

Citywide Affordable Housing Loan Committee

San Francisco Mayor's Office of Housing and Community Development
Department of Homelessness and Supportive Housing
Office of Community Investment and Infrastructure
Controller's Office of Public Finance

Evaluation of Request for Funding: LOSP Contract
(Local Operating Subsidy Program)

Prepared By: Matt Graves

Loan Committee Date: June 21, 2024

Borrower Name: Mercy Housing California 97, L.P., a California limited partnership
Sponsor Name: Mercy Housing
Project Name: 600 7th Street
Project Address: 600 7th Street (7th St and Brannan St)
Number of Units/Beds: 120 LOSP units, 221 total units
Amount of Funds Requested: Up to \$374,858 Year 1 budget
Up to \$31,449,520 for 15 years (including Year 1)
Amount of Funds Recommended: \$31,449,520

1. SUMMARY AND BACKGROUND

Mercy Housing California 97, L.P., a California limited partnership, an affiliate of the Sponsor, Mercy Housing ("Mercy") requests \$31,449,520 in General Funds from the Local Operating Subsidy Program ("LOSP") to subsidize the operations of 120 permanent supportive housing units for formerly homeless families, out of a total of 221 units that serve extremely low- to low- income families, for a period of 15 years.

Located at 600 7th St near the intersection of 7th Street and Brannan Streets, the Project is an eight story Type I concrete building built on a large, 37,800 square foot lot, with two distinct family and supportive housing wings, ground floor community serving commercial spaces, offices, community rooms, service spaces, and a 24-hour desk clerk.

Episcopal Community Services (ECS) is the service provider designated to support the families in the LOSP units.

In April 2022, the Affordable Housing Loan Committee of the Mayor's Office of Housing and Community Development (MOHCD) recommended a gap loan of \$65.7 million. In

addition to the MOHCD loan, other financing sources include the Federal Home Loan Bank of San Francisco's Affordable Housing Program ("AHP"), a permanent private loan, and tax credit equity.

The Sponsor began construction of 600 7th St ("Project") in October 2022. The Sponsor anticipates completing construction and receiving the temporary certificate of occupancy by October 2024 with move-ins for the supportive housing units beginning in October 2024.

The Sponsors now request \$374,858 for the first calendar year of operations (2024) and a total 15-year subsidy of \$31,449,520. If approved, funds would be disbursed under the contract on a calendar-year basis in accordance with the attached schedule (see Exhibit A-1), with possible reductions from these amounts based on operating surpluses that may occur in previous years. Though all requested funds would be provided under a single, long-term contract, disbursements thereunder would be subject to annual appropriations by the Board of Supervisors, as is standard for LOSP contracts.

2. OPERATING COSTS SUMMARY

600 7th St's operating budget request was developed based on comparables within Mercy's portfolio, again near construction closing in October 2022, and now for this request. The Project has an operations staff of 12 FTE, including 24-hour desk coverage for 7 days a week and services staff, excluding services supervision for lottery residents and Department of Homelessness and Supportive Housing (HSH) supported services for the LOSP residents. The proposed operating cost before debt and reserve deposits is \$15,264 per unit per year.

3. PROPOSED LOSP BUDGET

3.1. Annual Operating Income Evaluation

The following is an evaluation of the 1st Year Operating Budget (Attachment B) and 15-Year Operating Pro Forma (Attachment C) that are the basis for the overall request for LOSP funds. The 1st Year Operating Budget is for calendar year 2024 and was projected based on other family LOSP projects in Mercy's portfolio.

Tenant Rent: As defined in the Loan Agreement dated July 22, 2022 and the recorded Declaration of Restrictions recorded August 1, 2022, the tenant rents for the 220 family units, excluding the one staff unit, are based on incomes of 60% MOHCD Area Median Income ("AMI"). The below chart outlines the rents for the LOSP units only:

Unit Type	Proposed Number of Units	Max. % MOHCD AMI	Target % TCAC AMI shown with MOHCD AMI equivalent in 2024	Rent or Operating Subsidies
Studios	45	30%	25% TCAC AMI/ 30% MOHCD AMI	LOSP
Studios	45	35%	30% TCAC AMI/ 35% MOHCD AMI	LOSP
Studios	30	50%	40% TCAC AMI/ 50% MOHCD AMI	LOSP
1BR	4	35%	30% TCAC AMI/ 35% MOHCD AMI	LOSP
2BR	9	35%	30% TCAC AMI/ 35% MOHCD AMI	LOSP
3BR	7	35%	30% TCAC AMI/ 35% MOHCD AMI	LOSP
LOSP subtotal	120			

The average building AMI is 49% MOHCD AMI/40% TCAC AMI.

