengthening of UMBs".

In 1994, the Board of Supervisors approved the issuance of the first series of \$35,000,000 of Seismic Safety Loan Program Bonds, appropriating \$20,000,000 for Market Rate loans and \$15,000,000 for Below-Market Rate loans, in accordance with Section 66.3 of the City's Administrative Code. During the eight years between 1994 and 2002, 19 Seismic Safety Loans were approved for a total of \$17,286,789 of the \$35,000,000 in issued bonds. The demand for the Seismic Safety Loans was less than anticipated due to (a) restrictive loan terms, (b) a significant drop in commercial interest rates as banks were willing to make seismic upgrade loans with less programmatic requirements, and (c) in some instances the owners self-financed the needed work since the cost of the seismic upgrades were less than expected. As a result, in June, 2002 the City defeased, or retired \$27,865,025 of the initial \$35,000,000 bond issuance.<sup>2</sup>

On February 6, 2007, the Board of Supervisors approved a resolution (File 06-1601; Resolution No. 65-07) authorizing the sale of the second series of up to \$35,000,000 of Seismic Safety Loan Program Taxable General Obligation Bonds (Series 2007A). On May 15, 2007, the Board of Supervisors appropriated the entire \$35,000,000 Series 2007A Seismic Safety Loan Program Taxable General Obligation Bonds, designating \$20,000,000 for Market Rate loans and

<sup>1</sup> An unreinforced masonry building (UMB) is a building or structure having at least one unreinforced masonry (typically brick) bearing wall. UMBs have a strong likelihood of structural failure in the event of earthquakes, either by the collapse of walls or the entire building.

<sup>2</sup> In June 2002, the Office of Public Finance defeased \$27,865,025 from the total fund balance of \$40,349,692, including (a) 16,580,561 balance of bond proceeds, (b) \$4,053,634 loan repayments and interest, (c) \$16,195,880 interest earned on bond proceeds, (d) \$74,362 miscellaneous fees, and (e) \$3,445,255 FY 2002-2003 scheduled principal and interest. This left a total of \$12,484,667 (\$40,349,692 less \$27,865,025) including \$2,783,030 in bond proceeds to offset FY 2003-2004 Property Taxes and \$9,701,637 in remaining bond proceeds for the ongoing Loan Program.

\$15,000,000 for Below-Market Rate loans, in accordance with Section 66.3 of the City’s Administrative Code.

According to Ms. Teresa Yanga, Director of Housing, Mayor’s Office of Housing, there was much greater demand for the 2007 \$35,000,000 appropriation for making loans under the Seismic Safety Loan Program as compared to the first \$35,000,000 appropriation in 1994, primarily due to the shift in economic climate that significantly decreased access to available commercial lending. At the same time, other programmatic changes were implemented that (a) permitted bonds to only be sold for a specific project following approval by the Seismic Safety Loan Program Loan Committee,<sup>3</sup> (b) extended the deferral period for repaying the loans by 35 years, from 20 years to 55 years for certain below-market rate loans for affordable housing, making the loans consistent with other affordable housing loans in the City’s Affordable Housing Program<sup>4</sup>, and (c) designated the Mayor’s Office of Housing as the administrator of the program instead of the Office of Economic and Workforce Development.

As shown in Table 1 below, of the total \$35,000,000 appropriation in 2007, Ms. Yanga reported that as of January 2011, a total of \$14,615,428 has been committed for loans to existing seismic projects, of which \$14,355,988 or 98.2 percent is for affordable housing projects with Below-Market Rate loans, and \$259,440 or 1.8 percent is for Market Rate loans.

**Table 1: Seismic Safety Loan Program Funding (2007 A Series)**

(As of January 2011)

	Total Funding	Market Rate Loans	Below-Market Rate Loans
Appropriation Ordinance 117-07 (File 07-0458)	\$ 35,000,000	\$ 20,000,000	\$ 15,000,000
Bond Issuance Cost	380,000	217,143	162,857
Sources Appropriated for Projects	\$ 34,620,000	\$ 19,782,857	\$ 14,837,143
Existing Project Loan Commitments	\$ 14,615,428	\$ 259,440	\$ 14,355,988
Uncommitted Authorization	\$ 20,004,572	\$ 19,523,417	\$ 481,155

Source: Mayor’s Office of Housing

<sup>3</sup> The Seismic Safety Loan Committee is comprised of five representatives, including the Director of the Mayor’s Office of Housing, the Seismic Safety Loan Program Administrator, and one representative each from the Office of Economic and Workforce Development, the Assessor’s Office and a construction contractor.

