

File No. 230958

Committee Item No. 2

Board Item No. \_\_\_\_\_

## COMMITTEE/BOARD OF SUPERVISORS

### AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee Date September 13, 2023

Board of Supervisors Meeting Date \_\_\_\_\_

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Completed by: Brent Jalipa Date September 7, 2023

Completed by: Brent Jalipa Date \_\_\_\_\_

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



**London N. Breed**  
Mayor

**Eric D. Shaw**  
Director

September 7, 2023

Angela Calvillo, Clerk  
Board of Supervisors  
1 Dr Carlton B Goodlett Place, Room 244  
San Francisco, CA 94102

Subject: Release of Budget and Finance Committee Reserve

Dear Chair Chan,

In accordance with the Budget and Finance Committee's direction that \$10 million from the SoMa Community Stabilization Fund for the Small Sites Program (SSP) be held in the Committee's reserve until specific sites were identified for acquisition (file 170489), the Mayor's Office of Housing and Community Development requests the release of \$2,900,000 from these funds to provide a SSP loan to Mission Economic Development Agency (MEDA) for the acquisition and rehabilitation of 566 Natoma, located in the SoMa neighborhood.

If you need additional information to allow for the release of these reserves, please contact Amanda Fukutome-Lopez in my office [Amanda.Fukutome-lope@sfgov.org](mailto:Amanda.Fukutome-lope@sfgov.org). Thank you for your review and release of this reserve.

Sincerely,

DocuSigned by:  
*Eric Shaw*  
65EBDF91D096444...

Eric Shaw  
Director  
Mayor's Office of Housing and Community Development

cc: Brent Jalipa, Assistant Clerk  
Supervisor Connie Chan, District 1  
Frances Hseih, Legislative Aide District 1  
Nicolas Menard, Budget and Legislative Analyst

<b>Item 2</b> <b>File 23-0958</b>	<b>Department:</b> Mayor's Office of Housing and Community Development (MOHCD)
<b>EXECUTIVE SUMMARY</b>	
<p style="text-align: center;"><b>Legislative Objectives</b></p> <ul style="list-style-type: none"> <li>The Department seeks authority from the Board of Supervisors to release up to \$2,900,000 from a Budget and Finance Committee Reserve funded by the SoMa Community Stabilization Fund. The funds will enable a Small Sites Program (SSP) loan to Mission Economic Development Agency for a five-unit residential property located at 566 Natoma, which aligns with the allowable uses of the SoMa Community Stabilization Fund.</li> </ul> <p style="text-align: center;"><b>Key Points</b></p> <ul style="list-style-type: none"> <li>The three-story, five-unit residential property at 566 Natoma, which includes four one-bedrooms and one two-bedroom unit, was selected for funding in 2019, pursuant to a 2014 Notice of Funding Availability for SSP.</li> <li>The SoMa Community Stabilization Fund portion of the SSP loan will be offered at a 3 percent simple annual interest rate for a term of 40 years, repaid by residual project income.</li> </ul> <p style="text-align: center;"><b>Fiscal Impact</b></p> <ul style="list-style-type: none"> <li>The SoMa Community Stabilization Fund has a current balance of \$10,270,756. If a companion proposed spending resolution (File 23-0812) is approved, as amended, and the requested release of reserves is approved, then the SoMa Community Stabilization Fund balance would be \$4,786,331.</li> <li>The Department plans to use \$2,804,004 in SoMa Community Stabilization funds to permanently finance the 566 Natoma project, which is \$95,996 less than the \$2,900,000 sought. The \$95,996 is needed to pay for accrued interest and closing costs, according to MOHCD.</li> </ul> <p style="text-align: center;"><b>Policy Consideration</b></p> <ul style="list-style-type: none"> <li>The average subsidy per unit from SSP for 566 Natoma would be \$580,000—an amount that is \$108,460 above the maximum average subsidy allowable for 566 Natoma under updated program guidelines, which is permissible with approval from the director of MOHCD. This subsidy amount is high relative to other affordable housing programs.</li> </ul> <p style="text-align: center;"><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Approval of the requested release of \$2,900,000 in reserve funds is a policy matter for the Board of Supervisors.</li> </ul>	

**MANDATE STATEMENT**

City Administrative Code Section 3.3(j) states that the Budget and Finance Committee of the Board of Supervisors has jurisdiction over the City's budget and may reserve proposed expenditures to be released at a later date subject to Board of Supervisors approval. The practice of the Board of Supervisors is for the Budget and Finance Committee to approve release of funds placed on reserve by the Committee, without further Board of Supervisors approval.