The LOSP units will be targeted at 30%, 35%, and 50% MOHCD AMIs and the households will pay 30% of their monthly incomes as rent, estimated at \$300 / month as is standard for family referrals.

LOSP Subsidy: The LOSP subsidy in the Year 1 Operating Budget is \$1,499,433 (\$12,495 per unit per year and \$1,041 per unit per month, for 120 units). The LOSP subsidy made with this request is sized to fund a break-even budget on the LOSP units, including operating expenses, replacement and operating reserve deposits, partnership management fees, bond issuer fees and investor service fees.

Continuum of Care Rental Assistance: Not applicable – CoC rental assistance has not been awarded to 600 7th St. Since the Project will find construction before the next COC, the Project cannot apply again for CoC funding.

Commercial Income: 600 7th St has several commercial spaces. The MOHCD proforma shows that the project would benefit from \$217,689 in commercial cash flow that will be distributed after debt service. However, it should be noted that the Operating Budget reflects \$0 contributed by the commercial spaces to the Project’s overall budget and debt-coverage calculations because the developer will record an air rights parcel transferring ownership of the commercial improvements to a separate entity entirely. Operating costs and revenue are entirely separate between the two owners and there is no revenue sharing between residential and commercial. With the Project not relying on commercial income, occupancy of the commercial spaces fulfills community expectations and activates the streets as a community benefit.

There are no LOIs for the commercial spaces, however, the Sponsor has recently shown the space to 28 potential tenants, including a small grocer, acupuncturist, family owned Ukrainian restaurant, and comic book/coffee store.

It should be noted that the MOHCD application doesn't allow for the option of triple net fee structure, so the total base rent plus estimated NNN annual costs to the tenant is shown, effectively mirroring a NNN structure.

Total Residential Revenue Stream Excluding Commercial Income: Total residential rental revenue for Year 1 is \$4,803,165 and includes tenant rents, LOSP subsidy, and laundry income of \$12,480, and excludes commercial income.

In February 2024, the Housing Authority of San Francisco awarded the development 23 Project Based Vouchers (PBVs) - 3 for 1-bedrooms, and 20 for 2-bedrooms. The 23 PBVs have a combined contract rent of \$90,882 per month (\$1,090,584 annually). However, the Sponsor had not completed NEPA at the time of their response to the Housing Authority's RFP. Without having had NEPA completed at the time of the RFP introduces uncertainty as to whether or not the Sponsor can complete NEPA in time for TCO or if they can complete it after construction. The Sponsor is negotiating the status of the PBV award directly with the Housing Authority and will notify MOHCD if they are able to retain their awarded allocation.

3.2. Annual Operating Expenses Evaluation

Operating assumptions were evaluated at the gap loan evaluation request in April 2022 and prior to the construction loan closing in March 2021, and are shown in Exhibit B-2 and B-3 of the Loan Agreement executed July 22, 2022. The operating assumptions with this LOSP loan request are as follows:

Operating Proforma		
Underwriting Standard	Meets Standard? (Y/N)	Notes
Debt Service Coverage Ratio is between minimum 1.10:1 in year 1 and maximum 1.00:1 in year 17	Y	DSCR in Year 1 is 1.16 DSCR Year 17 is 1.02
Debt Service Coverage Ratio stays above 1.00:1 for entirety of projected 20-year cash flow	Y	DSCR is 0.96 in Year 20, however, in a later budget submitted by Mercy, they project taking out a smaller perm loan, which results in a DSCR in Year 20 of 1.023 The DSCR in Year 20 at the gap loan closing was 1.358. The decrease in the DSCR can be attributed to a lower Perm Loan in the underwriting.
Vacancy meets TCAC Standards	Y	Vacancy is 5% on LOSP and non-LOSP units (Commercial Vacancy is 50%)

