

**Items 5 and 6
Files 10-0133 and 10-0206**

**Department:
Real Estate Division (RED)**

EXECUTIVE SUMMARY

Legislative Objectives

- File 10-0133: Resolution approving an approximately ten-year loan agreement between the City and the Community Center Project of San Francisco, Inc (CCP), a nonprofit organization, in order to establish a “mortgage payment reserve fund”, such that if CCP does not make payments on their existing mortgage with First Republic Bank, First Republic Bank will withdraw funds from the “mortgage payment reserve fund” for the necessary payments.
- File 10-0206: Ordinance appropriating \$157,500 from the City’s General Fund Reserve to the Real Estate Division to establish a “mortgage payment reserve fund” for the CCP.

Fiscal Impact

- Creation of the “mortgage payment reserve fund” would (a) require the proposed initial appropriation of \$157,500 from the General Fund Reserve, and (b) potentially require additional General Fund appropriations of up to \$866,250 in order to replenish the “mortgage payment reserve fund”, for a total potential cost to the City of up to \$1,023,750. All “mortgage payment reserve fund” appropriations would be subject to Board of Supervisors approval.
- Loan repayments to be made by the CCP back to the City would occur over five years from January 2015 through December 2020, at an approximate one percent annual interest rate.

Key Points

- The CCP, a nonprofit organization, operates the San Francisco Lesbian, Gay, Bisexual, and Transgender (LGBT) Community Center at 1800 Market Street. Due to current economic conditions, CCP is unable to make its required mortgage payments to First Republic Bank on the building. First Republic Bank has agreed to restructure CCP’s existing \$3,200,000 mortgage, if the City authorizes the establishment of a “mortgage payment reserve fund” and if the Board of Supervisors approves the requested initial loan amount of \$157,500.
- This initial loan of \$157,500, secured by the LGBT Community Center building, would create a “mortgage payment reserve fund” equal to the restructured loan mortgage payments which CCP owes First Republic Bank in FY 2009-2010. If CCP does not make their required monthly mortgage payments under the restructured loan terms, First Republic Bank would withdraw funds from the “mortgage payment reserve fund” equal to the amount owed by CCP. At the end of each fiscal year, the Real Estate Division will request additional General Fund monies to replenish the “mortgage payment reserve fund” for the next fiscal year.

Recommendation

- Approval of the proposed resolution and ordinance are policy matters for the Board of Supervisors.

BACKGROUND

The Community Center Project of San Francisco, Inc (CCP), a nonprofit organization, completed construction of the San Francisco Lesbian, Gay, Bisexual, and Transgender (LGBT) Community Center building, located at 1800 Market Street at Octavia Boulevard, in March of 2002. According to Mr. John Updike, Assistant Director of Real Estate, the total construction cost of the LGBT Community Center was \$12,339,572, and included (a) \$5,766,150 of General Fund revenues from the City of San Francisco, (b) \$2,423,000 in State and Federal grants, and (c) \$4,150,422 in private donations.

In December of 2007, CCP consolidated its existing debt into a single commercial ten-year mortgage with First Republic Bank, extending through January 1, 2018. This new commercial mortgage was secured by CCP's LGBT Community Center building, located at 1800 Market Street. The mortgage currently has a principal balance of \$3,149,941, at a fixed interest rate of 6.25 percent for five years, followed by an adjustable interest rate based on the London Interbank Offered Rate (LIBOR) plus 2.0 percent. The current payment structure of this loan does not fully amortize the current principal mortgage balance of \$3,149,941, such that after the ten-year term of the loan, CCP would have to either refinance the remaining principal balance or repay the loan in full.

