

File No. 151234

Committee Item No. 3

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date January 20, 2016

Board of Supervisors Meeting

Date _____

Cmte Board

- Motion
- Resolution
- Ordinance
- Legislative Digest
- Budget and Legislative Analyst Report
- Youth Commission Report
- Introduction Form
- Department/Agency Cover Letter and/or Report
- MOU
- Grant Information Form
- Grant Budget
- Subcontract Budget
- Contract/Agreement
- Form 126 – Ethics Commission
- Award Letter
- Application
- Public Correspondence

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Completed by: Linda Wong Date January 15, 2016

Completed by: Linda Wong Date _____

1 [Authorizing Expenditures - SoMa Community Stabilization Fund - \$3,000,000]

2
3 **Resolution authorizing the Mayor's Office of Housing and Community Development**
4 **(MOHCD) to expend SoMa (South of Market) Community Stabilization Fund dollars in**
5 **the amount of \$3,000,000 to provide acquisition and rehabilitation loans for projects**
6 **that are eligible under MOHCD's Small Sites Program and are located within the**
7 **boundaries of SoMa.**

8
9 WHEREAS, On August 19, 2005, the Board of Supervisors approved Ordinance No.
10 217-05 (the "Ordinance"), which, among other things, established a new Rincon Hill
11 Downtown Residential Mixed Use District; and

12 WHEREAS, The Ordinance added Section 418 to the San Francisco Planning Code,
13 which identifies a need to mitigate the impacts of new development in the Rincon Hill area and
14 establishes two new fees: (1) the Rincon Hill Community Infrastructure Impact Fee, which
15 provides specific improvements, including community open spaces, pedestrian and
16 streetscape improvements and other facilities and services; and (2) a SoMa Community
17 Stabilization Fee, which mitigates impacts on affordable housing, economic and community
18 development and community cohesion in SoMa, as defined in San Francisco Planning Code,
19 Section 401 (the area bounded by Market Street to the north, Embarcadero to the east, King
20 Street to the south, and South Van Ness and Division to the west); and

21 WHEREAS, Both the Rincon Hill Community Infrastructure Impact Fee and the SoMa
22 Community Stabilization Fee are imposed on new residential development within the Rincon
23 Hill Downtown Residential Mixed Use District, as defined in San Francisco Planning Code,
24 Section 827 (the area generally bounded by Folsom Street, the Bay Bridge, the Embarcadero,
25 and Essex Street); and

1 WHEREAS, The Ordinance established two separate funds: (1) a Rincon Hill
2 Community Improvements Fund for the deposit of the Rincon Hill Community Infrastructure
3 Impact Fees collected; and (2) a SoMa Community Stabilization Fund for the deposit of
4 SOMA Community Stabilization Fees collected; and

5 WHEREAS, The money collected from the SoMa Community Stabilization Fee, along
6 with up to \$6,000,000 transferred from the Rincon Hill Community Improvements Impact
7 Fund, is to be deposited in the SoMa Community Stabilization Fund maintained by the
8 Controller, which will be used to address various impacts of destabilization on residents and
9 businesses in SOMA; and

10 WHEREAS, Under the Ordinance, the Board of Supervisors established the SoMa
11 Community Stabilization Fund Community Advisory Committee (SoMa CAC) to advise the
12 Mayor's Office of Community Development (MOCD), now the Mayor's Office of Housing and
13 Community Development (MOHCD), and the Board of Supervisors on the uses of the Fund;
14 and

15 WHEREAS, On May 6, 2008, the Board of Supervisors approved Resolution
16 No. 216-08, creating the SoMa Community Stabilization Fund Strategic Plan and authorized
17 MOHCD to administer the Fund in accordance with the Strategic Plan; and

18 WHEREAS, the Strategic Plan states that an investment objective of the SoMa
19 Community Stabilization Fund is to increase access to perpetually affordable housing
20 opportunities for existing residents of SoMa; and

21 WHEREAS, MOHCD administers an acquisition and rehabilitation loan program, the
22 Small Sites Program, to protect and establish long-term affordable housing in smaller
23 properties throughout San Francisco that are particularly vulnerable to market pressure
24 resulting in property sales, increased evictions and rising tenant rents; and

1 WHEREAS, The SoMa CAC and MOHCD staff worked collaboratively to identify the
2 need for additional loan funding for projects that are within the boundaries of SOMA and are
3 eligible under the MOHCD's Small Sites Program; and

4 WHEREAS, A copy of the Small Sites Notice of Funding Availability and the Small
5 Sites Program Underwriting Guidelines has been filed with the Clerk of the Board under File
6 No. 151234; now, therefore, be it


7 RESOLVED, That the Mayor's Office of Housing and Community Development is
8 hereby authorized to expend \$3,000,000 from the SoMa Community Stabilization Fund to
9 provide acquisition and rehabilitation loans, all in accordance with the purposes and goals for
10 the funding as generally set forth in the Strategic Plan and the Small Sites Program and filed
11 with the Clerk of the Board; and, be it

12 FURTHER RESOLVED, That all projects funded by loans made by MOHCD under this
13 authorization shall meet the requirements of the Small Sites Program Underwriting
14 Guidelines; and


15 FURTHER RESOLVED, The Mayor's Office of Housing and Community Development
16 shall provide an annual report to the Board of Supervisors stating for each loan: the amount,
17 the receiving entity, and certification that the loan meets the Small Sites Underwriting
18 Guidelines.

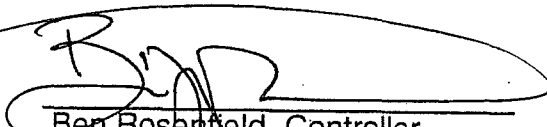
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Recommended:


Olson Lee, Director, MOHCD

Approved:


Edwin M. Lee, Mayor


Ben Rosenfield, Controller

<p>Item 3 File 15-1234</p>	<p>Department: Mayor's Office of Housing and Community Development</p>
<p>EXECUTIVE SUMMARY</p>	
<p>Legislative Objectives</p>	
<ul style="list-style-type: none"> • The proposed resolution would authorize the Mayor's Office of Housing and Community Development (MOHCD) to expend \$3,000,000 from the South of Market (SoMa) Community Stabilization Fund to provide acquisition and rehabilitation loans to projects that meet the requirements of the Small Sites Program Underwriting Guidelines. 	
<p>Key Points</p>	
<ul style="list-style-type: none"> • Developers constructing new residential development in the Rincon Hill Downtown Residential District pay development impact fees that are deposited into the SoMa Community Stabilization Fund to be used for housing, economic and workforce development, and community cohesion. MOHCD administers the SoMa Community Stabilization Fund, subject to Board of Supervisors approval. • The Small Sites Program is an acquisition and rehabilitation loan program administered by MOHCD for multi-family rental buildings of 5 to 25 dwelling units in San Francisco. The program provides loans to non-profit and for-profit entities to purchase and rehabilitate existing residential buildings whose tenants are at risk of displacement and restrict them for the long term as affordable housing. • MOHCD proposes to use \$3,000,000 of SoMa Community Stabilization Funds to make loans to projects that comply with the Small Sites Program Underwriting Guidelines. 	
<p>Fiscal Impact</p>	
<ul style="list-style-type: none"> • SoMa Community Stabilization Funds are expected to be the only source of City funds for the two identified projects receiving Small Sites Program loans. • The SoMa Community Stabilization Fund currently has an available fund balance of \$22,439,616. The available balance would be reduced to \$19,439,616, should the Board of Supervisors approve the proposed allocation of \$3,000,000 for Small Sites Program loans. 	
<p>Policy Consideration</p>	
<ul style="list-style-type: none"> • According to the Small Sites Program Underwriting Guidelines, qualified borrowers may receive residual receipts loans with a term of 30 years. Loan repayments are based on residual receipts generated by the project's rents and other revenues. • Up to \$399,997 of the requested \$3,000,000 in loan funds are for a project that has not yet been identified. The Budget and Legislative Analyst recommends that the Board of Supervisors approve expenditures for the two projects that are identified, and not approve \$399,997 in SoMa Community Stabilization Fund expenditures until a project has been identified. 	
<p>Recommendations</p>	
<ul style="list-style-type: none"> • Amend the proposed resolution to authorize MOHCD to expend \$2,600,003 from the SoMa Community Stabilization Fund instead of the requested \$3,000,000. • Approve the proposed resolution as amended. 	

MANDATE STATEMENT

In accordance with Planning Code Section 418.7, all monies in the South of Market Area (SoMa) Community Stabilization Fund are to be used to address the effects of destabilization on residents and businesses in SoMa due to new residential development in the Rincon Hill Area.

In accordance with Section 418.7(c) of the Planning Code, the SoMa Community Stabilization Fund expenditures are administered by the Mayor's Office of Housing and Community Development (MOHCD), subject to approval by the Board of Supervisors.

BACKGROUND

SoMa Community Stabilization Fund

The Board of Supervisors approved Section 318 in the City's Planning Code in 2005, which among other provisions, (a) established the Rincon Hill Downtown Residential District¹, (b) created a Rincon Hill Community Improvement Fund, (c) imposed a SoMa Community Stabilization Fee of \$14 per square foot (subsequently amended down to \$10.95 per square foot by the Board of Supervisors under Ordinance No. 270-10) on developers who build new residential development within the Rincon Hill Downtown Residential District, (d) created the SoMa Community Stabilization Fund, and (e) established a SoMa Community Stabilization Fund Community Advisory Committee (CAC) to advise the MOHCD and the Board of Supervisors on the uses of the SoMa Community Stabilization Fund (Ordinance No. 217-05).