Annual Income Growth is increased at 2.5% per year	Y	
Annual Operating Expenses are increased at 3.5% per year	Y	
Commercial Operating Expenses are increased at 3.5% per year	Y	
Base year operating expenses per unit are reasonable per comparables	Y	Total Operating Expenses are \$15,264 per unit per year (not including reserves).
Property Management Fee is at allowable HUD Maximum	Y	Total Property Management Fee is \$198,800 or \$75 PUPM, below the maximum standard allowed by HUD for California for multifamily rental properties.
Property Management staffing level is reasonable per comparables	Y	Operating Budget includes the following full-time employees (12 FTE): 2.0 Assistant Property Manager 1.0 Property Manager 0.5 Housing Support Specialist 1.0 Senior Property Manager 1.0 Maintenance Manager 2.0 Maintenance Technicians 2.5 Desk Clerk 1.0 Lead Desk Clerk 1.0 Hybrid Desk Clerk/Community Coordinator 1.0 Resident Service Coordinator* *ESC Case Manager FTE is not included within the Operating Budget
Asset Management and Partnership Management Fees meet standards	N Y	Asset Management Fee: \$33,150 (before debt payment). MOHCD's maximum fee allowed is \$25,130 – the Sponsor will need to revise their amount to align with MOHCD guidelines. Partnership Management Fee: \$24,270 (after debt payment) and is trended 3.5% annually. MOHCD's maximum combined Asset Management Fee and Partnership Management Fee allowed is \$50,249
Commercial Expenses	Y	\$108,844 annual and includes utilities, real estate taxes, insurance, common area maintenance costs
Ground Lease Base Rent	Y	\$15,000 annually
Bond Monitoring Fee	Y	\$15,000 annually
Replacement Reserve Deposits meet or exceed TCAC minimum standards	Y	Replacement Reserves are \$500 per unit per year meets HCD's 2017 Uniform Multifamily Regulations ("UMR") requirement.
Operating Reserve Deposits	Y	\$0.00 - Operating reserves are not allowed on new construction development.

Hard Debt- First Lender	N/A	\$969,618 and is not supported by the LOSP units
Limited Partnership Asset Management Fee meets standards	Y	LP Asset Management Fee is \$5,000 annually after debt and this amount is flat for 20 years. This amount complies with MOHCD policy.
Deferred Developer Fee	N/A	No Deferred Developer Fee

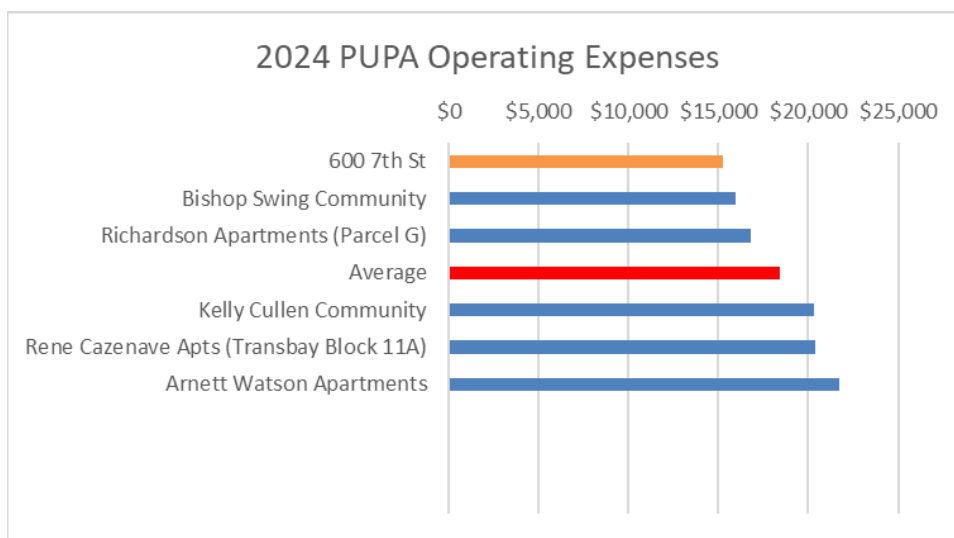
Operating Expenses – Security Expenses: The security cost of \$295,412 for 24-hour desk clerk 7 days a week is split, with 75% paid through the LOSP budget and 25% by through the non-LOSP budget. The split is consistent with the agreement negotiated and documented in the gap loan evaluation dated April 2022.

