

1 [Subordination Agreement - Seismic and Safety Loan Program - HealthRight 360 - 890
2 Hayes Street and 214 Haight Street - \$8,500,000]

3 **Resolution authorizing the subordination of two existing Seismic and Safety**
4 **Loan Program loans, secured in part by real property commonly known as 890**
5 **Hayes Street and 214 Haight Street, to a new loan from the Nonprofit Finance**
6 **Fund to HealthRight 360 in the amount of \$8,500,000 for the construction of**
7 **HealthRight 360's new headquarters and clinic located at 1563 Mission Street.**

8
9 WHEREAS, HealthRight 360 ("HR360") is a nonprofit provider of integrated health
10 programs, funded by the San Francisco Department of Public Health and other City
11 departments; and

12 WHEREAS, HR360 has undertaken the acquisition and rehabilitation of a new
13 headquarters and clinic building located at 1563 Mission Street, which will provide
14 opportunities for the provision of expanded health care services and help to ensure the
15 long term viability of HR360; and

16 WHEREAS, To finance the rehabilitation of the new headquarters and clinic
17 building, HR360 has applied to the Nonprofit Finance Fund ("NFF") for a construction
18 loan in the amount of \$8,500,000; and

19 WHEREAS, Pursuant to loan evaluation reports dated April 14, 2005, and May
20 8, 2007, (the "Evaluations") the Unreinforced Masonry Building Loan Committee (the
21 "Committee") and the City and County of San Francisco Mayor's Office of Housing
22 ("MOH") recommended providing deferred extended loans in the amounts of \$285,000
23 and \$3,802,000, respectively (the "Loans"), from the City and County of San Francisco,
24 acting through MOH, to Walden House (subsequently merged into HR360) pursuant to
25 San Francisco Administrative Code Sections 66 and 66A and the Seismic and Safety

1 Loan Program ("SSLP") Regulations, dated May 2006, adopted by the Board of
2 Supervisors through Ordinance No. 122-06 ("SSLP Program"), for purposes of
3 seismically retrofitting that certain real property located in San Francisco commonly
4 known as 815 Buena Vista (the "Project"); and

5 WHEREAS, In order to satisfy the SSLP Program loan-to-value ratio
6 requirement as required by Administrative Code, Section 66.A.4(1)(b), the Loans were
7 secured by deeds of trust recorded against both the Project and two additional
8 properties owned by HR360 located in San Francisco, commonly known as 890 Hayes
9 Street and 214 Haight Street (the "Additional Properties"); and

10 WHEREAS, As a condition to providing the requested construction loan to
11 HR360, NFF requires a security interest in the Additional Properties, in position
12 superior to liens of deeds of trust encumbering the Additional Properties (the
13 "Subordination Request"); and

14 WHEREAS, Administrative Code, Section 66A.7(2), authorizes the City to
15 subordinate the lien of an SSLP deed of trust "to subsequent lenders providing
16 financing for the rehabilitation of the Property" so long as certain underwriting criteria
17 are met; and

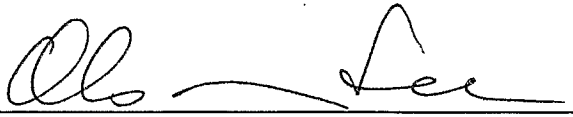
18 WHEREAS, In this case, the lender making the Subordination Request is not
19 providing financing for the rehabilitation of the Project or the Additional Properties; and

20 WHEREAS, The Mayor's Office of Housing and Community Development
21 ("MOHCD") and the City and County of San Francisco Department of Public Health
22 ("DPH") have determined that the construction loan to HR360 is necessary and
23 beneficial to the City as HR360 is a vital component of San Francisco's healthcare
24 safety net, providing medical, behavioral health, and HIV services to nearly 20,000 low
25 income and vulnerable San Franciscans each year; and

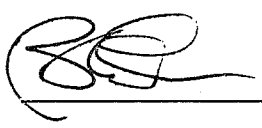
1 WHEREAS, The recommendation to authorize the subordination is detailed in a
2 memorandum from the Director of Public Health and the Director of the Mayor's Office
3 of Housing and Community Development filed with the Clerk of the Board of
4 Supervisors under File No. 160066; now, therefore, be it

5 RESOLVED, That the Board of Supervisors of the City and County of San
6 Francisco (the "Board") hereby authorizes the Director of MOHCD (or his designee) to
7 take any and all actions which the Director of MOHCD (or his designee) or the City
8 Attorney may deem necessary or advisable to effectuate the Subordination Request
9 consistent with this Resolution.

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17 RECOMMENDED:

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19 _____

20 Olson Lee, Director, Mayor's Office of Housing and Community Development

21 
22 _____

23 Barbara Garcia, Director, Department of Public Health
24
25

Item 3 File 16-0066	Departments: Mayor's Office of Housing and Community Development (MOHCD) Department of Public Health (DPH)
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EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would authorize the subordination of two existing Seismic Safety Loan Program loans, secured in part by real property commonly known as 890 Hayes Street and 214 Haight Street, to a new loan from the Nonprofit Finance Fund to HealthRight 360 in the amount of \$8,500,000 for the construction of HealthRight 360's new headquarters and medical clinic located at 1563 Mission Street.

Key Points

- HealthRight 360 is a nonprofit organization, which is a merger of Haight Ashbury Free Clinics, Walden House, Lyon-Martin Health Services, Tenderloin Health Services and Asian American Recovery Services which receives \$45 million of annual funding from the DPH.
- HealthRight 360 currently has two outstanding deferred Seismic Safety loans totaling \$4,087,000 for their 815 Buena Vista facility, which is secured with three properties (a) 815 Buena Vista, (b) 890 Hayes Street and (c) 214 Haight Street. The 890 Hayes Street and 214 Haight Street properties provide residential treatment with 163 beds for men, women and transgender individuals with substance abuse and mental health disorders.
- In August 2014, HealthRight360 purchased a building at 1563 Mission Street, which is being developed for its headquarters and medical clinic at a cost of \$48.7 million. One funding source is an \$8,500,000 loan from the Nonprofit Finance Fund (NFF), which requires a superior lien position on the 890 Hayes Street and 214 Haight Street properties.

Fiscal Impact

- Over the seven-year term for the \$8,500,000 loan, HealthRight 360 will pay a total of \$6,267,112, including interest. At the end of the seven-years, there will be a balance of \$4,816,941, which HealthRight 360 would need to refinance or payoff. The loan will be repaid from a \$15 million capital fundraising campaign or surplus operating funds.
- MOHCD staff are not able to verify that HealthRight 360 is able to repay the \$8,500,000 NFF loan or refinance the \$4,816,941 balance of the NFF loan when due in seven years.

Policy Consideration

- HealthRight 360 is a vital component of DPH's ability to provide comprehensive health services in the City. If HealthRight 360 is not successful in completing their new headquarters and clinic at 1563 Mission Street, it would significantly affect HealthRight 360's ability to provide vital health services in San Francisco.

Recommendation

- Approval of the proposed resolution is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

City Administrative Code Chapter 66A describes the City's Seismic Safety Loan Program under which taxable General Obligation bond proceeds can be loaned to building owners to finance the seismic retrofit of unreinforced masonry buildings. In accordance with Section 66A.6 of the Administrative Code, as security for the seismic safety loan funds, borrowers must execute and deliver a deed of trust and assignment of rents on the property to the City; however, if the borrower is a nonprofit organization and the property does not meet the underwriting criteria specified, the borrower may provide other guarantees that are satisfactory to the City's loan committee¹. Section 66A.7 also authorizes the City, in its discretion, to subordinate the lien to subsequent lenders providing financing for the rehabilitation of the property as long as the property continues to meet the underwriting criteria set forth in Section 66A².

Background**Seismic Safety Loan Program**

In November 1992, San Francisco voters approved \$350,000,000 of General Obligation bonds for a Seismic Safety Loan Program to provide loans for seismic strengthening of unreinforced masonry buildings, with \$150,000,000 allocated to affordable housing. In 1994, the City issued the first series of bonds, which have now been repaid in full. In 2007, the City issued \$31,315,450 for the second bond issuance, of which \$25,193,793 remains outstanding.

Cash proceeds from the bond issuances are used to make loans to individual property owners, who need to complete seismic repairs to their buildings. Repayments from the loan recipients are used to partially pay the debt service on the bonds, with property taxes assessed on all properties in the City, to pay the difference between the cost of debt service and repayments by loan recipients. The City's seismic safety loan program is administered through the Mayor's Office of Housing and Community Development (MOHCD).

HealthRight 360

HealthRight 360 is a nonprofit organization, originally created in 2011 with the merger of two nonprofits, Haight Ashbury Free Clinics and Walden House. Since then, HealthRight 360 has expanded to include Lyon-Martin Health Services, Tenderloin Health Services and Asian American Recovery Services. HealthRight 360 receives approximately \$45 million of annual funding through the Department of Public Health (DPH) and currently operates four primary medical clinics, seven residential programs, four outpatient day centers, two gender responsive jail programs, providing HIV services, case management, outreach, prevention, employment,

¹ The City's Loan Committee is appointed by the Director of the Mayor's Office of Housing and includes a representative of the Mayor's Office of Housing, a financial expert or mortgage broker, a real estate appraiser or commercial real estate expert, an affordable housing development finance expert from the Mayor's Office of Housing and an engineering cost estimator.

² Underwriting criteria require the loan to value ratio not exceed 95% and minimum debt service coverage ratio of 1.1 or loan to value ratio of 90% and debt service coverage ratio of 1.05.

housing and educational assistance to approximately 20,000 persons in San Francisco. In addition to San Francisco, HealthRight 360 currently operates in eight other California counties.

Previous HealthRight 360 Seismic Safety Loan

HealthRight 360 currently has two outstanding deferred seismic safety loans in the amounts of \$285,000 and \$3,802,000, for total loans of \$4,087,000 for seismic upgrades to their 815 Buena Vista facility³. When the loans were approved in 2005 and 2007, the total \$4,087,000 loan exceeded the 95% required loan to value ratio for the 815 Buena Vista property under the City's seismic safety loan program. To satisfy the requirements of the seismic safety loan program, Walden House (the predecessor to HealthRight 360) secured the loan with three properties owned by Walden House, including (a) 815 Buena Vista, (b) 890 Hayes Street and (c) 214 Haight Street. This loan is not amortized and the loan repayments by HealthRight 360 are dependent on surplus available funds being available.

An April 2014 appraisal determined the value of the 815 Buena Vista building is \$13,500,000. Based on total current outstanding debt on this property of \$5,588,250, including the \$4,087,000 seismic safety loan, the current loan to value ratio is 41% for the Buena Vista property alone. Therefore, the 890 Hayes Street and 214 Haight Street properties are no longer needed to achieve the 95% loan to value ratio, which was required when the loans were originated.

