

1 [Real Estate Loan Document Amendments - BHC Balboa Builders, LLC - Balboa Reservoir
2 Purchase - \$11,400,000]

3 **Resolution approving the terms and conditions of the First Amendment to the Secured**
4 **Carry-Back Promissory Note and the First Amendment to the Deed of Trust securing**
5 **payment of the Balboa Reservoir purchase price of \$11,400,000.**

6
7 WHEREAS, On December 20, 2022, pursuant to a Purchase and Sale Agreement
8 (PSA) approved by this Board of Supervisors in Resolution No. 373-20, the SFPUC sold the
9 approximately 16-acre Balboa Reservoir (Property) located near Ocean Avenue and Frida
10 Kahlo Way in San Francisco to BHC Balboa Builders, LLC, a California limited liability
11 company (BHC), for the sales price of \$11,400,000 (Purchase Price); and

12 WHEREAS, BHC purchased the Property to develop approximately 1,100 units of
13 much-needed housing including 50%, or 550 homes, as affordable housing units; and

14 WHEREAS, The development project (the Project) includes approximately 1,000 units
15 of multi-family rental residential housing, approximately 100 for-sale residential units, ground-
16 floor community space, approximately four acres of publicly accessible open space, parking
17 garages, and a child-care facility; and

18 WHEREAS, The Project includes affordable housing exceeding the Planning Code
19 requirements for inclusionary affordable housing and extensive investments in public
20 infrastructure, including new water distribution, auxiliary water supply facilities, stormwater
21 management improvements, sanitary sewer systems, and street lighting that the City will
22 accept, at no cost to the City, upon completion; and

23 WHEREAS, Under the PSA, BHC elected to have the SFPUC provide carryback
24 financing in the principal sum of \$11,006,965 (Loan) to BHC; and

1 WHEREAS, The Loan is evidenced by a Deed of Trust, Assignment of Rents, Security
2 Agreement and Fixture Filing recorded against the Property as Document No. 2022112690 in
3 the Official Records of the City and County of San Francisco (Original Deed of Trust), and a
4 Secured Carry-Back Promissory Note (Original Note) made by BHC; and

5 WHEREAS, The Original Deed of Trust and the Original Note are together referred to
6 as the Original Loan Documents and require BHC to pay to the SFPUC post-closing annual
7 Original Note payments until December 31, 2028, a partial balloon payment in 2026, and
8 annual interest at the rate of three percent on the unpaid balance of the Original Note until the
9 Maturity Date of December 31, 2028; the Original Loan Documents provide that once BHC
10 pays the principal balance of the Original Note down to \$5,700,000, the City will release the
11 lien of the Original Deed of Trust from the Phase 1 portion of the Property and will retain the
12 lien of the Original Deed of Trust on the Phase 2 portion of the Property; and

13 WHEREAS, Infrastructure costs for the Project will be considerable and must be
14 substantially installed prior to construction of any housing; BHC reports that its development
15 partners have spent over \$24 million in predevelopment costs to advance the Project to date;
16 and

17 WHEREAS, Due to the disruptions to the housing market since 2020, the economics of
18 market rate housing have been substantially eroded and the construction start date for the
19 market rate components of the Project has been delayed; BHC is actively pursuing
20 adjustments to the Project phasing whereby it will jumpstart construction of the Project with
21 two affordable housing buildings including 290 units of affordable housing first; and

22 WHEREAS, This Phase 1 affordable housing construction will occur before the
23 construction of the first market-rate rental housing and before the sale of the market-rate
24 townhome parcels to a home builder; most of the Phase 1 infrastructure costs must still be
25 incurred in order to construct the first two affordable housing buildings; and

1 WHEREAS, BHC has secured \$26 million in state infrastructure funds, in addition to
2 \$29 million in state Affordable Housing and Sustainable Communities Funds (AHSC), a
3 portion of which will be used for the construction of infrastructure; on April 4, 2023, BHC
4 applied for an additional \$45 million in state AHSC funds to use for the construction of
5 infrastructure and two affordable housing buildings; and

6 WHEREAS, BHC is currently working with the Mayor’s Office of Housing and
7 Community Development to adjust the timing of previously committed predevelopment funds
8 to assist with the design and construction costs of Phase 1 of the Project; and

9 WHEREAS, Due to the Project’s revised development schedule and change in market
10 conditions, BHC and the SFPUC desire to amend certain provisions in the Original Loan
11 Documents to revise the payment schedule to align with the proposed Project phasing, allow
12 BHC to use available funding for the implementation of Phase 1, and allow for earlier
13 prepayment and release of the Original Deed of Trust on a more flexible parcel-by-parcel
14 basis; and

15 WHEREAS, On May 9, 2023, by Resolution No. 23-0099, the SFPUC Commission
16 approved the terms and conditions of the First Amendment to the Secured Carry-Back
17 Promissory Note and the First Amendment to the Deed of Trust, Assignment of Rents,
18 Security Agreement and Fixture Filing (together, the “Amended Loan Documents”) and,
19 subject to the approval of this Board of Supervisors, authorized the General Manager of the
20 SFPUC to execute the Amended Loan Documents; now, therefore, be it

21 RESOLVED, That this Board of Supervisors hereby approves the Amended Loan
22 Documents and authorizes the General Manager of the SFPUC to execute the Amended
23 Loan Documents to secure payment of the Balboa Reservoir purchase price; and, be it

24 FURTHER RESOLVED, That this Board of Supervisors hereby authorizes the General
25 Manager of the SFPUC to enter into any amendments or modifications to each of the

1 Amended Loan Documents, including without limitation, the exhibits to such documents, that
2 the SFPUC's General Manager determines, in consultation with the City Attorney, are in the
3 best interest of City; do not materially reduce the City's benefits or increase the obligations or
4 liabilities of the City; are necessary or advisable to effectuate the purposes and intent of each
5 of the documents or this Resolution; and are in compliance with all applicable laws, including
6 the City's Charter; and, be it

7 FURTHER RESOLVED, That within thirty (30) days of the execution of the Amended
8 Loan Documents the General Manager of the SFPUC shall provide the signed documents to
9 the Clerk of the Board for inclusion in the official file.

10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25