<sup>4</sup> In June 2006, the Board of Supervisors approved Ordinance No. 122-06 (File 06-0386) to extend the deferral period of certain affordable housing loans by 35 years, from 20 years to 55 years, to make the Seismic Safety Loan Program consistent with other affordable housing loans in the City’s Affordable Housing Program.



Table 2 below identifies the details of the seven projects including six existing Below-Market Rate Loans and the one existing Market Rate Loan as provided by Ms. Yanga.

**Table 2: Existing Seismic Safety Loan Program Commitments**

Date of Loan	Address	Loan Term	Interest Rate	Total Funding	Market Rate Loans (1)	Below-Market Rate Loans (6)
March 30, 2006	665 Clay	20 years	2.50%	\$ 1,316,569		\$ 1,316,569
August 1, 2007	815 Buena Vista West	55 years	2.50%	3,802,200		3,802,200
December 29, 2008	340 Eddy St.	55 years	1.45%	1,300,000		1,300,000
December 14, 2007	53 Columbus	55 years	2.05%	3,893,228		3,893,228
June 2, 2010	850 Bush	20 years	6.69%	259,440	\$ 259,440	
October 27, 2010	Leland Hotel	20 years	2.50%	43,991		43,991
Subtotal Preceding Approval of Arlington Residence				\$ 10,615,428	\$ 259,440	\$ 10,355,988
Arlington Residence -						
November 8, 2010	480 Ellis	55 years	2.50%	4,000,000		4,000,000
<b>Total Committed with Available Appropriations</b>				<b>\$ 14,615,428</b>	<b>\$ 259,440</b>	<b>\$ 14,355,988</b>
Percent of Total Commitments				100.0%	1.8%	98.2%

Source: Mayor's Office of Housing

As shown in Table 2 above, the last loan commitment in November 2010 was a \$4,000,000 Below-Market Rate Loan for the Arlington Residence at 480 Ellis Street. However, it should be noted that the Board of Supervisors actually approved a \$15,000,000 Seismic Safety loan for the Arlington Residence, an existing 173-unit affordable housing project, along with an Administrative Code waiver in August 2010 which had been previously recommended by the Seismic Safety Committee and the Mayor's Office of Housing on July 22, 2009.

As noted above, of the total \$35,000,000 of General Obligation Bonds previously appropriated by the Board of Supervisors, \$15,000,000 was appropriated for Below-Market Rate loans, and \$20,000,000 was appropriated for Market Rate loans. Because almost all (98.2 percent) of the demand has been for the Below-Market Rate loans, as shown in Table 2 above, excluding the Arlington Residence, \$10,355,988 of Below-Market Rate Loans had previous commitments for loans. Therefore, of the total \$15,000,000 Below-Market Rate appropriation, only \$4,644,012 (\$15,000,000 less \$10,355,988) was available for allocation to the Arlington Residence. As shown in Table 2 above, the Mayor's Office of Housing made a Below-Market Rate Loan commitment of \$4,000,000 to the Arlington Residence on November 8, 2010, and then requested the proposed de-appropriation and re-appropriation of the subject \$15,479,251 from Market Rate Loans to Below-Market Rate Loans to fulfill this prior loan commitment for the Arlington Residence at the direction of the Controller's Office.

## DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) de-appropriate \$15,479,251 of Market Rate General Obligation Bond Proceeds, (b) re-appropriate this \$15,479,251 to the Below Market Rate Seismic Safety Loan Program administered by the Mayor's Office of Housing, and (c) maintain

a Controller's Reserve on the bond appropriations equal to the unsold portion of the bonds. As discussed above, in 2007, the Board of Supervisors appropriated \$35,000,000 of Seismic Safety Loan Bond proceeds, with \$20,000,000 allocated to Market Rate Loans and \$15,000,000 allocated to Below-Market Rate Loans. Table 3 below shows this original appropriation and how the proposed re-appropriation request would impact the allocations, resulting in \$4,520,749 of the \$35,000,000 or 12.9 percent allocated to Market Rate Loans and \$30,479,251 of the \$35,000,000 or 87.1 percent allocated to Below-Market Rate Loans.