Current HealthRight 360 Project

In August 2014, to address increasing rental costs threatening the organization, HealthRight360 purchased a five-story 50,000 square foot building at 1563 Mission Street, at the corner of Mission Street and South Van Ness⁴, to replace services currently provided at 1735 Mission Street. HealthRight360 is currently developing the new 1563 Mission Street site into its primary expanded medical clinic, dental clinic, pharmacy, substance abuse treatment, mental health services and resource center. The new HealthRight 360 headquarters and expanded medical clinic is projected to be completed by the summer of 2017 and estimated to cost a total of approximately \$48.7 million. Table 1 below summarizes the total costs and sources of funds that HealthRight 360 anticipates using to fund this project.

³ 815 Buena Vista is a 109-bed residential behavioral health treatment facility for low income adults.

⁴ The 1563 Mission Street property is directly across the street from the current Goodwill site, where the City is working with a developer to potentially construct a new City office building.

Table 1: Costs for 1563 Mission Street Project and Sources of Funding

Costs of Project	
Acquisition of site	\$17,255,000
Construction/renovations	22,416,584
Contingency (4%)	896,663
Preconstruction services	1,755,004
Architecture/engineering	1,480,000
Furniture, fixtures, and equipment	1,210,637
Other- project management, interest, transfer tax, permits, fees, insurance, owner's contingencies, etc.	3,657,883
Total Costs	\$48,671,771
Sources of Funding	
Bank of America Loan	\$24,000,000
Nonprofit Finance Fund Bridge Financing	8,500,000
HealthRight 360 Contribution ⁵	3,789,217
Net New Market Tax Credit Equity	12,382,554
Total Funding Sources	\$48,671,771

As shown in Table 1 above, one of the primary sources of funding for the HealthRight 360 project is an \$8,500,000 construction bridge loan from the Nonprofit Finance Fund (NFF), a nonprofit lending organization. However, prior to approving the \$8,500,000 loan, NFF requires a superior lien position on the two other HealthRight 360 properties, namely 890 Hayes Street and 214 Haight Street, which are currently being used as additional security for the City's seismic safety loan for HealthRight 360's facility at 815 Buena Vista.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize the subordination of two existing City Seismic Safety Loan Program loans for Health Right 360's facility at 815 Buena Vista, secured in part by real property commonly known as 890 Hayes Street and 214 Haight Street, to a new loan from the Nonprofit Finance Fund to HealthRight 360 in the amount of \$8,500,000 for the construction of HealthRight 360's new headquarters and primary medical clinic located at 1563 Mission Street.

The 890 Hayes Street property, with over 32,000 square feet, is used as a men's residential behavioral health treatment facility to serve men for six months to a year with substance abuse disorders, co-occurring mental health disorders and/or HIV/AIDS. This property was appraised in 2014 at \$14,500,000, and currently has \$2,595,050 outstanding loans on the property.

⁵ HealthRight 360 has undertaken a capital campaign to raise \$15 million to support the 1563 Mission Street project, with the \$3,789,217 reported received to date. The capital campaign is intended to continue through construction and during the first two years of operation and be the primary source of repayment for the Nonprofit Finance Fund loan.

The 214 Haight Street property, with 24,000 square feet, provides women's residential behavioral health treatment services and transgender recovery program services to target individuals with substance use disorders for six months to a year. This property was appraised in 2014 at \$9,200,000, and currently has \$511,700 outstanding loans on the property.

Together, these two properties provide 163 beds of affordable housing for men, women and transgender individuals with substance abuse and mental health disorders in San Francisco.

Rationale for Subordination

HealthRight 360 advised DPH that without the requested loan subordination, NFF will not provide the needed \$8,500,000 loan to HealthRight 360. If HealthRight 360 does not secure the \$8,500,000 loan, completion of HealthRight 360's new headquarters/clinic building at 1563 Mission Street will not be possible and HealthRight 360 could potentially forfeit this building in a foreclosure to Bank of America, which provided the primary \$24,000,000 acquisition and construction loan for the project. If this were to occur, it would significantly affect HealthRight 360's ability to provide vital health services in San Francisco. Ms. Colleen Chawla, Director of Policy and Planning at DPH reports that this would have a significant and negative impact on the City's health care safety net for the most vulnerable San Franciscans.

Mr. Donald Lusty, Senior Project Manager at MOHCD advises that because the proposed subordination does not meet the criteria of the Seismic Safety Loan Program, the subject resolution is being requested to be approved by the Board of Supervisors. Specifically, Section 66A.7 authorizes the City to subordinate the lien of a Seismic Safety Loan Program Deed of Trust to subsequent lenders providing financing for the rehabilitation of the property if certain underwriting criteria are met. In this case, the conditions of Section 66A.7 are not met because the lender requesting the subordination is not providing financing for the rehabilitation of the property that benefited from or is secured by the Seismic Safety loans and that property receives no benefit from the new construction loan. MOHCD typically can only propose to subordinate City loans to new non-City debt if the new loans are used to fund affordable housing properties. As noted, the new loan would fund a new nonprofit health headquarters and expanded medical clinic building.

Therefore, Mr. Lusty advises that MOHCD is jointly requesting with DPH this subordination be approved by the Board of Supervisors, based on the overriding importance of the services provided by HealthRight 360 to the residents of San Francisco.

FISCAL IMPACT

Nonprofit Finance Fund Loan (NFF)

The Nonprofit Finance Fund will provide an \$8,500,000 loan to HealthRight 360 based on a seven year term at an annual interest rate of 5.25%, allowing interest only payments for the first 18 months. Mr. Lusty advises that based on numerous conversations with NFF and their underwriting staff, NFF, as a nonprofit lender, has significant expertise in specifically providing loans to nonprofit health care organizations and that NFF has never foreclosed on a property. Table 2 below summarizes the payments to be made by HealthRight 360 to NFF for this loan.

Table 2: Repayment of NFF loan by HealthRight 360

	Interest	Principal	Total
Year 1	\$446,250	\$0	\$446,250
Year 2	441,125	334,668	775,793
Year 3	409,645	669,391	1,079,036
Year 4	374,498	669,534	1,044,032
Year 5	339,343	669,678	1,009,021
Year 6	304,181	669,822	974,003
Year 7	269,011	669,966	938,977
Total	\$2,584,053	\$3,683,059	\$6,267,112

As shown in Table 2 above, over the seven-year term, HealthRight 360 would be required to pay a total of \$6,267,112 for this loan. At the end of the seven-year term, HealthRight 360 would have repaid \$3,683,059 of the total \$8,500,000 original loan, leaving a remaining balance of \$4,816,941. Therefore, HealthRight 360 would need to refinance or payoff this balance at the end of the seven year loan term.

Ability for HealthRight 360 to Repay Loan

Based on documents provided by HealthRight 360, reviewed by MOHCD and DPH, HealthRight 360 considers this NFF loan to be a construction bridge loan, which would be primarily repaid with funds from a HealthRight 360 \$15 million capital fundraising campaign. Alternatively, HealthRight 360 would use surplus operating funds to payback both the \$24,000,000 Bank of America loan and this \$8,500,000 NFF loan. However, there are no guarantees that such fundraising efforts will be successful or that surplus operating funds will be available.

As noted above, DPH currently provides approximately \$45 million annually to HealthRight 360 to provide City residents with various health and mental health services at numerous locations in the City. Ms. Chawla advises that DPH has no plans to increase their contracts with HealthRight 360 to cover the costs associated with the development project for HealthRight 360 new headquarters and clinic at 1563 Mission Street. However, HealthRight 360 projections assume significant increases over the next seven years in public funding for operations from various federal, state and local sources.

Mr. Lusty advises that HealthRight 360 has already pledged the new headquarters and clinic building, including personal assets of the organization, to secure the Bank of America construction loan. Mr. Lusty also notes that MOHCD's expertise is in the underwriting of affordable housing assets and not evaluating the operational risk associated with health care entities. Nevertheless, after extensive research and discussion with representatives from both HealthRight 360 and NFF, MOHCD staff were not able to validate HealthRight 360's projected operating income and expenses. Therefore, MOHCD could not determine whether HealthRight 360 would be able to repay the \$8,500,000 NFF loan or refinance the \$4,816,941 balance of the NFF loan when due in seven years.

In response, HealthRight 360 reported to DPH and MOHCD that their projections were vetted by both Bank of America and NFF, and reflect the tremendous opportunity presented by California's implementation of the Affordable Care Act. Two years ago, less than 10% of HealthRight 360's clients were insured by Medi-Cal and today over 70% of their clients are insured by Medi-Cal. In addition, all of HealthRight 360's behavioral health services are now a covered benefit as a Federal entitlement creating greater stability for their business model.

Risk to the City if HealthRight 360 Defaults

If HealthRight 360 defaults on the new \$8,500,000 debt, NFF would have the right to foreclose and sell and/or repurpose the two facilities at 890 Hayes Street and 214 Haight Street. As discussed above, these two HealthRight 360 properties provide residential substance abuse services to low income adults with a combined capacity of 163 beds. Mr. Lusty advises that these two properties are an important component of the City's overall affordable housing program.

Risk Mitigation

A letter on January 12, 2016 from the Mr. Olson Lee, Director of the Mayor's Office of Housing and Community Development and Ms. Barbara Garcia, Director of Health to the Board of Supervisors provides that DPH is committed to mitigating risk to the City. DPH plans to increase its financial oversight of HealthRight 360's operations by amending its existing agreements with HealthRight 360 to impose updated asset management and reporting requirements. In addition, HealthRight 360 will be required to provide DPH with quarterly financial statements, notify DPH of any merger negotiations and obtain prior approval of such negotiations and mergers. Ms. Chawla advises that if such reviews uncover areas of concern, DPH will initiate immediate corrective action⁶.

POLICY CONSIDERATION

DPH currently provides approximately \$45 million of funding annually to HealthRight 360 to provide medical, behavioral health, HIV and other services to nearly 20,000 low income San Franciscans each year. According to Ms. Chawla, HealthRight 360 is a vital component of DPH's ability to provide comprehensive health services in the City. HealthRight 360 reports that continuing to rent increasingly costly space for the services it provides jeopardizes Health Right 360's ability to continue to provide services. Therefore, HealthRight 360 needs to be successful in completing their new headquarters and clinic located at 1563 Mission Street, which will expand health care services and ensure the long term viability of HealthRight 360.

⁶ In 2011, the City initiated a Citywide Nonprofit Corrective Action Policy to encourage nonprofit accountability, compliance with government funding requirements and reliable service delivery. This Policy outlines how the City should respond when a nonprofit fails to comply with required performance or monitoring standards and how nonprofits can work to correct deficiencies.

At risk under the proposed resolution is up to \$8,500,000 of a nonprofit loan to HealthRight 360, which would be secured by two residential treatment program facilities that provide up to 163 beds of affordable housing and supportive services.

Lease and First Right to Purchase

On January 7, 2016, HealthRight 360 signed a letter of intent to (a) lease approximately 2,000 square feet of space at their new 1563 Mission Street facility to DPH for an initial term of five years, plus one three year option to extend based on an independent appraisal of fair market rent, and (b) a first right to purchase the 1563 Mission Street property⁷. As noted above, the new headquarters and medical clinic building is estimated to be completed by the summer of 2017. DPH advises that this lease/right to purchase arrangement will allow DPH to have an onsite presence for greater involvement in HealthRight 360's successful operation. DPH has not yet determined which DPH programs will be located at the 1563 Mission Street facility.