Replacement Reserve Deposit: Replacement reserve deposits total \$110,500 or \$500 PUPY.

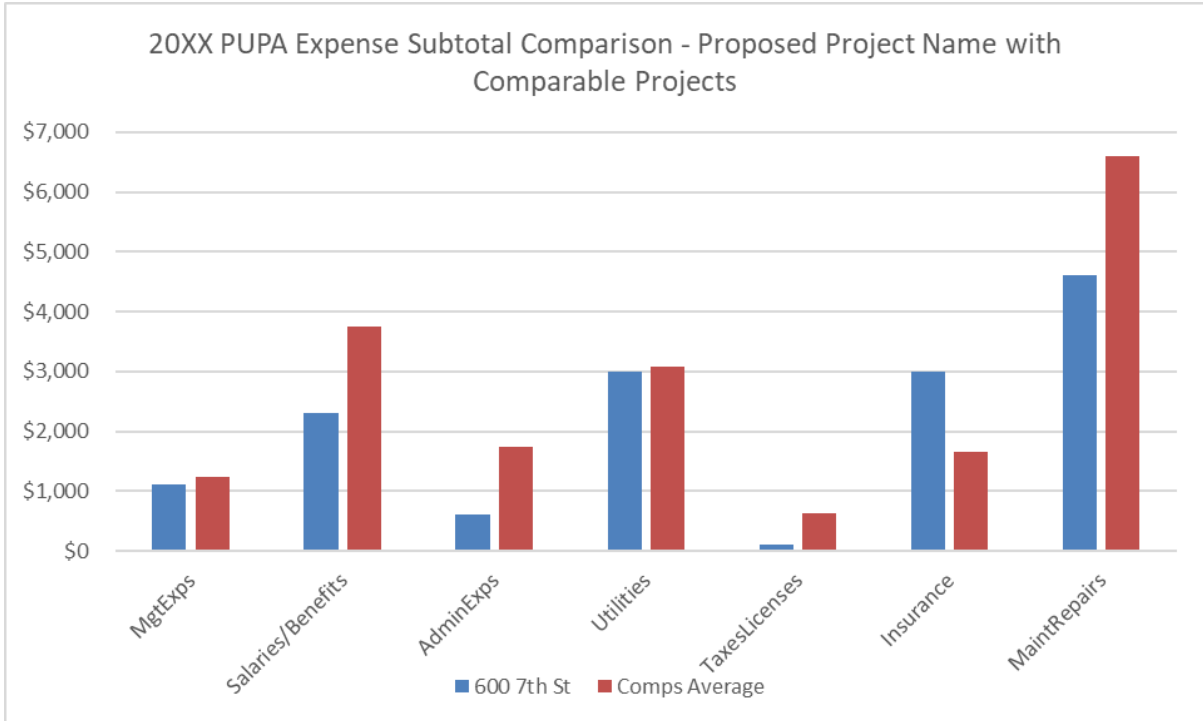
4. OPERATING COSTS COMPARATIVE ANALYSIS

To evaluate the proposed budget for 600 7th St under a new LOSP contract and its relative cost to other family and supportive housing projects of similar size, MOHCD staff compared the Project’s proposed operating expenses to other projects in MOHCD’s portfolio.

Of the comparable buildings surveyed, the average amount of units under LOSP ranged from 43% to 95% of the total units. Total operating expenses (before replacement reserve deposits and hard debt service) averaged \$18,408 per unit per annum (“PUPA”), with a range from \$15,264 to \$21,700 PUPA. With proposed per unit operating expenses of \$15,264, 600 7th St’s costs are lower than the average for the comparable housing developments. One of the greatest determinants of PUPA operating expenses is project size, with PUPA operating expenses higher for smaller and scattered site buildings and lower for larger buildings. 600 7th St’s lower PUPA may be attributed to its size and ability to allocate costs over a larger number of units.