**BACKGROUND**

In August 2005, the Board of Supervisors approved a new Section 418 to the City Planning Code which, among other provisions, (a) established the Rincon Hill Downtown Residential District<sup>1</sup>, (b) imposed a Rincon Hill Community Infrastructure Impact Fee (currently \$15.84 per square foot of new residential development in the District<sup>2</sup>), (c) created a Rincon Hill Community Improvement Fund for the deposit of the Rincon Hill Community Infrastructure Fees collected, (d) imposed a SoMa Community Stabilization Fee (currently \$20.15 per square foot on new residential development within the District), (e) created the SoMa Community Stabilization Fund for the deposit of SoMa Community Stabilization Fees collected, and (f) established a SoMa Community Stabilization Fund Community Advisory Committee (CAC) to advise MOHCD and the Board of Supervisors on uses of the SoMa Community Stabilization Fund (Ordinance 217-05).

The legislation specifies that all funds collected in the SoMa Community Stabilization Fund are to be used to mitigate the impacts of destabilization on residents and businesses in SoMa.<sup>3</sup>

**Legislative History**

On May 6, 2008, the Board of Supervisors approved a resolution (File 08-0544) (a) approving the SoMa Community Stabilization Fund Strategic Plan, (b) authorizing MOHCD to administer the SoMa Community Stabilization Fund in accordance with this Strategic Plan, and (c) authorizing MOHCD to work with the SoMa Stabilization Fund Community Advisory Committee (CAC) to issue Requests for Proposals (RFPs) for non-profit agencies to provide services addressing the effects of destabilization on residents and businesses in SoMa, consistent with the Community Stabilization Fund Strategic Plan (updated as of February 9, 2021). The strategic plan lists the following allowable uses: affordable housing and community asset building; small business rental assistance; housing stability for low-income households, including development of new affordable homes for rent, rent subsidies, and down payment assistance; eviction prevention; employment development and capacity building for SoMa residents; job growth and job

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<sup>1</sup> The Rincon Hill Downtown Residential District is defined as the area bounded by Folsom Street (to the north), Bryant Street and the north side of the Bay Bridge (to the south), the Embarcadero (to the east), and Essex Street (to the west).

<sup>2</sup> San Francisco Citywide Development Impact Fee Register, effective January 1, 2023

<sup>3</sup> SoMa is defined as the area bounded by Market Street (to the north), King Street (to the south), the Embarcadero (to the east), and South Van Ness and Division (to the west).

placement; small business assistance; leadership development; community cohesion; civic participation; and community-based programs and economic development.

### **Small Sites Program (SSP)**

The Small Sites Program (SSP), created in 2014 and administered by MOHCD, provides loans for acquiring and rehabilitating multi-family rental buildings of five to 40 units to meet the goals of community stabilization and housing affordability—an allowable expenditure under the SoMa Community Stabilization Fund Strategic Plan. The Program has issued two Notices of Funding Availability (NOFAs), one in 2014 and an updated one in 2019, with sites selected on a rolling basis. SSP funding is provided by a variety of sources, generally including General Obligation (GO) Bonds, the Housing Trust Fund, Inclusionary Housing Fees, Eastern Neighborhoods Impact Fees, General Fund, certain Development Agreements, along with the SoMa Community Stabilization Fund, according to MOHCD. The department's updated SSP guidelines (published in September 2022) establish a maximum city subsidy per unit, depending on the size of the unit. Consistent with the program's mission to stabilize at-risk communities, SSP aims to achieve an average of 80 percent Area Median Income (AMI) rents.

### **Reserve of SoMa Community Stabilization Funds**

A Budget and Finance Committee Reserve of \$10 million from the SoMa Community Stabilization Fund was established in 2017 to fund SSP loans within the boundaries of SoMa, as appropriate sites were identified—consistent with SSP Program Guidelines and the Community Stabilization Fund Strategic Plan objective to increase affordable housing opportunities for existing residents (File 17-0489). In 2018, the Board released \$5 million of the \$10 million reserved funds to fund Mission Housing's acquisition of the Gran Oriente Filipino Hotel at 106 South Park Street in SoMa. The Department seeks authority from the Board of Supervisors to release up to \$2,900,000 from this reserve to fund an SSP loan to Mission Economic Development Agency (MEDA) for a five-unit residential property located at 566 Natoma.