RECOMMENDATION

Approval of the proposed resolution is a policy decision for the Board of Supervisors.

⁷ This first right to purchase excludes any sale to an affiliated California nonprofit to meet the requirements of the New Market Tax Credit which was used to fund the development of this project.

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



Edwin M. Lee
Mayor

Olson Lee
Director

January 12, 2016

Members of the Board of Supervisors
1 Dr Carlton B Goodlett Place
San Francisco, CA 94102

Re: Request for authorization to subordinate Seismic and Safety Loan Program loans to HealthRight 360 construction loan

Members of the Board of Supervisors,

The Mayor's Office of Housing and Community Development (MOHCD) and the San Francisco Department of Public Health (DPH) jointly submit for Board of Supervisors consideration the attached proposed resolution authorizing the subordination of two existing Seismic and Safety Loan Program loans, secured in part by real property commonly known as 890 Hayes Street and 214 Haight Street, to a new loan from the Nonprofit Finance Fund to HealthRight 360 in the amount of \$8,500,000 for the construction of HealthRight 360's new headquarters and clinic located at 1563 Mission Street.

HealthRight 360 (HR360), a merger of Haight Ashbury Free Clinic, Walden House, Lyon Martin Health Services, and other community health providers, is an important City partner. A key provider of health and behavioral health services in San Francisco, HR360 contracts with DPH and other City departments to provide primary care, mental health, and substance abuse services to San Francisco's vulnerable and low-income populations. DPH alone contracts with HR360 provide nearly \$45 million in medical, mental health, substance abuse, and HIV services to more than 20,000 San Franciscans each year. Given HR360's role as a vital part of the City's health care safety net, DPH supports this proposed resolution.

In recognition of their history providing needed services to vulnerable San Franciscans and in anticipation of the expansion of these services expected as a result of their new headquarters and clinic building, in September 2014 the Health Commission determined that HR360 was consistent and recommended for incentives under the City's Health Care Services Master Plan. The Health Care Services Master Plan identifies the current and projected need for health care services in San Francisco, and makes recommendations on how to achieve and maintain appropriate access to such services. Certain recommendations in the Master Plan are designated as "Eligible for Incentives" because they address specific unmet health care needs. Projects that address these unmet needs, such as HR360's new headquarters and clinic building project, are recommended by the Health Commission for incentives within the city planning process.

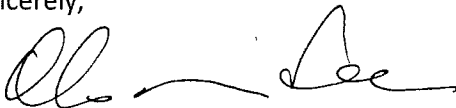
HR360's new clinic is projected to provide 18,500 medical visits to 7,400 unique patients and 5,400 dental visits to 2,160 unique patients on an annual basis. In addition, HR360's proposed project will expand on community behavioral health services in the city by adding 10,000 square feet for substance abuse and mental health services, providing approximately 1,000 individuals with substance use disorder services and 300 individuals with mental health counseling. Based on the clinic's catchment area and HR360's current client population, the new clinic's patients will be disproportionately low-income, uninsured or publicly-insured, and have high rates of hospitalization due to preventable illness compared to the city population overall. This new project will enhance HR360's demonstrated ability to provide critical services to a population with complex medical and behavioral health needs.

Without approval of this resolution, completion of HR360's new headquarters and clinic may not be feasible and HR360 would be required to continue renting office and clinic space in San Francisco's current high cost market. This resolution assists HR360 in securing a stable headquarters in San Francisco, thereby ensuring that the 20,000 low-income San Franciscans that they serve each year continue to have access to needed medical and behavioral health services.

DPH is committed to mitigate any risk to the city by increasing financial oversight of HR360 operations. DPH will amend its existing agreements with HR360 to impose updated asset management and reporting requirements. HR360 will provide DPH with quarterly financial statements, notify DPH of any proposed merger negotiations involving HR360, and obtain prior DPH approval of any such proposed negotiations and mergers.

We appreciate the Board's consideration of this resolution, which will support a key City partner in the provision of critical health services to vulnerable San Franciscans.

Sincerely,



Olson Lee
Director, Mayor's Office of Housing
and Community Development



Barbara A. Garcia, MPA
Director of Health

Recording Requested By
And When Recorded Mail To:

Nonprofit Finance Fund
70 West 36th Street, 11th Floor
New York, NY 10018
Attn: Nancy Nichols

SUBORDINATION AGREEMENT
(890 Hayes Street, San Francisco, California,
214 Haight Street, San Francisco, California)

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTIES BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

THIS AGREEMENT (the "Agreement"), is made as of , 201 , by and between **HEALTHRIGHT 360**, a California nonprofit public benefit corporation, hereinafter described as the "**Borrower**," **CITY AND COUNTY OF SAN FRANCISCO**, a municipal corporation, hereinafter, referred to as the "**Subordinate Lender**," and **NONPROFIT FINANCE FUND**, a New York not-for-profit corporation, hereinafter referred to the "**Senior Lender**."

WITNESSETH

WHEREAS, Borrower is currently the owner of the following properties: 890 Hayes Street, San Francisco, California (the "**Hayes Street Property**") and 214 Haight Street, San Francisco, California (the "**Haight Street Property**"). The Hayes Street Property and the Haight Street Property are collectively referred to as the "**Properties**" and sometimes individually referred to as a "**Property**."

[WHEREAS, prior to the date hereof, the Subordinate Lender has made the following three (3) loans to Borrower each of which are secured by both the Hayes Street Property and the Haight Street Property:

1. A Loan in the amount of \$285,000 secured by a Construction and Permanent Deed of Trust, Security Agreement, and Assignment of Leases and Fixture Filing dated December 21, 2005 and recorded in the San Francisco County Recorder's Office (the "**Official Records**") on December 21, 2005 as Document No. 2005-I095416-00;
2. A Loan in the amount of \$3,802,000 secured by a Construction and Permanent Deed of Trust, Security Agreement, and Assignment of Leases and Fixture Filing dated September 21, 2007 and recorded in the Official Records on October 22, 2007 as Document No. 2007-I478112-00;
3. A Loan in the amount of \$200,000 secured by a Deed of Trust and Assignment of Rents dated June 16, 2010 and recorded in the Official Records on June 30, 2010 as Document No. 2010-I990497-00

WHEREAS, prior to the date hereof, the Subordinate Lender has made the following loan to Borrower, which is secured by the Haight Street Property only:

A Loan in the amount of \$450,000 secured by a Deed of Trust and Assignment of Rents dated August 14, 1996 and recorded in the Official Records on September 6, 1996 as Document No. 96-G031901-00; WHEREAS, the aforesaid four (4) loans are collectively referred to as the “**Subordinate Loans**” and sometimes individually referred to as a “**Subordinate Loan.**” The indebtedness evidenced and secured by the Subordinate Loans is hereinafter collectively referred to as the “**Subordinate Indebtedness.**” The aforesaid deeds of trust, regulatory agreements, and any other documents or instruments recorded in connection with any of the Subordinate Loans are collectively referred to as the “**Subordinate Encumbrances**” and the Subordinate Encumbrances, together with any and all loan agreements, promissory notes, and other documents and instruments securing and/or relating to the Subordinate Loans, are collectively referred to as the “**Subordinate Loan Documents.**” The Subordinate Loan Documents also create in favor of the Subordinate Lender security interests and liens in other property, rights, accounts, and interests of Borrower. Such other property, rights, accounts, and interests (excluding any rights or interests in that certain real property located at 815 Buena Vista Avenue, San Francisco, California) are collectively referred to as the **Other Collateral.**

WHEREAS, concurrently with the execution of this Agreement, the Senior Lender is making a loan (the “**Senior Loan**”) to Borrower in the amount of \$8,500,000. Concurrently herewith, the Senior Loan will be secured by a Deed Of Trust with Assignment of Rents, Security Agreement, and Fixture Filing (the “**Senior Deed of Trust**”) to be recorded against the Borrower’s interest in both of the Properties in the Official Records Official Records. The Senior Deed of Trust, together with the UCC-1 Fixture Filing and any other documents to be recorded in connection with the Senior Loan, are hereinafter collectively referred to as the “**Senior Encumbrances.**” The indebtedness evidenced and secured by the Senior Loan Documents (as defined below) is hereinafter collectively referred to as the “**Senior Indebtedness.**” The Senior Encumbrances, together with all loan agreements, promissory notes, environmental and other documents and instruments securing, guaranteeing, and/or relating to the Senior Loan shall be collectively referred to herein as the “**Senior Loan Documents.**” The Other Collateral is also secured by Senior Loan Documents.

WHEREAS, it is a condition precedent to making the Senior Loan, that the Senior Loan Documents and Senior Lender’s right to payments under the Senior Loan Documents shall unconditionally be and remain at all times a lien or charge upon the Properties and the Other Collateral, prior and superior to the Subordinate Encumbrances and any and all rights, restrictions, agreements, liens and charges in favor of Subordinate Lender and the Subordinate Lender’s respective right to payments under the Subordinate Loan Documents.

WHEREAS, it is to the mutual benefit of the parties hereto that the Senior Lender make the Senior Loan, and Subordinate Lender and Borrower are willing to provide the subordination required by the condition precedents described above.

NOW, THEREFORE, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, Senior Lender, Subordinate Lender and Borrower agree as follows:

1. Subordination of Liens and Payment Rights; General Acknowledgements and Agreements. Subordinate Lender hereby acknowledges, declares, and agrees as follows:
 - a. That the Senior Loan Documents, and any modification, extension or renewal thereof, together with the Senior Lender's right to payments under the Senior Loan Documents

shall unconditionally be and remain at all times a lien or charge on the Properties and the Other Collateral that is prior and superior to the lien and charge of the Subordinate Loan Documents and to the Subordinate Lender's right to payments under the Subordinate Loan Documents and any and all other rights, restrictions, agreements, liens and charges in favor of the Subordinate Lender. Subject to Section 1.h. below, all advances made by the Senior Lender and any modification, extension or renewal agreed to by a Senior Lender with respect to the Senior Loan, the Senior Loan Documents or any other documents and instruments governing, evidencing or securing the Senior Loan shall be secured by the lien or charge of the Senior Encumbrances, which lien shall at all times be prior and superior to the lien or charge of the Subordinate Encumbrances and the Subordinate Lender's right to payments under the Subordinate Loan Documents and any and all other rights, restrictions, agreements, liens or charges in favor of the Subordinate Lender. Anything hereinabove to the contrary notwithstanding but subject to Section 2 below, the Subordinate Lender shall be entitled to receive and keep all payments made in accordance with the Subordinate Loan Documents until such time as the Subordinate Lender receives a notice of an event of default under the Senior Loan Documents;

