

File No. 180232

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date March 22, 2018

Board of Supervisors Meeting

Date _____

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget and Legislative Analyst Report |
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| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
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Completed by: Linda Wong

Date March 16, 2018

Completed by: Linda Wong

Date _____

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



Mark Farrell
Mayor

Kate Hartley
Director

March 7, 2018

Honorable Supervisor Malia Cohen
Budget and Finance Committee Chair
Board of Supervisors
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

Linda Wong, Clerk
Board of Supervisors
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

Subject: Release of Budget and Finance Committee Reserve

Dear Chair Cohen:

In accordance with the Budget and Finance Committee request's for File Number 170489, \$10 million appropriated from the SoMa Community Stabilization Fund for the Small Sites Program (SSP) was held in the Committee's reserve until specific sites were identified for acquisition.

The Mayor's Office of Housing and Community Development requests the release of \$5 million from these funds to provide a SSP loan to Mission Housing Development Corporation for the acquisition and rehabilitation of the Gran Oriente Filipino Hotel, a 24-unit SRO building located within the boundaries of SoMa.

If you need additional information to allow for the release of these reserves, please contact Ruby Harris in my office at (415) 701-5517 or Ruby.Harris@sfgov.org. Thank you for your review and release of this reserve.

Sincerely,

A handwritten signature in black ink, appearing to read "Kate Hartley".

Kate Hartley
Director
Mayor's Office of Housing and Community Development

<p>Item 2 File 18-0232</p>	<p>Department: Mayor's Office of Housing and Community Development</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • MOHCD is requesting the Budget and Finance Committee of the Board of Supervisors to release \$5,000,000 of the total \$10,000,000 placed on reserve by the Budget and Finance Committee. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • On May 11, 2017, the Budget and Finance Committee approved the total requested \$10,000,000 from the Mayor's Office of Housing and Community Development (MOHCD) South of Market Area (SoMa) Community Stabilization Fund for Small Sites Program loans and placed these funds on Budget and Finance Committee reserve, pending identification of the nonprofit organizations awarded the funds, the site to be purchased, and a description of the project (File 17-0489). • According to MOHCD, the nonprofit Mission Housing Development Corporation (Mission Housing) has been awarded the funds as part of the SoMa Community Stabilization Fund for Small Sites Program. • The site to be purchased as part of the Small Sites Program is the Gran Oriente Filipino Hotel, a 24-unit Single Room Occupancy (SRO) building located at 106 South Park Street in SoMa. Currently, the site serves as low-income SRO housing, but there are no permanent affordability restrictions attached to the property. In addition to preserving and maintaining the building, Mission Housing intends to preserve the cultural history of Gran Oriente in coordination with community-based organizations. • <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • According to MOHCD, the requested release of \$5,000,000 on Budget and Finance Committee reserve would be used for the acquisition and rehabilitation of the Gran Oriente building, which will serve 24 low-income residents by providing permanently affordable SRO housing. • Per the Small Sites Program guidelines, the Gran Oriente site is required to have at least 66 percent of the building's tenants with an average income at or below 80 percent of the area median income (AMI). The terms of affordability for Small Sites Program properties are for the life of the project, which is accomplished by recording a Declaration of Restrictions on the property. This requirement is also codified in the loan agreement. If the loan is repaid or otherwise satisfied, the affordability restrictions still stay with the property. MOHCD's asset management team also monitors the property via an Annual Monitoring Report that the sponsor is required to submit. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the requested release of reserved funds. 	

MANDATE STATEMENT

City Administrative Code Section 3.3(e) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval.

BACKGROUND

On May 11, 2017, the Budget and Finance Committee approved the total requested \$10,000,000 from the Mayor's Office of Housing and Community Development (MOHCD) South of Market Area (SoMa) Community Stabilization Fund for Small Sites Program¹ loans and placed these funds on Budget and Finance Committee reserve, pending identification of the nonprofit organizations awarded the funds, the site to be purchased, and a description of the project (File 17-0489).²

DETAILS OF PROPOSED LEGISLATION

MOHCD is requesting the Budget and Finance Committee of the Board of Supervisors to release \$5,000,000 of the total \$10,000,000 placed on reserve by the Budget and Finance Committee.

According to MOHCD Project Manager Ms. Caroline McCormack, the nonprofit Mission Housing Development Corporation (Mission Housing) has been awarded the funds as part of the SoMa Community Stabilization Fund for Small Sites Program. MOHCD's Small Sites Program issued a rolling Notice of Funding Availability (NOFA) in July 2014, and applications are received on a first come, first serve basis. Mission Housing applied for funds under the Small Sites Program NOFA in conformance with the program's standards. Mission Housing was established in 1971 as a nonprofit, community-based organization that creates and preserves affordable housing and supportive services for residents of low and moderate incomes in the Mission District and throughout San Francisco. Mission Housing currently serves 3,000 residents in 1,600 units with an additional 1,000 units of 100 percent low to moderate income affordable housing under development.

The site to be purchased as part of the Small Sites Program is the Gran Oriente Filipino Hotel³, a 24-unit Single Room Occupancy (SRO) building located at 106 South Park Street in SoMa. The Gran Oriente building was built in 1907 and has been owned and operated by the Gran Oriente Filipino fraternity for over seven decades, originally to provide communal support and living

¹ The Small Sites Program is an acquisition and rehabilitation loan program administered by MOHCD to protect multi-family rental buildings of 5 to 25 dwelling units in San Francisco as permanent affordable housing.