In accordance with Section 418.7 of the Planning Code, monies in the SoMa Community Stabilization Fund are to be used for housing, economic and workforce development, and community cohesion to address the effects of destabilization on residents and businesses in SoMa due to new residential development in the Rincon Hill area.

In May 2008, the Board of Supervisors authorized MOHCD to administer the SoMa Community Stabilization Fund in accordance with the SoMa Community Stabilization Fund Strategic Plan (Resolution No. 216-08). One of the objectives set forth in the Strategic Plan is to increase access to perpetually affordable housing for existing residents of SoMa.

Small Sites Program

The Small Sites Program is an acquisition and rehabilitation loan program administered by MOHCD for multi-family rental buildings of 5 to 25 dwelling units in San Francisco. The program seeks to protect and establish permanent affordable housing in small properties throughout the city that are vulnerable to market pressure resulting in property sales, increased evictions, and rising tenant rents. The Small Sites Program provides loans to non-profit and for-profit entities to purchase and rehabilitate existing residential buildings and restrict them for the long term as affordable housing. The program goals are to:

¹ The Rincon Hill Downtown Residential District is the area bounded by Folsom Street, The Embarcadero, Bryant Street, and Essex Street.

- 1) Protect and stabilize housing for current tenants at a range of income levels, as long as at least 75 percent of the building's tenants have an income at or below 80 percent of the area median income (AMI)²;
- 2) Increasing the supply of permanently affordable rental housing by restricting Small Sites Program properties to serve households with average incomes at 80 percent of the AMI;
- 3) Ensure that Small Sites Program properties operate with sufficient cash flow to adequately care for the property and repay debt obligations, including Small Sites Program loans, which the City will reinvest into future Small Sites Program properties.

The SoMa Community Stabilization Fund is one of multiple sources of funding for the Small Sites Program. Other sources of funding include, but are not limited to: (1) affordable housing fees charged to residential developers under the Inclusionary Affordable Housing Program; (2) condominium conversion impact fees; and (3) the Affordable Housing Trust Fund.

Notice of Funding Availability Process

MOHCD issued a Notice of Funding Availability (NOFA) in July 2014 for \$3,000,000 of Small Sites Program funds on a first-come, first-serve basis for projects that meet the requirements of the Small Sites Program Underwriting Guidelines. According to Ms. Ruby Harris, MOHCD Project Manager for the Small Sites Program, the Underwriting Guidelines allow for flexibility to acquire small multifamily rental properties as they become available on the real estate market. Any deviation from the Small Sites Program Underwriting Guidelines (e.g., properties smaller than 5 units, mixed use properties, etc.) are made at the discretion of the Director of MOHCD. The NOFA has a rolling deadline. According to the NOFA, initial funding of \$3,000,000 from the Affordable Housing Trust Fund is available with additional Small Sites Program funding from various sources to become available in the future.

The NOFA announced that eligible projects must be 100 percent residential buildings with 5 to 25 dwelling units in San Francisco. Applicants may be non-profit or for-profit entities that control the property and that demonstrate: (1) capability to enter into contracts with the City and (2) the technical capacity and experience to successfully acquire, rehabilitate, own, and manage affordable housing. Applicants that have initiated Ellis Act eviction proceedings within the past three years are not eligible for program funding.

Loans awarded through the NOFA may be used to support a variety of housing development activities, including but not limited to property acquisition and holding costs, architectural and engineering expenses, environmental assessments, appraisals, legal costs, construction costs, and project management.

All Small Sites Program loans include the following terms:

- 30-year term
- 3 percent simple interest

² The 2015 AMI in San Francisco was \$101,900 for a family of four. 80 percent of the AMI for a family of four was \$81,500. The maximum monthly rent for a 1-bedroom unit for a household with 80 percent of the AMI was \$1,583 without utilities.

- Residual receipts split payments³
- Commercial debt recorded in the first position (paid ahead of residual receipts split payments)

According to Ms. Harris, to date, MOHCD has received 13 applications for Small Sites Program funding in response to the NOFA. Of the 13 applications received, one was denied and the other 12 have been funded or are in the queue to be underwritten and/or funded. MOHCD is proposing to use SoMa Community Stabilization Funds of \$3,000,000 for two identified projects and at least one unidentified project, and other funding sources for the remaining nine projects.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize MOHCD to expend \$3,000,000 from the SoMa Community Stabilization Fund to provide acquisition and rehabilitation loans to affordable housing projects that meet the requirements of the Small Sites Program Underwriting Guidelines.

MOHCD expects to loan \$2,600,003 of the funds to two projects sponsored by the San Francisco Community Land Trust, a non-profit organization, as follows:

- 1) \$1,200,003 for the 1353-57 Folsom Street project. The project consists of 3 units with one 2-bedroom, one 3-bedroom, and one 4-bedroom unit.⁴ The Folsom Street project is currently in escrow and projected to close by January 29, 2016.
- 2) \$1,400,000 for the 568 Natoma Street project. The project consists of 5 one-bedroom units. The Natoma Street project has not yet been underwritten and the City has not yet committed funds. MOHCD expects the property acquisition to close in March 2016.

MOHCD expects to loan the remaining \$399,997 out of the total \$3,000,000 of the requested expenditures to partially fund another project that meets the requirements of both the Small Sites Program and the SoMa Community Stabilization Fund.

MOHCD needs authority from the Board of Supervisors to expend the proposed \$3,000,000 in SoMa Community Stabilization Funds prior to expending funds through the Small Sites Program on property acquisitions. Loan documents for the property acquisitions that will be funded by the Small Sites Program are not finalized until approximately 15 days prior to closing; however, all Small Sites Program loans are issued with the same set of terms, as outlined above. The \$3,000,000 in SoMa Community Stabilization Funds will be loaned to the project sponsor(s) at 3

³ "Residual receipts" is the remaining annual cash flow after all project expenses, commercial debt, and other fees have been paid. Under the residual receipts split, two-thirds of each project's annual residual receipts are paid to the City as payment on the loan and one-third of the residual receipts remain with the project sponsor.

⁴ The Small Sites Program is targeted to 5- to 25-unit buildings, and the 1353-57 Folsom Street project has less than five units. As mentioned above, the Director of MOHCD has discretion to fund projects, such as the Folsom Street project, that do not meet the Small Sites Program Underwriting Guidelines but still meet the goals of the program.

percent simple interest⁵ amortized over 30 years with total principal and interest payments of \$5,700,000, as shown below in Table 1.

Table 1: Small Sites Program Debt Service

	Amount
Principal	\$3,000,000
Interest (3% simple, 30 years)	2,700,000
Total Principal and Interest	\$5,700,000

Of the \$3,000,000 expenditure from the SoMa Community Stabilization Fund, \$2,600,003 is proposed to be loaned to the San Francisco Community Land Trust to acquire and rehabilitate the properties at 1353-57 Folsom Street and 568 Natoma Street. San Francisco Community Land Trust has also received a commitment of a \$600,000 loan from First Republic Bank for the acquisition of 1353-57 Folsom Street and is seeking a \$375,000 loan from Boston Private Bank for the acquisition of 568 Natoma Street. San Francisco Community Land Trust will contribute \$8,596 towards building inspections and property insurance for the 1353-57 Folsom Street project, and \$5,570 towards property insurance for the 568 Natoma Street project.

FISCAL IMPACT

The proposed expenditures of \$2,600,003 in loans from the SoMa Community Stabilization Fund are shown below.

Table 2: Small Sites Program Sources and Uses of City Funds

	1353-57 Folsom Street	568 Natoma Street	Total
SOURCES			
SoMa Community Stabilization Fund	\$1,200,003	\$1,400,000	\$2,600,003
USES			
Property Acquisition	\$600,000	\$713,000	\$1,313,000
Closing Costs	8,165	11,000	19,165
Construction Costs	292,388	349,600	641,988
Developer Costs	86,342	78,717	165,059
Architecture/Engineering	10,000	23,000	33,000
Building Inspection	275	3,055	3,330
Loan Origination Fee	0	1,500	1,500
Legal Costs	3,673	2,000	5,673
Appraisal	1,015	2,500	3,515
Relocation	0	6,000	6,000
Entitlement/Permit Fees	14,619	15,200	29,819
Reserves	135,231	84,000	219,231
Contingencies	48,295	110,428	158,723
Total Uses	\$1,200,003	\$1,400,000	\$2,600,003

Source: MOHCD

⁵ Simple interest is calculated as the original loan principal amount multiplied by the interest rate and the duration of the loan.

As discussed above, each project receiving Small Sites Program loans will also have a loan from a commercial bank that must be repaid with available project cash flow before the loan from the City is repaid. Two-thirds of each project's annual residual receipts (remaining cash after all expenses, commercial debt, and other fees have been paid) will be remitted to the City for debt repayment. The debt repayments will be deposited into the SoMa Community Stabilization Fund to be reallocated to new projects.

The SoMa Community Stabilization Fund has received \$30,218,841 in SoMa Community Stabilization fees from developers and interest on deposits from FY 2005-06 through December 31, 2015 as shown in Table 3 below.