- b. That the Senior Lender would not make the Senior Loan to the Borrower without this Agreement;
- c. That with regard to the priority of the Subordinate Encumbrances, this Agreement shall be the sole and only agreement with regard to the subordination of the lien or charge of the Subordinate Encumbrances and all rights to payment to the lien or charge of the Senior Encumbrances and the Senior Lender's right to payment, and shall supersede and cancel any prior agreements as to such subordination including, but not limited to, those provisions, if any, contained in any of the Subordinate Encumbrances, which provide for the subordination of the lien or charge thereof to another deed or deeds of trust, another mortgage or mortgages, or any other property use restrictions or covenants;
- d. That the Subordinate Lender consents to and approves the provisions of the Senior Loan Documents that relate to the disbursement of the proceeds of Senior Loan ("**Disbursement Provisions**");
- e. That the Senior Lender, in approving any disbursements pursuant to any of the Disbursement Provisions, is under no obligation or duty to, nor has the Senior Lender represented that it will, see to the application of such proceeds by the person or persons to whom the proceeds are disbursed and any application or use of such proceeds for purposes other than those provided for in the Senior Loan Documents shall not defeat the subordination herein made in whole or in part;
- f. Subject to Section 1.a. above, that the Subordinate Lender intentionally and unconditionally subordinates the Subordinate Loan Documents and the Subordinate Lender's right to payments under the Subordinate Loan Documents and intentionally and unconditionally subordinates any and all other rights, restrictions, agreements, liens or charges in favor of Subordinate Lender in favor of the lien or charge upon the Properties and the Other Collateral of the Senior Loan Documents;
- g. That the Subordinate Lender understands that in reliance upon, and in consideration of, this Agreement, specific concessions are being and will be made by the Senior Lender, and as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this Agreement;

- h. That the Senior Lender shall not agree to any Material Senior Loan Modification (as defined below) without first obtaining the written consent of the Subordinate Lender, which consent shall not be unreasonably withheld or delayed. “**Material Senior Loan Modification**” means any modification of the Senior Loan Documents following the closing of the Senior Loan (a) that increases the amount of the Senior Loan, the interest rate applicable to the Senior Loan, or the amount of any interest and/or principal payments required to be made prior to maturity or (b) that re-sets the scheduled Maturity Date (as defined in the Senior Loan Documents) of the Senior Loan to an earlier date. In no event shall Material Senior Loan Modifications include (i) any extension of the Maturity Date of the Senior Loan, or (ii) any increase in the principal amount of the Senior Loan (e.g. increases resulting from protective and other advances made by the Lender) or of the interest rate payable thereunder (e.g. interest payable at a default rate) or in payments becoming due, which increases occur automatically or pursuant to any election, decision, or determination that the Senior Lender is entitled to make under the terms and provisions of the Senior Loan Documents;
- i. That the Subordinate Lender shall not agree to any Material Subordinate Loan Modification (as defined below) without first obtaining the written consent of the Senior Lender, which consent shall not be unreasonably withheld or delayed. “**Material Subordinate Loan Modification**” means any modification of the Subordinate Loan Documents (a) that increases the amount of any Subordinate Loan, the interest rate applicable to any Subordinate Loan, or the amount of any interest and/or principal payments required to be made prior to maturity, (b) that accelerates the maturity date of any Subordinate Loan, (c) that requires any payments to be made prior to maturity without regard to the availability of “Residual Receipts” (as defined in the Subordinate Loan Documents), or (d) any change in the proposed development or use of the Properties. In no event shall Material Subordinate Modifications include (i) any extension of the maturity of any Subordinate Loan, or (ii) any increase in the principal amount of any Subordinate Loan (e.g. increases resulting from protective and other advances made by the Lender) or of the interest rate payable thereunder (e.g. interest payable at a default rate) or in payments becoming due, which increases occur automatically or pursuant to any election, decision, or determination that the Subordinate Lender is entitled to make under the terms and provisions of the Subordinate Loan Documents as reviewed by the Senior Lender prior to the date hereof;
- j. That to Subordinate Lender’s actual knowledge, without investigation or inquiry, Subordinate Lender acknowledges that no violation, default or event of default (or events which would become such with the giving of notice or passage of time or both) currently exist under any of the Subordinate Loan Documents;
- k. That the Subordinate Lender’s agreement with Borrower, and any terms and conditions thereof, whether express or implied, are solely between it and Borrower and are of no concern to the Senior Lender, and that the Senior Lender is not, and will not be, throughout the terms of its loan and modification, extension or renewal thereof, under any duty or obligation to assure compliance with the terms and conditions of any agreement between Borrower and the Subordinate Lender; nor will Senior Lender be under any obligation or duty to take any action because of any knowledge it has or may have regarding any breach by Borrower;
- l. That the Subordinate Lender acknowledges that, notwithstanding anything to the contrary in the law, equity or its agreement with Borrower, the subordination of

Subordinate Lender's interest is not subject to compliance, substantial or otherwise, with any provision of such agreement with Borrower, whether express or implied; and,

- m. That the Senior Lender considers the foregoing acknowledgements, declarations, and agreements to be a material condition for Senior Lender making its loan with Borrower.

2. Restrictions on Receipt of Payments. Subordinate Lender hereby agrees that, upon the occurrence of any default under the Senior Loan Documents (a "**Senior Loan Default**"), Borrower shall not be permitted to make, and Subordinate Lender shall not accept or receive, any payment with respect to any of the Subordinate Indebtedness until such Senior Loan Default is cured or waived or the Senior Indebtedness is paid and performed in full. If, notwithstanding the provisions of this Section 2, Subordinate Lender receives any payment with respect to any of the Subordinate Indebtedness during the occurrence of a Senior Loan Default and the Senior Loan Default is not cured or waived in accordance with the Senior Loan Documents, such payment(s) shall be (i) held by Subordinate Lender in trust for the benefit of Senior Lender and (ii) paid to Senior Lender within five (5) business days following the date of receipt by the Subordinate Lender of such payment, provided that Subordinate Lender had received written notice from Senior Lender or from any other party of the Senior Loan Default, or otherwise had actual knowledge of the Senior Loan Default, prior to the time that Subordinate Lender received such payment.

3. Notice and Cure Rights; Limited Standstill Agreement.

- a. For purposes of this Section 3 and the other provisions of this Agreement, the following capitalized words and terms shall have the following meanings:

"**Collateral**" means the Properties, the Other Collateral, and any other collateral held as security for the Senior Loan or any of the Subordinate Loans, as applicable.

"**Cure Period**" means a period of a thirty (30) consecutive days from the giving of a Default Notice.

"**Defaulted Lender**" means the party giving a Default Notice.

"**Default Notice**" means written notice of the default(s) or event(s) of default under the Senior Loan Documents or Subordinate loan Documents, as the case may be.

"**Enforcement Action**" means any right or remedy available to Subordinate Lender under the Subordinate Loan Documents or to Senior Lender under the Senior Loan Documents, at law, in equity or otherwise with respect to Borrower and/or the Collateral, including, without limitation any (i) judicial or non-judicial foreclosure proceeding, the exercise of any power of sale, the taking of a deed or assignment in lieu of foreclosure, the obtaining of a receiver or the taking of any other enforcement action against the Collateral or Borrower, including, without limitation, the taking of possession or control of the Collateral or (ii) acceleration of, or demand or action taken in order to collect, all or any indebtedness secured by the Collateral (other than giving of notices of default and statements of overdue amounts), or the exercise of any other right or remedy, under the Senior Loan Documents or the Subordinate Loan Documents, at law or otherwise, with respect to the enforcement of the Senior Indebtedness or the Subordinate Indebtedness or realization upon the Collateral.

“Foreclosure Remedy” means the completion of a foreclosure sale of either Property or the recording of a deed-in-lieu of foreclosure with respect to either Property.

“Noticed Defaults” means the noticed default(s) or event(s) of default set forth in a Default Notice.

“Notice Party” means the party receiving a Default Notice.

- b. Notice and Cure Rights of Subordinate Lender. Senior Lender agrees that it shall not complete any Enforcement Action unless and until Subordinate Lender has first been given a Default Notice, and Subordinate Lender has failed to cure the Noticed Defaults within the Cure Period; provided, however, that Senior Lender shall be entitled during the Cure Period to continue to pursue all of its rights and remedies under the Senior Loan Documents, including but not limited to acceleration of the Senior Note (subject to the de-acceleration provisions set forth below), commencement and pursuit of foreclosure (but not completion of the foreclosure sale), any guaranty (subject to any notice and cure provisions contained therein), and/or any other Senior Loan Document. It is the express intent of the parties hereunder that Senior Lender shall have the right to pursue all rights and remedies except completion of a Foreclosure Remedy without liability to Subordinate Lender for failure to provide notice to Subordinate Lender, and that the Senior Lender's liability hereunder shall be expressly limited to actual damages to Subordinate Lender directly caused by the Senior Lender's completion of a Foreclosure Remedy without Subordinate Lender receiving the notice and opportunity to cure described above. Unless expressly prohibited by law, Subordinate Lender may record a “Request for Notice,” or similar appropriate document requesting notice of any foreclosure sale under the Senior Deed of Trust, in the Official Records, and in the event Senior Lender has failed to sooner provide Default Notice to Subordinate Lender, the receipt of such notice of foreclosure sale by such Subordinate Lender shall be deemed to be notice to the Subordinate Lender as contemplated in this subsection b. Except as specifically provided herein, or otherwise agreed in writing, Senior Lender's failure to give any such notice for any reason shall not act to impair or waive any remedy or right of Senior Lender under this Subordination Agreement or any of the Senior Loan Documents.
- c. Notice and Cure Rights of Senior Lender. Until the Senior Indebtedness is paid in full, the Subordinate Lender agrees that it shall not complete any Enforcement Action against the Borrower or the Collateral with respect to any of the Subordinate Indebtedness unless and until Senior Lender has first been given a Default Notice and Senior Lender has failed to cure the Noticed Defaults within the Cure Period. provided, however, that Subordinate Lender shall be entitled during the Cure Period to continue to pursue all of its rights and remedies under the Subordinate Loan Documents, including but not limited to acceleration of the Subordinate Indebtedness (subject to the de-acceleration provisions set forth below), commencement and pursuit of foreclosure (but not completion of the foreclosure sale), any guaranty (subject to any notice and cure provisions contained therein), and/or any other Subordinate Loan Document. It is the express intent of the parties hereunder that Subordinate Lender shall have the right to pursue all rights and remedies except completion of a Foreclosure Remedy without liability to Senior Lender for failure to provide notice to Senior Lender, and that the Subordinate Lender's liability hereunder shall be expressly limited to actual damages to Senior Lender directly caused by the Subordinate Lender's completion of a Foreclosure Remedy without Senior Lender receiving the notice and opportunity to cure described above. To the extent not otherwise prohibited by applicable law, any proceeds of any

Enforcement Action obtained by the Subordinate Lender from the Borrower within the Cure Period shall in any event be held in trust by it for the benefit of the Senior Lender and promptly paid or delivered to the Senior Lender in the form received until the Senior Indebtedness is paid in full. Unless expressly prohibited by law, Senior Lender may record a "Request for Notice," or similar appropriate document requesting notice of any foreclosure sale, in the Official Records, and in the event Subordinate Lender has failed to sooner provide notice to Senior Lender, the receipt of such notice of foreclosure sale by Senior Lender shall be deemed to be notice to Senior Lender as contemplated in this subsection c. Except as specifically provided herein, or otherwise agreed in writing, Subordinate Lender's failure to give any such notice for any reason shall not act to impair or waive any remedy or right of Subordinate Lender taken after expiration of the Standstill Period under this Subordination Agreement or any of the Subordinate Loan Documents.