According to Mr. Updike, CCP has experienced significant reductions in private donations as a result of current economic conditions, such that CCP is not able to make their required monthly mortgage payments of \$19,834 (\$238,008 annually) under the current commercial mortgage terms. As a result, CCP requested First Republic Bank to restructure the terms of their loan, such that CCP would be able to make their monthly mortgage payments. According to Mr. Updike, First Republic is willing to restructure the terms of their loan to CCP (and to retroactively apply such term modifications back to July 1, 2009) as shown in Table 1 below, if the City guarantees CCP's debt service payments to First Republic Bank by creating the proposed City funded "mortgage payment reserve fund", discussed in more detail below

Table 1: Current and Restructured Terms for the Loan Between CCP and First Republic Bank

	Existing Loan Structure ¹	Restructured Loan
Loan Termination Date	December 31, 2017	June 30, 2014
Interest Rate	6.25% fixed through 2012, followed by a variable interest rate of at least 6.25%.	Fixed rate of 5.0%
Debt Service Payments²		
FY 2009-2010	\$238,008	\$157,500
FY 2010-2011	238,008	157,500
FY 2011-2012	238,008	236,250
FY 2012-2013	238,008	236,250
FY 2013-2014	238,008	236,250
FY 2014-2015	238,008	0
FY 2015-2016	238,008	0
FY 2016-2017	238,008	0
Total Payments	\$1,904,064	\$1,023,750

As noted above, the scheduled payments on both the existing and restructured loans do not fully amortize the current principal mortgage balance of \$3,149,941. As a result, according to Mr. Updike, under both the existing terms and the restructured terms of the First Republic Bank loans, at the end of the loan period (either on December 31, 2017 under the existing loan terms or June 30, 2014 under the restructured loan terms), CCP would have a remaining principal balance of an estimated \$2,913,691³. Such a balance would have to be either (a) refinanced, or (b) paid in full. Mr. Updike stated that CCP intends to either (a) refinance the remaining principal balance at the termination of the restructured loan with First Republic Bank, (b) initiate a capital campaign to raise sufficient donations to either payoff or reduce the amount of the remaining principal balance, or (c) seek debt relief from the City and County of San Francisco, the State, or Federal sources.

Mr. Updike stated that the City is not currently considering providing debt relief to the CCP for such a remaining restructured loan balance.

RED is now requesting to create a “mortgage payment reserve fund”, funded by annual deposits of General Fund monies loaned to CCP, subject to Board of Supervisors appropriation approval, from which First Republic Bank could withdraw at any time an amount equal to the difference

¹ For the purposes of this report, mortgage payments for the variable interest rate periods under the current loan structure, from FY 2012-2013 through the end of the loan in FY 2016-2017, are estimated to be equal to the payments due during the fixed rate interest period.

² Debt service payments are made monthly. Figures in Table 1 show the total monthly payments to be made in each fiscal year.

³ Mr. Updike noted because the scheduled payments are mostly interest payments, the principal loan balance would not be significantly reduced with additional payments.

between (a) the debt service on the CCP mortgage owed to First Republic Bank⁴, and (b) the actual amount received from CCP, such that the City is effectively guaranteeing payment of CCP's monthly mortgage payments due on the First Republic Bank loan.

According to Mr. Updike, RED intends to replenish the proposed "mortgage payment reserve fund" annually, subject to appropriation approval of the Board of Supervisors, in order to ensure that at the beginning of each fiscal year, the proposed "mortgage payment reserve fund" has a balance equal to the total monthly mortgage payments owed by CCP to First Republic Bank under the restructured loan terms for that fiscal year. If CCP makes no monthly payments to First Republic Bank and instead such monthly payments are made from the City's General Fund Reserve, such that RED replenishes the "mortgage payment reserve fund" each year in full, the total amount to be loaned to CCP from the City's General Fund Reserve monies would be \$1,023,750 (see Table 1 above).

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 10-0133) would approve a loan agreement between the City and the Community Center Project of San Francisco, Inc. (CCP), a non-profit organization which owns the San Francisco Lesbian, Gay, Bisexual, and Transgender (LGBT) Community Center building, located at 1800 Market Street. The proposed loan agreement establishes the terms of the initial \$157,500 General Fund monies to be loaned to CCP for deposit into the proposed "mortgage payment reserve fund" and the subsequent repayment of the loan by CCP back to the City. The terms of the proposed loan agreement between the City and CCP include (a) a loan term of 117 months, or nearly ten years, extending from April 1, 2010⁵ to December 31, 2020, (b) with an initial loan amount of \$157,500 subject to Board of Supervisors appropriation approval and (c) an annual interest rate of approximately one percent⁶.

According to the terms of the proposed loan agreement, CCP would not be required to make any loan repayments back to the City until January 1, 2015, at which point CCP would be required to make monthly payments to the City over a five-year period ending December 31, 2020 in order to repay the City for the total amount of General Fund Reserve monies which the City paid into the "mortgage payment reserve fund", plus interest of approximately 1.0 percent annually.