**Table 3: Revenues Deposited to the SoMa Community Stabilization Fund
(Through December 31, 2015)**

Fiscal Year	Revenue from SoMa Community Stabilization Fees	Transfers from Community Improvement Funds	Total Revenue
FY 2005-2006	\$98,471	\$0	\$98,471
FY 2006-2007	0	203,292	203,292
FY 2007-2008	0	0	0
FY 2008-2009	67,324	0	67,324
FY 2009-2010	4,962,933	350,000	5,312,933
FY 2010-2011	2,807,128	589,626	3,396,754
FY 2011-2012*	(81,761)	0	(81,761)
FY 2012-2013	185,874	0	185,874
FY 2013-2014	1,899,067	0	1,899,067
FY 2014-2015	5,376,158	0	5,376,158
FY 2015-2016	9,393,296	4,037,000	13,430,296
Subtotal	\$24,708,490	\$5,179,918	\$29,888,408
Interest Earnings			\$330,433
Total			\$30,218,841

* Negative revenue is return of fees collected erroneously in the prior fiscal year for 333 Harrison project.

Source: Mayor's Office of Housing and Community Development

To date, \$7,779,225 in SoMa Community Stabilization Fund monies have been expended, as previously authorized by the Board of Supervisors, and as shown in Table 4 below.

**Table 4: Expenditures in SoMa Community Stabilization Fund
(Through December 31, 2015)**

Year	Salaries and Benefits**	Inclusionary Housing Study	Grant and Loan Expenditures	Total Expenditures
FY 2006-2007	\$45,614	\$40,000	\$0	\$85,614
FY 2007-2008	82,452	110,000	0	192,452
FY 2008-2009	185,596	0	0	185,596
FY 2009-2010	102,090	0	0	102,090
FY 2010-2011	135,719	0	3,613,462	3,749,181
FY 2011-2012	160,709	0	404,411	565,120
FY 2012-2013	149,770	0	606,621	756,391
FY 2013-2014	128,946	0	306,553	435,499
FY 2014-2015	219,118	0	1,163,426	1,382,544
FY 2015-2016	112,600	0	212,138	324,738
Total	\$1,322,614	\$150,000	\$6,306,611	\$7,779,225

** Includes MOHCD administrative costs, advertising for public hearing, and City Attorney's Office costs.

Source: Mayor's Office of Housing and Community Development

The SoMa Community Stabilization Fund currently has an available fund balance of \$22,439,616, as shown in Table 5 below. The available balance would be reduced to \$19,439,616, if the proposed allocation of \$3,000,000 for Small Sites Program loans is approved.

Table 5: Projected SoMa Community Stabilization Fund Balance

	Amount
Revenues FY 2005-2016 from Table 3	\$30,218,841
Expenditures FY 2005-2016 from Table 4	(7,779,225)
Subtotal - Available Fund Balance	22,439,616
Proposed loan allocation	(3,000,000)
Total	\$19,439,616

POLICY CONSIDERATION

Loan Repayment Based on Residual Receipts

According to the Small Sites Program Underwriting Guidelines, qualified borrowers may receive residual receipts loans with terms of 30 years. Loan repayments are based on residual receipts generated by the project's rents and other revenues. Although residual receipts payments may result in slow loan repayment, the borrowers must ensure the continuing affordability of the housing units.

According to Ms. Harris, affordable housing developments are often unable to repay their entire City loan by the end of the term, in which case the repayment term may be extended, in order to maintain long-term affordability for very low-income households. In the case of the

Small Sites Program, where the rental income received will be at a higher AMI level than traditional multifamily affordable housing (80 percent of AMI versus 50 percent of AMI, respectively), the Small Sites Program projects are projected to repay a larger portion of their loans within the 30 year term. Still, it is possible that the projects to be funded by the SOMA Community Stabilization Fund would not generate sufficient rental income to pay down the entire loan principal and accrued interest within 30 years, and the repayment term would need to be extended.

According to Ms. Harris, although slow repayment of Small Sites loans may occur, default is very rare. MOHCD conducts annual monitoring of each project's cash flow and each project sponsor's finances to ensure that the sponsor is capable of maintaining the property as permanently affordable housing. When MOHCD identifies a project that is at risk of default, MOHCD works with the project sponsor on a mitigation plan that could include transferring the project to another owner.

\$2,600,003 of the \$3,000,000 Requested Expenditure Has Been Awarded

As noted above, \$399,997 of the requested \$3,000,000 in SoMa Community Stabilization Funds are for an affordable housing project that has not yet been identified. According to Ms. Harris, MOHCD is requesting authorization to assign the \$399,997 to the Small Sites Program before identifying an eligible project in order to give MOHCD the flexibility to act quickly within established Small Sites Program Underwriting Guidelines and SoMa Community Stabilization Fund allowable uses, without further Board of Supervisors approval when a property becomes available for acquisition. However, given that there is usually a 90-day period before loan closing, the Budget and Legislative Analyst recommends that the Board of Supervisors approve \$2,600,003 of the requested \$3,000,000 in SoMa Community Stabilization Fund expenditures for the two identified projects, and not approve \$399,997 in SoMa Community Stabilization Fund expenditures until an additional project has been identified.

RECOMMENDATIONS

1. Amend the proposed resolution to authorize MOHCD to expend \$2,600,003 from the SoMa Community Stabilization Fund instead of the requested \$3,000,000.
2. Approve the proposed resolution as amended.

Mayor's Office of Housing and Community Development
City and County of San Francisco



Edwin M. Lee
Mayor

Olson Lee
Director

TO: Angela Calvillo, Clerk of the Board of Supervisors

FROM: Benjamin McCloskey, Deputy Director Mayor's Office of Housing and Community Development

DATE: October 27, 2015

SUBJECT: Expend Resolution for SOMA Community Stabilization Funds – Small Sites Program

Attached please find the original and 2 copies of each of the following:

- Proposed resolution; original signed by Department, Mayor, Controller
- Expenditure budget

RECEIVED
BOARD OF SUPERVISORS
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2015 DEC -1 PM 2:06

Departmental representative to receive a copy of the adopted resolution:
Name: Benjamin McCloskey

Phone: 701-5575
Interoffice Mail Address: Benjamin.McCloskey@sfgov.org
Certified copy required Yes No

(Note: certified copies have the seal of the City/County affixed and are occasionally required by funding agencies. In most cases ordinary copies without the seal are sufficient).



SMALL SITES PROGRAM UNDERWRITING GUIDELINES

The Small Sites Program (SSP) Underwriting Guidelines were approved by the San Francisco Citywide Affordable Housing Loan Committee on July 18, 2014 and revised by staff due to market conditions on June 1, 2015 and apply to all applications for Small Sites Program financing received. SSP applications will be reviewed in the order received and thoroughly underwritten according to these standards in order to determine the project and project team's eligibility for SSP funds.

I. SITE ELIGIBILITY/SELECTION

A. Building Type

1. 5-25 residential or mixed-use buildings are prioritized; buildings with fewer than 5 residential units will be considered on a case-by-case basis.
2. All residential units must meet the San Francisco Planning Department's definition of "dwelling unit" and fully conform with Planning Code requirements applicable to the site, including zoning, General Code compliance, and any relevant neighborhood plan controls.

B. Site Selection Criteria

Applications will be reviewed in the order received; however, in the instance where two applications are received within 30 days of each other and there are not sufficient SSP funds available to finance both projects, applications will be prioritized according to scoring criteria contained in the SSP Notice of Funding Availability (NOFA) according to the following priority characteristics:

1. Building is at immediate risk for Ellis Act eviction or in the process of an Ellis Act eviction
2. Building is located in a neighborhood with a high level of Ellis Act evictions
3. Existing residents include vulnerable populations: families with minor children, elderly, disabled and catastrophically-ill persons
4. Buildings housing residents with the lowest incomes (assuming other program criteria are met)
5. Buildings which require the lowest amount of subsidy per unit

II. GENERAL CITY FINANCING TERMS

A. Maximum City Subsidy

Maximum City subsidy including acquisition and rehab/permanent financing is \$300,000 per unit.

B. Term

1. Loan Term: 30 years ("Loan Term")
2. Restriction Term:
 - a) Declaration of Restrictions Term: For the life of the project, surviving expiration of the Loan Term and/or loan repayment
 - b) Declaration of Restrictions must be recorded in first position
 - c) All appraisals submitted with SSP applications must show both the fair market value and the value with regard to restrictions. It is expected that once restrictions are in place, all future appraisals and refinances will be based on the restricted value.



C. Loan Interest Rate

3% annual simple interest. Loan repayments shall be applied first to interest and second to principle. However, if, in any given year, an SSP building generates insufficient cash flow to repay all interest due, unpaid interest due for that year shall be forgiven.

D. Repayment

1. Full Loan Repayment: Loan to be repaid in full at conclusion of the Loan Term or upon any transfer of title that results in loss of affordability.
 - a) Cash-out refinances are prohibited, except for the purpose of improving and rehabilitating the building, subject to MOHCD approval.
 - b) MOHCD may extend the term of its loan at a refinance for the purpose of preserving affordability.
 - c) Financing subordinate to the City's loans or lines of credit secured against the property are prohibited.

2. Residual Receipts:
 - a) If replacement reserve balance is less than 1.5 times the original capitalized replacement reserve required in Section IV(B)(3), below: 1/3 of residual receipts may be retained by the project sponsor/owner and the remaining 2/3 must be deposited into the project's replacement reserve account.
 - b) If replacement reserve balance exceeds 1.5 times the original capitalized replacement reserve required in Section IV(B)(3), below: 1/3 of residual receipts may be retained by the project sponsor/owner and the remaining 2/3 must be distributed to MOHCD for debt repayment.