The below chart compares 600 7th St's expense categories against the average of the other comparable properties. Also of interest is the higher-than-average Insurance amount which includes Property & Liability Insurance and Worker's Compensation and can be explained by the recent increase in Insurance costs in California.



5. SUPPORTIVE SERVICES EVALUATION

As the responsible party of the services programming, Mercy Housing partnered with Episcopal Community Services (“ECS”) to provide programs and services for the children, youth, families and adults residing at 600 Seventh St. Mercy Housing will lead the supportive services for the general population and ECS will lead the services for the formerly homeless adults and families that will reside in the 120 LOSP funded units.

HSH has reviewed and approved the overall services plan for the LOSP units. HSH will fund services provided by ECS. HSH’s services contract with ECS is for \$4,430,315 running July 1, 2024 through June 30, 2027 and is not part of the 600 7th St. operating budget. The service plan includes a staffing plan of 7.62 full-time equivalent staffing with is in alignment with HSH’s required case management ratios of 1:25 for adults and 1:20 for families.

6. CONCLUSION

Staff recommends approval of the full LOSP grant request. The proposed operating budget, excluding services, has appropriate staffing and is comparable to other similar projects.

7. RECOMMENDED CONDITIONS

None

8. LOAN COMMITTEE MODIFICATIONS

LOAN COMMITTEE RECOMMENDATION

Approval indicates approval with modifications, when so determined by the Committee.

APPROVE. DISAPPROVE. TAKE NO ACTION.

Daniel Adams, Director
Mayor's Office of Housing and Community Development

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Salvador Menjivar, Director of Housing
Department of Homelessness and Supportive Housing

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Thor Kaslofsky, Director
Office of Community Investment and Infrastructure

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Anna Van Degna, Director
Controller's Office of Public Finance

Date: _____

- Attachments:
- A. LOSP Program Description
 - B. 1st Year Operating Budget
 - C. 20-Year Operating Pro Forma
 - D. LOSP Funding and Disbursement Schedules A-1 and A-2

FW: REQUEST FOR PERMANENT FINANCING FOR 2901 16TH STREET

Adams, Dan (MYR) <Dan.Adams@sfgov.org>

Fri 6/21/2024 11:34 AM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

I also vote yes for the above listed request.

Daniel Adams

Director

Mayor's Office of Housing and Community Development

City and County of San Francisco

600 7th Street

Menjivar, Salvador (HOM) <salvador.menjivar1@sfgov.org>

Thu 7/11/2024 11:51 AM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

Cc: Ely, Lydia (MYR) <lydia.ely@sfgov.org>

I support Mercy Housing California 97, L.P., request for \$31,449,520 in General Funds from the Local Operating Subsidy Program ("LOSP") to subsidize the operations of 120 permanent supportive housing units for formerly homeless families, out of a total of 221 units that serve extremely low- to low- income families, for a period of 15 years, Located at 600 7th St near the intersection of 7th Street and Brannan Streets.

Best,

Salvador



Salvador Menjivar
Director of Housing
Pronouns: He/Him
San Francisco Department of Homelessness and Supportive
Housing
salvador.menjivar1@sfgov.org | 415-308-2843

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Request for Permanent Financing for 2901 16th Street

Slutzkin, Marc (CII) <marc.slutzkin@sfgov.org>

Fri 6/21/2024 11:50 AM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

Cc: Ely, Lydia (MYR) <lydia.ely@sfgov.org>; Kaslofsky, Thor (CII) <Thor.Kaslofsky@sfgov.org>; Colomello, Elizabeth (CII) <elizabeth.colomello@sfgov.org>; Adams, Dan (MYR) <Dan.Adams@sfgov.org>

Hi Vanessa,

I approve the above request on behalf of OCII.

Thanks

Marc



Marc Slutzkin
Deputy Director

📍 One South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

🏠 www.sfocii.org

RE: REQUEST FOR PERMANENT FINANCING FOR 2901 16TH STREET

Trivedi, Vishal (CON) <vishal.trivedi@sfgov.org>

Fri 6/21/2024 11:28 AM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>

Cc: Adams, Dan (MYR) <Dan.Adams@sfgov.org>

I vote yes.