The proposed ordinance (File 10-0206) would appropriate \$157,500 from the General Fund Reserve in order for RED to initially fund the "mortgage payment reserve fund" (File 10-0134). According to Mr. Updike, the proposed initial \$157,500 loan would be paid to the CCP, who in

⁴ According to Mr. Updike, no monies from the "mortgage payment reserve fund" could be used for paying the remaining principal balance of the First Republic Bank loan when that loan terminates on June 31, 2014.

⁵ According to Mr. Updike, the loan will begin once the funds requested in File 10-0134 are appropriated. For purposes of this report, the initial loan date is estimated to be April 1, 2010.

⁶ The interest rate on the proposed loan between CCP and the City would be equal to the rate of interest earned on the monies deposited into the "mortgage payment reserve fund" account at First Republic Bank, which Mr. Updike estimated to be approximately 1.0 percent.

turn would subsequently deposit the funds in an interest bearing account at First Republic Bank to serve as a “mortgage payment reserve fund” equal to the total monthly mortgage payments owed by CCP to the First Republic Bank as a result of the mortgage owed on the San Francisco LGBT Community Center building during FY 2009-2010 (as shown in Table 1 above).

FISCAL IMPACTS

Creation of the proposed “mortgage payment reserve fund” could ultimately cost the City up to \$1,023,750 (see Table 1 above), which is the amount of total debt service owed by CCP through FY 2013-2014 to First Republic Bank. This \$1,023,750 potential cost to the City includes (a) the proposed initial appropriation of \$157,500 of General Fund Reserve monies (File 10-0206), and (b) potential additional General Fund appropriations totaling up to \$866,250 (\$1,023,750 as shown in Table 1 above less \$157,500) in order to replenish the “mortgage payment reserve fund”. Any additional appropriations above the subject initial request for \$157,500 (File 10-0206) would be subject to separate future appropriation approval by the Board of Supervisors.

The City’s potential loan cost of \$1,023,750 does not include the remaining principal balance of an estimated \$2,913,691 which CCP will still owe on its mortgage with First Republic Bank. As noted above, depending on the availability of other resources, the CCP may also seek debt relief from the City and County of San Francisco, the State, or Federal sources for the remaining principal mortgage balance of \$2,913,691. However, according to the RED, the City is not currently considering providing such additional debt assistance to CCP.

In accordance with the proposed loan agreement between the City and CCP, CCP would be required to make loan repayments back to the City over a five-year period beginning January 1, 2015 and ending December 31, 2020. These loan repayments would be at the rate of interest earned on the monies deposited into the “mortgage payment reserve fund” at First Republic Bank, which is estimated to be one percent. According to Mr. Updike, if the CCP does not make their required loan repayments back to the City, the City could ultimately initiate foreclosure proceedings. However, Mr. Updike advises that before that stage, the RED would annually review whether to continue funding the mortgage reserve account, depending on the financial viability of the CCP and CCP’s ability to repay the loan back to the City.

POLICY CONSIDERATIONS

Mr. Updike could not identify any precedent for creating a “mortgage payment reserve fund” as is being proposed in File 10-0133.

Mr. Updike could not identify any other “mortgage payment reserve fund” or similar loan program agreement that the City has previously entered into, in which the City’s General Fund Reserve is used to guarantee mortgage payments on behalf of a nonprofit organization, as is being proposed in File 10-0133. The Budget and Legislative Analyst therefore notes that approving the proposed “mortgage payment reserve fund”, from which the City would rely on General Fund monies, to guarantee mortgage payments to a bank on behalf of a nonprofit

organization, could establish a precedent for guaranteeing future similar mortgage payments owed by nonprofit organizations, subject to annual appropriation approval by the Board of Supervisors. If the Board of Supervisors approves the proposed legislation, it is possible that other non-profit organizations may request similar General Fund support from the City.

Therefore, because the requested “mortgage payment reserve fund” would be the first time that the City has established such a fund, and could potentially create a precedent for such future requests, the Budget and Legislative Analyst considers approval of the proposed ordinance and resolution to be policy matters for the Board of Supervisors.