E. Income and Rent Restrictions

1. At Acquisition:
 - a) As an indication of general tenant approval of the proposed building purchase and the tenants' willingness to participate, a minimum of 75% of existing tenants must income certify for the building to be eligible for inclusion in the SSP. Up to 25% may be over income (above 120% AMI) or refuse to certify without rendering the property ineligible. Regardless of whether a unit's occupant(s) complete the income certification process or are over income at acquisition, all units must be restricted for the life of the project (see Section II(C)(2)(b) below).
 - b) Average household income of a minimum of 75% of tenants must not exceed 80% of AMI at the time of acquisition. Project sponsors may include proposed rent levels for existing vacant units in this calculation.
 - c) Existing tenant leases will be upheld at the then-current monthly rent level plus a 2% rent increase if the tenant's rent has not been increased within one year prior to acquisition unless such rent increase causes the household's rent to rise above 50% of its gross income, in which case Section II(E)(2)(e) applies. If the lease is within its initial one-year term or the tenant has experienced a rent increase within one year prior to acquisition, no rent increases will be applied until the expiration of such initial lease term or the one year anniversary for the most recent rent increase. The project sponsor must execute new leases with tenants and institute rent increases in conformance with Section II(E)(2)(c) below.
 - d) If an existing tenant's household income is greater than or equal to 80% of state AMI, therefore rendering the unit ineligible for property tax exemption, and the rent paid by such household is



not adequate to cover the portion of property taxes assessed on the building that are attributable to that unit, then the pro rata share of the property tax assessment may be passed through to the tenant in the form of increased rent. Such rent increase may be phased in over time, but in no event may the property tax rent increase cause any household's rent to exceed 45% of its gross household income.

- e) MOHCD policy for all units is that tenant households be housed in units with a bedroom count that matches household size. Following project rehabilitation, if SSP tenants are over-housed (i.e., residing in a unit with a bedroom count that exceeds the household size), the household's existing living arrangement will be allowed until such time that another appropriately sized unit in the building becomes available, at which time the tenant will be required to move into the appropriately-sized unit. Rent for that unit may decrease to reflect the smaller unit size, as appropriate. Building owners may request a hardship waiver from MOHCD if such a transfer is unduly burdensome to the tenant.

2. Ongoing Affordability:

- a) SSP buildings must achieve an average of 80% AMI rents, over time.
- b) At each vacancy, SSP building owners are required to ensure that the building works toward achieving its 80% AMI average rent by placing a new tenant in the vacant unit at the appropriate rate to bring the average closer to 80% (i.e. if a building's rents at acquisition average at 50% AMI, the next vacancy must be filled with a tenant at a higher rent level to bring up the average for the building). Vacant units may be rented up to a maximum of 120% AMI in order to achieve the required 80% AMI rent average.
- c) Rents must increase annually by the greater of 2% or the change in annual operating expenses, up to a maximum of 3.5%. If, in any given year, a Borrower requires a rent increase greater than 3.5% in order to maintain financial feasibility, Borrower may petition MOHCD for such an increase, which approval shall be subject to the Director's sole discretion and in compliance with MOHCD's loan documents.
- d) If a tenant's household income increases during tenancy to greater than or equal to 80% of AMI, therefore rendering the unit ineligible for property tax exemption, and the rent paid by such household is not adequate to cover the portion of property taxes assessed on the building that are attributable to that unit, then the pro rata share of the property tax assessment may be passed through to the tenant in the form of increased rent. Such rent increase may be phased in over time.
- e) If the owner's application of a rent increase in the manner described in this section results in any individual household's rent rising above 50% of that household's gross annual income (i.e., "severe rent burdening"), the owner may freeze the rent of the severely rent-burdened household for the year, provided that:
 - 1. The owner must demonstrate to the satisfaction of MOHCD that the property maintains short- and long-term financial sustainability in the form of positive cash flow, adequately funded reserves, and other indicators as MOHCD may reasonably request; and,
 - 2. At each annual income recertification, the ability of all households to pay required rent increases will be reassessed, as will the owner's requirement to demonstrate short- and long-term financial sustainability if the owner requests a continued rent freeze for any severely rent-burdened household.



- f) Rents may increase no more than once per year, according to the inflation factor described above, regardless of whether the tenant is on a month-to-month lease.
- g) If rents are increased above the 80% AMI average, all cash flow received as a result of such over payment will be due to MOHCD as loan repayments.

III. FIRST LOAN TERMS

A. Preferred Lenders

All SSP applicants must leverage City debt with a first mortgage. A list of preferred lenders who are familiar with the Small Sites Program is on MOHCD's website; however, applicants are free to select a lender who is not on the preferred lender list if the applicant is able to find better terms elsewhere. Applicants are subject to the underwriting requirements of the senior lender for approval of the first mortgage.

B. Suggested First Loan Terms

Understanding the need for a range of loan terms that are dependent on underwriting standards by outside lenders, MOHCD has established the following suggested loan terms for the SSP. While it is MOHCD's strong preference for SSP applicants to obtain loans with the combination of all terms listed, certain terms may be omitted or refined based on the senior lender's underwriting requirements and based upon whether the project includes commercial space. MOHCD's loan approval is subject to its review of all underlying third-party financing terms and determination that such terms are not in conflict with the terms of MOHCD's loan agreement and ancillary documents.

1. Acquisition loans that automatically convert to permanent with a 15-year minimum term
2. 30-year amortization schedule
3. 1.10 to 1.15 Debt Service Coverage Ratio
4. Nonrecourse to the borrower
5. Low interest rates
6. No more than 1.5% lender loan fees

IV. RESIDENTIAL DEVELOPMENT PROFORMA ASSUMPTIONS

A. Debt Service Coverage Ratio (DSCR)

1. Minimum: 1.10:1
2. Maximum: 1.20:1
3. Calculation Method: DSCR should be calculated after accounting for reserve deposits. DSCR should be calculated by dividing Net Operating Income (NOI), defined as revenue minus expenses minus replacement reserve deposits, by first mortgage payments (NOI/first mortgage payments). The goal in all cases is to maximize the amount of leveraged debt.

B. Reserves

1. Capitalized Operating Reserves: 25% of budgeted 1st full year operating expenses (including hard debt service) in an interest-bearing account.



2. Operating Reserve Deposits: None unless balance drops below 25% of prior year's operating expenses (including hard debt service). Any such required payments would be made from cash flow that remains after all other required payments are made (e.g. hard debt service, other reserve payments, etc.).
3. Capitalized Replacement Reserves: The higher of \$2,000 per unit or the amount necessary to pay replacement costs for the next 10 years, as specified in an approved CNA and taking into account any renovation achieved through the Small Sites Program that cannot be supported by replacement reserve deposits due to inadequate operating income. Replacement reserves must be deposited into an interest-bearing account.
4. Replacement Reserve Deposits: The higher of the amount needed according to an approved 20-year CNA or the amounts listed in the table below as permitted by available cash flow. May be updated every seven (7) years based on a revised CNA acceptable to the City. In addition to the deposits listed below, all property taxes that were included in the project's development budget and later refunded by the City's tax collector and 50% of the balance of unused construction contingency must be deposited into the project's replacement reserve account.

No. of Units	Replacement Reserve Deposits PUPY
<10	400
11-25	350

C. Fees

1. Developer Fee: A flat developer fee will be calculated as the sum of \$75,000 for acquisition and \$10,000 per unit for rehabilitation, if rehabilitation is applicable, up to a maximum of 5% of total development cost. If the project contains less than 5 residential units, the developer fee will be calculated as the sum of \$15,000 per unit for acquisition and \$5,000 per unit for rehabilitation, if rehabilitation is applicable, up to a maximum of 5% of total development cost. If the project's development budget is unable to support the level of developer fee indicated, the project sponsor may request that the remaining fee be deferred over a maximum 10-year period, payable after all other required expenses are paid but before the residual receipts split.
2. Asset Management Fee: Asset management fee to be calculated at \$65 per unit per month with annual growth rate of 3.5%.
3. Property Management Fee: Maximum property management fee to be calculated at \$65 per unit per month or the amount published by the U.S. Department of Housing and Urban Development Management Fee Schedule, as adjusted for specific project characteristics, whichever is greater. The property management fee shall increase at an annual growth rate of 3.5%.

D. Contingencies

1. Construction Contingency



- 15% of construction contract
 - Purpose: Contingency for unforeseen conditions, minor errors and omissions. 50% of any contingency funds remaining after borrower's receipt of a certificate of completion from the San Francisco Building Department may be retained by the sponsor as an incentive fee. The remaining 50% must be deposited into borrower's replacement reserve account for the building, as described in Section IV(B)(4), above.
2. Soft Cost Contingency: 15% of soft costs, excluding developer and administrative fees, construction loan interest, and reserves for projects costing \$5 million or more. Unspent funds allocated to soft costs shall return to MOHCD as excess proceeds.