**Table 3: Re-Appropriation Request**

	Total Funding	Market Rate Loans	Below-Market Rate Loans
Appropriation Ordinance (File 07-0458)	\$ 35,000,000	\$ 20,000,000	\$ 15,000,000
Re-appropriation Request for Below-Market Rate Projects		(15,479,251)	15,479,251
Adjusted Allocation	\$ 35,000,000	\$ 4,520,749	\$ 30,479,251
Percent of Total Appropriation	100.0%	12.9%	87.1%

As noted above, of the total of up to \$350,000,000 in General Obligation Bonds previously authorized by the San Francisco electorate that could be issued, Administrative Code Sections 66.3(b) and 66.3(d), provide that (a) a maximum of \$150,000,000 would be available for Below Market Rate loans and (b) a maximum of \$200,000,000 would be available for Market Rate Loans. As noted above, to be consistent with these Administrative Code Sections, both the 1994 and the 2007 \$35,000,000 appropriations divided the funding to provide \$20,000,000 for the Market Rate loans and \$15,000,000 for the Below-Market Rate loans. However, Ms. Nadia Sesay, the Director of the Office of Public Finance, advises that based on outside bond counsel advice, each individual appropriation is not restricted to this allocation as long as the total funding for the Market Rate loans does not exceed \$200,000,000 and the total funding for the Below-Market Rate loans does not exceed \$150,000,000.

According to Ms. Yanga, in addition to the seven projects that have existing commitments for loans totaling \$14,615,428 identified in Table 2 above, owners of four new projects are currently seeking loans for seismic safety retrofits, totaling \$16,458,406, as shown below in Table 4. Three of these four new projects totaling \$15,960,406 or 97.0 percent (including an additional \$11,000,000 for the Arlington Residence) would be Below-Market Rate project funding for affordable housing and one project totaling \$498,000 or three percent would be a Market Rate loan.<sup>5</sup>

<sup>5</sup> As noted in Table 4, the one Market Rate pending loan for \$498,000, for the building at 474 O'Farrell Street, is owned by the Fifth Church of Christ, Scientist. According to Ms. Yanga, although this building is owned by a religious organization, the building is currently vacant but proposed to be used for the commercial purposes of a restaurant and a Christian Scientist Reading Room, such that this building is currently subject to paying Property Taxes.

**Table 4: Pending Seismic Safety Loan Program Commitments**

Board of Supervisors Approved Projects	Address	Total Funding	Market Rate Loans	Below-Market Rate Loans
<b>Arlington Residence</b>				
(total loan \$15,000,000)	480 Ellis	\$ 11,000,000		\$ 11,000,000
<b>Planned Projects -- Subject to Seismic Safety Loan Committee Approval</b>				
	940 Washington	\$ 4,107,970		\$ 4,107,970
	474 O'Farrell	498,000	\$ 498,000	
	665 Clay	152,436		152,436
	1095 Mission	700,000		700,000
	Subtotal	\$ 16,458,406	\$ 498,000	\$ 15,960,406
	Percent of Pending Commitments	100.0%	3.0%	97.0%

Source: Mayor's Office of Housing

**FISCAL ANALYSIS**

The principal and interest payments paid by each loan recipient on the individual Seismic Safety Loans are intended to defray the City's actual debt service payments on the General Obligation Bonds, with any difference in costs, between the debt service owed by the City and the interest and principal payments collected by the City on the loans, to be funded from additional Property Taxes assessed on all property taxpayers in the City. Interest rates for individual Seismic Safety Loans vary depending on when the bonds are actually sold. Market Rate loan interest rates are set at one percent above the bond interest rate at time of issuance and Below-Market Rate loan interest rates (affordable housing) charged at only approximately one-third of the interest costs that the City pays for interest and related costs on the issuance of General Obligation Bonds. In accordance with Sections 66.1(c) and 66.5(b) of the City's Administrative Code, Below-Market Rate loan principal and interest payments may be deferred for up to 55 years. The amount that would need to be recovered from Property Taxes from other San Francisco property owners who have not applied for seismic safety loans is determined annually, based on the annual debt service payments owed by the City on the outstanding bonds less the outstanding loan amounts and interest payments received by the City.

