



DEPARTMENT OF
HOMELESSNESS AND
SUPPORTIVE HOUSING

To: Honorable Members, Board of Supervisors

**From: Abigail Stewart-Kahn, Department of Homelessness and Supportive Housing
Gigi Whitley, Department of Homelessness and Supportive Housing**

Date: June 9, 2020

Subject: Resolution approving a building Lease Agreement and Sublease Agreement each by and between the City and 833 Bryant, L.P.

The Department of Homelessness and Supportive Housing (“HSH”) respectfully requests that the Board of Supervisors (the “Board”) review and approve the Lease Agreement and Sublease Agreement for the 833 Bryant Project (“Project”). The Project is a unique public-private partnership, leveraging philanthropy, state tax credits, and tax-exempt debt, to deliver 145 units of newly constructed Permanent Supportive Housing (PSH) for formerly homeless individuals, plus one manager unit, at a critically needed time. The City’s commitment to funding the Lease Agreement allows for the project to move forward in construction and secure the needed financing.

Funding for the estimated costs associated with the commencement of a lease and operating for this Project was included in HSH’s FY 2019-20 and FY 2020-21 budget, proposed by the Mayor and approved by the Board of Supervisors. At the time, the project was anticipated to commence in May 2021, the Project is now well under construction and an updated completion date of August 2021 is reflected in the agreements brought forward to the Board for review. Due to the structuring of the financing, although the Lease would commence in August of 2021, the first payment from the City would not be due until Spring 2023.

STATEMENT OF NEED

833 Bryant offers the City an efficient, and cost-effective project to provide additional permanent exits from homelessness. As part of HSH’s Five-Year Strategic Framework, the Department has set a goal to reduce chronic homelessness by 50%. To meet this goal, the City needs to continue to invest in permanent supportive housing projects such as 833 Bryant. All tenants will be referred to the Project for occupancy through the City’s Coordinated Entry System.

Despite substantial investments in permanent supportive housing, rapid rehousing subsidies, and other interventions to end homelessness over the last 20 years, homelessness remains a persistent challenge in San Francisco. The 2019 biennial Point-In-Time (“PIT”) homeless count identified 8,035 people experiencing homelessness in the city; 64% of whom are unsheltered. The PIT count survey included data on duration of homelessness, age, and health status trends that indicate an increase in need for permanent supportive housing units for chronically homeless adults and seniors. Per the 2019 count, approximately 57% of the total population is over the age of 41, over 69% had at least one disabling health condition, and for 65%, the duration of their current episode of homelessness was over one year. These data reflect the population of people living on the streets are growing older and sicker, further underscoring the need for PSH in the City.

In HSH's 2019 Five-Year Strategic Framework Update, the Department committed to prioritizing the highest need population for services and housing to reverse the trend in single adult homelessness shown in the 2019 PIT count. District 6, where the Project is located, is home to 46% of the homeless population—the highest concentration in the City. The Project is ideally suited to create additional units to serve the chronically homeless population already living in the neighborhood near 833 Bryant Street.

Permanent supportive housing is the most effective way to end homelessness for people who are chronically homeless, meaning they have been homeless for a year or more and have at least one disabling condition that impacts their ability to find and maintain housing. In Fiscal Year 2018-2019, less than 2% of San Francisco residents housed in permanent supportive housing were evicted. This demonstrates a high level of residential stability for tenants in permanent supportive housing.

The COVID-19 crisis has exacerbated the existing public health crisis of homelessness. The COVID-19 pandemic represents a significant health risk for people experiencing homelessness. People living in public spaces or in congregate settings, have limited access to preventive measures like frequent handwashing, social distancing, and rapid access to health care. People living unsheltered are also far more likely to have chronic health conditions, one of the most significant risk factors with coronavirus. In addition to the increased health risk associated with homelessness, the City and County of San Francisco also anticipates seeing an increase in need for homeless services in the economic fallout from the pandemic.

The global pandemic has increased the awareness that housing is essential to the health and well-being of all people, and especially the City's most vulnerable residents. Permanent housing not only ends homelessness for its residents but will ultimately protect them from the spread of COVID-19 better than temporary shelter. As the City continues its response to the COVID-19 pandemic, it will require continued investments in evidence-based practices that permanently end homelessness, like permanent supportive housing.

SUMMARY

The proposed Resolution approves a building Lease Agreement and Sublease Agreement between the City and 833 Bryant, LP for a currently under construction 145-unit plus one manager unit building for the intended use as permanent supportive housing for formerly homeless individuals. The effective dates of the Lease and Sublease's will be when the building has received a temporary certificate of occupancy from the Department of Building Inspection (anticipated August 2021).