V. RESIDENTIAL OPERATING PROFORMA ASSUMPTIONS

A. Vacancy Allowance:

- 5% of annual rent income

B. Increases in Gross Income

- 2.5% annually

C. Increases in Operating Expenses

- 3.5% annually

VI. OTHER UNDERWRITING GUIDELINES

A. Architect and Engineering Fees: If the scope of rehab requires architectural drawings (as opposed, e.g., to hiring a design/build contractor), then MOHCD's "Guidelines for Architect and Engineering Basic Services", attached hereto, shall apply. All architectural contracts should be full-service and include all design-related consultants, except for those excluded in MOHCD's Guidelines and specifically design/build consultants. They should also use standard AIA forms (or approved equivalent). Owner addenda are encouraged, including requiring the architect to design to a specified construction budget. Contracts should be signed as early in the process as possible, but no later than the completion of schematic design. Additional services will be allowed if there are significant changes in the A/E scope. Fees for Architecture/Engineering services should follow the schedule set forth in the Guidelines for Architect and Engineering Basic Services (Exhibit A).

B. General Contractor Fees/Price

1. Selection of contractor by RFP: When the developer selects a contractor through a negotiated bid process, the RFP should require competitive cost proposals that specify Overhead and Profit (OHP) percentages and General Conditions (GC) costs as separate line-items. Values for specific trade work, subcontractor work, and all other costs under the purview of the general contractor should be listed separately and exclude OHP and GC mark-ups. The fee is a criterion, but not the sole criterion for selection. Selection process and selection results must be approved by the City with respect to LBE participation, wage requirements and proposed contract price.
2. Overhead and Profit: These costs may not exceed 15% of the Contract Price.
3. General Conditions: These costs must be documented and reasonable given the conditions at the site.



4. **Subcontractor Pricing:** General contractors shall submit for the City's review a schedule of values that lists: 1) all proposed subcontractor pricing, without any general contractor markup; 2) clearly identified general contractor fees, as separate line-items, including overhead, profit, and general conditions; and 3) a final contract price. The City reserves the right to review all bids.
- C. **Project Management Capacity:** Developer's project manager must have experience with at least one comparable, successfully completed project or be assisted by a consultant or other staff person with greater experience and adequate time to commit. When using a consultant, the consultant's resume should demonstrate that the consultant has successfully completed managing all aspects of at least two (2) comparable development projects in the recent past.
- D. **Construction Management:** Developer must identify specific staff or consultant(s) who will provide construction management functions on behalf of the owner, including: permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis.
- E. **Excess Proceeds:** Following issuance by the San Francisco Department of Building inspection of a Notice of Completion or similar document signifying full completion of the MOHCD-approved rehabilitation program, all MOHCD proceeds remaining after payment of all approved rehabilitation expenses shall return to MOHCD.

VII. EXCEPTIONS

MOHCD reserves the right to waive any portion of MOHCD's Small Sites Program Underwriting Guidelines, or to make exceptions on a case-by-case basis, for the purpose of preserving at-risk buildings as permanently affordable housing. Such waivers and/or exceptions shall be granted through the written approval of the Director of MOHCD, in his/her sole discretion, in consultation with the senior lender. Waivers and exceptions will not apply to the senior debt unless approved by the senior lender.

DRAFT MINUTES

South of Market Community Stabilization Fund -- Community Advisory Committee

June 18, 2015
5:30 PM

Meeting Location

1 South Van Ness Avenue
5th Floor
San Francisco, CA 94107
Ph: 415-701-5500

Community Advisory Committee (CAC)

John Elberling
Conny Ford
Allan Manalo
Joel Merchan
Kristian Joy Ongoco, Co-Chair
Tom Temprano, Co-Chair

1. CALL TO ORDER and ROLL CALL

2 min.

CAC members present: John Elberling, Conny Ford, Allan Manalo, Kristian Joy Ongoco
Excused: Tom Temprano
Staff members present: Claudine del Rosario, Vanessa Dandridge, Teresa Yanga

2. DISCUSSION ITEM

2 min.

Agenda review and meeting logistics.

Ms. del Rosario reviewed the agenda and provided meeting logistics.

3. COMMUNITY UPDATE

5 min.

SOMCAN staff Angelica Cabande informed the group of an upcoming community meeting to discuss tenant rights. It will be presented in both English and Tagalog.

Women's Audio Mission will be holding an event at Monarch SF on June 29th.

There will be discussions regarding the proposals for Eagle Plaza and Clementina at Planning, 6pm on Monday_____.

Several residents spoke to the CAC about their experience of receiving multiple eviction notices over the last several years and requested that the CAC provide funding to support them staying in their homes.

4. STAFF UPDATE

Grantee report backs will take place over the next several months. CBOs funded by the SoMa Stabilization Fund in the last round are invited to share their outcomes and lessons learned with the CAC.

Ms. del Rosario provided a fiscal update. The balance of regular SoMa Community Stabilization fees, including the encumbrance of the FY15-17 request is projected to be \$6.9 million. Another \$17.5 million is projected to be deposited into the fund over the next three years. Ms. del Rosario urged the CAC to come up with a spending plan. No funding decision will need to be made for several months and the CAC should be freed up to do their planning.

5. ACTION ITEM

Discussion and potential action to approve an allocation of SoMa Community Stabilization funds to support the Small Sites Program (SSP) for projects in the South of Market.

At the last regular CAC meeting, MOHCD staff presented the process for SoMa projects intending to apply for funding under the Small Sites Program (SSP). Ms. Ongoco suggested that the CAC allocate \$3 million in SoMa funds to the Small Sites Program to allow the program to respond to opportunity sites in the neighborhood more quickly. Staff reminded the CAC members that the SSP would be oversubscribed if all projects in the pipeline were qualified. There are currently two projects in the South of Market that are being considered and underwritten by the SSP staff.

John Elberling agreed that this is a necessary step to allow the SSP to respond to the needs in the community and to stabilize the households that are currently in vulnerable housing. He said that MOHCD staff will determine that the projects are suitable and meet the requirements of the program which are in alignment with the goals and strategies of the Fund. Ms. del Rosario added that projects that are underwritten by staff and deemed qualified will be brought before the CAC for discussion.

Conny Ford motioned to recommend that \$3 million in SoMa funds be placed in the SSP pool for projects in the South of Market. Allam Manalo seconded. The motion was approved unanimously.

6. DISCUSSION ITEM

Discussion regarding the release of a rolling capital and infrastructure RFP for projects in the South of Market.

Ms. del Rosario presented draft Capital RFP parameters and eligibility requirements. She indicated that applications would be received on a rolling basis, to provide flexibility for capital project timelines. Mr. Elberling agreed that this was the best way to move forward with these type of projects. Ms. del Rosario projected that the RFP would be released late summer/early autumn.

7. PUBLIC COMMENT

Several residents and SoMa CBO representatives thanked the CAC for supporting the need for affordable housing in the neighborhood.

8. ADJOURN

The meeting was adjourned at 7:15pm.

EXPLANATORY DOCUMENTS:

Copies of Explanatory Documents listed in this agenda, and other related materials received by the SOMA C.S.F.C.A.C. after the posting of the agenda, are available for public inspection and/or copying at One South Van Ness, 5th Floor. Please call Claudine del Rosario at (415) 749-2519 to make arrangements for pick-up or review.

PUBLIC COMMENT:

Public Comment will be taken before or during the Committee's consideration of each agenda item. Speakers may address the Committee for up to three minutes. During General Public Comment, members of the public may address the Committee on matters that are within the Committee's jurisdiction and are not on today's agenda.

KNOW YOUR RIGHTS UNDER THE SUNSHINE ORDINANCE:

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For more information on your rights under the Sunshine Ordinance or to report a violation of the ordinance, contact Adele Destro by mail to Interim Administrator, Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102-4689; by phone at (415) 554-7854; or by email at sotf@sfgov.org.

Citizens interested in obtaining a free copy of the Sunshine Ordinance can request a copy from Ms. Destro or by printing Chapter 67 of the San Francisco Administrative Code on the Internet, <http://www.sfgov.org/sunshine/>

DISABILITY ACCESS:

One South Van Ness is wheelchair accessible. The closest accessible BART Station is Civic Center, three blocks from City Hall. Accessible MUNI lines serving this location are: #47 Van Ness, and the #71 Haight/Noriega and the F Line to Market and Van Ness and the Metro stations at Van Ness and Market and at Civic Center. For more information about MUNI accessible services call (415) 923-6142.

There is accessible parking in the vicinity of City Hall at Civic Center Plaza and adjacent to Davies Hall and the War Memorial Complex.

The following services are available when requests are made by 12:00 p.m. of the Friday before the Committee meeting. Providing at least 48 hours' notice will help to ensure availability. For American Sign Language interpreters, use of a reader during a meeting, sound enhancement system, or for a large print copy of agenda or minutes in alternative formats, contact Claudine del Rosario at (415) 701-5614. In order to accommodate persons with severe allergies,

environmental illness, multiple chemical sensitivity or related disabilities, attendees at public meetings are reminded that other attendees may be sensitive to various chemical based products.

**CELL PHONES, PAGERS AND SIMILAR SOUND-PRODUCING ELECTROINC
DEVICES**

The ringing of and use of cell phones, pagers and similar sound-producing electronic devices are prohibited at this meeting. Please be advised that the Chair may order the removal from the meeting room of any person(s) responsible for the ringing or use of a cell phone, pager, or other similar sound-producing electronic devices.

Committee staff may be reached at (415) 701-5580.