The Attachment provided by Mr. Anthony Ababon of the Office of Public Finance, shows the General Obligation Bonds debt service schedule for the existing and proposed pending seismic safety loans. For the purpose of this estimate, the Office of Public Finance assumes that for the 2010 and pending 2011 loans of \$20,458,406 (\$498,000 Market Rate loan plus Below-Market Rate loans total of \$19,960,406 that include the entire \$15,000,000 loan for the Arlington Residence plus \$4,960,406 (\$4,107,970 plus \$152,436 plus \$700,000) for projects pending approval) interest rates are (a) 2.5 percent for the Below-Market Rate loans totaling \$19,960,406 (\$15,000,000 loan for the Arlington Residence plus \$4,960,406 for projects pending approval), and (b) 8.5 percent for the anticipated Market Rate loan of \$498,000 (Table 4 above). Including the bonds sold since 2007, the total debt service is estimated, over a period of 25 years (each

bond issuance is for 20 years, beginning in 2007 through 2011), to be \$49,387,259 (see Attachment), including (a) interest of \$18,727,819 and (b) principal of \$30,659,440, requiring an average annual debt service payment of \$1,978,902. The Attachment also shows that the estimated effect of existing and pending loans on increased Property Taxes on an assessed value of \$500,000 for a single family residence (net of homeowners exemption) averages \$4.77 a year, peaking at \$7.93 in 2012, and declining thereafter.

Table 5 below summarizes the anticipated ending balance of \$3,546,166 for the Seismic Safety Loan Program fund assuming the approval of the requested re-appropriation of \$15,479,251.

**Table 5: Affect of the Re-Appropriation Request on the Seismic Safety Loan Program**

	Total Funding	Market Rate Loans	Below-Market Rate Loans
Appropriation Ordinance 117-07	\$ 35,000,000	\$ 20,000,000	\$ 15,000,000
Bond Issuance Cost	380,000	217,143	162,857
Sources Appropriated for Projects	34,620,000	19,782,857	14,837,143
Existing Project Commitments	14,615,428	259,440	14,355,988
Uncommitted Authorization	20,004,572	19,523,417	481,155
Pending Projects	16,458,406	498,000	15,960,406
Remaining Loan Pool Balance	3,546,166	19,025,417	(15,479,251)
Re-appropriation Request for Below-Market Rate Projects		(15,479,251)	15,479,251
Expected Ending Balance		\$ 3,546,166	\$ -

*Source: Mayor's Office of Housing*

According to Ms. Yanga, as of the writing of this report, there are no market rate projects that would require the remaining available balance of \$3,546,166 shown in Table 5 above, but notes that could change if the lending market continues to tighten. At this time, no Below-Market Rate Loan funds are expected to be available for future projects, assuming re-appropriation of funds and the approval and subsequent execution of the pending projects. Ms. Yanga also states that the Seismic Safety Loan Program does not currently anticipate requesting any additional bond fund appropriations for the Seismic Safety Loan Program.

Ms. Yanga advised that the Mayor's Office of Housing incurred \$886,297 of administrative expenses for the Seismic Safety Loan Program over the four-year period from 2007 to 2009-2010, or an average of \$221,574 annually, and as of February 2011 has incurred \$148,351 in FY 2010-2011. To date, the Seismic Safety Loan Program administrative expenses have been paid from the interest earned on the initial 1994 bond issuance. According to the Office of Public Finance, in 2007 there was a \$1,331,338 surplus from interest income earned on the previously issued 1994 General Obligation bonds for the Seismic Safety Loan Program. Ms. Yanga reports

that a source to cover future administrative costs once the surplus is depleted has not yet been identified.

## POLICY CONSIDERATIONS

### **In 1992, the voters agreed to an annual pro-rata allocation for Market Rate and Below-Market Rate loans.**

As discussed above, in 1992, San Francisco voters approved Proposition A, a \$350,000,000 bond program as a condition of the City's imposing the mandatory retrofitting seismic safety requirements on the property owners of UMBs. The previously approved bond program provided financing for the required seismic retrofits for both Market Rate and Below-Market Rate, or affordable housing, properties according to an allocation approved by the voters. Of the \$350,000,000 in bonds, \$150,000,000, or approximately 43 percent of the funding, was allocated for Below-Market Rate loans with interest rates charged at only approximately one-third of the costs that the City pays for interest and related costs on the issuance of the General Obligation bonds and \$200,000,000, or approximately 57 percent of the funding, allocated for Market Rate Loans, with interest rates of one percent above the City's interest rates for bond issuances. As previously planned, the bonds were to be sold over a ten-year period at \$35,000,000 a year, such that voters were told that the estimated impact on a single family residence with a constant assessed value of \$250,000 to approximately be a \$10 increase in Property Taxes the first year, increasing to a high of \$55 in 2003, and declining thereafter (for comparison purposes, a single family house at twice the assessed value or \$500,000 would incur an approximately \$20 increase in Property Taxes the first year). This is equivalent of a Property Tax increase of from four tenths of one cent (\$0.004) per hundred dollars assessed to two and two-tenths cents (\$0.022) in the peak year.