## **DETAILS OF PROPOSED LEGISLATION**

The requested release of reserves authorizes MOHCD to spend up to \$2,900,000 from the SoMa Community Stabilization Fund to fund an SSP loan for 566 Natoma. The Small Sites loan for 566 Natoma will not require Board of Supervisors approval because Administrative Code Chapter 120.4 provides delegated authority for MOHCD to enter into housing loan and grant contracts with terms greater than ten years but under \$10 million.

The three-story, five-unit residential property at 566 Natoma, which includes four one-bedrooms and one two-bedroom unit, was selected for funding in 2019, pursuant to the 2014 NOFA for SSP. In May 2020, the SoMa CAC recommended approval of the financing of 566 Natoma under SSP to prevent the displacement of long-term San Francisco residents. While the current SSP scoring criteria was not in use in 2019, the project would receive a score of 84 points out of 100, according to the Loan Committee report dated May 12, 2022. Specifically, the project would receive:

- 35 points out of 35 for housing affordability;
- 35 points out of 35 for community stabilization; and

- 14 points out of 30 for geographic equity.

The total score of 84 points exceeds the minimum threshold of 70 points out of 100, indicating that the Project meets the core goals of the Small Sites Program.<sup>4</sup>

#### *Population Served*

The existing residents are long-term low-income tenants described as multi-generational Filipino or Latinx households that include families, seniors, and a person with disabilities—with an average AMI of 64 percent across all five households, which complies with SSP guidelines. Exhibit 1 below displays the 2023 rent levels and affordability for current residents, who have undergone income certification and received relocation assistance. Since acquisition in 2020, three of the households have agreed to phased rent increases (with rent increasing from an average of \$715 per month in 2020 to \$1,682 monthly in 2023), which will set their rent burden to at least 20 percent of household income, in compliance with SSP guidelines.

#### **Exhibit 1: 2023 Rent Levels and Affordability for 566 Natoma**

<b>Unit Size</b>	<b>2023 Rent Level</b>	<b>Rent Burden (Based on Household Income)</b>
One Bedroom	\$1,144	28.7%
One Bedroom	\$1,305	29.2%
One Bedroom	\$1,725	25.9%
One Bedroom	\$2,218	42.9%
Two Bedroom	\$2,017	22%
<b>Average</b>	<b>\$1,682</b>	<b>30%</b>

Source: Citywide Affordable Housing Loan Committee Report (May 12, 2022)

#### **SSP Loan Agreement and Repayment**

The SoMa Community Stabilization Fund portion of the SSP loan will be offered at a 3 percent simple annual interest rate for a term of 40 years and repaid by residual project income, as shown in Exhibit 2. Refinancing is expected to occur no sooner than 20 years after the loan issuance because adequate operating and replacement reserves are budgeted.

#### **Exhibit 2: SSP Loan Terms for 566 Natoma**

<b>Loan Term</b>	<b>Description</b>
Amount	Up to \$2,900,000
Term	40 years
Annual Interest Rate	3%
Interest Type	Simple
Repayment	Annual payments equal to 2/3 of residual receipts

Source: MOHCD

<sup>4</sup> An adjacent property, 568-570 Natoma, is also in the Small Sites portfolio and managed by the Community Land Trust. In May 2023, the Board approved a \$3.2 million loan to refinance that site (File 23-0508).

In addition, MOCHD will use up to \$1,075,000 in 2016 General Obligation Preservation and Seismic Safety Bond proceeds to fund a portion of the pending SSP loan for 566 Natoma.

According to MOHCD, MEDA will record an Amendment to the current Declaration of Restrictions that will permanently restrict the rents for at least 99 years at 566 Natoma.

### FISCAL IMPACT

The SoMa Community Stabilization Fund has a current balance of \$10,270,756. A companion resolution File 23-0812 is also on the September 13, 2023 Budget & Finance Committee agenda that would release \$3,014,800 in funds from the SoMa Community Stabilization Fund. Based on conversations with MOCHD staff, we are recommending a reduction in that resolution's not to exceed amount by \$2,900,000 because those funds will instead be made available from the requested release of reserves. If the proposed spending resolution and requested release of reserves, as amended, are approved, then the SoMa Community Stabilization Fund balance would be \$4,786,331, as shown in Exhibit 3.