NOTICE OF FUNDING AVAILABILITY

Acquisition and Rehabilitation Financing for Small Sites Program Properties

*Issued by the Mayor's Office of Housing and Community Development
of the City and County of San Francisco*

Currently Available Funds: \$3,000,000¹

A. Introduction

The Small Sites Program (SSP) is an acquisition and rehabilitation loan program for multi-family rental buildings of 5 to 25 units. The program has been created to protect and establish long-term affordable housing in smaller properties throughout San Francisco that are particularly vulnerable to market pressure resulting in property sales, increased evictions and rising tenant rents. In the face of this increasing pressure on tenants, the City developed the Small Sites Program in order to support non-profit and for-profit entities to successfully remove these sites from the market and restrict them for the long-term. The overarching program goals are to:

- 1) Protect and stabilize housing for current tenants at a range of income levels, so long as at least 75% of the building's tenants have an average area median income (AMI) at or below 80%;
- 2) Remove SSP properties from the speculative market while increasing the supply of permanently affordable rental housing by restricting SSP properties to serve households with average incomes at 80% AMI;
- 3) Create financially stable, self-sustaining housing that serves multiple generations of low to moderate income households by ensuring that SSP properties operate with sufficient cash flow to adequately care for the property and repay debt obligations, including SSP loans, which the City will reinvest into future SSP properties.

B. Project Eligibility and Prioritization

The Small Sites Program is available to residential buildings with 5-25 conforming "dwelling units", as defined by the SF Planning Department, throughout San Francisco. Mixed-use properties, group housing, and nonconforming units will not be considered.

The SSP funds available through this NOFA are available on a first-come, first-serve basis to sites that meet the threshold eligibility criteria, as defined in Section H, below, and the attached Small Sites Program Underwriting Guidelines. If there is more than one project competing at

¹ The City's implementation of SSP will consist of multiple funding rounds, with timing subject to the availability of funds.

any given time, MOHCD will give additional priority points to proposals with the following characteristics:

- 1) Building is at immediate risk for Ellis Act eviction or in the process of an Ellis Act eviction
- 2) Building is located in a neighborhood with a high level of Ellis Act evictions, as listed below per 2009-2013 Rent Board data:
 - a. Inner Mission
 - b. Russian Hill/Polk Gulch
 - c. Castro/Eureka Valley
 - d. Outer Richmond
 - e. Inner Richmond
 - f. North Beach
 - g. Haight-Ashbury/Western Addition tied with Twin Peaks/Glen Park
 - h. Sunset
 - i. Ingleside/Excelsior
 - j. SOMA
- 3) Existing tenants include vulnerable populations: families with minor children, elderly, disabled, and catastrophically-ill persons
- 4) Building houses tenants with the lowest incomes
- 5) Building requires the lowest amount of subsidy per unit

C. Target Population: Low- and Moderate-income Tenants

The Small Sites Program is a mixed-income affordable rental program, serving households at a variety of income levels up to a maximum of 120% of AMI while maintaining a building-wide average of 80% AMI. In certain cases, as explained below, households earning more than 120% AMI may be included in the program. There is no minimum income threshold, provided that a tenant can afford to pay the rent applied to his or her unit.

- 1) At acquisition, existing tenant incomes are expected to range from very low-income (at or below 50% of AMI) to above-moderate income (at or above 120% of AMI). In order to qualify for the program, a minimum of 75% of existing tenants must income certify, and, among those 75%, the average household income for the building must not exceed 80% of AMI. Up to 25% may be over-income (above 120% AMI) or refuse to certify without rendering the property ineligible. Regardless of whether a unit's occupant(s) complete the income certification process or are over-income at acquisition, all units will be restricted for the life of the project.
- 2) Upon vacancy, SSP owners are required to ensure that SSP buildings achieve an 80% AMI average rent. This is accomplished at unit turnover by placing incoming tenants at rent levels that are as high or low as necessary to bring the building as close as is mathematically possible to an 80% AMI average. Vacant units may be rented up to a maximum of 120% AMI in order to achieve the required 80% AMI rent average.

D. Eligible Uses of Funds

Funding that is awarded through this NOFA may be used for acquisition and acquisition take-out, including pre-acquisition due diligence costs, as well as for rehabilitation. Specific eligible uses include:

- property acquisition and holding costs, including take-out of financing sources that have less favorable terms
- due diligence reports, including environmental assessments and property inspections,
- appraisals
- legal costs
- architectural and engineering expenses, as applicable
- relocation costs, as applicable
- project management or developer fees
- rehabilitation costs
- all other soft costs associated with acquisition or rehabilitation of the site

Ineligible Use of Funds

Soft costs associated with legalizing any non-conforming uses.

E. Loan Terms

All SSP applicants must leverage City debt with a first mortgage. A list of preferred lenders who are familiar with the Small Sites Program is on MOHCD's website; however, applicants are free to select a lender who is not on the preferred lender list if the applicant is able to find better terms elsewhere. Understanding the need for a range of loan terms that are dependent on a myriad of underwriting standards by outside lenders, MOHCD has established the following preferred loan terms for the SSP and will be evaluating each SSP applicant's first mortgage for similar terms:

- acquisition loans that automatically convert to permanent with a 15-year minimum term
- 30-year amortization schedule
- 1.10 to 1.15 debt service coverage ratio
- nonrecourse to the borrower
- low interest rates
- no more than 1.5% lender fees

The SSP offers a blended interest rate well below market by combining a first mortgage bearing a competitive interest rate with City funds bearing a very low interest rate. This strategy ensures that SSP properties can afford to repay their loans from cash flow while maintaining below market rate rents for their current and future tenants. Additionally, the City's role as a subordinate (gap) lender allows for minor rehabilitation of the acquired sites and, consequently, a higher loan-to-value ratio (LTV) than would be available in its absence. The following is a synopsis of key SSP loan terms:

- \$250,000 maximum City subsidy per unit
- 3% annual simple interest
- 30-year term
- subordinate to the first lender
- repayment due to the extent that residual cash flow is available and at expiration of the loan term
- rents restricted at an average of 80% AMI for the life of the project, regardless of City loan payoff or expiration of the loan term
- restrictions must be recorded in first position on title

Please review the attached Small Sites Program Underwriting Guidelines for full loan terms and program policies.

F. Financing Plan and Affordability Restrictions

Applicants should incorporate the loan terms outlined above into their financing plans and submit a detailed Sources and Uses budget that includes construction cost estimates identified in a current capital needs assessment or similar document. Construction cost estimates should exclude escalation assumptions. The Sources and Uses budget must adhere to the SSP Underwriting Guidelines. Applicants must use MOHCD's form of Sources and Uses, as provided with this NOFA.

Applicants must submit two separate financing scenarios with their application, as follows:

- 1) As Currently Rented - Submit a 1-Year Operating Budget and 20-Year Cash Flow based on the current rents being charged at the property (and all other current building income, as applicable) and expected operating expenses. Expected operating expenses and cash flow assumptions must adhere to the SSP Underwriting Guidelines.
- 2) As Restricted - Submit a 1-Year Operating Budget and 20-Year Cash Flow based on the restricted rents projected for the property and expected operating expenses. For the purpose of modeling, restricted rents should be set at 80% AMI and escalate by 2.5% per year. Expected operating expenses and cash flow assumptions must adhere to the SSP Underwriting Guidelines.

MOHCD reserves the right to fund all or a portion of the acquisition and rehabilitation of the property and/or to require the applicant to apply for another capital source of funds. All proposed financing will be subject to the attached Small Sites Program Underwriting Guidelines. Applicants must use MOHCD's form of operating budget and 20-year cash flow, as provided with this NOFA.

G. Rent Roll

Applicants must submit a rent roll reflecting the current unit mix, rents charged, any rent subsidies received, tenant household composition and tenant income level. As explained in the

SSP Underwriting Guidelines and Section C, above, no less than 75% of the building's current tenants must complete income certification forms and meet the average 80% income requirement of the program. Tenant information will be confirmed a second time at the end of construction and on an annual basis, thereafter, to ensure ongoing compliance with the program. Applicants must use MOHCD's form of rent roll, as provided with this NOFA.

H. Threshold Eligibility Criteria

Only applicants who meet all of the following criteria will be considered eligible for funding under this NOFA.

Eligible Applicants

- 1) Must be a duly formed non-profit or for-profit corporation.
- 2) May not have initiated an Ellis Act eviction in the last 3 years. Applicants must complete the attached SSP Landlord Background Check Form to be verified by the San Francisco Rent Board.
- 3) Must demonstrate the technical capacity and experience to successfully acquire, own, rehabilitate and manage affordable housing, either through staff, contracted services, or in collaboration with other organizations, including:
 - a. Acquisition Experience: The applicant must have acquired at least one "Qualifying Project" in the past 5 years (subject to satisfactory performance review by an appropriate public finance agency). A "Qualifying Project" is defined as a rental housing property that includes at least 5 units of affordable housing affordable to low- and moderate-income households.
 - b. Property Management Experience: The applicant or the applicant's management agent must have managed at least one Qualifying Project for at least 24 months (subject to satisfactory performance review by any City agency from which the Project received funding).
 - c. Project Management Experience: The applicant's project manager must have experience with at least one Qualifying Project or be assisted by a consultant or other staff person with greater experience and the demonstrated capacity to oversee the project. When using a consultant, the consultant's resume should demonstrate that the consultant has successfully managed all aspects of at least two (2) comparable development projects in the recent past.
 - d. Construction Management Experience: Applicant must identify specific staff or consultant(s) who will provide construction management functions on behalf of the owner, including: permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis. The applicant's construction manager must have experience with at

least one Qualifying Project.