Subordinate Lender hereby agrees and acknowledges that, in the exercise of Senior Lender's rights and remedies, (i) Senior Lender may foreclose against both Properties simultaneously or foreclose against one or the other of the Properties consecutively, in such order to time as the Senior Lender shall determine in its sole discretion and (i) the Subordinate Lender shall have no right to designate the manner or order of which the Properties shall be foreclosed by the Senior Lender.

- d. Civil Code Rights. The provisions of the foregoing paragraphs are intended to supplement, and not to limit, waive, modify or replace, those provisions of law pertaining to notice and cure rights of lenders, including, without limitation, those set forth in California Civil Code sections 2924b and 2924c.
- e. Exercise of Cure Rights. With respect to the exercise of the cure rights provided in Section 3.b. and c. above, the following shall apply:
 - i. Each Notice Party, whether Senior Lender or Subordinate Lender, shall have the right, but not the obligation, to elect to cure the Noticed Defaults by giving the Defaulted Lender written notice of its intention to cure the Noticed Defaults within the Cure Period and thereafter curing all Noticed Defaults within the Cure Period.
 - ii. If a cure of all the Noticed Defaults is completed within the Cure Period, the Defaulted Lender will rescind any notice of default recorded and request dismissal of any receiver who has been appointed, after reimbursement of all of Defaulted Lender's costs, including, without limitation, reasonable attorney's fees and costs.
 - iii. Following the timely cure of all Noticed Defaults by a Notice Party, the Defaulted Lender will not exercise its right to accelerate (or will de-accelerate) the amounts due under the Defaulted Lender's respective loan documents by reason of the Noticed Defaults cured by such Notice Party; provided, however, that nothing herein shall be construed to waive or limit any of the Defaulted Lender's rights or remedies as to any uncured Noticed Default, or any subsequent default, by Borrower.

4. Bankruptcy Proceedings.

- a. For purposes of this Section 4 and the other provisions of this Agreement, the following capitalized words and terms shall have the following meanings:

“**Proceeding**” shall mean any case, proceeding or other action against or by Borrower under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, including without limitation any voluntary or involuntary petition filed pursuant to 11 U.S.C. 101 et. seq.

“**Person**” means any individual, corporation, firm, enterprise, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company or other entity of any kind, or any government or political subdivision or any agency, department or instrumentality thereof.

“**Borrower Group**” refers to any Person which controls, or has the ability to control, the Borrower.

- b. Subordinate Lender hereby waives any requirement for marshaling of assets thereby in connection with any foreclosure of Senior Encumbrance or any other realization upon the Collateral, or any exercise of any rights of set-off or otherwise.
- c. Subordinate Lender agrees that Senior Lender does not owe any fiduciary duty to the Subordinate Lender in connection with the administration of the Senior Indebtedness.
- d. The provisions of this Section 4 shall be applicable both before and after the commencement, whether voluntary or involuntary, of any Proceeding. For as long as the Senior Indebtedness shall remain outstanding, Subordinate Lender shall not, and shall not solicit any Person to, direct or cause either Borrower or any member of Borrower Group to: (i) commence any Proceeding; (ii) institute proceedings to have Borrower or any member of Borrower Group adjudicated a bankrupt or insolvent; (iii) consent to, or acquiesce in, the institution of bankruptcy or insolvency proceedings against Borrower or any member of Borrower Group; (iv) file a petition or consent to the filing of a petition seeking reorganization, arrangement, adjustment, winding-up, dissolution, composition, liquidation or other relief by or on behalf of Borrower or any member of the Borrower Group; (v) seek or consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator, custodian or any similar official for Borrower or any member of Borrower Group, the Collateral (or any portion thereof); (vi) make an assignment for the benefit of any creditor of Borrower or any member of Borrower Group; (vii) seek to consolidate the Collateral or any other assets of Borrower with any other Person, including any member of Borrower Group in any proceeding relating to bankruptcy, insolvency, reorganization or relief of debtors; or (viii) take any action in furtherance of any of the foregoing.

5. Right to Purchase Senior Loan. If (i) the Senior Indebtedness has been accelerated or (ii) any other Enforcement Action has been commenced and is continuing under the Senior Loan Documents (each of the foregoing, a “**Purchase Option Event**”), upon ten (10) Business Days prior written notice to Senior Lender (“**Purchase Notice**”), Subordinate Lender shall have the right to purchase, in whole but not in part, the Senior Loan for a price equal to the outstanding principal balance thereof, together with all accrued and unpaid interest and other amounts due thereon (including any late charges, default interest, exit fees, yield maintenance fees and prepayment premiums), any protective advances and all costs and expenses (including legal fees and expenses) actually incurred by Senior Lender in enforcing the terms of the Senior Loan Documents (“**Loan Purchase Price**”). Concurrently with payment to Senior Lender of the Loan

Purchase Price, Senior Lender shall deliver or cause to be delivered to Subordinate Lender all Senior Loan Documents held by or on behalf of Senior Lender and will execute in favor of Subordinate Lender or its designee assignment documentation, in form and substance reasonably acceptable to Subordinate Lender, at the sole cost and expense of Subordinate Lender to assign the Senior Loan and its rights under the Senior Loan Documents (without recourse, representations or warranties, except for representations as to the outstanding balance of the Senior Loan and as to Senior Lender's not having assigned or encumbered its rights in the Senior Loan). The right of Subordinate Lender to purchase the Senior Loan shall automatically terminate (i) upon a transfer of either Property by foreclosure sale, sale by power of sale or delivery of a deed in lieu of foreclosure or (ii) if a Purchase Option Event ceases to exist.

6. No Subrogation. Until the indefeasible payment and performance in full of all Senior Indebtedness, Subordinate Lender shall not have and shall not directly or indirectly exercise any rights that it may acquire by reason of subrogation, whether under this Agreement or otherwise, by any payment or distribution by Borrower to Senior Lender.

7. Notices. All notices, demands, requests, consents, approvals or other communications required, permitted, or desired to be given hereunder shall be in writing sent by facsimile (with answer back acknowledged) or by registered, or delivered by hand or reputable overnight courier addressed to the party to be so notified at its address hereinafter set forth, or to such other address as such party may hereafter specify in accordance with the provisions of this Section 7. Any such notice, demand, request, consent, approval or other communication shall be deemed to have been received: (a) three (3) Business Days after the date mailed, (b) on the date of sending by facsimile if sent during business hours on a Business Day (otherwise on the next Business Day), (c) on the date of delivery by hand if delivered during business hours on a Business Day (otherwise on the next Business Day) and (d) on the next Business Day if sent by an overnight commercial courier. "Business Day" means any day other than Saturday, Sunday, or any nationally recognized holiday.

Subordinate Lender:

Mayor's Office of Housing and Community Development
City and County of San Francisco
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103
Attn: Director
Fax no.: []

Senior Lender:

Nonprofit Finance Fund
70 West 36th Street, 11th Floor
New York, NY 10018
Attn: Norah McVeigh
Fax no.: 212-268-8653

Borrower:

HealthRight 360
1735 Mission Street

San Francisco, CA 94103
Attention: Dr. Vitka Eisen
Fax no.: []

9. Applicable Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the laws of the State of California.
10. Attorneys' Fees. If any lawsuit, reference or arbitration is commenced which arises out of or relates to this Agreement, the prevailing party shall be entitled to recover from each other parties such sums as the court, referee or arbitrator may adjudge to be reasonable attorneys' fees in the action, reference or arbitration, in addition to costs and expenses otherwise allowed by law.
11. Successors and Assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. All covenants, promises and agreements in this Agreement shall inure to the benefit of, and shall bind, the respective successors and assigns of the parties hereto.
12. Counterparts. This Agreement may be executed in multiple counterparts and all original counterparts shall together comprise a fully executed version of this Agreement.
13. Borrower Acknowledgment. Borrower (a) approves of and agrees to all of the terms of this Agreement; (b) agrees to be bound by all of the terms of this Agreement; (c) agrees that any default or event of default by Borrower under any present or future instrument or agreement with respect to the Subordinate Indebtedness shall constitute an immediate default and event of default under all present and future instruments and agreements relating to the Senior Loan; and (d) agrees that, at any time and from time to time, this Agreement may be altered, modified or amended by Senior Lender and Subordinate Lender without notice to or the consent of Borrower.
14. Entire Agreement. This Agreement sets forth in full the terms of agreement between the parties with respect to the subject matter hereof, and may not be modified or amended, nor may any rights hereunder be waived, except in a writing signed by Senior Lender and Subordinate Lender.

[signatures on following pages]

Borrower:

HEALTHRIGHT 360,
a California nonprofit public benefit corporation

By: _____
Name: _____
Its: _____

[signatures continue on following page.]

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document

STATE OF CALIFORNIA)

COUNTY OF)

On _____, before me, _____, Notary Public, personally appeared _____, proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify UNDER PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____

EXHIBIT A

(To be inserted by Title Company)

THE LAND DESCRIBED HEREIN IS SITUATED IN THE STATE OF CALIFORNIA, CITY AND COUNTY OF SAN FRANCISCO, AND IS DESCRIBED AS FOLLOWS:

Hayes Street Property:

A.P.N.

Haight Street Property

A.P.N.

UMB SEISMIC SAFETY LOAN PROGRAM
LOAN APPLICATION PRESENTATION AND ANALYSIS
Walden House Adult Residential Facility
815 Buena Vista West
PREDEVELOPMENT LOAN

Prepared By: Mitchell Zeemont, Wayne Lawrence

Date prepared: April 5, 2005

Loan Committee Date: April 14, 2005

Applicant/Sponsor Name:	Walden House, Inc.
Project Name:	Adult Residential Substance Abuse Treatment Center
Project Address (w. cross street):	815 Buena Vista Street
Number of Units/Beds (specify):	46 resident rooms; 108-bed capacity
Amount of Funds Requested:	\$285,000 for predevelopment costs (Loan request of approximately \$1,610,000 anticipated for construction)
Staff Recommendation:	Fund \$285,000

Loan Request Summary

The Borrower is seeking a \$285,000 UMB loan to finance pre-development soft costs in advance of a planned seismic retrofit of the subject property. This loan will enable the borrower to contract with an architect to complete renovation plans, bid out the construction project and obtain a building permit. The proposed uses of the requested loan funds are shown on the attached Exhibit A. Once a final line item budget and plans are obtained, the borrower will apply for a UMB loan program construction loan. The budget and plans will also be reviewed by an independent construction monitoring consultant for the UMB loan program prior to closing of the construction loan.

