File No. 211152

Committee Item No. 13

Board Item No. ______

COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget and Finance Committee **Date** December 8, 2021

Board of Supervisors Meeting **Date** ______

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Completed by: Brent Jalipa **Date** December 2, 2021

Completed by: Brent Jalipa **Date** ______

[Multifamily Housing Revenue Bonds - 240 Van Ness Avenue (The Kelsey Civic Center) - Not to Exceed $73,400,000]

Resolution declaring the intent of the City and County of San Francisco ("City") to reimburse certain expenditures from proceeds of future bonded indebtedness in an aggregate principal amount not to exceed $73,400,000 in one or more series of bonds on a tax-exempt or taxable basis; authorizing the Director of the Mayor's Office of Housing and Community Development ("Director") to submit an application and related documents to the California Debt Limit Allocation Committee ("CDLAC") to permit the issuance of residential mortgage revenue bonds in an aggregate principal amount not to exceed $73,400,000 for 240 Van Ness Avenue (The Kelsey Civic Center); authorizing and directing the Director to direct the Controller's Office to hold in trust an amount not to exceed $100,000 in accordance with CDLAC procedures; authorizing the Director to certify to CDLAC that the City has on deposit the required amount; authorizing the Director to pay an amount equal to such deposit to the State of California if the City fails to issue the residential mortgage revenue bonds; authorizing and directing the execution of any documents necessary to implement this Resolution, as defined herein; and ratifying and approving any action heretofore taken in connection with the Project, as defined herein, and the Application, as defined herein.

WHEREAS, The Board of Supervisors of the City and County of San Francisco ("Board of Supervisors"), after careful study and consideration, has determined that there is a shortage of safe and sanitary housing within the City and County of San Francisco ("City"), particularly for low and moderate income persons, and that it is in the best interest of the residents of the City and in furtherance of the health, safety, and welfare of the public for the City to assist in the financing of multi-family rental housing units; and

WHEREAS, Acting under and pursuant to the powers reserved to the City under Sections 3, 5, and 7 of Article XI of the Constitution of the State of California and Sections 1.101 and 9.107 of the Charter of the City and County of San Francisco, the City has enacted the City and County of San Francisco Residential Mortgage Revenue Bond Law ("City Law"), constituting Article I of Chapter 43 of the San Francisco Administrative Code, in order to establish a procedure for the authorization, issuance and sale of residential mortgage revenue bonds by the City for the purpose of providing funds to encourage the availability of adequate housing and home finance for persons and families of low or moderate income, and to develop viable communities by providing decent housing, enhanced living environments, and increased economic opportunities for persons and families of low or moderate income; and

WHEREAS, In addition, pursuant to Division 31 of the Health and Safety Code of the State of California, and particularly Chapter 7 of Part 5 thereof ("State Law"), the City is empowered to issue and sell bonds for the purpose of making mortgage loans or otherwise providing funds to finance the development and/or rehabilitation of multi-family rental housing including units for lower income households and very low income households; and

WHEREAS, The Kelsey Civic Center, L.P., a California limited partnership (or an affiliate thereof or successor thereto) (the "Borrower") desires to construct or rehabilitate an 112-unit affordable residential rental housing development located at 240 Van Ness Avenue ("Project"); and

WHEREAS, The Borrower has requested that the City assist in the financing of the Project through the issuance of one or more series of bonds on a taxable basis in an amount not to exceed $15,265,999 ("Taxable Bonds"), and on a tax-exempt basis in an amount not to exceed $58,134,001(collectively with the Taxable Bonds, "Bonds") for an aggregate principal amount of not to exceed $73,400,000; and

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WHEREAS, The City expects that proceeds of the Bonds will be used to pay certain costs incurred in connection with the Project prior to the date of issuance of the Bonds; and

WHEREAS, The City intends to issue the Bonds in an amount not to exceed $73,400,000 and to loan the proceeds of the Bonds to the Borrower (“Loan”) to finance the costs of the Project; and

WHEREAS, The Bonds will be limited obligations, payable solely from pledged security, including Project revenues, and will not constitute a debt of the City; and

WHEREAS, The Board of Supervisors has determined that the moneys advanced and to be advanced to pay certain expenditures of the Project are or will be available only for a temporary period and it is necessary to reimburse such expenditures with respect to the Project from the proceeds of the Bonds; and

WHEREAS, Section 1.150-2 of the United States Treasury Regulations requires that the Board of Supervisors declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of the Bonds; and

WHEREAS, The Project is located wholly within the City; and

WHEREAS, Section 146 of the Code limits the amount of tax-exempt private activity bonds, which include qualified mortgage bonds, that may be issued in any calendar year by entities within a state and authorizes the legislature of each state to provide the method of allocating authority to issue tax-exempt private activity bonds within the respective state; and

WHEREAS, Chapter 11.8 of Division 1 of Title 2 of the Government Code of the State of California governs the allocation in the State of California of the state ceiling established by Section 146 of the Code among governmental units in the State having the authority to issue tax-exempt private activity bonds; and

WHEREAS, Section 8869.85(b) of the Government Code requires that a local agency file an application for a portion of the state ceiling with or upon the direction of the California

Debt Allocation Committee ("CDLAC") prior to the issuance of tax-exempt private activity bonds, including qualified mortgage bonds; and

WHEREAS, CDLAC procedures require an applicant for a portion of the state ceiling to certify to CDLAC that applicant has on deposit an amount equal to one-half of one percent (0.5%) of the amount of allocation requested not to exceed $100,000; now, therefore, be it

RESOLVED, By the Board of Supervisors of the City and County of San Francisco, as follows:

Section 1. The Board of Supervisors finds and determines that the foregoing recitals are true and correct.

Section 2. The Board of Supervisors adopts this Resolution for purposes of establishing compliance with the requirements of Section 1.150-2 of the United States Treasury Regulations. This Resolution does not bind the Board of Supervisors to issue the Bonds, approve the Loan or to make any expenditure, incur any indebtedness or proceed with the Project.

Section 3. The Board of Supervisors hereby declares its official intent under United States Treasury Regulations Section 1.150-2 to use proceeds of the Bonds to reimburse expenditures incurred in connection with the Project. The Board of Supervisors hereby further declares its intent to use such proceeds to reimburse the Borrower for actual expenditures made by the Borrower on the Project.

Section 4. On the date of the expenditure to be reimbursed, all reimbursable costs of the Project will be of a type properly chargeable to a capital account under general federal income tax principles.

Section 5. The maximum principal amount of debt expected to be issued for the Project is $73,400,000.

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Section 6. This resolution is neither an approval of the underlying credit issues of the proposed Project nor an approval of the financial structure of the Bonds.

Section 7. The Board of Supervisors hereby authorizes the Director of the Mayor's Office of Housing and Community Development, including any acting or interim director, or such person's designee ("Director"), on behalf of the City, to submit an application ("Application"), and such other documents as may be required, to CDLAC pursuant to Government Code Section 8869.85 for an allocation for the Project of a portion of the state ceiling for private activity bonds in a principal amount not to exceed $73,400,000.

Section 8. An amount equal to one-half of one percent (0.5%) of the amount of the CDLAC allocation requested for the Project, not to exceed $100,000 ("Deposit"), is hereby authorized to be held on deposit in connection with the Application and the applicable CDLAC procedures, and the Director is authorized to certify to CDLAC that such funds are available.

Section 9. If the City receives a CDLAC allocation for the Project and the Bonds are not issued, the Mayor's Office of Housing and Community Development is hereby authorized to cause an amount equal to the Deposit to be paid to the State of California, if and to the extent required by CDLAC.

Section 10. The officers and employees of the City, including the Director, are hereby authorized and directed, jointly and severally, to do any and all things necessary or advisable to consummate the receipt of an allocation from CDLAC and otherwise effectuate the purposes of this Resolution, consistent with the documents cited herein and this Resolution, and all actions previously taken by such officers and employees with respect to the Project, consistent with the documents cited herein and this Resolution, including but not limited to the submission of the application to CDLAC, are hereby ratified and approved.

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Section 11. This Resolution shall take effect from and after its adoption by the Board and approval by the Mayor.

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney

By: /s/ HEIDI J. GEWERTZ
HEIDI J. GEWERTZ
Deputy City Attorney
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Project Description

Multifamily Securities Program
City and County of San Francisco

The Kelsey Civic Center

Overview

The funds described in the "Financing Structure" section below will be used to finance the development of The Kelsey Civic Center, a 112-unit affordable multifamily housing project to be located at 240 Van Ness Ave, 94102 in the City and County of San Francisco (the "Project").

Upon completion, the Project will include approximately 87,193 square feet of gross floor area, comprised of 85,763 square feet of residential area and 1,349 square feet of non-residential area. Non-residential spaces will include a ground-floor commercial space to be master-leased by The Kelsey and subleased to the Department of Disability and Aging Services for a Disability Community Cultural Center.

Total project costs, including the cost to acquire the land and construct the new building, will be approximately $82,476,455or $736,397 per dwelling unit.

The residential unit distribution, which will include two on-site staff units (one studio and one 2-Bedroom) bedroom superintendent units, is:

Unit type	Number of units
Studio	80
1-Bedroom	0
2-Bedroom	32
3-Bedroom	0
4-Bedroom	0

22 percent of the residential units will serve households earning less than 20 percent of the San Francisco County Area Median Income (AMI), 5 percent of the residential units will serve households earning less than 30 percent of the San Francisco County Area Median Income (AMI), 4 percent of the residential units will serve households earning less than 50 percent of the San Francisco County Area Median Income (AMI), 18 percent of the residential units will serve households earning less than 60 percent of the San Francisco County Area Median Income (AMI), 13 percent of the residential units will serve households earning less than 70 percent of the San Francisco County Area Median Income (AMI), 27 percent of the residential units will serve households earning less than 80 percent of the San Francisco County Area Median Income (AMI), while the balance of units will serve households earning less than 95 percent of AMI. Based on the project's market study studio units at 80 percent and 95 percent of MOHCD AMI will have actual rent levels at ~73 percent of MOHCD AMI ($1,675 per month)

The development was awarded Section 811-PRAC operating support for 14 units (12 studios, 2 2br).

Residents

No residents will be displaced as the site is currently does not include and residential dwelling units. Commercial relocation will apply to the parcel located at 234 Van Ness Avenue. There are currently two small commercial office tenants located at 234 Van Ness, the property that is under a binding exchange agreement between the City and County of San Francisco and 234 Van Ness LLC for the creation of the parcel for the Project. Included in the application materials is a relocation plan that outlines the assistance being offered to the two commercial tenants under State and Federal Relocation Assistance Law. The developer is working with Laurin Associates to serve as relocation consultant.

Site Description and Scope of Work

Address:	240 Van Ness Avenue, 234 Van Ness Avenue, 155 Grove Street, 165 Grove Street, 94012
Block/Lot:	0811/TBD (currently 018, 019, 021, 016)

The scope of work for the new construction and property amenities will include:

- 112 units of housing for San Franciscans of all abilities, 25% of units to be set aside for households with disabilities using home and community based services
- Enhanced design features in common areas and units to promote inclusive and accessible living for people with and without disabilities
- Ground floor management and services spaces
- A 3,390 sq ft interior courtyard sensory garden
- A 1,100 sq ft community commons with a community kitchen
- A 575 sq ft recreation room with warming kitchen
- Two upper floor laundry room lounges
- A 750 sq ft roof deck with a view of the San Francisco City Hall dome
- 56 secure indoor bicycle parking spaces
- A 1349 sq ft commercial space (financed by sponsor loan, not included in tax credit aggregate basis)

Development and Management Team

Project Sponsors:	Mercy Housing California and The Kelsey
General Contractor:	Cahill Contractors LLC
Architect of Record:	Santos Prescott and Associates
Property Manager:	Mercy Housing Management Group

Project Ownership Structure

Borrower Entity:	The Kelsey Civic Center, L.P.
Managing General Partner:	Mercy Kelsey Civic Center LLC
Co-Managing Partner:	The Kelsey Civic Center LLC

An investor limited partner will own a 99.99% interest in the borrower entity.

Financing Structure

The following sources of capital financing are expected to be utilized:

- tax-exempt bonds issued by the City;
- taxable bonds;

- 4% low income housing tax credits (LIHTC);
- State of California HCD Affordable Housing and Sustainable Communities Program;
- a deferred developer fee;
- a sponsor loan from The Kelsey;
- a conventional first mortgage; and
- soft debt from the City.

The sale of LIHTC will generate equity financing for the Project. The amount of private activity tax-exempt bonds used during construction will be sized specifically to meet the 50% of aggregate basis test required for the LIHTC.

<u>Schedule</u>

Financing is anticipated to close between August 25, 2022 and September 25, 2022, with construction commencing within 30 days closing. All construction is scheduled to be completed by June 28, 2024.

<u>Narrative Description of Project Sponsor Experience</u>

Mercy Housing California (MHC) is the developer for The Kelsey Civic Center. MHC was incorporated in 1988 as the California affiliate of Mercy Housing, Inc (MHI) and is one of the largest affordable housing developers in California in terms of staff, capacity, annual budget, and units controlled, providing affordable homes and services to people in need, touching more than 19,600 lives every day. The mission of Mercy Housing is to create stable, vibrant and healthy communities by developing, financing and operating affordable, program-enriched housing for families, seniors and people with special needs who lack the economic resources to access quality, safe housing opportunities. MHC owns and operates 10,413 affordable homes across 152 properties located throughout California, with 57% of our properties located in the Bay Area. MHC's portfolio consists of 51% family, 33% senior and 16% supportive housing (individuals with special needs, including homeless veterans, former foster children, people living with HIV/AIDS and mental health challenges). The median annual income for a Mercy Housing California family household is $17,000, compared to a median income of $82,000 for California households generally. For residents in our senior and special needs housing, the median household income is just $11,000 annually-- half the median annual income for all seniors in California. The Kelsey is the co-developer for the QIP. Our portfolio spans across the continuum of housing development including rental and for-sale, new construction and rehab, and single-family and multi-family products. We serve families, seniors, the disabled, and individuals with special needs—i.e. formerly homeless, people living with HIV/AIDS, and the developmentally disabled.

The Kelsey is a nonprofit that advances development of affordable, inclusive community housing. The Kelsey centers the perspectives of people with disabilities to inform better housing policies, design standards, and development strategies, and drives public-private partnerships and unlock funding for affordable, inclusive community housing. The Kelsey is currently in predevelopment for two affordable housing developments – The Kelsey Ayer Station (San Jose) and The Kelsey Civic Center (San Francisco).

Completing projects on time and on budget: MHC has a well-established track record of moving projects quickly through development within established budget parameters. For example, at 280 Beale, MHC was tasked with delivering 70 units in a standalone Type I building for $200k per unit in OCII subsidy. This was achieved by creating an efficient, affordable building program and exterior treatment.

The project's schedule was tied to the schedule of the neighboring market-rate tower, requiring the affordable project to break ground within 18 months from the start of predevelopment in order to coordinate the concrete pours of both projects to maximize efficiencies. MHC achieved this by working with the same contractor as the tower and working effectively with the architect and OCII to design an efficient, contextual exterior treatment. Another example is 95 Laguna, where MHC delivered 79 units of senior housing on-time and on-budget through an efficient exterior treatment and by increasing the unit count by seven within the existing building envelope by developing a more efficient interior layout. The TDC is $554k per unit including the 7,600 sq ft commercial shell but excluding land.

Obtaining competitive financing terms: MHC's success at obtaining competitive funding is evidenced by over 50 HCD loans or commitments and its strong track record in obtaining competitive 9% tax credits, AHP, and HUD 202/811. MHC accesses very competitive tax credit pricing terms due to our extensive experience and relationships with limited partners. The size and success of our portfolio assures investors that MHC has the expertise needed to ensure that their credits will not be jeopardized. MHC has a breadth of experience across California, with multiple tax credit deals a year, and is backed by the national strength of Mercy Housing, Inc. This allows us to negotiate for better terms, and MHC has received better than average pricing in numerous projects, most recently receiving $1.03 on three active deals in San Francisco.

Developing for low-income families: MHC has decades of experience developing for low-income families and formerly homeless households. In San Francisco, MHC has developed 18 properties (1,493 units) for families and total in California, MHC has developed 74 properties (4,857 units) for families. MHC has experience with a variety of subsidy types, including Project-Based Section 8 subsidies, among others, and wide range of funding sources including HCD (MHP, NPLH, AHSC, IIG), HUD, AHP, and state and federal low-income housing tax credits.

Staffing: MHC maintains development offices in San Francisco (headquarters), Sacramento, and Los Angeles. The San Francisco office presently has over 2,622 units in development, from feasibility to project closeout, with a staff of 14 people solely devoted to new development. This is led Fiona Ruddy, Project Developer, with supervision by Sharon Christen, Associate Director of Supportive Housing Development, and Barbara Gualco, Director of Development. Staffing from The Kelsey includes Micaela Connery, CEO; Caroline Bas, COO; Capri Roth, Interim Director of Real Estate; and Ariana Cernius, Project Manager. Community outreach is being led by The Kelsey's Manager, Organizing & Advocacy, Allie Cannington.

From:	Peacock, Rebecca (MYR)
To:	BOS Legislation, (BOS); GEWERTZ, HEIDI (CAT)
Cc:	Paulino, Tom (MYR); Ely, Lydia (MYR)
Subject:	Mayor -- [Resolution] -- [Multifamily Housing Revenue Bonds – 240 Van Ness Ave. (The Kelsey Civic Center) - Not to Exceed $73,400,000]
Date:	Tuesday, November 2, 2021 4:59:43 PM
Attachments:	Reso_MOHCD_Kelsey Civic Center Inducement.zip

Attached for introduction to the Board of Supervisors is a **resolution declaring the intent of the City and County of San Francisco ("City") to reimburse certain expenditures from proceeds of future bonded indebtedness in an aggregate principal amount not to exceed $73,400,000 in one or more series of bonds on a tax-exempt or taxable basis; authorizing the Director of the Mayor's Office of Housing and Community Development ("Director") to submit an application and related documents to the California Debt Limit Allocation Committee ("CDLAC") to permit the issuance of residential mortgage revenue bonds in an aggregate principal amount not to exceed $73,400,000 for 240 Van Ness Ave. (San Francisco, California 94102); authorizing and directing the Director to direct the Controller's Office to hold in trust an amount not to exceed $100,000 in accordance with CDLAC procedures; authorizing the Director to certify to CDLAC that the City has on deposit the required amount; authorizing the Director to pay an amount equal to such deposit to the State of California if the City fails to issue the residential mortgage revenue bonds; authorizing and directing the execution of any documents necessary to implement this Resolution; and ratifying and approving any action heretofore taken in connection with the Project, as defined herein, and the Application, as defined herein.**

@GEWERTZ, HEIDI (CAT), can you please reply-all to confirm your approval? Thanks!

Please let me know if you have any questions.

Rebecca Peacock (they/them)

Office of Mayor London N. Breed
Legislative & Government Affairs
City & County of San Francisco