- 4) Must demonstrate site control with appropriate documentation.

Eligible Projects

- 1) 5-25 residential unit buildings
- 2) Buildings with 100% of the units meeting the San Francisco Planning Department's definition of "dwelling unit" and fully conform with Planning Code requirements applicable to the site, including zoning, General Code compliance, and any relevant neighborhood plan controls.
- 3) Buildings with purchase prices that are reasonable in comparison to other sites in the neighborhood, as documented in a City-approved appraisal
- 4) Buildings that can demonstrate positive cash flow under current rents for a minimum ten-year period and positive cash flow for a minimum 20-year period with projected, restricted rents, per Section F(1) and F(2), above.

Note:

Shortly after application, Applicants must indicate general tenant approval of the proposed building purchase and the tenants' willingness to participate by providing income certifications for a minimum of 75% of existing tenants. The average income of participating households must not exceed 80% of AMI, as described in Section G, above. The City will not move forward with the application processing without this documentation.

Ineligible Projects

- 1) Buildings with commercial space/mixed uses
- 2) Group housing with shared cooking and/or restroom facilities
- 3) Master leased hotels

I. Evaluation Criteria and Scoring Summary

All applications that meet the Threshold Eligibility Criteria above will be scored and ranked according to the following scoring criteria (see "Small Sites NOFA Scoring Criteria" attachment for details):

Category	Potential Points
Acquisition Experience exceeding threshold requirement	15
Property Management Experience exceeding threshold requirement	15
Project Management Experience exceeding threshold requirement	15
Construction Management Experience exceeding threshold requirement	15
Building is at immediate risk for Ellis Act eviction or in the process of an	8

Ellis Act eviction	
Building is located in a neighborhood with a high level of Ellis Act evictions	8
Existing tenants include vulnerable populations: families with minor children, elderly, disabled, and catastrophically-ill persons	8
Building houses tenants with the lowest incomes	8
Building requires the lowest amount of subsidy per unit	8
TOTAL POSSIBLE POINTS	100

J. Funding Requirements and Guidelines

Funding Terms

Funds will be provided as a residual receipts loan. Rehabilitation/permanent loans will bear a 3% simple interest rate. For all loans, however, in the event of uncorrected default under the loan agreement, interest shall be charged at the minimum rate of 10% per year from the date of the loan agreement and shall become immediately due and payable.

Equal Employment Opportunities

Project sponsors selected under this NOFA will be required to comply with local procurement requirements, including the provision of equal employment opportunities for disadvantaged business consultants, architects, contractors, and other potential development team members to participate in projects funded under this NOFA. To ensure that equal opportunity plans are consistent with local procurement requirements, applicants should meet with MOHCD and San Francisco Contract Monitoring Division staff prior to hiring their development team to develop a plan for such compliance.

Environmental Review

Depending on conditions at the site and on the rehab scope, proposed SSP projects may be subject to review under the California Environmental Quality Act (CEQA) and the National Historic Preservation Act (NHPA) and specifically the Section 106 historical resources preservation review. Depending on the location of the proposed project, review by the Department of City Planning may also be required. Applicants to this NOFA must not undertake activities, including acquisition, which would have an adverse environmental impact or limit the choice of reasonable alternatives between the time of application submittal and completion of the CEQA/NHPA/Section 106 review process, if applicable.

Accessibility Requirements

Project sponsors may be responsible for meeting applicable accessibility standards related to publicly-funded multifamily housing development under Section 504 of the Rehabilitation Act of 1973, the Architectural Barriers Act, the Americans with Disabilities Act, and certain statutes and regulations of the City and County of San Francisco. Applicants should strive to make 5% of all rehabilitated units accessible in conformance with Section 504, and provide an additional 2% of units for the hearing and/or vision impaired. Applicants should submit accessibility details with their proposed rehabilitation scopes of work, including any requests for hardship waivers.

Relocation Requirements

If the proposed project intends to apply for rehabilitation funds from MOHCD, applicants may be subject to the provisions of state relocation law and/or MOHCD-approved relocation requirements, if the scope of the project will include rehabilitation that requires tenants to temporarily vacate their units while work is being completed. Applicants should be prepared to notify any existing residents of the plans to rehabilitate the site and that public funds are being sought for this purpose, if such notice has not already been given. No permanent displacement should occur as a result of the rehabilitation performed under this NOFA.

Sustainable Design

The Mayor's Office of Housing and Community Development seeks to maximize the overall sustainability of financed projects to the extent possible through the integrated use of "green" building elements. Programmatic goals for projects should focus on durability, energy efficiency, indoor air quality and recycling.

K. Application Process

Application Forms and Deadline

Application forms will be provided by email upon request to ruby.harris@sfgov.org or by visiting the City's website at <http://www.sfmohcd.org>.

The SSP application packet includes the following materials:

- 1) SSP Application – Word Document with applicable supporting documentation
- 2) SSP Application – Excel Spreadsheet with all tabs complete
- 3) SSP Operating Budget and 20-Year Cash Flow – Excel Spreadsheet must be completed twice, once with current rents and once with restricted rents
- 4) Landlord Background Check Form – Word Document
- 5) SSP Income Certification Form – Word Document to be completed for at least 75% of current tenants

A complete application package must be received in order to be assigned to a MOHCD project manager for review. Additional materials may be required, as appropriate for the site and requested by MOHCD staff.

MOHCD requires that applications be submitted both by email and in hard-copy (signed by an authorized representative of the applicant). Please submit two (2) hard copies of your application and one (1) electronic copy. Applications will be accepted at any time following publication of this NOFA on an "over-the-counter" basis until the earlier of the commitment of all funds under this NOFA or June 30, 2015.

If the SSP application includes property acquisition, the SSP application must be submitted no later than the 5th day of escrow in order to allow time for thorough underwriting and loan approval prior to the expiration of the applicant's finance contingency. Escrow periods may not

be shorter than 90 days. Finance and inspection contingency periods may not be shorter than 60 days.

Application Review

Applications will be reviewed in the order in which they are received for completeness and eligibility. If more than one application is received concurrently, applications will be ranked internally according to the scoring criteria described in Section I and in the attached Small Sites NOFA Scoring Criteria. Eligible application(s) will then be reviewed for compliance with relevant City policies and current Small Sites Program Underwriting Guidelines for overall feasibility, including but not limited to the following issues:

- 1) Financial Feasibility - The project must be financially feasible with both current rents and restricted rents, including realistic development and operating budget projections that conform to industry standards. There should be a reasonable likelihood that all identified funding sources will be secured in a timely manner.
- 2) Cost - Cost per unit and per square foot (gross square footage of building space) will be examined relative to comparable projects' costs. City subsidy per unit may not exceed \$250,000.
- 3) Leveraging - The project's ability to demonstrate other sources of funding.
- 4) Displacement and Relocation - Projects may not include displacement of residential tenants. If temporary relocation of residents is anticipated, the sponsor must provide a preliminary relocation plan and budget.

Once compliance has been determined, the selected project(s) will be announced by the MOHCD Director of Housing Development.

L. Other Requirements

Before executing an agreement and disbursing any funds to a successful applicant for funding under this NOFA, the City will require, among other requirements, the following:

- 1) An opinion by the applicant's legal counsel, satisfactory to the City's legal counsel, that the applicant and borrowing entity is duly formed, validly existing, in good standing under the laws of the State of California, has the power and authority to enter into an Agreement with the City, and shall be bound by the terms of the Agreement when executed and delivered, and that addresses such other matters as the City may reasonably request.
- 2) A copy of appropriate insurance policies naming the City as co-insured.
- 3) Project sponsors will be required to comply with all requirements applicable to entities contracting with the City, including, but not limited to insurance coverage, business

relationships, and domestic partners' benefits.

- 4) Audited or financially reviewed financial statements for the entity's last three fiscal years.
- 5) If the applicant is not an experienced developer, an executed development services contract with proposed development partner or development consultant.

For questions concerning this NOFA, please call Ruby Harris, Project Manager (415-701-5517; ruby.harris@sfgov.org) or Teresa Yanga, Director of Housing Development (415-701-5515; teresa.yanga@sfgov.org) at the Mayor's Office of Housing and Community Development.

BACKGROUND & STRATEGIC PLAN

The SoMa Community Stabilization Fund

In August 2005 the Rincon Hill Area Plan was approved, effectively rezoning the area (generally bounded by Folsom Street to the north, the Embarcadero to the east, Bryant Street and the north side of the Bay Bridge to the south, and Essex Street to the west) for residential development. The San Francisco Board of Supervisors approved an amendment to the Planning Code (Ordinance 217-05), establishing the SoMa Community Stabilization Fund (the Fund). This legislation imposes a SoMa community stabilization impact fee on residential development in the Rincon Hill Area Plan to provide community stabilization benefits in SOMA including affordable housing, economic development and community cohesion. In addition, approximately \$6 million of the Rincon Hill Community Improvements Fund (\$11 per square foot), will be transferred to the Fund.

In concert with Ordinance 217-05, monies deposited in the Fund shall be used to address the impacts of destabilization on residents and businesses in SoMa including assistance for: affordable housing and community asset building, small business rental assistance, development of new affordable homes for rental units for low income households, rental subsidies for low income households, down payment assistance for home ownership for low income households, eviction prevention, employment development and capacity building for SoMa residents, job growth and job placement, small business assistance, leadership development, community cohesion, civic participation, and community based programs and economic development.