The subject UMB loan will be secured by a blanket third deed of trust on the subject property and second deeds of trust on two other properties owned by the Borrower.

Property and Improvements

The following information is based on materials submitted by the Applicant, including a signed UMB Loan Application. The subject property is improved with a partial four-story and one-story

group housing facility. The building is a concrete masonry structure constructed in 1916. The gross building area is approximately 30,036 square feet, and the land area is approximately 9,753 square feet. The upper two floors are utilized for individual bedrooms (108 beds) with community bathrooms. The lower floors contain administrative offices and counselling rooms, a multi-purpose hall, a commercial kitchen and dining room.

Borrower

The Borrower will be Walden House, Inc., a California non-profit corporation. Walden House is well-known provider of psychological and social services to the general public, primarily related to drug and substance abuse rehabilitation and HIV prevention. Walden House operates a network of treatment facilities, halfway houses at a variety of locations, primarily in the San Francisco Bay Area.

In the 35 years since it first opened its doors as a local drug and alcohol treatment center, Walden House has evolved into a national leader in developing strategies to help addicts recover and maintain their lives. Walden House treats more than 3,400 men, women and children daily. Walden House provides a full-continuum health care system specializing in all aspects of addiction services including detoxification, comprehensive medical care and mental health services. Clients receive legal, educational and vocational services as fundamental parts of their treatment. Walden House endeavors to promote a "culturally sensitive treatment environment that is designed to foster the open communication, self-help and empowerment of each person within the context of the greater community." Walden House employs has over 400 employees in over 150 job titles.

A few of Walden House's specific services include:

- * Adult residential programs providing substance abuse and mental health treatment services in its facilities at the subject property and at 890 Hayes Street. Similar services are provided for State prison system parolees at its Hill street facility in Los Angeles and at the Female Offender Treatment and Education Program facilities on Treasure Island and in El Monte, CA.

- *Adult outpatient and day treatment programs at the Multi-Services Center at 1885 Mission Street. These services are provided for people on the waiting list for residential services and for those not requiring residential care.

- *Criminal justice treatment programs including the Sisters in Sober Treatment Empowered in Recovery Project which provides in-custody substance abuse treatment to women in the San Francisco County jail, with continuing services at the Multi-Services Center. Walden House has approximately 10 contracts with the California Department of Corrections to provide service to parolees and inmates.

*Residential program for adolescents at 214 Haight Street and at the St. Michael's facility on Farallones Street. The Walden Academy provides on-site educational services to adolescents assessed as having special needs by the San Francisco Unified School District, and operates a community day program serving those not needing special educational services.

*Adult HIV/Mental Health programs and vocational services.

Walden House receives funding through a host of governmental grants, contracts and charitable donations. For FYE 6/30/04, total revenues were \$41.876 million. Approximately 86% of this income was derived from governmental grants and contracts, 6% from AFDC-Foster Care payments, 2% from welfare departments, and 6% from in-kind and cash donations. Expenditures on program services totaled \$37.7 million and management and general expenses totaled \$4.41 million for a total of \$42.115 million. Thus the organization showed a \$243,000 operating loss. However, if depreciation and amortization expenses \$640,047 are added back, there was a positive cash flow. It is also noted that for the six months ended 12/31/04, Walden House had total income of \$21.7 million and positive net income of \$3,000. Available cash flow would be more than sufficient to repay the requested predevelopment loan.

For the FYE's 6/30/03, 6/30/02 and 6/30/01, total revenues were \$44.7 million, \$49.7 million and \$42.8 million, respectively, and net operating income was \$111,000, \$321,000, and (\$724,000). The following commentary has been obtained from the bond prospectus issued last year. Walden House had significant revenue growth in the late 1990's (i.e. from below \$20 million to over \$40 million) due to the State's public policy decision to provide alcohol and other drug treatment services within its prison system. With this expansion came "increased fiscal pressures on an antiquated financial infrastructure. The Corporation has made considerable progress in rectifying past financial weaknesses by evaluating internal controls and improving monitoring and reporting systems. Over the past year, the Corporation has made significant progress in decreasing expenditures through improved efficiencies, as federal and state funding have declined due to budgetary and policy constraints. Improvements have also been realized in the billing and collection of the Corporation's receivables, thus improving cash flow...The Corporation plans to concentrate on strengthening its internal management and administration for the next three to five years. The only program expansion targeted over this period is the development of a program for youth mentoring and prevention services. All other efforts will concentrate on seeking funding to enhance existing services, programs and facilities."

The prospectus also notes that in January, 2004, the Charitable Assets Division of the State Attorney General's office conducted an investigation of possible violations by previous management. The investigation found that expenditures of approximately \$470,000 in 1994 and between 1998 and 2003 were either not appropriately approved the Corporation's Board or insufficiently documented. The investigation prompted the resignation and/or termination of "certain personnel" cited by the State. "Current management of the Corporation believes it has

taken the corrective actions necessary to address the conduct of former management and to cause the Corporation to be in compliance with the laws that regulate its operations. However, because of the actions by the former and deceased CEO and certain former senior management personnel, the Corporation may face possible fines and penalties from regulatory agencies, including the IRS, and/or the revocation of its exempt status." According to Rod Libbey of Walden House, however, The Attorney General's investigation of Walden House was concluded a number of months ago, and Walden House "has not faced any fines or been notified of any concerns whatsoever by the IRS, including concerns with Walden House's exempt status."

Lastly, the prospectus notes that the current management's June, 2004 "corrective action plan" was approved by the State, and the State has since notified management that the "Corporation has satisfied the Attorney General's requirements" except for the employment of a new CFO and implementing an education program for members of the Board of Directors. A new CFO, Keith Spindle, former CFO of the Golden Gate Conservancy, was hired on March 15. The Board of Directors received the recommended training on "Duties of a Director under California Nonprofit Law" by Cynthia Rowland of Coblenz, Patch, Duffy and Bass, LLP on 12/8/04. The successful \$7,475,000 bond refinance in December, 2004 was another positive development for Walden House's new management, both in terms of its successful placement and the estimated \$117,000 in projected future annual savings.

Walden House's President/CEO is now Chuck Deutschman, appointed President/CEO in July, 2003. Mr. Deutschman was previously the Substance Abuse Program Director for the Contra Costa County Health Services Department, a position he held since 1986. In addition to the recent hiring of CFO Keith Spindle, Purchasing and Operations Director Charlie Greene, formerly of Robertson Stephens, was hired in 2004. Another new key hire was Rod Libbey as Director of Human Resources in 2004. Mr. Libby retired from Bank of America after a 17-year career in human resources.

Walden House has retained Swinerton Management and Consulting as the project manager. Swinerton will represent the Borrower in pre-construction planning, including working with the architect and engineering, developing a package for bidding contractors, and reviewing the bids. Swinerton will oversee construction on behalf of the Borrower. (It is noted that Swinerton will not represent the City as the UMB loan inspector for this project). Walden House has also selected Cee Architects and Structural Design Engineers. Arturo Carrillo, Vice President and Director of Operations with Walden House, will be overseeing this project as well.

Project Economics

The currently proposed loan (and for the subsequent UMB construction loan) shall be secured by a blanket second deed of trust on three Walden House-owned properties:

1. 815 Buena Vista Avenue (subject property to be renovated): \$6,800,000 appraised value as of 9/17/01 (update to be requested prior to construction loan closing);
2. 890 Hayes Street (four-story, 32,248 square foot, 100-bed residential group home facility): \$7,000,000 as of 1/12/05 with 100 beds; and
3. 214 Haight Street (three-story, 23,920 square foot group housing and counselling facility): \$4,600,000 appraised value as of 9/21/01.

Although valued at various times, the combined values for these three properties based on the most recent appraisals was \$18,400,000. Given the increase in multi-family property values since 2001, it is likely that the values for the subject property and 214 Haight Street have increased since that time.

The above properties are encumbered by a first deed of trust securing approximately \$7,475,000 in bond financing, with approximately \$620,000 in annual debt service, interest at 2% increasing to 4.5%, and maturing in 2022. The fully-amortizing bonds were issued in December, 2004 by the California Statewide Community Development Authority. There is also a loan from the Department of Housing/Community Development with a balance of approximately \$67,000. This loan is fully amortizing and matures in 2010, and it is secured by a second deed of trust on the subject 815 Buena Vista West property only. The total combined debt including the UMB loan would be \$7,827,000 or about 42.5% LTV.

While it would be speculative to estimate a budget for the retrofit project to follow, the current working estimate is in the \$3,000,000 range, including hard and soft costs. Walden House has obtained a \$1,000,000 Emergency Housing and Assistance Program (EHAP) Capital Development 10-year "forgivable" loan, and has received a \$393,426 grant from the federal Health Resources and Services Administration (HRSA) program. The EHAP loan will be subordinate the UMB loan. The UMB loan would finance the balance of the project. Assuming a \$1,610,000 UMB construction loan, the combined loan to value with the existing senior financing would be approximately 49.7%. These ratios are within UMB loan program guidelines.

Conclusions

Based on the preliminary budget, economic analysis and other information provided by the Applicant, the requested loan appears to conform with the loan to value criteria of the UMB loan program. The City staff and UMB Seismic Safety Loan Committee are advised of some of the following specific risk factors in connection with this loan request:

- While the loan adequately meets the program's LTV requirements, the Borrower is heavily reliant on governmental funding sources to meet its operating obligations. However, Walden House is an established leader in its field and its track record demonstrates a history of competing well for such funding.
- Historical financial performance has been sub-par in several of the recent years, and previous serious managerial issues have been noted. However, according to the current management, "Walden House is not currently subject to any liability for the actions of previous management. The 2004 audit reported no material weaknesses or reportable conditions. Additionally, a global settlement was recently reached at no expense to Walden House, settling any future claims by numerous individuals formerly associated with Walden House. Finally, a second settlement is being mediated which will effectively end any claims against Walden House as a result of past management practices."
- The ultimate costs of the pending construction project are unknown at this time. However, the currently requested loan and the projected construction loan will be secured by ample collateral through a blanket deed of trust on three properties.

Reference is made to the general risk factors in extending loans under the UMB Seismic Safety loan program on file with UMB loan program office.

Conditions Precedent to Loan Closing

The loan shall be for a term of 20 years, and the interest rate shall be fixed at 2.5% for the term of the loan. The loan closing is subject to Borrower's compliance with all UMB Seismic Safety Loan Program requirements, and the timely submission of pre-closing items, including, but not limited to:

1. Borrower to covenant that UMB loan program guidelines will be followed for obtaining contractor bids.
2. Phase 1 Environmental report.
3. Receipt of certificate of property and liability insurance per the UMB Loan Program Insurance

Requirements.

4. Review of a current preliminary title report by Office of the City Attorney, with recommendations as to acceptable exceptions to ALTA title insurance policy. All applicable borrowing entity formation documents shall be subject to review by the Office of the City Attorney.
5. Execution by Borrower of all UMB Loan Documents, including, but not limited to: Construction Loan Agreement (if deemed applicable by City Attorney), Promissory Note, Deed of Trust, Assignment of Plans (if deemed applicable by City Attorney), Environmental Indemnity, Regulatory Agreement UMB Loan Program Contractor Requirements Acknowledgement Form and Escrow Instructions. The subject UMB loan shall be secured by a Deed of Trust with a second priority position behind the aforementioned bond financing.
6. The holder of the first deed of trust shall provide written consent to allowing the proposed loan and the prospective UMB construction loan to secure by a subordinate deed of trust.
7. Borrower's payment of all loan fees, title insurance, escrow and other closing costs. Loan modifications, assumptions, subordination reviews and reconveyance fees during term of loan subject to UMB loan program Schedule of Fees. UMB loan program fees do not include any other inspection fees, permits and other fees costs that may be charged to Applicant by other City departments or agencies.
8. All disbursements during the term of the loan will be subject to: (1) Borrower's submission of a fully completed Loan Disbursement Request Form signed by Borrower; (2) Borrower's submission of supporting invoices for soft costs; and (3) compliance with contractor requirements pursuant to Administrative Code Chapter 66A, if deemed applicable by the City Attorney.
9. The loan commitment shall be valid for a period of 120 days from the date of the UMB Loan Committee's initial approval, and it is the Borrower's responsibility to satisfactorily meet all closing conditions within this period. Any extensions to the loan closing commitment shall be subject to a re-application to the UMB Loan Committee, and approval by the UMB Loan Committee.

UMB SEISMIC SAFETY LOAN PROGRAM
LOAN APPLICATION PRESENTATION AND ANALYSIS
Walden House Adult Residential Facility
815 Buena Vista West
CONSTRUCTION LOAN

Prepared By: Wayne Lawrence, assisted by Mitchell Zeemont

Date prepared: April 26, 2007

Loan Committee Date: May 8, 2007

Applicant/Sponsor Name:	Walden House, Inc.
Project Name:	Adult Residential Substance Abuse Treatment Center
Project Address (w. cross street):	815 Buena Vista Street
Number of Units/Beds (specify):	59 resident rooms; 108-bed capacity
Amount of Funds Requested:	\$3,802,000
Staff Recommendation:	\$3,802,000

Loan Request Summary

Walden House is seeking a \$3,802,000 SSLP loan in order to complete direct structural building modifications required by the City's UMB Ordinance and to remove and replace existing finishes as necessary to carry out the structural work. The only ADA/handicap related modifications for the project are sidewalk cutouts that are being required by the Department of Public Works Bureau of Street Mapping. Accessibility modifications are not a requirement for work being done for compliance with the UMB Ordinance. There are also no plans for upgrades to the building services or alarm systems.

The property is located on a triangular site between Waller Street and Buena Vista Avenue West along the western border of Buena Vista Park. The site is approximately one and a half blocks south of Haight Street and approximately one block east of Masonic Avenue. The property is improved with a partial four-story and one-story group housing facility. The site slopes from back to front so that the back portion of the first floor is below grade level. The building is a concrete masonry structure constructed in 1916. The gross building area is approximately 30,036 square feet, and the land area is approximately 9,753 square feet.

The 1st floor layout of the subject building incorporates the main entry lobby, offices, a dining room and kitchen, mechanical and electrical rooms, storage rooms and a restroom. The 2nd floor is mainly office space with men and women restrooms. There is also a connection door to a 2-story assembly hall at the end of the building, which is attached, but not included in the project.

The 3rd and 4th floors are assisted-care residential units. There are a total of 59 units with 108 beds. The building is equipped with an elevator.

The residents of 815 Buena Vista Street are clients of Walden House substance abuse treatment programs. Their average stay at the facility is approximately six months. The residents do not pay rent. Only a couple of the residents have any type of employment. Moreover, Walden House reports that examinations of client assets during client intake provide no evidence that residents hold assets that would categorize them as above low-income. Walden House will need to provide formal income certifications prior to the dispersal of any loan funds. From the data that has been submitted thus far, however, it appears that Walden House will have little difficulty in meeting the criteria for an SSLP Deferred Extended Loan. The interest rate for this loan would be 1.86%. The repayment term for the loan would be 55 years. All repayments loan principal and interest will be deferred until the loan maturity date. Walden House will be required to execute a Regulatory Agreement that will be recorded and will assure that the building meets SSLP affordability guidelines for the entire loan period.

On June 30, 2005, the UMB Seismic Safety Loan Committee approved a \$285,000 UMB loan to finance pre-development soft costs in advance of a planned seismic retrofit of the subject property. Borrower has now submitted plans for construction activity during the project renovation and has provided a maximum cost line item bid by the selected general contractor. MOH's Construction Manager has examined proposed project drawings and costs. Modifications to the project budget were made as a result of this examination

The subject UMB loan will be secured by a blanket third deed of trust on the subject property and second and third deeds of trust on two other properties owned by the Borrower.

Applicant

Walden House, Inc., is a California non-profit corporation. Walden House is a well-known provider of psychological and social services to the general public, primarily related to drug and substance abuse rehabilitation and HIV prevention. Walden House operates a network of treatment facilities, halfway houses at a variety of locations, primarily in the San Francisco Bay Area.

In the 35 years since it first opened its doors as a local drug and alcohol treatment center, Walden House has evolved into a national leader in developing strategies to help addicts recover and maintain their lives. Walden House treats more than 3,400 men, women and children daily. Walden House provides a full-continuum health care system specializing in all aspects of addiction services including detoxification, comprehensive medical care and mental health services. Clients receive legal, educational and vocational services as fundamental parts of their treatment. Walden House endeavors to promote a "culturally sensitive treatment environment that is designed to foster the open communication, self-help and empowerment of each person within the context of the greater community." Walden House has over 400 employees in over 150 job titles.

Walden House's President/CEO is now Rob Libbey, appointed in January 2006. Mr. Libbey was hired as Director of Human Resources in 2004. Mr. Libby retired from Bank of America after a 17-year career in human resources.

Walden House receives almost all of its income from governmental grants, contracts and charitable donations. An independent audit report on Walden House prepared by TCA Partners CPA's (Exhibit B) shows, that for the last full fiscal year ended 6/30/06, total revenues were \$41.458 million. Approximately 92% of Walden House's income was derived from governmental grants and contracts, including 6.5% from AFDC-Foster Care payments and 1.5% from welfare departments. Approximately 8% of Walden House income is from in-kind and cash donations.

Expenditures on program services for the most recent fiscal year totaled \$36.876 million and management and general expenses totaled \$4.359 million for a total of \$42.195 million. Thus the organization showed a \$263,000 operating surplus.

While contract revenues decreased by about \$3.5 million during FYE 6/30/06, this was offset by a corresponding decrease in contracting expenses. For the next fiscal year, Walden House has budgeted for a \$500,000 increase in contract revenues (and expenses).

In December 2004, Walden House closed on \$7,475,000 in bond refinancing issued by The California State-wide Community Development Authority. The bonds bear interest at 2% increasing to 4.5%, and maturing in 2022. The Borrower estimates annual interest savings of \$175,000 as a result of the bond refinance, and the financial statements appear to support this.

As noted in the June, 2005 presentation o the Loan Committee, in 2004 the Charitable Assets Division of the State Attorney General's Office found that expenditures of approximately \$470,000 in 1994 and between 1998 and 2003 by former Walden House Management were either not appropriately approved by the Corporation's Board or insufficiently documented. The investigation prompted the resignation and/or termination of "certain personnel" cited by the State, and implementation of a State-approved "corrective action plan." According to Vida Jalali, then Walden House CFO, the financial impact of these problems is virtually all behind the organization, expect for about \$50,000 in remaining write-offs. In addition, the financial performance of the last few years shows a continuing ability by the organization to break-even in its operations.

Development Team

Arturo Carrillo, Vice President and Director of Operations has assumed general oversight of development and construction on behalf of Walden House. Swinerton Management and Consulting has represented the Walden House in pre-construction planning, including working

with the architect and engineering, developing a package for bidding contractors, and reviewing the bids. Swinerton will also serve as Construction Manager, overseeing construction on behalf of the Borrower. Walden House has selected Cee Architects to perform architectural services and Structural Design Engineers for project engineering.

West Coast Premier Construction, Inc. was selected as the project prime contractor. During October 2006, Swinerton sent out requests for contractor bids on behalf of Walden House. Inquiries were received from six contractors, and two contractors submitted bid proposals. Walden House choose to concentrate on developing an agreement with West Coast, who submitted a bid that was approximately \$800,000 lower than its competitor. Another factor in the selection of West Coast was that it was a smaller firm, which would have the effect of reducing delays caused by dealing with the bureaucracy involved in larger firms. Extensive negotiations took place with West Coast Premier concerning project scope and cost inclusions. The result of these negotiations was a revised bid that was submitted by West Coast for a total of \$ 2,570,295 (see Exhibit C). During discussions between MOH and Walden House, it was agreed that the inspection fee (\$42,000) and the contingency cost (\$100,000) were inappropriately included in the contractor's budget. Agreement was reached to delete these items and reduce the West Coast budget to \$2,428,295. A review of West Coast's relevant company experience indicates that they have sufficient seismic rehabilitation experience in order to carry out the subject project effectively.

Proposed Renovations

The scope of work is summarized as follows:

- At 1st floor, a structural steel moment frame will be constructed towards the end of the building, supported by a new reinforced concrete grade beam foundation that will be built below the 1st floor slab. The new steel moment frame will be welded to an existing steel main support beam along the line of the new moment frame. A new wood-framed shear wall will also be constructed across approximately one half of the width of the building towards the center, at the first floor level.
- Structural tie collectors will be installed to the floor diaphragms at the 2nd, 3rd and 4th floor and roof levels comprised of 11 inch-deep beams at the floors and 5.5 inch-deep beams at the roof that will be connected to the floor diaphragms and bolted into the exterior masonry walls. There will be 4 collectors per floor. At each floor level, new connections will also be installed between the existing floor joists and the exterior masonry walls. This will be accomplished by blocking between every joist, which will be bolted into the wall with ¾ inch bolts set in the masonry with epoxy. At the third floor level, and 8 inch-thick reinforced masonry shear wall will be constructed between the existing steel columns at the west end of the building.
- At the roof level, the existing waterproofing will be entirely removed, and a new layer of 5/8 inch-thick structural ply will be attached to the roof structure over the existing layer

of ply. The new roof waterproofing will then be installed, including sheetmetal flashing. The glazing to the two existing skylights will be removed and replaced, as well as the metallic roof to the cupola.

- In order to complete the renovations, the undersides of the existing ceilings at levels 2, 3, 4 and the roof will need to be removed. It will also be necessary to relocate, or remove and replace existing services at numerous locations on each floor where these are in conflict with the new seismic retrofit work. Upon completion of the structural work, the removed ceiling areas will be replaced with finishes to match the existing finishes.

Project Budget

Walden House estimates that total project costs for the subject project will be \$3,802,000 (Exhibit A). The cost figure is inclusive of the proposed maximum price bid of \$2,428,295 for seismic renovations submitted by West Coast Premier, Inc. Both Swinerton and Walden House staff met several times with MOH staff during activities aimed at development of an acceptable total project cost proposal. One of the more important topics during meeting discussions was attempting to make project soft costs comply with SSLP and MOH guidelines.

Project Economics

Walden House has been awarded a \$397,000 grant (for hard costs disbursed based on percentage of completion) from the federal Health Resources and Services Administration (HRSA) program. The subject \$3,802,000 SSLP loan would finance the balance of the project. From the total of \$4,087,000 that would be the amount for SSLP financing if the subject loan is approved, \$285,000 has been previously dispersed for predevelopment costs.

The proposed UMB construction loan would be secured by a blanket deed of trust on three Walden House-owned properties that are already collectively encumbered by existing financing:

1. 815 Buena Vista Avenue (subject property to be renovated): \$8,000,000 appraised value as of 4/1/06 (subject to completion of the seismic renovations);
2. 890 Hayes Street (four-story, 32,248 square foot, 100-bed residential group home facility): \$7,000,000 as of 1/12/05 with 100 beds; and
3. 214 Haight Street (three-story, 23,920 square foot group housing and counselling facility): \$6,100,000 appraised value as of 10/10/05.

Although valued at various times, the combined values for these three properties based on the most recent appraisals was \$21,100,000.

At closing, the above properties will be encumbered by the following loans:

1. \$7,150,000 in fully amortizing bond financing from the California State Community Development Authority. This is secured by a blanket first deed of trust on the three

properties, issued at an original balance of \$7,475,000 in December 2004. This loan carries \$620,000 in annual debt service, interest at 2% increasing to 4.5%, and maturing in 2022.

2. \$3,000,000 blanket second deed of trust securing a line of credit from the California Statewide Office of Health Planning and Development. According to the Borrower, the line of credit funds receivables and has a maximum limit of \$4,900,000, with a 30-day annual "clean-up" period during which no funds may be outstanding. The current loan balance is approximately \$1,000,000, and the last clean-up period was from 9/28/06 to 11/22/06.
3. The \$3,802,000 Seismic Safety loan secured by a blanket 3rd deed of trust.

The combined deeds of trust securing the above loans total \$13,220,000, and the combined loan to value ratio would be approximately 63%. This ratio is within SSLP guidelines.

There is an assortment of deeds of trust on the above properties totalling approximately \$1.1 million securing previous findings from the Mayor's Office of Community Development (MOCD). The loans in question are essentially grants that funded ADA and life safety projects on the properties. MOCD has agreed to subordinate their loans to the subject SSLP loan.

Based on the preliminary budget, economic analysis and other information provided by the Applicant, the requested loan appears to conform with the loan to value criteria of the SSLP loan program. The loan adequately meets the program's LTV requirements. It should be noted, however, that the Borrower is heavily reliant on governmental funding sources to meet its operating obligations. Walden House, though, is an established leader in its field and its track record demonstrates a history of competing well for such funding.

Conditions Precedent to Loan Closing

The loan shall be for a term of 55 years, and the interest rate shall be fixed at 1.86% for the term of the loan. All repayments of loan principal and interest will be deferred until the loan maturity date. The loan closing is subject to Borrower's compliance with all Seismic Safety Loan Program requirements, and the timely submission of pre-closing items, including, but not limited to:

1. Borrower to covenant that UMB loan program guidelines will be followed for obtaining contractor bids.
2. Receipt of certificate of property, course of construction, and liability insurance per the UMB Loan Program Insurance Requirements.
3. Copy of a building permit by the City's Department of Building Inspection.
4. All disbursements during the term of the loan shall be subject to: (1) Borrower's submission of a fully completed Loan Disbursement Request Form signed by Borrower and Borrower's

engineer/architect; (2) Borrower's submission of supporting contractor's progress payment billing and Borrower's invoices for soft costs; (3) inspection of the completed improvements by SSLP staff as to percentage of completion only; (4) adequate remaining loan funds; (5) receipt of lien releases and title insurance endorsements as required under the Construction Loan Agreement; and (6) compliance with contractor requirements pursuant to Administrative Code Chapter 66A and other applicable laws.

5. Execution by Borrower of all UMB Loan Documents, including, but not limited to: Construction Loan Agreement, Promissory Note, Deed of Trust, Assignment of Plans, Environmental Indemnity, Regulatory Agreement, UMB Loan Program Contractor Requirements Acknowledgment Form and Escrow Instructions. The subject UMB loan shall be secured by a blanket Deed of Trust on the following three properties: 815 Buena Vista Avenue; 890 Hayes Street; 890 Hayes Street; and 214 Haight Street. UMB loan shall be subordinate to the aforementioned bond financing.

6. Review of current preliminary title reports on the above three properties by Office of the City Attorney, with recommendations as to acceptable exceptions to ALTA title insurance policy. All applicable borrowing entity formation documents shall be subject to review by the Office of the City Attorney.

7. The holder of the first deed of trust shall provide written consent to allowing the proposed loan and the prospective UMB construction loan to secure by a subordinate deed of trust.

8. Borrower's payment of all loan fees, title insurance, escrow and other closing costs. Loan modifications, assumptions, subordination reviews and reconveyance fees during term of loan subject to UMB loan program Schedule of Fees. UMB loan program fees do not include any other inspection fees, permits and other fees costs that may be charged to Applicant by other City departments or agencies.

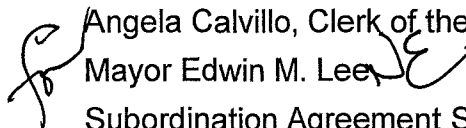
9. The loan commitment shall be valid for a period of 120 days from the date of the UMB Loan Committee's initial approval, and it is the Borrower's responsibility to satisfactorily meet all closing conditions within this period. Any extensions to the loan closing commitment shall be subject to a re-application to the UMB Loan Committee, and approval by the UMB Loan Committee.

	For the Year Ended June 30	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 262,715	\$ (438,457)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	617,968	588,974
Changes in operating assets and liabilities:		
Accounts receivable	1,867,098	(1,472,966)
Inventory	(14,341)	29,805
Prepaid expenses, deposits and other	(49,182)	153,629
Accounts payable and accrued expenses	<u>(2,131,697)</u>	<u>469,686</u>
Net cash provided by (used in) operating activities	552,561	(669,329)
Cash flows from investing activities:		
Purchases of property and equipment	<u>(570,802)</u>	<u>(286,556)</u>
Net cash used in investing activities	(570,802)	(286,556)
Cash flows from financing activities:		
Proceeds from debt borrowings	452,519	8,732,137
Principal payments on debt borrowings	(653,187)	(7,318,314)
Net increase in other assets	<u>-0-</u>	<u>(379,523)</u>
Net cash provided by (used in) financing activities	<u>(200,668)</u>	<u>1,034,300</u>
Increase (decrease) in cash and cash equivalents	(218,908)	78,415
Cash and cash equivalents at the beginning of the year	<u>566,458</u>	<u>488,043</u>
Cash and cash equivalents at the end of the year	<u>\$ 347,550</u>	<u>\$ 566,458</u>
Supplemental Cash Flow Information:		
Interest paid	<u>\$ 504,223</u>	<u>\$ 660,095</u>
Non-cash investing activities – capital leases acquired	<u>\$ 167,519</u>	<u>\$ 108,717</u>

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE


TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM:  Mayor Edwin M. Lee
RE: Subordination Agreement Seismic and Safety Loan Program - HealthRight
360 – 890 Hayes Street and 214 Haight Street
DATE: January 26, 2016

Attached for introduction to the Board of Supervisors is a resolution authorizing the subordination of two existing Seismic and Safety Loan Program loans, secured in part by real property commonly known as 890 Hayes Street and 214 Haight Street, to a new loan from the Nonprofit Finance Fund to HealthRight 360 in the amount of \$8,500,000 for the construction of HealthRight 360's new headquarters and clinic located at 1563 Mission Street.

I respectfully request that this item be calendared in Budget & Finance Committee on February 10, 2016.

Please note that this item is co-sponsored by President Breed and Supervisor Kim.

Should you have any questions, please contact Nicole Elliott (415) 554-7940.


2016 JAN 26 PM 4:53
CLERK OF SUPERVISORS
SAN FRANCISCO

FORM SFEC-126:
NOTIFICATION OF CONTRACT APPROVAL
(S.F. Campaign and Governmental Conduct Code § 1.126)

City Elective Officer Information <i>(Please print clearly.)</i>	
Name of City elective officer(s):	City elective office(s) held:
Mayor Edwin M. Lee	Mayor, City and County of San Francisco
Contractor Information <i>(Please print clearly.)</i>	
Name of contractor: HealthRight 360	
<p><i>Please list the names of (1) members of the contractor's board of directors; (2) the contractor's chief executive officer, chief financial officer and chief operating officer; (3) any person who has an ownership of 20 percent or more in the contractor; (4) any subcontractor listed in the bid or contract; and (5) any political committee sponsored or controlled by the contractor. Use additional pages as necessary.</i></p> <p>HealthRIGHT 360 Board of Directors Trisha Walsh- Chair Victor Ortiz- Vice Chair Emalyn Lapus – Secretary Hon. Harlan Grossman John A. Baer Hon. Ellen Chaitin Tom Hofstedt Kathryn W. Holmes Deborah Koski Ann Ma Anjani Mandavia Melyssa Mendoza James McElwee Jemma Lavarias</p> <p>HealthRIGHT 360 CEO: Vitka Eisen</p> <p>HealthRIGHT 360 CFO: David Crawford</p> <p>HealthRIGHT 360 is a public benefit nonprofit corporation and as such there are no ownership interests in the corporation.</p> <p>There are no political committees sponsored or controlled by HealthRIGHT 360.</p>	
Contractor address: 1735 Mission Street, San Francisco, CA 94103	
Date that contract was approved:	Amount of contract: \$8,500,000
Describe the nature of the contract that was approved: Subordination of City Seismic and Safety Loans totaling \$4,087,000, which are secured against two properties owned by HealthRight 360 located at 890 Hayes Street and 214 Haight Street, to a new loan from the Nonprofit Finance Fund in the amount of \$8,500,000.	
Comments:	

This contract was approved by (check applicable):

the City elective officer(s) identified on this form (Mayor Edwin M. Lee)

a board on which the City elective officer(s) serves _____

Print Name of Board

the board of a state agency (Health Authority, Housing Authority Commission, Industrial Development Authority Board, Parking Authority, Redevelopment Agency Commission, Relocation Appeals Board, Treasure Island Development Authority) on which an appointee of the City elective officer(s) identified on this form sits

Print Name of Board

Filer Information <i>(Please print clearly.)</i>	
Name of filer: Nicole Elliott, Director of Legislative and Government Affairs	Contact telephone number: (415) 554-7940
Address: City Hall, Room 200	E-mail: nicole.elliott@sfgov.org

Signature of City Elective Officer (if submitted by City elective officer)

Date Signed

Signature of Board Secretary or Clerk (if submitted by Board Secretary or Clerk)

Date Signed