RED “has a comfort level” regarding (a) CCP’s ability to make all of its mortgage payments to First Republic Bank, without having to use the “mortgage payment reserve fund” and (b) if the proposed “mortgage payment reserve fund” needs to be used, then CCP’s ability to repay the loan to the City.

According to the attached memorandum from Mr. Updike, RED reviewed the CCP’s financial statements and projections and stated that RED “has a comfort level” regarding CCP’s ability to repay both (a) the restructured loan with First Republic Bank, and (b) the City for all deposits into the “mortgage payment reserve fund”. Mr. Updike provided the information shown in Table 2 below that indicates that since 2002, the CCP has paid First Republic Bank a total of \$1,492,486, including \$1,442,427 of interest and \$50,059 of principal on the mortgage.

Table 2: Payments Made on Mortgage Loans by CCP

Calendar Year	Annual Payments
2002	\$105,578
2003	141,367
2004	150,863
2005	196,932
2006	202,051
2007	219,081
2008	238,606
2009	238,008
Total Payments	\$1,492,486

However, Mr. Updike also advises that since May of 2009, the CCP has been consistently two payments behind schedule, such that CCP has been in arrears by \$39,668 (\$238,008 divided by 12 monthly payments x two payments).

Assuming CCP makes all required payments on both loans, and First Republic Bank never withdraws any funds from the proposed “mortgage payment reserve fund”, then the total fiscal impact to the City of the proposed loan would be zero. If CCP makes all required mortgage payments to First Republic Bank, CCP would fully refund (a) the proposed General Fund appropriation of \$157,500 to initially fund the “mortgage payment reserve fund”, (b) a second

appropriation of \$78,750⁷ to increase the balance of the “mortgage payment reserve fund” to \$236,250, the amount owed by CCP to First Republic Bank in FY 2011-2012, and (c) all interest earnings in the account.

The Budget Analyst notes that while RED may have “a comfort level” regarding CCP’s ability to meet its debt obligations, First Republic Bank apparently did not have a similar “comfort level” with CCP which would have enabled First Republic Bank to restructure the existing loan with CCP, without the requested City funded “mortgage payment reserve fund” from General Fund Reserve monies.

If CCP fails to make the payments due to First Republic Bank, RED might not replenish the “mortgage payment reserve fund”.

According to Mr. Updike, RED will consider the payment history of CCP’s restructured loan with First Republic Bank prior to replenishing the “mortgage payment reserve fund”. However, Mr. Updike could not specify the conditions under which the City’s loan to CCP would not be replenished.

Furthermore, as noted above, CCP would have a remaining principal mortgage balance of an estimated \$2,913,691, after repayment of the existing loan totaling \$1,023,750 to First Republic Bank, which would have to be either (a) refinanced, or (b) paid in full. Mr. Updike stated that CCP intends to either (a) refinance the remaining principal balance at the termination of the existing loan with First Republic Bank, (b) initiate a capital campaign to raise sufficient donations to either payoff or reduce the amount of remaining principal, or (c) seek further debt relief from the City and County of San Francisco, the State, or Federal sources. Mr. Updike stated that the City is not currently considering the use of additional General Fund monies from the City for providing debt relief to the CCP for such a remaining loan balance.

If CCP is unable to make the required payments to First Republic Bank, it is uncertain whether the City would be repaid.

The Budget Analyst notes that if CCP is unable to make the \$1,023,750 in scheduled mortgage payments due to First Republic Bank under the restructured terms of the loan (see Table 1), it is unlikely that CCP would be able to repay its loan to the City.

If CCP does not repay the City for the General Fund monies deposited into the proposed “mortgage payment reserve fund” at First Republic Bank, the terms of the proposed loan between CCP and the City provide the City with the right to foreclose on the San Francisco LGBT Community Center at 1800 Market Street, which was appraised in October of 2006 by All Bay Valuations at a value of \$10,900,000. However, the Budget Analyst notes that the security of this collateral is uncertain given that there are (a) restrictions on the use of the property as a community center which were not considered in the 2006 appraisal, which would likely result in significant reductions in the appraised value, (b) reductions in property values resulting from economic changes since the appraisal date of October of 2006, and (c) the existing mortgage with First Republic Bank in the amount of \$3,200,000 would have a superior lien position to the proposed City loan, such that proceeds realized from the sale of the property would be used to

⁷ The amount of this second appropriation would be reduced by any interest earned on the “mortgage payment reserve fund”.

repay any remaining balance on the First Republic Bank loan before becoming available to repay the City.