#### Exhibit 3: SoMa Community Stabilization Fund

<b>Current Balance</b>	\$10,270,756
FY 2022-23 Unspent Encumbered Funds	(369,625)
FY 2022-23 Expenditures Approved by BoS but Unencumbered	(2,100,000)
<b>Balance Available</b>	<b>\$7,801,131</b>
<b>Pending Budget &amp; Finance Committee Action</b>	
Release of Reserves (this File 23-0958) <sup>1</sup>	(2,900,000)
Two projects, File 23-0812	(114,800)
<b>Remaining Balance</b>	<b>\$4,786,331</b>

<sup>1</sup>A total of \$5,000,000 of the \$10,000,000 reserve established in 2017 for SSP loans within SoMa remains unspent, and MOHCD seeks to spend up to \$2,900,000 of this reserved balance for the Small Sites loan for 566 Natoma.  
Source: MOHCD

#### Small Sites Loan for 566 Natoma

In 2020, the 566 Natoma site was acquired and rehabilitated using temporary financing provided by the San Francisco Housing Accelerator Fund (SFHAF)<sup>5</sup>, with additional funding provided by MEDA. A total of \$3,602,923 was provided in 2020 to finance the acquisition and rehabilitation of 566 Natoma; and in May 2020, MOHCD issued the first of three soft commitment letters to permanently finance the project. As shown below in Exhibit 4, project costs to be funded by the SoMa Community Stabilization Fund total \$2,804,004, or \$95,996 less than the \$2,900,000

<sup>5</sup> The SFHAF, established in 2014, is a non-profit organization that provides public, private, and philanthropic funding sources for building and preserving affordable housing, according to the organization's website.

requested in the proposed resolution. The \$95,996 is needed to pay for accrued interest and closing costs, according to MOHCD.

MOHCD intends to provide a total loan of \$3,975,000 to pay off the existing SFHAF loan and accrued interest as well as funding provided by MEDA, fund replacement and operating reserves for a period of 20 years, and pay for additional closing costs, according to MOHCD and the Loan Committee report. This loan, subject to separate Board of Supervisors approval, includes \$1,075,000 from the Preservation and Seismic Safety (PASS) Program funded by 2016 General Obligation Bond funds, and \$2,900,000 for an SSP loan funded by the SoMa Community Stabilization Fund.<sup>6</sup>

#### Exhibit 4: Sources and Uses of Funds for 566 Natoma

Sources and Uses	Amount	Percent of Total
<u>Sources</u>		
SoMa Community Stabilization Fund	\$2,804,004	72.7%
Small Sites Program		
2016 General Obligation Bond	1,055,000	27.3%
Preservation and Seismic Safety (PASS) Program		
<b>Total Sources</b>	<b>\$3,859,004</b>	<b>100%</b>
<u>Uses</u>		
Acquisition	3,679,615	95.4%
Soft Costs	58,040	1.5%
Reserves	68,349	1.8%
Developer Costs	53,000	1.3%
<b>Total Uses</b>	<b>\$3,859,004</b>	<b>100%</b>

Source: Citywide Affordable Housing Loan Committee Report (May 12, 2022)

#### *Acquisition Costs*

The initial 2020 acquisition cost of \$3,602,923 includes the property purchase of \$1,800,000, which was \$120,000 above the appraised value of \$1,680,000, based on MOHCD restricted rent levels. According to the Loan Committee report, the purchase price was approved by MOHCD because the appraisal did not account for phased rent increases agreed to by three of the households (described further above under *Population Served*). According to our analysis, this

<sup>6</sup> PASS provides low-cost long-term financing for seismic retrofits as well as the acquisition, rehabilitation, and preservation of affordable multi-unit housing, according to the May 12, 2022 Citywide Affordable Housing Loan Committee report for 566 Natoma. The PASS Program loan amount of up to \$1,075,000 is inclusive of three PASS Program loans at three different interest rates, averaging 2.74%. PASS loans are considered “hard debt” with fixed annual payments and loan amounts constrained by 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. This differs from the gap loan funded by the SoMa Community Stabilization Fund, which will have a 3% annual interest rate and is repaid with residual project income, if available.



rent increase will yield approximately \$270,000 in additional income over the first 20 years of the loan.<sup>7</sup>

The acquisition cost also included \$1,070,471 in construction costs for rehabilitation. The work, which was completed in January 2023, included expanding the ground floor one-bedroom into a two-bedroom (by merging it with the garage), re-roofing, electrical, kitchen, and floor upgrades to the other four one-bedrooms, HVAC system replacement, bathroom and plumbing repairs, a new laundry room, soft story seismic retrofitting, and life safety system enhancements.