The Project's construction is being financed with philanthropic grants and loans, tax credits, and tax-exempt bonds ("Bonds"). The California Housing Finance Agency ("CHFA"), a state agency, will be the issuer for the Bonds, the proceeds of which will pay for a portion of the Project construction costs. The City's obligation to make lease payments under the Lease will serve as security for the Bonds. Like other lease structures supporting the execution and delivery of City certificates of participation ("COPs"), the payments under the Lease are subject to abatement in the event the facility is not available for use in the event of destruction or another calamity. The Bonds are anticipated to be sold in July 2020 and the City's obligation to make lease payments under the Lease allows for favorable financing rates, assuming a "Aa2" rating from Moody's which is one notch below the City's typical COP credit rating of "Aa1" and two notches below the City's General Obligation Bond rating of "Aaa". The Lease requires annual lease payments by the City for 30 years at a not to exceed amount of \$2,014,800, or \$1,150 per unit per month. Capitalized Interest funds are used for the first 24 months of debt service payments, resulting in

the first needed lease payment from the City in April 2023. Similar to some of the City's outstanding COPs, the Lease allows for an extension up to 10 years beyond on the 30-year term of the financing. Should the sale of the tax-exempt Bonds (anticipated in July 2020) result in more favorable future debt service costs than the not-to-exceed amounts, the City will benefit through reduced lease payments.

As part of the financing and operating structure, the City has agreed to sublease the property back to the Mercy Housing (or another professional property management company reasonably acceptable to the City) at an annual cost of \$1 to operate the building and manage the supportive services contract for residents. The Lease and Sublease have 30-year terms in alignment with the length of the tax-exempt Bonds structure. The landowner, Homes for the Homeless Fund No. 1, LLC, will enter into a conveyance agreement with the City for a term of 99 years, which will give the City the exclusive right to purchase the land for \$1 starting at the end of the 30-year Lease and Sublease terms.

The Resolution authorizes the Director of Property and Director of HSH to make amendments to the Lease Agreement and Sublease Agreement, as needed and that they determine are in the best interests of the City without materially increasing the City's obligations or liabilities. The Resolution also authorizes the City, through the Office of the Controller, to provide information necessary for the Bond sale and to complete relevant documents, such as the Preliminary Official Statement and Official Statement, as well as a Continuing Disclosure Certificate.

PROJECT DETAIL

833 Bryant is a unique permanent supportive housing project for San Francisco. The Project is a partnership between the San Francisco Housing Accelerator Fund, Mercy Housing, Inc. and the City and County of San Francisco.

The San Francisco Housing Accelerator Fund ("SFHAF") is a 501(c)(3) nonprofit organization established for the purpose of bringing innovative financial tools to affordable housing production and preservation. It is the sole member of its wholly owned subsidiary, the Homes for the Homeless Fund No. 1, LLC, which is a pool of \$50 million in flexible private dollars funded through a philanthropic contribution from Tipping Point Community dedicated to producing more housing for chronically homeless individuals in the City. SFHAF and Tipping Point Community's purpose for the Homes for the Homeless Fund is to produce a supportive housing model that is more cost-effective and faster to open than the City's current models, and 833 Bryant is its inaugural project. SFHAF acquired the land and has entered into a ground lease with Mercy Housing, Inc ("Mercy Housing") to develop the property.

Mercy Housing has experience developing, preserving, managing, and financing affordable housing. Mercy Housing subsidiaries serve tens of thousands of people with low incomes, including families, seniors, veterans, people who have experienced homelessness, and people with disabilities. Mercy Housing has extensive experience developing permanent supportive, affordable housing using Low Income Housing Tax Credits ("LIHTC") and conducting all aspects of asset management required for tax credit financing. Mercy Housing is the sole member/manager of 833 Bryant, L.P., which is the borrower of the tax-exempt bonds and the owner of the completed building.

The City and County of San Francisco, through the Department of Real Estate and the Department of Homelessness and Supportive Housing, intends to enter into a master lease with 833 Bryant, L.P. and sublease back to Mercy Housing (or another professional property management company reasonably

acceptable to the City) to operate the property as a site for permanent supportive housing for formerly homeless individuals.

The Project’s total development cost of approximately \$55 million is being funded with a combination of philanthropic capital, low-income housing federal tax credits, and tax-exempt bonds. There were no City upfront funds used to support the construction currently underway. 833 Bryant will be the City’s first 100% permanent supportive housing development built with modular housing, from Factory_OS, which operates in Vallejo, California under a 100% union contract. Through this innovative structure, 833 Bryant is delivering housing at approximately \$400,000 per unit. The Homes for the Homeless Fund, through philanthropic funding provided by Tipping Point Community, covered the Project’s \$8.2 million land cost. The total development timeline for 833 Bryant will be under three years, much faster than the typical timeline for publicly funded developments.