Mayor's Office of Housing and the Community Advisory Committee

The Board of Supervisors approved Resolution 162-06, requiring the Mayor's Office of Community Development (MOCD), now the Mayor's Office of Housing (MOH) to administer the Fund. The Ordinance also stipulates that there should be a SoMa Community Stabilization Fund Community Advisory Committee (the Committee), composed of seven members of the SoMa community, to advise MOH and the Board of Supervisors on the administration and expenditure of the Fund.

Mission and Vision

The mission of the SOMA Community Stabilization Fund Community Advisory Committee is to stabilize the community and promote equity through funding recommendations and priorities that mitigate the impact of development.

Our vision is that populations most vulnerable to displacement in SOMA (individuals, families, businesses that serve and employ them, nonprofit organizations, community arts, and educational institutions) are able to live, work and prosper in a neighborhood that is safe and culturally and economically diverse.

- All South of Market Neighborhood Residents have access to information and can be involved in the decisions that affect their lives in the South of Market Community and beyond.
- All its residents, low-wage workers and small community- serving businesses can contribute to and benefit from the South of Market Community.
- Mutual respect and support is practiced by all in the South of Market Communities

Conditions and Causes

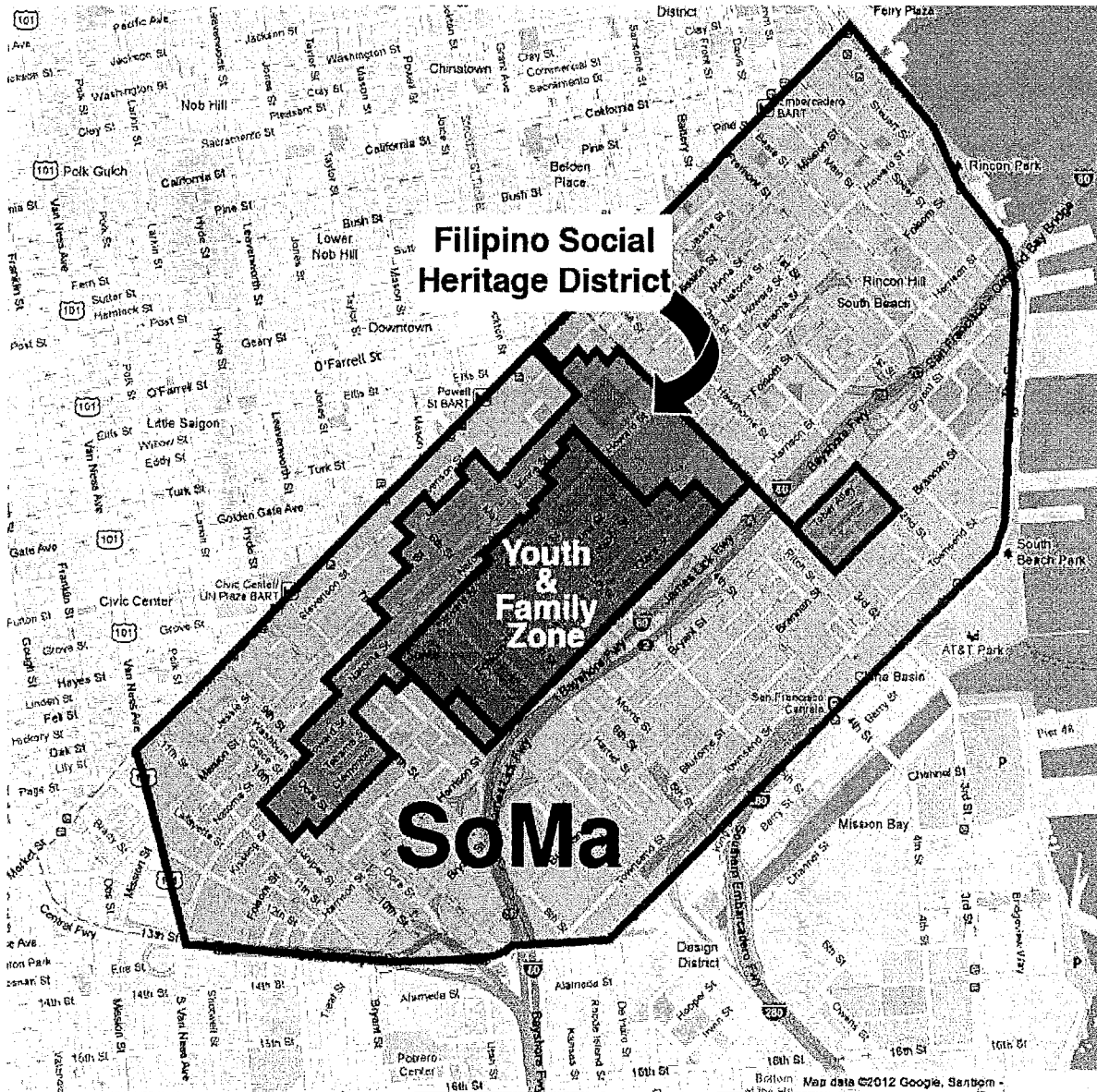
- The impact and aftermath of skyrocketing housing costs in the South of Market Community, exposed longstanding inequities and continues to destabilize vulnerable families and workers. Over the last decade the SOMA community has had and is expected to continue to have highest rate of real estate development in the City of San Francisco during the current decade.
- The South of Market Stabilization Fund is an important tool designed to focus on and support economic stability and choice for vulnerable community members.
- At core, the fund's long-term investments will address systemic inequity by helping vulnerable people have voice and input into policy decision-making and practice. These community voices will impact legislative and administrative policy with a particular focus on housing and income generation.
- The South of Market Community is a gateway in San Francisco for newcomers to the City of San Francisco as well as the United States. It is steeped in a strong cultural history and thriving culture expression. Significant community strength and connectedness can grow from culture.

Strategies

- Grant making to organizations with a track record of success and/or a credible intent to promote equity, cultivate stability and support resident-led housing choice as well as strengthen the pathways to income growth
- Positioning the Fund and its Community Advisory Committee as an influential leader among local entities that provide resources and shapes public policy (local funders, business leaders, community college system, etc.)
- Promote infrastructure/forum and coordination among nonprofit organizational leaders.

Priority Population and Geography

The Fund prioritizes small community serving businesses and low wage residents, including youth and immigrants. While projects serving the entire SoMa area are eligible, the Fund prioritizes projects serving the overlapping impacted areas that include the Children and Families Zone as well as the Pilipino Social Heritage District.



Investment Objectives

The Fund's investments are directed toward the following four areas:

- Housing – Increase access to perpetually affordable housing opportunities for existing residents of SoMa by investing in:
 - resident engagement and leadership development
 - services to provide information and preparation to successfully compete for affordable units
 - Invest in acquisition, rehabilitation and/or development of land and property (Leveraging of funds required)
- Jobs and Income – Support economic and workforce development for low income residents and community serving businesses by investing in:
 - employer cultivation
 - job preparation
 - income support through micro business
 - asset development
 - mentoring, leadership development and financial literacy programs for youth and families
- Community Cohesion and Neighborhood Communication – Strengthen community networks and infrastructure to build neighborhood unity, self-determination and equity in SoMa; Preserve the social heritage of the neighborhood by investing in:
 - local nonprofit community infrastructure development
 - neighborhood culture and arts that preserve existing neighborhood social heritage of the neighborhood
 - fostering resident connections across culture and income
- Physical Infrastructure - Improve the infrastructure and physical environment of the neighborhood by invest in:
 - Rehabilitation, acquisition and/or development of community facilities
 - improving public spaces and outdoor facilities to promote cohesion among diverse groups in the neighborhood

Performance Measures

- Jobs and community economic development strategy and CAC monitoring system in place
- # of housing units leveraged (developed as well as accessed by priority community members)
- # of small business expansions and stabilizations
- # of public policy engagements that produce positive results consistent with the plan
- Community-led grantee infrastructure to promote collective policy work
- \$ the Fund is able to grant directly and/or influence other grantors to contribute

Indicators of Success

- South of Market priority stakeholders, vulnerable residents, low-wage workers and small businesses are able to **access information to improve their long-term financial condition.**
- Organizations that seek community stabilization and economic well being for community members will **have connected, (organization to organization) and developed an infrastructure** with the information sharing and resident leadership that is **recognized as a driver of positive change** by local government and key decision-makers.

- Current residents are prepared to **take advantage of housing opportunities** within the South of Market Community, if desired.
- **Policy impacts** of constituents seeking community stabilization and economic well-being consider development policy as well as local family and community policy
- **Regional and local funders** will support organizations promoting community stabilization as the indicators described above

Print Form

Introduction Form

By a Member of the Board of Supervisors or the Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [] inquires"
- 5. City Attorney request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Question(s) submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

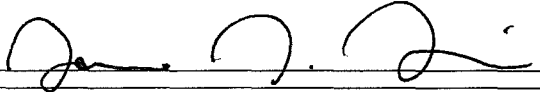
Supervisor Jane Kim

Subject:

Resolution authorizing the Mayor's Office of Housing and Community Development to expend SOMA Community Stabilization Fund dollars in the amount of \$3,000,000.

The text is listed below or attached:

[]

Signature of Sponsoring Supervisor: 

For Clerk's Use Only:

