CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee

FROM: Budget and Legislative Analyst

SUBJECT: May 17, 2023 Budget and Finance Committee Meeting

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Item 2 **File 23-0473**	**Department:** San Francisco International Airport (Airport)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would (1) approve the issuance of up to $6,060,195,000 aggregate principal amount of San Francisco International Airport (Airport) Second Series Refunding Revenue Bonds to refinance bonds and subordinate bonds; (2) approve the issuance of up to $60,525,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance fuel storage and delivery facilities; (3) approve the issuance of up to $262,530,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance the Airport Hotel; (4) approve revolving lines of credit and term loans in an available principal amount, together with the aggregate outstanding principal amount of subordinate bonds issued as commercial paper notes, up to $600,000,000; (5) approve the purchase of bonds or subordinate bonds by the Airport; (6) approve maximum interest rates, maturity dates, and number of issues; and (7) approve certain resolutions of the Airport Commission and other related matters.

Key Points

- The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds. In addition to the $1.1 billion in Refunding Bonds that have been authorized but unissued, the Airport would have capacity to issue approximately $7.2 billion in Refunding Bonds. This is intended to provide the authority for the Airport to issue Refunding Bonds for debt eligible for refunding through 2028.
- Although the proposed resolution also approves refunding Special Facility bonds, at this time, the Airport does not anticipate that refunding those bonds would produce debt service savings for the Airport. However, the Airport has requested this authority to provide financial flexibility and allow for refinancing if interest rates decline.
- The proposed resolution would continue to authorize the Airport to enter into letters of credit and commercial paper notes and, for the first time, authorize revolving lines of credit and term loans, together up to $600 million.

Fiscal Impact

- The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds, $60.5 million in SFO Fuel Bonds to refinance the fuel distribution system, and $262.5 million in SFO Hotel Bonds to refinance the Airport Hotel.
- The Airport pays approximately $3 million per year for letters of credit to support its commercial paper notes. The costs between a letter of credit and revolving line of credit are similar, and the Airport does not expect a significant difference between the cost of revolving lines of credit compared to letter of credit support.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

City Charter Section 4.115 states that the Airport Commission has exclusive authority to plan and issue Airport revenue bonds for Airport-related purposes, subject to the approval, amendment, or rejection of the Board of Supervisors.

City Charter Section 9.107 states that the Airport may issue revenue bonds without voter approval, subject to Board of Supervisors' approval.

Administrative Code Section 2.62 states that such revenue bonds shall bear a rate of interest not to exceed that which may be fixed and prescribed by the Airport Commission, subject to the approval or rejection of the Board of Supervisors.

BACKGROUND

Airport Revenue and Refunding Bonds

The San Francisco International Airport (Airport) issues Airport revenue bonds, as authorized by the 1991 Master Bond Resolution. The 1991 Master Bond Resolution has been supplemented and amended 23 times since its original publication. Since 2008, the Board of Supervisors has authorized the issuance of $10.8 billion in Airport revenue bonds to finance capital projects (Capital Plan Bonds). The Board of Supervisors last authorized an increase of $3 billion in bonds in January 2020 (File 19-1124). The Airport has issued approximately $6.6 billion in Capital Plan Bonds, leaving approximately $4.2 billion in Capital Plan Bonds that remain authorized by unissued.[1]

The Board of Supervisors has authorized the issuance of $11 billion in Airport bonds to refinance outstanding debt (Refunding Bonds). The Airport has issued approximately $9.9 billion in Refunding Bonds, which have resulted in net present value debt service savings of approximately $672.9 million to date, leaving approximately $1.1 billion in Refunding Bonds that remain authorized but unissued. In April 2023, the Airport Commission approved an Omnibus Resolution which authorized the issuance of an additional $6.1 billion in Refunding Bonds, as well as other actions described below.

Special Facilities Bonds

SFO Fuel Bonds

In 1997, a consortium of airlines operating at the Airport created SFO Fuel Company LLC for the purpose of leasing, constructing, and operating the fuel systems at the Airport. In 1997 and 2000, the Airport Commission issued Special Facilities Lease Revenue Bonds to finance the costs of acquisition, construction, modification, expansion, and installation of jet fuel storage and distribution systems. In 2010, the Board of Supervisors approved the issuance of $125 million of Special Facilities Revenue Bonds (SFO Fuel Bonds) to potentially refund the previously authorized bonds (File 10-1579). In 2019, the Airport issued $125 million in principal amount of SFO Fuel

[1] According to Senior Administrative Analyst Tran, the bond authorization limit is cumulative, so repayment or refinancing of bonds does not increase the Airport's bond issuance capacity.

Bonds to refinance all outstanding fuel bonds and finance two new fuel storage tanks. Debt service on SFO Fuel Bonds is paid by rents that SFO Fuel Company pays to the Airport under its lease agreement, which in turn is recovered by payments charged by SFO Fuel Company to the airlines for its services. According to Tyler Tran, Airport Senior Administrative Analyst, the outstanding principal amount of SFO Fuel Bonds is approximately $98.3 million.

SFO Hotel Bonds

In 2015, the Board of Supervisors approved the sale of $243 million of General Airport Revenue Bonds and $225 million of Hotel Special Facility Revenue Bonds (SFO Hotel Bonds) to finance the construction of a 351-room hotel at the Airport (File 15-0987). Due to an increase in construction costs, in 2017, the Board of Supervisors approved an additional sale of $35 million of General Airport Revenue Bonds and $35 million of SFO Hotel Bonds to complete the project (File 17-0696).

The Airport used the proceeds from the General Airport Revenues Bonds to purchase the SFO Hotel Bonds. The Airport has a trust agreement with Bank of New York Mellon Trust Company to hold the SFO Hotel Bonds and transfer debt service payments, which are paid by hotel revenues, to the Airport. In February 2021, the Board of Supervisors approved an Amended Hotel Trust Agreement that reduced the hotel's interest rate due to declining revenues under the COVID-19 pandemic (File 21-0007). Under the Amended Hotel Trust Agreement, debt service payments were suspended from October 1, 2020 through April 1, 2023, and interest rates were reduced from three percent to 0.086 percent through October 1, 2023 and would gradually increase back to three percent by April 1, 2029. According to Senior Administrative Analyst Tran, the outstanding principal amount of SFO Hotel Bonds is approximately $260 million.

Commercial Paper

The Airport uses commercial paper as short-term financing for capital projects, allowing the Airport to meet construction cash flow requirements prior to issuing longer-term bonds.[2] The Board of Supervisors has authorized the Airport to issue $600 million in commercial paper (File 21-0070). According to Senior Administrative Analyst Tran, the Airport's outstanding commercial paper principal amount is approximately $286 million.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

(1) approve the issuance of up to $6,060,195,000 aggregate principal amount of Airport Second Series Refunding Revenue Bonds to refinance bonds and subordinate bonds;

(2) approve the issuance of up to $60,525,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance fuel storage and delivery facilities;

[2] Commercial paper is a short-term debt instrument with maturities limited to 270 days. Commercial paper typically has a much lower interest rate than long-term debt. According to Senior Administrative Analyst Tran, the Airport's commercial paper notes are typically repaid or rolled over approximately three to four months after issuance.

(3) approve the issuance of up to $262,530,000 aggregate principal amount of Airport Special Facilities Bonds to refund bonds issued to finance the Airport Hotel;

(4) approve revolving lines of credit, term loans, commercial paper notes, and subordinate bonds with a collective amount not to exceed $600,000,000;

(5) approve the purchase of bonds or subordinate bonds by the Airport;

(6) set maximum interest rates, maturity dates, and number of issues of such capital plan bonds, refunding bonds, subordinate bonds, and special facilities bonds; and

(7) approve certain resolutions of the Airport Commission and other related matters.

Refunding Bonds

The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds. In addition to the $1.1 billion in Refunding Bonds that have been authorized but unissued, the Airport would have capacity to issue approximately $7.2 billion in Refunding Bonds. According to Senior Administrative Analyst Tran, this resolution is intended to provide the authority for the Airport to issue Refunding Bonds over the next five years.

According to Senior Administrative Analyst Tran, potential uses of Refunding Bonds may include:

- $293.4 million in Fixed Rate Bonds eligible for refunding in May 2023;
- $473.6 million in Fixed Rate Bonds eligible for refunding in May 2024;
- $802.9 million in Fixed Rate Bonds eligible for refunding in May 2026;
- $571.6 million in Fixed Rate Bonds eligible for refunding in May 2027;
- $839.1 million in Fixed Rate Bonds eligible for refunding in May 2028;
- $654 million in Commercial Paper;[3]
- $3.1 billion in advanced refunding of bonds;[4] and
- $276.3 million in refunding Variable Rate Bonds.

Special Facilities Bonds

The proposed resolution would approve the issuance of approximately $60.5 million in SFO Fuel Bonds and $262.5 million in SFO Hotel Bonds to refinance outstanding bonds issued to finance the fuel storage and delivery facilities and the Airport Hotel. At this time, the Airport does not anticipate that refunding would produce debt service savings for the Airport. However, the Airport has requested this authority to provide financial flexibility and allow for refinancing if interest rates decline.

As the Airport owns the SFO Hotel Bonds, the Airport may either refinance the bonds using the same structure or sell the refunding SFO Hotel Bonds to other investors and use the proceeds to

[3] This amount includes the $600 million maximum commercial paper principal amount and up to $54 million in interest.

[4] Advanced refunding is when the proceeds of a refunding issue are held longer than 90 days before being used to pay debt service on the refunding issue and are therefore subject to higher taxes.

refund general Airport revenue bonds that were used to purchase the SFO Hotel Bonds. The Airport has not decided on which approach it would take were it to refund SFO Hotel Bonds.

Credit & Commercial Paper

The proposed resolution would continue to authorize the Airport to enter into revolving lines of credit, term loans, and subordinate bonds issued as commercial paper notes, up to $600 million. According to Senior Administrative Analyst Tran, this is intended to provide the Airport with an alternative to commercial paper, in the event that the market incentivizes lines of credit over commercial paper for short-term borrowing.

The Airport maintains letters of credit with the following banks:

- State Street Bank and Trust Company ($100 million, expires May 2, 2024),
- Sumitomo Mitsui Banking Corporation, ($100 million, expires April 7, 2027),
- Barclays Bank PLC ($100 million, expires May 24, 2024),
- U.S. Bank National Association ($100 million, expires November 15, 2023),
- Barclays Bank PLC ($125 million, expires April 23, 2027), and
- Bank of America, N.A. ($75 million, expires May 4, 2026)

The Airport intends to replace the U.S. Bank National Association letter of credit that expires in November 2023 with another letter of credit provided by Sumitomo Mitsui Banking Corporation.

Other Terms

The proposed resolution would set the following maximum interest rates for Airport bonds: (1) 12 percent for tax-exempt fixed-rate bonds; (2) 16 percent for taxable fixed-rate bonds; and (3) 18 percent for variable rate bonds. The proposed resolution also limits all Airport bond terms to 40 years. Bond sales may be competitive or through direct placement. These parameters are consistent with past resolutions authorizing Airport revenue bonds (Files 10-1579, 19-1124).

Debt Policy

According to the Airport's debt policy, refunding bonds may only be issued if the net present value of the debt service savings is (a) equal to at least three percent of the remaining principal of the refunded bonds, or (b) equal to at least one percent of the principal remaining principal of the refunded bonds and it is unlikely, in the judgment of the municipal advisors, that a future refunding would realize greater savings.

The debt policy also states that credit facility providers must have long-term credit ratings of at least A2/A/A and short-term credit ratings of P-1/A-1/F1, from at least two rating agencies.

Board of Supervisors Approval

Under City Charter Sections 4.115 and 9.107, the Board of Supervisors approves the Airport Commission's authority to issue Airport revenue bonds, but not each sale (as is the case with general obligation bonds).

FISCAL IMPACT

Refunding Bonds

The proposed resolution would approve the issuance of approximately $6.1 billion of Airport Refunding Bonds. In addition to the $1.1 billion in Refunding Bonds that have been authorized but unissued, the Airport would have capacity to issue approximately $7.2 billion in Refunding Bonds.

According to a good faith estimate prepared by PFM Financial Advisors, the true interest cost for the $7.2 billion in Refunding Bonds is estimated to be 4.53 percent. With an average 20-year Refunding Bond term length, the total payment amount with interest is estimated to be approximately $12.7 billion, including an estimated issuance cost of $23.2 million. This represents debt service savings of approximately $80.8 million compared to the original terms of the Capital Plan Bonds, or net present value savings of 1.27 percent, consistent with the Airport's debt policy. Airport bonds are paid by Airport operating revenues.

SFO Fuel Bonds

The proposed resolution would approve the issuance of approximately $60.5 million in SFO Fuel Bonds to refinance the Airport's fuel distribution system.

According to PFM's good faith estimate, the true interest cost for the $60.5 million in SFO Fuel Bonds is estimated to be 4.54 percent. After paying a cost of issuance of approximately $0.4 million, the net bond proceeds would be $60.1 million. With an average 16-year SFO Fuel Bond term length, the total payment amount with interest is estimated to be approximately $103.7 million. This was included in the Omnibus Resolution to provide financial flexibility in case the Airport needs to restructure the bonds, but it is not expected to provide any debt service savings.

SFO Hotel Bonds

The proposed resolution would approve the issuance of approximately $262.5 million in SFO Hotel Bonds to refinance the Airport Hotel.

According to PFM's good faith estimate, the true interest cost for the $262.5 million in SFO Hotel Bonds is estimated to be 4.53 percent. After paying a cost of issuance of approximately $1.8 million, the net bond proceeds would be $260.7 million. With an average 22-year SFO Hotel Bond term length, the total payment amount with interest is estimated to be approximately $525.5 million. This was included in the Omnibus Resolution to provide financial flexibility in case the Airport needs to restructure the bonds, but it is not expected to provide any debt service savings.

Commercial Paper/ Credit

The proposed resolution would continue to authorize the Airport to enter into letters of credit and commercial paper notes and, for the first time, authorize revolving lines of credit and term loans, together up to $600 million. According to Senior Administrative Analyst Tran, the Airport pays approximately $3 million per year for letters of credit to support its commercial paper notes. The costs between a letter of credit and revolving line of credit are similar, and the Airport does not expect a significant difference between the cost of revolving lines of credit compared to letter of credit support. Borrowing is repaid by rolling over debt or repayment with longer-term debt. Ongoing costs to maintain credit facilities are paid by Airport operating funds.

RECOMMENDATION

Approve the proposed resolution.

Item 4 File 23-0524	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would: approve a ground lease with 730 Stanyan Associates, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000 in order to construct affordable housing; and approve a not-to-exceed $69,528,927 amended and restated loan agreement for a term of 57 years.

Key Points

- The 730 Stanyan Street Project (Project) will be an eight-story building with 160 residential units built in the Haight-Ashbury neighborhood across from Golden Gate Park. The City purchased the parcel from the McDonald's Corporation in 2018 for $15.9 million for the development of affordable housing.
- Of the 159 affordable units (excluding one manager's unit), 32 units will be permanent supportive housing units, and an additional 32 units will be supported by Project Based Section 8 vouchers. The project also includes 9,135 square feet of commercial space on the ground floor, including an early childhood day care center, a neighborhood-serving community space, a food hall, and a micro-retail space. However, the plan for tenants is not complete.

Fiscal Impact

- Sources of funds for the proposed loan of up to $69,528,926 include $8,583,241 in No Place Like Home Funds, as well as 2019 General Obligation Bonds, Van Ness-Market Housing Funds, ERAF funds, and Inclusionary Housing Funds.
- Total development costs are $169.2 million or $1,057,200 per unit. The City's total subsidy for the housing development costs is $85.4 million (including acquisition costs), or $533,931 per unit. The loss of $28.79 million from State resources was wholly absorbed by the MOHCD gap loan in order to deliver affordable housing.

Policy Consideration

- The Chinatown Community Development Center (CCDC) and Tenderloin Neighborhood Development Corporation (TNDC) were selected to develop the Project as a joint venture after apparently receiving a tying score following a competitive selection process. However, in our review of the developer selection memo, we observed that the tabulation of scores was incorrect and that CCDC actually scored two points higher than TNDC. Given the documentation available for our review, it is unclear whether CCDC and TNDC actually achieved tying scores that allowed them to share in the developer fees for this project.

Recommendation

- Request the underlying scoring sheets for the 730 Stanyan developer solicitation.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

Administrative Code Section 23.30 states that the Board of Supervisors shall approve all leases on behalf of the City as landlord by resolution for which the term is longer than a year and costs over $15,000 per month. Leases of City property that require Board of Supervisors approval may be less than market rate if the Board of Supervisors finds that doing so would serve a public purpose.

BACKGROUND

730 Stanyan Project

The 730 Stanyan Street Project (Project) will be an eight-story building with 160 residential units built in the Haight-Ashbury neighborhood across from Golden Gate Park. The City purchased the parcel from the McDonald's Corporation in 2018 for $15.9 million for the development of affordable housing (File 17-1319).[1]

The 160 units include 35 studios, 43 one-bedroom units (including one manager's unit), 42 two-bedroom units, and 40 three-bedroom units. Of the 159 affordable units, 32 units will be permanent supportive housing units (including 12 units for families experiencing homelessness and 20 units for transitional age youth experiencing homelessness) supported by the Local Operating Subsidy Program (LOSP), and 19 of the 32 supportive housing units will be funded by the No Place Like Home Program.[2] An additional 32 units will be supported by Project Based Vouchers.

The project also includes 9,135 square feet of commercial space on the ground floor, including an early childhood day care center, a neighborhood-serving community space, a food hall, and a micro-retail space. However, the plan for tenants is not complete.

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[1] This site was previously the source of neighborhood complaints and litigation by the City Attorney's Office regarding the property as a nuisance. MOHCD conducted preliminary analysis to determine if this site could be developed into an affordable multifamily housing development with community and resident serving uses on the ground floor. As a result, in July 2017 MOHCD staff, working with the Real Estate Division, approached the McDonald's Corporation about selling this property to the City to be used for affordable housing.

[2] The California Department of Housing and Community Development (HCD) No Place Like Home Program provides up to $2 billion in State bond proceeds to develop permanent supportive housing for persons who need mental health services and are experiencing homelessness, chronic homelessness, or who are at risk of chronic homelessness. Bonds are repaid by funding from the Mental Health Services Act. MOHCD administers funding for the City and County of San Francisco.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would:

1) approve a ground lease with 730 Stanyan Associates, L.P. for a term of 75 years, with a 24-year option to extend and an annual base rent of $15,000 in order to construct affordable housing;
2) approve a not-to-exceed $69,528,927 amended and restated loan agreement for a term of 57 years between the City and 730 Stanyan Associates, L.P.;
3) find that the loan and ground lease are consistent with the City's General Plan and policy priorities in the Planning Code;
4) find that the property is exempt from the California Surplus Lands Act because it is being developed as affordable housing;
5) determine that the below market rate rent of the ground lease serves a public purpose by providing affordable housing for low-income households in need;
6) authorize the Director of Property to execute the Ground Lease and the Director of MOHCD to execute the Loan Agreement; and
7) authorize the Director of Property and the Director of MOHCD to execute the Ground Lease and the loan agreement and amend the agreements, provided amendments do not increase the obligations or liabilities to the City.

Ground Lease & Affordability Restrictions

The proposed ground lease is for a term of 75 years with an option to extend for an additional 24 years and restricts the lessee to operating the housing development as affordable housing only. The ground lease includes a base rent of $15,000 per year, plus residual rent up to 10 percent of the site's appraised value, which will be paid by residual receipts – that is, up to two-thirds of net income after operating costs, ground lease base rent, and replenishing operating reserves, consistent with MOHCD's Residual Receipts policy.

Affordability restrictions to preserve the affordability of the housing units in the proposed development are included in the loan agreement between the City and the affordable housing operator and a declaration of restrictions. These agreements specify the affordability levels for each unit (ranging from 30 percent to 80 percent Area Median Income) and require the non-profit housing operator to maintain these for the duration of the agreements unless agreed to by the City. Of the 159 affordable units, 32 units will be set aside for tenants referred to the Project by the San Francisco Housing Authority (SFHA) and subsidized by Project Based Section 8 vouchers and an additional 32 units will be reserved for people experiencing homelessness, including 19 units funded by the No Place Like Home Program. The remaining 95 affordable units will be entered into the San Francisco DAHLIA lottery.

Loan Agreement

The original loan agreement provided by MOHCD in 2020 was for $4.5 million for predevelopment costs. MOHCD proposes to amend the loan agreement to increase the loan amount by $65.0 million to complete development and construction, including permanent financing. Under the proposed amended loan agreement, the total not to exceed loan amount to 730 Stanyan Associates, L.P. would be $69,528,926, which includes a No Place Like Home funding of $8,583,241 and City funding of $60,945,685.

730 Stanyan Associates, L.P. must repay the loan by the later of: (a) the 57th anniversary date of the deed of trust or (b) the 55th anniversary of the date on which construction financing is converted into permanent financing. Simple interest will accrue to the loan principal balance at a rate of one percent per year, except no interest will be charged on the No Place Like Home loan.

Bridge Loan

Under the proposed loan agreement, $1 million of the funding provided by the City is a bridge loan, pending receipt of expected loan funds from the Federal Home Loan Bank Affordable Housing Loan Program (AHP). The sponsors will apply for an AHP loan in March 2024 according to MOHCD.

Sponsor Performance

According to the MOHCD loan evaluation memo, CCDC and TNDC have no outstanding performance issues, and the organizations are not currently subject to Citywide fiscal monitoring.

FISCAL IMPACT

Total Development Costs

The total development cost for the 160 units of housing is $169.2 million (including previously funded land acquisition costs), as shown in Exhibit 1 below. Of the approximate $169.2 million, $86.4 million (51%) are City funds (including $936,654 in accrued deferred interest), and $82.8 million (49%) are private funds.

Exhibit 1: Total Development Sources and Uses of Funds

	Amount	Percent of Total
Sources		
City Sources		
MOHCD Acquisition	$15,900,000*	
MOHCD Loan	69,528,926	
MOHCD Accrued Deferred Interest	936,654	
Subtotal, City Sources	*$86,365,580*	*51%*
Private Sources		
Permanent Loan	10,361,000	
General Partner Equity	100	
Limited Partner Equity	72,425,323	
Subtotal, Private Sources	*$82,786,423*	*49%*
Total Sources	**$169,152,004**	**100%**
Uses		
Acquisition	15,900,000*	9%
Hard Costs	125,664,665	74%
Soft Costs	23,143,948	14%
Reserves	1,643,391	1%
Developer Fees	2,800,000	2%
Total Uses	**$169,152,004**	**100%**

Source: MOHCD

Note: Acquisition costs were already approved and paid for and not included in the proposed loan.

Funding Sources for City Loan and Acquisition

Sources of funds for the proposed loan of up to $69,528,926 include:

- $39,000,000 in 2019 General Obligation Bond funds;
- $14,000,000 in Van Ness-Market Affordable Housing Fees, paid by developers of market rate housing for projects located in the Van Ness and Market Residential Special Use District;
- $8,583,241 in No Place Like Home Funds;
- $3,445,685 in Housing Trust Fund funds;
- $3,500,000 in excess Educational Revenue Augmentation Fund (ERAF) funds; and
- $1,000,000 in Affordable Housing Fund Inclusionary Fees, paid by developers of market rate housing.

As mentioned above, the City previously purchased the site for $15.9 million using a Community Development Block Grant administered by the Department of Housing and Urban Development.

The City's Subsidy per Housing Unit

Total development costs are $169.2 million or $1,057,200 per unit. The City's total subsidy for the housing development costs is $85.4 million (including acquisition costs and the proposed MOHCD loan), or $533,931 per unit, as shown in Exhibit 2 below. Excluding the No Place Like Home Loan, the City subsidy is $76.8 million or $480,286 per unit. Total City funding shown below also includes $3.9 million in funding for development of the commercial space (discussed below).

Exhibit 2: City Subsidy for Affordable Housing Units

Number of Units	160
Total residential area (sq. ft.)	157,124
Development Cost	$169,152,004
Total City subsidy	$85,428,926
Development cost per unit	$1,057,200
City Subsidy per unit	$533,931
City Subsidy per sq. ft.	$544

Source: MOHCD

Comparison to Similar Projects

According to the April 2023 MOHCD loan evaluation memo for the proposed gap loan, the City subsidy per unit for the 730 Stanyan Project ($533,931) is more than twice the average for comparable projects ($252,156). This is due to higher-than-average acquisition and construction costs, as well as no State funding awards for the Project. According to MOHCD, the Project Sponsor applied for an HCD Infill Infrastructure Grant ($5.0 million) and a Multi-Family Housing Program loan ($23,790,157) in March 2022 and was not awarded funding due to the competitiveness of the funding round. The loss of $28.79 million from State resources was wholly absorbed by the MOHCD gap loan.

Construction costs per unit for the 730 Stanyan Project ($785,404) are 21 percent higher than comparable projects due to: (a) higher inflation, escalation, and supply-chain increases compared to prior projects; (b) unique building design elements (including three street frontages and curved exterior walls); and (c) warm shell improvements for community-serving commercial spaces. In addition, the budget includes $550,000 in off-site improvements to transition the site from using Pacific Gas and Electric for permanent electrical power to the San Francisco Public Utilities Commission.

Construction costs estimates have also increased for the Project relative to prior estimates because the Project was redesigned from a six-story building with 120 residential units to an eight-story building with 160 residential units to maximize housing units allowable under site zoning after a year of predevelopment.

Operating Revenues and Expenses

According to the 20-year cash flow analysis for the 730 Stanyan Project, the Project will have sufficient revenues to cover operating expenses, operating reserves, first mortgage loan payments, and management fees. Project revenues consist of tenant rents, LOSP tenant assistance payments, and Section 8 Project Based Vouchers. Supportive services for the 32 LOSP subsidized supportive housing units will be funded by a separate grant from the Department of Homelessness and Supportive Housing, and supportive services for all other units will be funded through the property's operating budget. A portion of net income after operating expenses (residual receipts) will be used to repay the MOHCD loan. The Project is not expected to generate sufficient net revenues to make residual rent payments under the proposed Ground Lease.

Commercial Space

The proposed loan will fund construction of warm and cold shell[3] for 9,135 square feet of community-serving commercial space for a total cost of $3.9 million. The loan does not include tenant improvement costs for the commercial space. The commercial space will be divided as follows:

- 3,685 square feet for the Felton Institute Early Childhood Education Center ($1.3 million in project costs);
- 2,324 square feet of retail space, currently planned for a mini food hall ($0.8 million in project costs);
- 3,126 square feet of micro-retail space ($1.1 million in project costs); and
- 1,852 square feet for a neighborhood serving community center ($0.7 million in project costs).

According to the pro-forma provided by MOHCD, the mini food hall is expected to contribute revenue to the residential operating budget, but the other commercial spaces are not expected to contribute revenue. According to Section 7.8 of the proposed loan, leases of commercial space may be for for-profit, at market rate, or community serving purposes, at below market rate. Surplus cash generated from market-rate leases will accrue to MOHCD per the Residual Receipts policy and be used for the public benefit.

Early Childhood Education Center

The Felton Institute will operate the early childhood education center. Felton Institute was one of four respondents to the November 2021 RFP. MOHCD will provide funding for cold and warm shell costs for the education center, and tenant improvements will be paid for by the Felton Institute.

Two Retail Spaces

The Sponsor released a Request for Proposals (RFP) in February 2023 to identify a Master Tenant to operate the proposed mini food hall. The Sponsor will work with MOHCD to consider issuing a

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[3] A cold shell is a building without heating and plumbing. A warm shell is a building that contains those elements. Cold and warm shell improvements are subject to MOHCD's Commercial Underwriting Guidelines.

separate RFP for the micro-retail space, which may require funding from other City agencies for tenant improvements and operations.

Community Center

The Project initially planned to include a senior center, but the space has been reprogrammed to a neighborhood-serving community center because there were no responses to the 2021 RFP and no responses to the RFP that was re-issued in November 2022. According to the MOHCD loan evaluation memo, MOHCD and the Sponsor will continue to evaluate programming of this space.

Potential Future Sale of Commercial Space

According to the MOHCD loan evaluation memo, the Sponsor may consider selling the commercial space in the future due to its size and uncertainty about leasing outcomes, subject to approval by MOHCD. The sale of the commercial space would require subdividing the property. Changes to the property map, as well as any new ground lease and loan agreement, would be subject to approval by the Board of Supervisors. If the commercial space is sold, the sale amount would be used to pay down the MOHCD loan in the future.

POLICY CONSIDERATION

Developer Selection & Predevelopment Funding

On September 10, 2019, the Mayor's Office of Housing and Community Development (MOHCD) issued a Request for Qualifications (RFQ) to develop the 730 Stanyan project. On November 26, 2019, the selection panel[4] recommended the Chinatown Community Development Center (CCDC) individually, as the highest scoring respondent out of three respondents. However, MOHCD issued a supplemental questionnaire to respondents on December 16, 2019 to incorporate racial equity criteria,[5] after the selection panel scored the proposals, and requested responses eight days later, on December 24, 2019. According to MOHCD, the supplemental question was added after initial scoring due to a recently concluded racial equity analysis the Department undertook.

Although the selection panel initially recommended that the funding be awarded to one respondent with the highest score (CCDC), according to developer selection memo from the MOHCD project manager at the time, the additional points from the supplemental questionnaire resulted in two respondents, CCDC and the Tenderloin Neighborhood Development Corporation

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[4] The selection panel included the following: the Director of Housing Development at MOHCD, an Asset Manager at MOHCD, a Senior Project Manager at MOHCD, a Housing Construction Representative at MOHCD, a Development Specialist from the Office of Community Investment and Infrastructure (OCII), a Project Manager from the Office of Economic and Workforce Development, and a community member.

[5] The supplemental RFQ question requested information on (a) capacity and experience in implementing MOCHD housing preferences and (b) outreach strategies to engage communities that have traditionally lacked access to affordable housing opportunities in San Francisco. This criteria has since been incorporated in subsequent solicitations.

(TNDC), receiving a tying score, and MOHCD awarded funding to both respondents as a joint-venture partnership even though they submitted independent proposals. According to MOHCD, the developers did not protest the joint award.

However, in our review of the developer selection memo, we observed that the tabulation of scores was incorrect and that CCDC actually scored two points higher than TNDC. Given the documentation available for our review, it is unclear whether CCDC and TNDC actually achieved tying scores that allowed them to share in the developer fees for this project.

We therefore recommend that the Board of Supervisors request the underlying scoring sheets to determine the actual panel scores for the solicitation used to select developers for this project.

RECOMMENDATION

Request the underlying scoring sheets for the 730 Stanyan developer solicitation.

Item 5 File 23-0508	Department: Mayor's Office of Housing and Community Development

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would approve a loan not to exceed $18.8 million to SFCLT TNFF Holdings LLC to finance the acquisition, rehabilitation, and permanent refinancing of four existing Small Sites Projects (2480-2848 Folsom Street, 4042-4048 Fulton Street, 568-570 Natoma Street, and 308 Turk Street) and to construct one accessory dwelling unit.

Key Points

- The Small Sites Program (SSP), administered by the Mayor's Office of Housing and Community Development (MOHCD), provides loans for acquiring and rehabilitating multi-family rental buildings of five to 40 units. Early SSP projects are now being refinanced because they received traditional hard debt loans with 5-to-7-year terms and were funded prior to the release of Preservation and Seismic Safety (PASS) loan financing. In addition, early SSP projects did not receive the same level of rehabilitation funding as current projects based on the expectation that future refinancing would also address capital needs.
- MOHCD is proposing to recapitalize and replace four existing SSP loans to projects sponsored by the San Francisco Community Land Trust with one SSP loan and one PASS loan, covering all four sites to: (a) achieve lower financing costs by replacing higher-cost private loans with lower-cost PASS financing; (b) finance capital needs and construction of one accessory dwelling unit; (c) achieve cost efficiencies through bundling the projects together; and (d) use a shared approach to operating reserves to mitigate periods of shortfall for any one project. Three of the four properties have had challenges collecting rents due in part to the impact of the COVID-19 pandemic on tenants.

Fiscal Impact

- The budget for the proposed refinance and rehabilitation is funded by a $18,700,481 City loan, including $4,933,000 in PASS loans and a $13,767,481 Small Sites Program loan.
- PASS funding is from 2016 General Obligation Bonds for the PASS program. SSP funding is from 2019 General Obligation Bonds, ERAF, 2015 General Obligation Bonds, the Housing Trust Fund, the Affordable Housing Fund, and the SoMa Community Stabilization Fund.
- The total City loan amount of $18,700,481 is equal to $505,418 per unit, including PASS funding of $133,324 per unit and SSP funding of $372,094 per unit. Based on the unit mix of the properties, the SSP funding ($372,094 per unit) is within program guidelines ($373,689 per unit) for the four projects combined.

Recommendations

- Amend the proposed resolution to reduce the not-to-exceed loan amount to $18,700,481 to reflect the updated project budget and approve the resolution as amended.

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of $10 million or more, or (3) requires a modification of more than $500,000 is subject to Board of Supervisors approval.

BACKGROUND

Small Sites Program

The Small Sites Program (SSP), administered by the Mayor's Office of Housing and Community Development (MOHCD), was created in 2014 to provide loans for acquiring and rehabilitating multi-family rental buildings of five to 25 units. The Program has issued two Notices of Funding Availability (NOFA), one in 2014 and an updated one in 2019. MOHCD issued updated guidelines in September 2022. The new guidelines prioritize sites that have between five and 40 units. The program aims to achieve an average of 80 percent Area Median Income (AMI) rents over time as a building experiences tenant turnover; however, MOHCD may make exceptions to the AMI requirement.

PASS Loan Financing

In addition to Small Sites Program loans, some Small Sites projects also receive loans through the Preservation and Seismic Safety (PASS) program. The PASS program was authorized by voters in 2016 and provides low-cost financing to fund the acquisition and preservation of affordable housing and seismic retrofits to existing buildings. The program is funded by $260.7 million in general obligation bonds, including $156.0 million for market rate loans and $104.7 million for below market rate interest or deferred interest loans. Unlike other MOHCD permanent loans for affordable housing which are structured as soft debt and repaid through residual receipts, PASS program loans are structured as hard debt, which means they must be repaid every year for the duration of the lending period.

Small Site Projects Refinancing

According to MOHCD staff, all SSP projects funded before the release of PASS loan financing are expected to refinance before they reach their 10-year maturity date because these projects received traditional hard debt loans (in addition to SSP funding) with five-to-seven-year terms. In addition, early SSP projects did not receive the same level of rehabilitation funding as current projects receive based on the expectation that future refinancing would also address capital needs.

Proposed Refinancing of Four Existing SSP Projects

As of May 2023, MOHCD has provided 11 SSP loans to the San Francisco Community Land Trust (SFCLT), a non-profit.[1] SFCLT is requesting additional City financing to rehabilitate and permanently refinance four of its SSP projects, which are described below and summarized in Exhibit 1.

Exhibit 1: Four SFCLT Projects to be Refinanced

Project	308-310 Turk	2840-2848 Folsom	4042-4048 Fulton	568-570 Natoma	Total
Year Built	1923	1900	1921	1906	
Neighborhood	Tenderloin	Mission	Richmond	South of Market	
Ownership/Rental	Rental	Co-Op	Rental	Rental	
Number of Units	20	6	5 (plus one proposed ADU)	5	36 (plus one proposed ADU)
Unit Mix	20 studios	6 two-bedrooms	1 studio (proposed ADU); 2 one-bedrooms; 3 two-bedrooms	4 one-bedrooms; 1 studio	
SFCLT Purchase Price (Year)	$3,700,000 (2015)	$3,280,000 (2015)	$2,225,000 (2017)	$1,013,000 (2016)	$10,218,000
Existing SSP Loan Year	$2,569,456 (2015)	$2,496,642 (2015)	$2,125,000 (2017)	$1,875,000 (2018)	$9,066,098
SSP Funded Rehab Year	2016	2016	2017	2018	
Non-City Loans Payoff Amount	$2,037,395	$1,382,071*	$890,559	$270,308	$4,580,333
Capital Needs Assessment Completed	2022	2022	2022	2023	

Source: MOHCD

*Includes $1,082,071 payoff amount to Silicon Valley Bank and $300,000 payoff amount to Pigeon Palace Inc., the owner of 2840-2848 Folsom.

308-310 Turk Street

In 2015, SFCLT acquired the 20-unit building in the Tenderloin neighborhood under the Small Sites Program with a hard debt loan from the Enterprise Community Loan Fund. In 2016, SFCLT

[1] The SFCLT owns the land at the following multifamily residential sites: 151 Duboce, 285 Turk, 2976 23rd Street, 4042-4048 Fulton, 53 Columbus, 308 Turk, 1353-57 Folsom, 70-72 Belcher, 1684-1688 Grove, 568-70 Natoma, 966 Oak, 534-36 Natoma, 2840-2848 Folsom, 1130 Filbert. After the sites were purchased by the land trust, existing residents became co-operative owners of their building (in this case of 2840 Folsom) or maintained their tenancy as renters. Vacancies are filled by MOHCD's DAHLIA housing portal, and rents for units that become vacant are established so that the project's combined average rents for all units is equal to 30% of 80% AMI. Rents are adjusted annually by the greater of: (a) the percentage change in annual operating expenses up to a maximum of 3.5%; or (b) 2%.

completed health and safety updates, including the addition of fire sprinkler monitoring and the full renovation of six units in substandard condition. Due to the impact of the COVID-19 pandemic on residents, 54 percent of households were unable to pay rent. The Enterprise loan was put into forbearance through September 2021 due to the reduced rental income. As of March 2023, there is one vacant unit and rents have been reduced to 20 percent below market to keep leasing competitive.

Capital needs to be covered by the proposed refinancing and rehabilitation include: front door upgrades to enhance security, upgrades to the building's electric supply to comply with City code changes since acquisition (units have gas powered wall heaters and stoves and renovated units will have to convert these elements to be electric-powered), and renovation of four units (including two units in poor condition and two that have not been renovated in the last ten years).

2840-2848 Folsom Street (Pigeon Palace)

In 2015, SFCLT acquired the six-unit building in the Mission under the Small Sites Program with a hard debt loan from Silicon Valley Bank. In 2016, SFCLT completed rehabilitation work, including repair of the back stairs that were in danger of collapsing and the renovation of two vacant units in substandard condition. SFCLT has not had challenges filling vacancies in the building and attaining required rents. All units have been leased since January 2022.

Capital needs to be covered by the proposed refinancing and rehabilitation were identified in a 2018 capital needs assessment and include: repairs to an exterior shell membrane of the building, plumbing improvements, upgrades to electrical infrastructure, and replacement of damaged subfloor in one of the units.

4042-4048 Fulton Street

In 2017, SFCLT acquired the five-unit building in the Inner Richmond neighborhood under the Small Sites Program with a hard debt loan from Clearing House. In 2018, SFCLT completed rehabilitation work, including a soft story retrofit, electrical work, rear stair replacement, partial window replacement, and interior upgrades. SFCLT has had challenges collecting rent because two residents are seniors who are rent burdened and have not been able to pay their contracted monthly rent. The property has had cash flows below a 1.0 debt service coverage ratio due to rent collection losses due to COVID-19 as well as the debt service terms of the hard debt loan.

SFCLT is proposing to build an accessory dwelling unit (ADU), which would increase the number of units from five to six, to increase the property's rental revenues and improve the debt service coverage ratio. Capital needs to be covered by the proposed refinancing and rehabilitation include renovation of four units, replacement of exterior wood stairs, and exterior paint.

568-570 Natoma Street

In 2016, SFCLT acquired the five-unit building in the South of Market (SOMA) neighborhood under the Small Sites Program with a hard debt loan from Silicon Valley Bank. In 2018, SFCLT completed rehabilitation work, including structural repairs, lightwell work, improvements to the water distribution and waste line, roof replacement, an electrical upgrade, the upgrade of a ground-level unit into an ADA compliant unit, and light-touch unit upgrades. SFCLT has had challenges collecting rent because of a non-paying tenant in one unit and a vacancy in another unit. As of March 2023, SFCLT was near completion of leasing for the vacant unit and had taken possession of the unit with a non-paying tenant, but the property's budget replacement reserve is insufficient to cover the unit turnover.

The proposed refinance would replenish the operating reserves and replacement reserves of the property and also fund rehabilitation based on a 2023 capital needs assessment. Capital needs to be covered by the proposed refinancing and rehabilitation include: electrical system upgrades, replacement of eight windows, interior paint of common areas, renovation of two units, and replacement of four wall heaters.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would: (1) approve a loan in an amount not to exceed $18.8 million to SFCLT TNFF Holdings LLC[2] to finance the acquisition, rehabilitation, and permanent refinancing of four existing Small Sites Projects (2480-2848 Folsom Street, 4042-4048 Fulton Street, 568-570 Natoma Street, and 308 Turk Street), referred to collectively as "SFCLT Scattered Sites", and to construct one accessory dwelling unit at 4042-4048 Fulton Street; (2) affirm the Planning Department's determination under the California Environmental Quality Act; (3) adopt findings that the proposed transactions are consistent with the General Plan and the eight priority policies of the Planning Code; and (4) authorize the Director of MOCHD to execute loan documents and amend loan documents as needed.

Proposed Refinancing

MOHCD is proposing to recapitalize and replace four existing SSP loans with one SSP loan and one PASS loan, covering all four sites. According to MOHCD, this bundled refinance loan approach would:

- Achieve lower financing costs by repaying all existing higher-cost private loans (totaling $4,580,333 for the four projects), including loans that are coming due and on extension, and by using lower-cost PASS financing, which was not available when the properties were acquired;
- Finance capital needs totaling $2,351,304 for rehabilitation;
- Finance the addition of one Accessory Dwelling Unit (ADU) studio at one of the properties (4042-4048 Fulton Street) at a cost of $650,000;
- Cover additional allowable developer fees;
- Comply with updated underwriting standards for vacancy losses, which increased from 5 percent to 10 percent, resulting in lower estimated operating revenues compared to previous assumptions at acquisition;

[2] A California limited liability company, whose sole member and manager is San Francisco Community Land Trust, a California nonprofit public benefit corporation.

- Achieve cost efficiencies through bundling, including reduced loan origination and financing costs (for example, by sharing the annual fee for bond monitoring across four properties); and
- Use a shared approach to operating reserves to mitigate periods of shortfall for any one project. Tenant rental income would no longer be tied to a specific property but would be pooled across the portfolio to mitigate the risk of reductions in rental income due to vacancies or other reasons to any one property.

Timeline

According to MOHCD, construction would begin September 2023 and is scheduled to be completed by March 2025.

Loan Agreement and Repayment

The proposed Amended and Restated Loan Agreement would: (a) consolidate the four existing Small Sites Program loan agreements (one for each project), that have a combined principal amount totaling $9,066,098, under one loan agreement; (b) increase the combined Small Sites Program loan by $4,701,383, for a total SSP loan of $13,767,481; and (c) provide a new PASS program loan totaling $4,933,000. The total loan amount including SSP and PASS funding would be $18,700,481 which is $9,634,383 greater than the combined principal amounts of the original SSP loans.

The PASS loan includes three components: (1) a market rate loan; (2) below market rate loan; and (3) a deferred loan. MOHCD combines PASS market rate loans with PASS affordable loans (below market rate and deferred) to create a blended interest rate and maximize total bond proceeds available for affordable housing preservation projects. The interest rates and repayment terms for the loans are provided in Exhibit 2 below based on the terms in four separate promissory notes (one for each type of PASS loan and one for the SSP loan). The loans mature 40 years after the recordings of the deeds of trust.

Exhibit 2: PASS and SSP Loan Summary for SFCLT Project Refinancing

Loan	Amount	Annual Interest Rate	Interest Type	Repayment
PASS Market Rate	$3,004,197	3.87%	Compound	Monthly payments, equal to $12,319.25
PASS Below Market Rate	1,657,488	0.96%	Compound	Monthly payments, equal to $4,157.94
PASS Deferred	271,315	0.96%	Compound	Repayment at Maturity Date, no monthly or annual payments
SSP Loan	13,767,481	3.00%	Simple	Annual Payments, equal to 2/3 of Residual Receipts
Total	**$18,700,481**			

Source: Master Promissory Notes

Required Rents and Option to Purchase

The Amended and Restated Declaration of Restrictions, which covers all loan products, outlines required rents for all units for existing tenants. Rents for units that become vacant will be set so that the combined average rents for all units are equal to 30 percent of 80 percent of Area Median Income, or other amounts subject to MOHCD approval.

The Declaration of Restrictions will also include a City Option to Purchase Agreement whereby the City will have the option to purchase the properties if the owner fails to comply with the affordability restrictions, if the Declaration of Restrictions is terminated, or if the owner receives another offer to purchase the properties after the City's loan is repaid.

Deeds of Trust

Two deeds of trust (one for the PASS funding and one for the SSP loan) secure the loans.

Program Performance

Three of the four properties have had challenges collecting rents due in part to the impact of the COVID-19 pandemic on tenants as well as non-paying tenants at multiple units, resulting in reduced rental income for the properties. According to MOHCD, SFCLT has addressed the issue of non-paying tenants through mediation, relocation, and in one case a tenant returning possession of the unit to SFCLT. In addition, two of the properties have had challenges filling vacancies (568-570 Natoma and 4042-4048 Fulton). MOHCD reports that SFCLT intends to reduce vacancies at all properties through: (a) the recent resolution of non-paying tenant challenges, (b) completing the renovation of one of the vacant units (located at 568-570 Natoma), and (c) increasing asset management and property management staffing. According to MOHCD staff, SFCLT is refinancing one more SSP project, but the refinance is being done as a standalone project, rather than as part of the bundle, because it is cooperative housing.

In addition, as we noted in our May 2022 policy analysis report, "Vacancies in Below Market Rate Rental Units," smaller below market rate rental units are harder to rent in the current market because more potential renters want more space and some renters find that they can rent slightly larger units, or units in neighborhoods they prefer, for close to the same price as a below market rate unit.

FISCAL IMPACT

The City will provide $18,700,481 to SFCLT TNFF Holdings LLC for the refinancing and rehabilitation of the four projects, including $4,933,000 in PASS loans (26 percent) and a $13,767,481 Small Sites Program loan (74 percent). Exhibit 3 summarizes the sources and uses of funding for the proposed project.

Exhibit 3: Sources and Uses of Proposed SFCLT Refinancing

Sources and Uses	Amount	Percent of Total
Sources		
PASS Market Rate	$3,004,197	16%
PASS Below Market Rate	1,657,488	9%
PASS Deferred	271,315	1%
Subtotal PASS Loans	*4,933,000*	*26%*
SSP Loan	13,767,481	74%
Total Sources	**$18,700,481**	**100%**
Uses		
Acquisition	13,885,062	74%
Construction	3,109,600	17%
568-570 Natoma	86,750	
308-310 Turk	833,484	
2840-2848 Folsom	524,850	
4042-4048 Fulton	906,220	
General Contractor Overhead & Profit (15%)	352,696	
Hard Cost Contingency (15%)	405,600	
Soft Costs (incl. 10% contingency)	447,684	2%
Reserves	886,775	5%
Developer Costs	371,360	2%
Total Uses	**$18,700,481**	**100%**

Source: MOHCD

We recommend amending the proposed resolution to reduce the not-to-exceed loan amount from $18,800,000 to $18,700,481 to reflect the updated project budget.

Acquisition Costs

Acquisition costs totaling $13.9 million include $10,218,000 in prior property purchase costs (which were consistent with appraisals at the time of purchase), $2,397,663 in prior rehabilitation costs (hard and soft costs), plus initial reserve amounts and developer costs funded at acquisition. MOHCD does not require new appraisals when refinancing MOHCD-funded preservation projects.

Construction Costs

Construction costs totaling $3.1 million include $650,000 to construct a new ADU unit at 4042-48 Fulton and $1.7 million to rehabilitate the four properties, plus general contractor overhead and profit equal to 15 percent of costs and a hard cost contingency equal to 15 percent. According to MOHCD staff, costs to construct the new ADU were based on an average of previous ADU construction costs for buildings of a similar size. Estimated rehabilitation costs were based on the immediate needs identified in the new CNAs.

Reserves

Reserves total $886,775 include Operating Reserves of $15,700, Replacement Reserves of $826,675, and Other Reserves of $44,400. Operating Reserves support unanticipated operating costs for at least 20 years, such as vacancy rates above 10 percent, and Replacement Reserves support the project's capital needs over time. SSP Guidelines require an operating reserve equal to 25 percent of the first-year operating budget and a replacement reserve equal to the greater of $2,000 per unit or the amount needed to fund replacement costs for the next 10 years (based on an approved Capital Needs Assessment). The proposed budget includes $15,700 in Operating Reserves and $826,675 in Replacement Reserves which are each calculated as the difference between SSP guidelines and the amount of reserves currently collectively held by the projects. In addition, the project includes Other Reserves of $44,400 to account for potential project costs at the Natoma site while the ADU is under construction (and therefore not generating revenue).

Developer Costs

The proposed budget includes $371,360 in additional allowable developer fees. At the time of acquisition/construction, SFCLT received a portion of developer fees allowable under SSP guidelines at the time in order to reduce overall project costs. For the four projects, SFCLT has received $331,640 in developer fees out of $690,000 allowable under SSP guidelines. The proposed budget of $371,360 would fund the remaining $358,360 allowable plus an additional $13,000 for construction of the proposed ADU.

Funding Sources

PASS funding is from 2016 General Obligation Bonds for the PASS program.

SSP funding is from a combination of sources, including:

- $4,641,283 in 2019 General Obligation Bond funds;
- $60,100 in excess Educational Revenue Augmentation Funds (ERAF);
- $2,125,000 in 2015 General Obligation Bond funds;
- $4,378,702 from the Housing Trust Fund;
- $687,396 from the Affordable Housing Fund; and
- $1,875,000 from the SoMa Community Stabilization Fund.

City Subsidy

SSP program guidelines establish the maximum City subsidy per unit for acquisition, rehabilitation, and permanent financing based on the unit type, ranging from $275,000 for each single room occupancy unit up to $550,000 per ADU studio unit. However, the MOHCD Director can approve funding above the maximum guidelines if the project meets minimum scoring requirements.

The total City loan amount of $18,700,481 is equal to $505,418 per unit, including PASS funding of $133,324 per unit and SSP funding of $372,094 per unit. Based on the unit mix of the properties, the SSP funding ($372,094 per unit) is within program guidelines ($373,689 per unit) for the four projects combined. However, when reviewing the properties individually, SSP funding for three of the four properties (2840-2848 Folsom, 4042-4048 Fulton, and 568-570

Natoma) exceed program guidelines, and SSP funding for one property (308-310 Turk) is below the maximum program guidelines.

According to MOHCD staff, MOHCD does not include PASS funding when determining if a project is within maximum City funding guidelines. Because PASS funding is a hard debt product, there are no comparable guidelines for PASS funding, but PASS loans are constrained and sized based on a minimum debt service coverage ratio of 1.15, a maximum loan-to-value ratio of 90 percent, and a maximum loan-to-cost ratio of 80 percent.

Exhibit 4: City Subsidy per Unit

	308-310 Turk	2840-2848 Folsom	4042-4048 Fulton	568-570 Natoma	Total
Units	20	6	6	5	37
Existing SSP Loan	$2,569,456	$2,496,642	$2,125,000	$1,875,000	$9,066,098
Proposed SSP Loan*	5,110,744	3,259,028	2,887,386	2,510,322	13,767,481
Proposed PASS Loan*	2,666,486	799,946	799,946	666,621	4,933,000
Total City Loan	7,777,231	4,058,974	3,687,332	3,176,944	18,700,481
Change in City Loan	5,207,775	1,562,332	1,562,332	1,301,944	9,634,383
Percent Change	203%	63%	74%	70%	106%
Subsidy per Unit SSP Subsidy Cap/Unit Based on Unit Types (2022 Guidelines)	$325,000	$450,000	$441,667	$385,000	$373,689
Existing SSP Loan/Unit	128,473	416,107	425,000**	375,000	251,836**
Proposed SSP Loan/Unit	255,537	543,171	481,231	502,064	372,094
Proposed Pass Loan/Unit	133,324	133,324	133,324	133,324	133,324
Total City Loan/Unit	$388,862	$676,496	$614,555	$635,389	$505,418

Source: MOHCD

RECOMMENDATIONS

1. Amend the proposed resolution to reduce the not-to-exceed loan amount from $18,800,000 to $18,700,481 to reflect the updated project budget.
2. Approve the proposed resolution as amended.