² The Board of Supervisors approved the resolution as amended in the Budget and Finance Committee on May 23, 2017.

³ According to Ms. McCormack, Mission Housing owns two other sites within a block of Gran Oriente, making it an ideal candidate from a programmatic perspective because of the building operations' efficiencies that the sponsor will achieve between the three properties. The two other sites include the Park View (40-unit SRO for formerly homeless and very low-income adults) and Hotel Madrid (44-unit SRO for formerly homeless and very low-income adults).

quarters for Filipino workers in the shipping and agriculture industries. Currently, the site serves as low-income SRO housing, but there are no permanent affordability restrictions attached to the property. In addition to preserving and maintaining the building, Mission Housing intends to preserve the cultural history of Gran Oriente in coordination with community-based organizations.

According to Ms. McCormack, Mission Housing proposes to acquire the Gran Oriente building and convert it into permanently affordable housing as part of MOHCD's Small Sites Program. Mission Housing is currently conducting community outreach in SoMA to determine the future housing type and additional uses for Gran Oriente.

Per the Small Sites Program guidelines, the Gran Oriente site is required to have at least 66 percent of the building's tenants with an average income at or below 80 percent of the area median income (AMI).⁴ According to Ms. McCormack, the terms of affordability for Small Sites Program properties are for the life of the project, which is accomplished by recording a Declaration of Restrictions on the property. This requirement is also codified in the loan agreement. If the loan is repaid or otherwise satisfied, the affordability restrictions still stay with the property. MOHCD's asset management team also monitors the property via an Annual Monitoring Report that the sponsor is required to submit.

The requested \$5,000,000 will be awarded to Mission Housing as a loan for the Gran Oriente site, conforming to the following loan terms as required by the Small Sites Program guidelines:

- 30-year term
- 3 percent simple interest
- Residual receipts split payment⁵

According to Ms. McCormack, there is no commercial debt recorded in the first position for this project. The Declaration of Restrictions will be recorded first, and then the MOHCD mortgage. No debt will be repaid ahead of the residual receipts split payments.

⁴ The 2017 AMI in San Francisco is \$115,300 for a family of four. 80 percent of the AMI for a family of four is \$92,250. The maximum monthly rent for a 1-bedroom unit for a household with 80 percent of the AMI is \$1,790 without utilities.

⁵ "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 either deposited into the project's replacement reserve account or as debt repayment to the City, and one-third of the residual receipts remain with the project sponsor. Expenses for management and operation of the property will be paid from the property's cash flow; property management and operating expenses will not be subsidized by the City's Local Operating Subsidy Program (LOSP), through which the City pays the difference between the cost of operating housing that serves homeless individuals and families and all other operating revenue for a project.

FISCAL IMPACT

According to Ms. McCormack, the requested release of \$5,000,000 on Budget and Finance Committee reserve would be used for the acquisition and rehabilitation of the Gran Oriente building, which will serve 24 low-income residents by providing permanently affordable SRO housing. Table 1 below summarizes the breakdown of MOHCD's requested \$5,000,000 for the acquisition and rehabilitation of the Gran Oriente building.

Table 1: Sources and Uses of \$5,000,000 Placed on Budget and Finance Committee Reserve

Source of Funds	
SoMa Community Stabilization Fund	\$5,000,000
Uses of Funds	
<i>Acquisition</i> ⁶	
Acquisition cost or value	\$4,500,000
Legal/closing costs/broker's fee	9,700
<i>Construction (Hard Costs)</i> ⁷	
Unit construction/rehab	232,376
General contractor overhead and profit	11,619
General contractor general conditions	13,943
<i>Soft Costs</i> ⁸	
Architecture and design	25,205
Engineering and environmental studies	4,542
Financing costs	2,500
Legal costs	3,500
Other development costs	73,619
Soft cost contingency	5,468
<i>Reserves</i> ⁹	37,528
<i>Developer Costs</i> ¹⁰	<u>80,000</u>
Total	\$5,000,000

According to Ms. McCormack, the remaining \$5,000,000 on Budget and Finance Committee Reserve will be used to acquire and rehabilitate up to 3 additional properties in the SoMa

⁶ The costs associated with the actual purchase of the property, including the final sale price and fees associated with the transaction.

⁷ The costs associated with the physical construction and improvement of building and the units. In this case, it is the rehabilitation to the structure. All labor and materials required for construction are included under hard costs.

⁸ Soft costs are the other costs associated with rehabilitating the building that are not directly labor and materials. This includes items like architectural fees, environmental and structural reports, sewer and termite inspections, legal costs, financing costs, entitlement/permit fees, etc.

⁹ In this case, "reserves" refers to an operating reserve, which is a budget set aside to cover unexpected operation costs and/or repairs that the building needs.

¹⁰ "Developer costs" refers to the developer fee. A developer fee is the compensation that the project developer (Mission Housing) receives for the time and resources spent acquiring and rehabilitating the property.

neighborhood. Community groups are currently identifying properties that may be a match for the Small Sites Program; however, specific sites have not yet been selected.

RECOMMENDATION

Approve the requested release of reserved funds.