### *Reserves*

Reserves total \$68,349, reflecting operating reserves of \$23,380 and replacement reserves of \$44,969. Operating reserves support unanticipated operating costs for at least 20 years, such as vacancy rates above the assumed 10 percent level. Replacement reserves support the site's capital needs over time. The SSP guidelines require an operating reserve equal to 25 percent of the first-year operating budget (described below), 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).

### *Developer Costs*

The proposed budget includes \$53,000 in additional developer fees, beyond the \$80,000 paid at the time of acquisition by SFHAF. This reflects \$10,000 per unit for the four one-bedroom units, and \$13,000 for the one two-bedroom unit (assessed a fee level for a new accessory dwelling unit due to comparable requirements for the unit expansion).

### **Projected Cash Flow for 566 Natoma**

Over the first 20 years of the loan, MOHCD projects that a total of \$116,391 of the residual receipts (i.e., net operating income less other debt service) will go toward SSP loan repayment. An estimated total of \$233,632 of residual receipts will go toward the replacement reserve to fund capital improvements at the site. This total of \$350,023 reflects two-thirds of the residual receipts over 20 years, with the remaining one-third (\$175,011) going to the non-profit MEDA as an incentive management fee, consistent with MOHCD's Residual Receipts policy.

## **POLICY CONSIDERATION**

The SSP guidelines updated in September 2022 establish a maximum city subsidy of \$400,000 per one-bedroom unit and \$450,000 per two-bedroom unit, plus an escalator based on how the project scores against Program guidelines. The guidelines further specify that projects "exceeding maximum base funding may be eligible subject to meeting minimum scoring criteria and/or Director approval." In the case of 566 Natoma, the project score of 84 points out of 100 enables

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<sup>7</sup> The average rent for the five units increased by a total of \$11,604 annually from the time of acquisition in 2020 to 2023. If we apply the 2.5 percent annual rent increase and assume an average 10 percent vacancy rate, we arrive at the additional income of approximately \$270,000 over 20 years.

a maximum average subsidy of \$471,500 per unit. In Exhibit 5, we show that the average subsidy per unit from SSP would be \$580,000—an amount that is \$108,460 above the maximum average subsidy allowable for 566 Natoma under updated program guidelines, which is permissible with approval from the director of MOHCD.

#### **Exhibit 5: 566 Natoma Total Funding by Source**

<b>Source</b>	<b>Funding</b>	<b>Subsidy Per Unit</b>
SoMa Community Stabilization Fund Small Sites Program	\$2,900,000	\$580,000
2016 General Obligation (GO) Bond Preservation and Seismic Safety (PASS) Program	\$1,075,000	\$215,000
<b>Total</b>	<b>\$3,975,000</b>	<b>\$795,000</b>

Source: Citywide Affordable Housing Loan Committee Report (May 12, 2022)

#### **Local Funding Per Unit**

We note that the total local subsidy<sup>8</sup> requested per unit of \$580,000 is high relative to other affordable housing programs, as shown in Exhibit 6. In our April 2023 performance audit of affordable housing financing, we noted the variation in the local subsidy per unit for projects completed from FY 2017-18 through FY 2021-22 and recommended the establishment of a performance metric, such as a not-to-exceed amount for the local public subsidy per unit, for all affordable housing programs. As noted above, this requested release of reserved funds would fund a Small Sites Acquisition loan that exceeds that Program's cost per unit guidelines. For this reason and given the relatively high cost per unit of local funding, we consider approval of the requested release of reserved funds to be a policy matter for the Board of Supervisors.

#### **Exhibit 6: Local Public Subsidy Per Unit (FY 2017-18 through FY 2021-22)**

<b>Program</b>	<b>Total Project Units</b>	<b>Sum of Loans Disbursed</b>	<b>Local Subsidy Per Unit</b>
Small Sites Program	238	\$144,904,832	\$608,844
Big Sites Program	86	\$27,124,000	\$315,395
Multifamily Rental Program	2,491	\$437,029,558	\$175,443
HOPE SF	642	\$89,683,040	\$139,693
Rental Assistance Demonstration Program	2,826	\$86,419,260	\$30,580
<b>TOTAL</b>	<b>6,283</b>	<b>\$785,160,689</b>	<b>\$124,966</b>

Source: MOHCD, as published in "BLA Performance Audit of Affordable Housing Financing," April 4, 2023

<sup>8</sup> The PASS program is a hard debt lending program and not considered a subsidy program.

**RECOMMENDATION**

Approval of the requested release of \$2,900,000 in reserve funds is a policy matter for the Board of Supervisors.