Vishal Trivedi | Financial Analyst

Office of Public Finance | City & County of San Francisco

Email | vishal.trivedi@sfgov.org

Attachment A: LOSP Program Description

As part of the City and County of San Francisco's effort to address the needs of the growing homeless population, the City has prioritized the development of non-profit owned and operated permanent supportive housing for formerly homeless individuals and families. While capital financing can be leveraged for this population, stakeholders realized these units cannot be feasibly operated at the scale needed if they rely solely on scarce federal or state operating subsidies.

In June 2004, the City launched its *Ten Year Plan to Abolish Chronic Homelessness* (the 2004 10-Year Plan), a multifaceted approach that included a locally funded operating subsidy as a key element and established the Local Operating Subsidy Program (LOSP) in 2006 to support the creation of permanent supportive housing at a large scale. The operating subsidy leverages capital financing by integrating homeless units into Low Income Housing Tax Credit projects without burdening them with operating deficits. LOSP was created by the Mayor's Office of Housing and Community Development (MOHCD) in partnership with the Department of Public Health (DPH) and the Human Services Agency (HSA).

On July 1, 2016, the City's diverse programs addressing homelessness were brought under the new Department of Homelessness and Supportive Housing (HSH), which combines key homeless-serving programs and contracts previously located across several City departments. The new department consolidates the functions of DPH Direct Access to Housing (DAH) and HSA Housing & Homeless programs. San Francisco is developed a Coordinated Entry System (CES) for all homeless populations to best match households to the appropriate intervention and ensure those with the highest needs are prioritized.

Through grant agreements with MOHCD, which are subject to annual appropriations by the Board of Supervisors, LOSP pays the difference between the cost of operating housing for homeless persons and all other sources of operating revenue for a given project, such as tenant rental payments, commercial space lease payments, or other operating subsidies. HSH refers homeless applicants to the housing units as well as provides services funding to the projects under a separate contract.

Attachment B: 1st Year Operating Budget

Attachment C: 20-year Operating Proforma

Attachment D: LOSP Funding Schedule A

LOSP FUNDING SCHEDULE						
		Project Address:	600 7th Street			
		Project Start Date:	10/1/2024			
Exhibit A						
Calendar Year		Full Year Funding Amount	# Months to Fund	Total Disbursement for Calendar Year	Estimated Disbursement Date	FY Budgeted (for Disbursement)
CY-1	2024	\$1,499,433	3	\$374,858	9/1/2024	FY2024/25
CY-2	2025	\$1,559,491	12	\$1,559,491	1/1/2025	FY2024/25
CY-3	2026	\$1,621,919	12	\$1,621,919	1/1/2026	FY2025/26
CY-4	2027	\$1,686,377	12	\$1,686,377	1/1/2027	FY2026/27
CY-5	2028	\$1,753,196	12	\$1,753,196	1/1/2028	FY2027/28
CY-6	2029	\$1,822,459	12	\$1,822,459	1/1/2029	FY2028/29
CY-7	2030	\$1,894,253	12	\$1,894,253	1/1/2030	FY2029/30
CY-8	2031	\$1,968,668	12	\$1,968,668	1/1/2031	FY2030/31
CY-9	2032	\$2,045,796	12	\$2,045,796	1/1/2032	FY2031/32
CY-10	2033	\$2,125,735	12	\$2,125,735	1/1/2033	FY2032/33
CY-11	2034	\$2,208,581	12	\$2,208,581	1/1/2034	FY2033/34
CY-12	2035	\$2,294,439	12	\$2,294,439	1/1/2035	FY2034/35
CY-13	2036	\$2,383,416	12	\$2,383,416	1/1/2036	FY2035/36
CY-14	2037	\$2,475,620	12	\$2,475,620	1/1/2037	FY2036/37
CY-15	2038	\$2,571,167	12	\$2,571,167	1/1/2038	FY2037/38
CY-16	2039	\$2,663,543	12	\$2,663,543	1/1/2039	FY2038/39
Total Contract Amount:				\$31,449,520		