The Project also compares favorably to master lease contracts the City has previously entered into for permanent supportive housing units with private landlords on the open market. The lease contract for 833 Bryant is fixed at an amount not-to-exceed \$1,150 per unit per month, without any escalation provisions. As mentioned above, the Homes for the Homeless Fund intends to enter into a conveyance agreement with the City which will allow it to purchase the land beginning at the end of the initial 30-year lease term the City for \$1 and the building will be permanently affordable.

Below please find the Project’s sources and uses budget:

PERMANENT SOURCES OF FUNDS	VALUE
Tax-Exempt Bond Proceeds	\$31,537,526
Homes for the Homeless Fund	1,230,313
Tax Credit Equity	22,135,100
TOTAL SOURCES OF FUNDS	\$54,902,939

USES OF FUNDS	VALUE
Acquisition-related Costs	\$1,257,929
Construction Hard Costs	38,887,217
Financing Costs, Fees, and Capitalized Interest	5,640,273
Developer Fee	1,700,000
Other Soft Costs	7,417,520
TOTAL DEVELOPMENT COSTS	\$54,902,939

The Project will require three long-term funding contracts from the City: the (i) Lease, (ii) an operating subsidy contract, and (iii) a services contract. These contracts will cover the cost debt service on the tax-exempt Bonds, operations, and supportive services. The operations and supportive services contracts will be entered into by HSH closer to the anticipated commencement of the City’s obligations under the Lease. For comparable City projects, operating costs average \$900 per unit per month and supportive services cost average \$550 per unit per month. On an annual basis, the City estimates operating and services costs of \$17,400 per unit before accounting for offset for tenant rental contributions, which are

capped at 30% of tenant income. The 833 Bryant projects falls well within the range of typical PSH operating and services costs.

ANTICIPATED FINANCING TIMELINE

The Resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, June 9, 2020, and the forms of the related financing documents—including the Lease Agreement, Sublease, General Plan Referral and the Commitment Letter. Additionally, forms of the Preliminary Official Statement, the Continuing Disclosure Certificate and the Bond Purchase Agreement, as further described in Attachment 1—will be submitted to the Board at that time.

<u>Milestones</u>	<u>Anticipated Dates</u>
• Introduction of Resolution	June 9, 2020
• Budget & Finance Committee Hearing	June 24, 2020
• Board Considers Approval of Resolution	June 30, 2020
• Sale and Closing of the Bonds	July 2020
• Estimated Project Completion Date	August 2021

The consideration of this matter by the Board is greatly appreciated. Please contact Gigi Whitley (gigi.whitley@sfgov.org), Emily Cohen (Emily.Cohen@sfgov.org), or Abigail Stewart-Kahn (abigail.stewart-kahn@sfgov.org).

ATTACHMENT 1

The legislation is expected to be introduced at the Board of Supervisors meeting on June 9. In addition to the Lease and Sublease, the Resolution authorizes the Controller, in consultation with the City Attorney, to provide information for inclusion in the Preliminary Official Statement and Official Statement and to enter into a Continuing Disclosure Certificate in connection with the issuance of bonds by CHFA. Forms of the related financing documents have been submitted including the Preliminary Official Statement (including the City's Appendix A which will contain customary budget, finance and operating information), the Continuing Disclosure Certificate and the Bond Purchase Contract.

Official Statement: The Official Statement provides information for prospective investors in connection with the public offering by CHFA, the issuer of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; risk factors; and tax and other legal matters, among other information. Since repayment of the Bonds is largely dependent upon the City's lease payments under the Lease, the Official Statement will also include the City's Appendix A (which includes the most recent financial and operating data of the City) and Comprehensive Annual Financial Report.

The **Preliminary Official Statement** will be distributed to prospective investors prior to the sale of the Bonds and within seven days of the public offering, the Final Official Statement (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) will be distributed to the initial purchasers of the Bonds.

Appendix A: The City prepares an Appendix A: "City and County of San Francisco—Organization and Finances" ("Appendix A") for inclusion in the Official Statement. The Appendix A describes the City's government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management.

The proposed resolution authorizes the use and distribution of the Official Statement by the underwriters with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

The proposed resolution delegates to the Controller to finalize and revise the Official Statement, including the Appendix A, to, among other things, include the most recent City financial information or other material information relevant to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

Continuing Disclosure Certificate: The City (and Mercy Housing) will covenant to provide certain financial information relating to the City not later than 275 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in an annual report for investors, as well as the ongoing requirement to provide notice of material events. These covenants have been made in order to assist initial purchasers of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Bond Purchase Contract/Method of Sale: As noted earlier, the Bonds will be issued by CHFA. Given the public/private partnership structure, a negotiated sale is planned in connection with this transaction, which is consistent with the City's debt policy. Citigroup was selected by SFHAF and Mercy Housing following a competitive process, which included a Request for Proposals. The Bond Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter, as well as agreements regarding expenses, closing conditions and disclosure documents.