The proposed loan's annual interest rate of approximately 1.0 percent is less than the 1.35 percent average annual interest rate currently earned by the City's Treasurer on General Fund monies.

The Budget Analyst notes that in FY 2009-2010, General Fund monies held by the Treasurer have earned interest at an average annual rate of 1.35 percent, such that lending General Fund monies to CCP at an interest rate of 1.0 percent would result in reduced interest income to the City.

Although RED explored other options to provide funding support to CCP, these options were refused by First Republic Bank.

According to Mr. Updike, RED considered a number of alternatives to the proposed "mortgage payment reserve fund. A description of those alternatives is described below.

1. Providing a letter of credit which would only require an appropriation of the City's General Fund monies if CCP failed to make its mortgage payments owed to First Republic Bank. According to Mr. Updike, the Bank refused this option.
2. Purchasing the current principal balance of \$3,149,941 loan from First Republic Bank at a discount. According to Mr. Updike, many lenders are currently selling such loans at discounts of approximately 40 percent off the outstanding principal balance. However, First Republic Bank refused to offer the City any discount on First Republic Bank's loan with CCP. Mr. Updike added that had First Republic Bank offered a discount, the amount of General Fund monies needed to purchase that loan would be far greater than the amount needed to fund the requested "mortgage payment reserve fund".

Mr. Updike noted that RED also considered not providing any funding assistance to CCP. According to Mr. Updike, this option would likely result in First Republic Bank foreclosing and selling the CCP property. This option was not pursued because (a) the deed restriction requiring that the property be used as a community center does not specify that the new community center must serve the same LGBT constituency which the current center serves, (b) it is likely that no services would be provided during any foreclosure and sales process, and (c) given current economic conditions and the deed restriction on the property, the sales process could require a significant amount of time.

While the proposed legislation only approves the initial deposit of \$157,500 into the proposed "mortgage payment reserve fund", it is likely that if the City does not make future appropriations to replenish the balance of the "mortgage payment reserve fund", CCP may default on their mortgage and be subject to foreclosure action by First Republic Bank.

According to Mr. Updike, the terms of the restructuring of loan between CCP and First Republic Bank have not been finalized. Under the current draft terms of the restructured loan, CCP is required to have a "mortgage payment reserve fund" balance equal to the upcoming year's debt

service. Therefore, if the Board of Supervisors does not approve future appropriations to the "mortgage payment reserve fund" necessary to maintain the required balances, CCP could be considered in default of the restructured terms of their mortgage loan with First Republic Bank, and subject to foreclosure.

RECOMMENDATION

Approval of the proposed resolution and ordinance are policy matters for the Board of Supervisors.



Harvey M. Rose

cc: Supervisor Avalos
Supervisor Mirkarimi
Supervisor Elsbernd
President Chiu
Supervisor Alioto-Pier
Supervisor Campos
Supervisor Chu
Supervisor Daly
Supervisor Dufty
Supervisor Mar
Supervisor Maxwell
Clerk of the Board
Cheryl Adams
Controller
Greg Wagner



Amy L. Brown
Director of Real Estate



MEMORANDUM

DATE: February 26, 2010

TO: Nathan Cruz, Budget Analyst
Budget & Legislative Analyst's Office

FROM: John Updike, Assistant Director, Real Estate

A handwritten signature in black ink, appearing to read "John Updike", with a long horizontal line extending to the right.

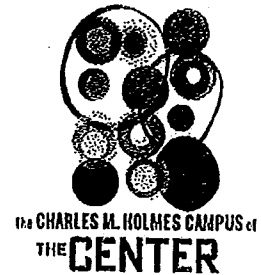
SUBJECT: The LGBT Community Center Mortgage Payment Reserve Fund Agreement

As requested, this memorandum outlines our position relative to the LGBT Community Center's (the "Center") likely ability to make timely payments under a restructured loan with the First Republic Bank. Real Estate has a comfort level about the Center's ability to pay given the following:

- The Center's financial stability plan of May 21, 2009, many elements of which have already been put into effect;
- The Center's follow-up to First Republic Bank of December 29, 2009, attached hereto, which shows excellent progress in increasing revenues and reducing expenditures, consistent with the financial stability plan;
- The reduction in payments due over the course of the coming two years (and the current fiscal year) of \$80,000 per year, in accordance with a modified loan with First Republic Bank, subject to approval of the pending loan agreement between the Center and the City.