However, as discussed above, very few owners of UMBs have requested Market Rate loans from the Seismic Safety Bond Program. Overall, a total of \$7,955,380 of Market Rate loans have been requested. In comparison, the demand for Below-Market Rate loans has been significantly greater, such that, a total of \$42,229,291 of Below-Market Rate loans have been requested. As a result, of the total \$50,184,671 loans requested to date, a total of 15.9 percent have been requested Market Rate loans while 84.1 percent have been requested Below-Market Rate loans. This uneven distribution of demand for loan funding, which is not in accordance to the previously planned pro-rata allocation, has changed the program to its present state from the program the voters approved in 1992.

In addition, the lower interest rates on Below-Market Rate loans and the potential 55-year deferral of principal and interest loan repayments, will result in insufficient revenues from the amortized loan repayments to cover the City's debt service costs and related administrative costs on the proposed General Obligation Bonds for affordable housing loans related to the Seismic Safety Loan Program. The requested re-appropriation of \$15,479,251 of Market Rate Bond funds to \$15,479,251 of Below-Market Rate Bond funds will provide more below-market rate loans for affordable housing, which will require additional Property Tax assessments to fund virtually all of the debt service payments over the 25-year life of the bonds (each bond issuance

is for 20 years, beginning in 2007 through 2011). However, it should be noted that the amount of additional Property Tax assessments on a \$500,000 single family residence (net of homeowners exemption) would average \$4.77 a year, peaking at \$7.93 in 2012, and declining thereafter, which is significantly less than the estimated \$20 annual increase in Property Taxes reported to San Francisco voters in 1992, since significantly fewer loans have been approved than originally anticipated.

According to Ms. Sesay, funding is available for the Below-Market Rate loans, as total funding for Below-Market Rate loans have not yet reached their \$150,000,000 cap. Additionally, Ms. Sesay notes that re-appropriating the Market Rate Bond proceeds, which are not anticipated to be needed for Market Rate loans, is preferable to issuing another General Obligation Bond for Below-Market Rate loans for affordable housing seismic retrofits, given the favorable conditions of the current Credit Agreement with the Bank of America for the existing \$35,000,000 General Obligation Bonds under the Seismic Safety Loan Program that indexes the interest rate of the loans to a fixed 5.93 percent to issue the bonds.

### **In November 2010, San Francisco Voters Opposed a Proposition to Provide General Obligation Bonds for Seismic Safety Retrofitting of Affordable Housing**

Although the proposed ordinance adheres to the terms of Proposition A as approved by voters in 1992, allowing up to \$150,000,000 in affordable housing loans, Proposition A intended that the Below-Market Rate loans for affordable housing would be balanced by the \$200,000,000 Market Rate loans. Originally, the Seismic Safety Loan Program was not intended to primarily be an affordable housing program. However, as discussed above, of the total \$35,000,000 appropriation in 2007, \$14,615,428 has been committed for loans to existing seismic projects to date, of which \$14,355,988 or 98.2 percent is for affordable housing projects with Below-Market Rate loans.

In November of 2010, San Francisco voters disapproved Proposition A, a proposition to authorize up to \$39,140,000 in Earthquake Safety Retrofit Loan Program General Obligation Bonds in order to provide seismic retrofits to vulnerable affordable housing buildings with a wood frame and a "soft-story".<sup>6</sup> That General Obligation Bond Program would have enabled a new loan program to provide seismic retrofit funding to property owners of affordable housing units. The General Obligation Bond Program would have resulted in an increase in annual Property Taxes of an estimated \$0.001365 per \$100 of assessed value, such that a single family residence assessed at \$500,000, assuming a homeowners exemption of \$7,000, would pay average additional Property Taxes of \$6.73 per year to the City. The 2010 General Obligation Bond Program for an Earthquake Safety Retrofit Loan Program which was disapproved by the voters would have (a) provided seismic safety retrofit funding for wood frame buildings with a "soft story" as compared to the unreinforced masonry buildings addressed in the existing loan program approved in 1992, (b) only been available to affordable housing buildings, as compared to the existing loan program approved in 1992 which was intended to provide \$200,000,000 of market rate housing loans and \$150,000,000 of affordable housing loans, and (c) been funded entirely from additional Property Taxes assessed on all property taxpayers in the City, as

---

<sup>6</sup> Soft-story is defined as a building that has a first floor with large opening in the exterior walls with large openings and a reduced number of interior walls, usually due to parking or retail use.

compared to the existing loan program which was intended to be primarily paid from debt service payments from individual Market Rate borrowers included in the loan program approved in 1992.