Should the Center find its financial condition to be such that none or few payments are made toward the restructured loan owed First Republic Bank in the remainder of fiscal year 09-10, Real Estate would take that into serious consideration when determining whether or not to recommend an extension (amendment) of the City's loan with the Center next fiscal year (assuming Board approval of this loan). The success or failure of the Center's financial stability plan will be readily apparent, and if not succeeding, alternatives to continuation of the City's loan agreement would in all likelihood be seriously explored, in a vigilant effort to minimize the City's risk in this matter.

attachment: Letter from Rebecca Rolfe, Executive Director of the Center, to Felix Miranda, Vice-President, First Republic Bank (2 pages)



December 29, 2009

Felix Miranda
Vice President, Senior Credit Officer
First Republic Bank
111 Pine Street
San Francisco, CA 94111

Dear Felix,

In your email of November 5, 2009, outlining the proposed revised terms of our loan, you requested information on the Centers fundraising/business plan, outlining our ability to meet the loan amortization requirements in year 3. Although the loan is not yet finalized, in the spirit of our ongoing work towards the completion of the loan restructure I am providing you with the following summary of our strategies and work to stabilize the Center's financial base.

We have focused most of our efforts on increasing revenue as we have already reduced expenses as low as we can realistically go without damaging infrastructure or our current contractual commitments.

The two areas that we have identified for solid growth in the next three years are revenue from the building and individual giving. While we are building long term plans to increase revenue from foundations, corporations and government contracts, the continued uncertainty in the stock market and overall economy -- and resulting crises in the state and city/county budgets -- mean that significant growth in these three areas will be unlikely for at least the next 12 to 24 months.

Our strategies for growth in facilities revenue and individual contributions are outlined below.

Facilities Revenue: We are finalizing a letter of intent to bring a long term commercial tenant onto our fourth floor. This lease supports a significant increase in rental revenue beginning with an estimated occupancy date in the late fall to winter of 2010 (following a significant build out process).

Individual Donations: We are currently in the process of significantly increasing our capacity to raise contributions from individuals, including:

- **Expansion of our development staff:** we have received grants from two funders which will support the addition of one full time staff member to our development team, bringing the team from a total of 3.0 FTEs to 4.0 FTEs. The new staff position will be focused on individual giving and events and this expanded capacity will support short and long term growth in individual giving.
- **Expansion of board of directors:** Our board is significantly involved in fundraising and has a collective commitment to raise a minimum of \$10,000 per person, which they are currently exceeding. We are working to double the size of the board within the next 18 months and have a short term goal to bring on 9 new board members by the end of this

THE SAN FRANCISCO LESBIAN GAY BISEXUAL TRANSGENDER COMMUNITY CENTER

1800 MARKET STREET, SAN FRANCISCO, CA 94102 TEL: 415.865.5555 FAX: 415.865.5501 INFO@SFCENTER.ORG WWW.SFCENTER.ORG

Felix Miranda
December 29, 2009
Page Two

fiscal year. Additionally, we are expanding the committee structure, creating new opportunities for community members to volunteer on board and fundraising committees, which will expand the resources and connections to individual as well as institutional donors.

With these strategies solidly underway, I have confidence that we will be able to make the principle payments due in the third year of the loan and appreciate the time that the restructured loan provides us to adjust our revenue strategies to the changing economy while meeting our commitments to the First Republic Bank.

Please feel free to contact me if you have any questions about our long term strategies or if I can be helpful in any way.

Sincerely,



Rebecca Rolfe
Executive Director

cc: **Marcia Berg, First Republic Bank**
James Williamson, SF LGBT Community Center, Board of Directors
Terry Micheau, SF LGBT Community Center, Board of Directors
John Updike, Assistant Director of Real Estate, City/County of San Francisco