## RECOMMENDATION

Approval of the proposed ordinance is a policy decision for the Board of Supervisors because although the proposed ordinance adheres to the terms of Proposition A as approved by voters in 1992, the actual uneven distribution of loan funding has resulted in this Seismic Safety Loan Program being primarily a Below-Market Rate affordable housing loan program.

City and County of San Francisco  
 Seismic Safety Loan Program  
 General Obligation Bonds Debt Service Schedule  
 Summary of Tax Levy (Tax Rate Per \$500K A.V.)  
 Seismic Safety Loan Program (SSLP)

Fiscal Year	Net Assessed Valuation	SSLP Affordable 2007A-1	Market 2007A-2	SSLP Affordable 2007B	SSLP Affordable 2008A	SSLP Affordable 2008B	SSLP Affordable 2010A	SSLP Affordable Remaining*	SSLP Debt Service	Levy Rate	Tax Per \$500K A.V.**
2007	\$119,870,979,379	85,289	-	-	-	-	-	-	85,288.92	0.0001%	0.35
2008	130,004,478,543	170,007	-	256,725	197,543	-	-	-	624,274.50	0.0005%	2.37
2009	141,274,628,320	170,007	-	326,916	314,791	96,817	-	-	908,530.20	0.0006%	3.17
2010	151,310,445,899	170,007	-	326,916	314,791	96,817	893,733	-	908,530.19	0.0006%	2.96
2011	157,865,981,382	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	1,780,164.06	0.0011%	5.56
2012	155,497,991,661	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.10	0.0016%	7.93
2013	157,985,959,528	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.07	0.0016%	7.81
2014	162,251,580,435	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.10	0.0015%	7.60
2015	169,552,901,555	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.08	0.0015%	7.28
2016	177,186,782,125	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.08	0.0014%	6.96
2017	185,156,007,320	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.07	0.0014%	6.66
2018	193,488,027,650	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.09	0.0013%	6.38
2019	202,194,988,894	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.08	0.0012%	6.10
2020	211,293,635,594	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.08	0.0012%	5.84
2021	220,801,982,747	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.08	0.0011%	5.59
2022	230,738,071,970	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.07	0.0011%	5.35
2023	241,121,285,209	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.09	0.0010%	5.12
2024	251,971,743,044	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.09	0.0010%	4.90
2025	263,310,471,481	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.09	0.0010%	4.69
2026	275,150,442,697	170,007	(22,099)	326,916	314,791	96,817	1,194,471	421,371	2,502,272.10	0.0009%	4.48
2027	287,541,617,619	-	(22,099)	326,916	-	96,817	1,194,471	421,371	2,332,265.40	0.0008%	4.00
2028	300,480,990,411	-	(22,099)	-	-	96,817	1,194,471	421,371	1,690,558.52	0.0006%	2.77
2029	314,002,684,980	-	(22,099)	-	-	96,817	1,194,471	421,371	1,593,741.92	0.0005%	2.50
2030	328,132,753,554	-	(22,099)	-	-	-	1,194,471	421,371	1,593,741.91	0.0005%	2.39
2031	342,898,727,464	-	-	-	-	-	1,194,471	421,371	421,370.54	0.0001%	0.61
2032	558,329,170,200	-	-	-	-	-	-	-	-	0.0000%	0.00
Total Debt Service		\$3,315,416	-\$441,989	\$6,468,124	\$6,178,574	\$1,936,332	\$23,588,679	\$8,427,411	\$49,387,259		
Total Principal		\$2,000,000	\$259,440	\$3,802,000	\$3,893,228	\$1,500,000	\$15,000,000	\$4,404,772	\$30,659,440		

Proposed DS \$1,978,902

Average Annual DS 0.0010%

Average Annual Levy Rate 0.0016%

Highest Annual Levy Rate 0.0016%

Lowest Annual Levy Rate 0.0001%

Total Debt Service \$49,387,259

Annual Levy Per \$500K A.V.

Average \$4.77

Maximum \$7.93

Minimum \$0.35

\* SSLP Affordable Remaining assuming all \$4.4 million issued on April 1, 2011.  
 \*\* Tax Per \$500,000 assessed valuation net of homeowners exemption.