

San Francisco Mayor's Office of Housing and Community Development

MEMORANDUM

DATE: July 19, 2024

TO: CITYWIDE AFFORDABLE HOUSING LOAN COMMITTEE

FROM: WILLIAM WILCOX, BOND PROGRAM MANAGER

RE: Update to PASS Program Regulations

I. Executive Summary

The PASS (Preservation and Seismic Safety) Program Regulations attached as (Exhibit A), were originally approved by the San Francisco Loan Committee in 2019 and have not since been revised. MOHCD staff is recommending the Committee approve the proposed revisions (Exhibit B) which seeks to make program updates to streamline the application process and to provide better guidance to non-profit partners utilizing the program. As the PASS program has matured, situations that were not anticipated in the original guidelines have occurred, requiring waivers.

The updates to these guidelines will accomplish a few key goals:

- a. Provides guidelines for using PASS funds during the construction period.
- b. Clarifies affordability requirement for PASS projects.
- c. Updates PASS guidelines to conform to Small Sites Program (SSP) guidelines approved last year such as those for underwriting requirements.
- d. Updates project insurance requirements in accordance with MOHCD's most recently adopted guidelines.
- e. Updates guidelines to reflect policies for which past waivers have been routinely granted.
- f. Clarifies loan terms for Acquisition/Construction to Permanent Loans.
- g. Provides information around eligibility for loan forbearance.

II. Background

- a. Program History

In 2016, Proposition C was approved by voters, creating the PASS program and allowing the remaining Seismic Loan Program (SLP) funds to be used for the acquisition and rehabilitation of affordable housing. PASS funds have most commonly been used in Small Sites Program (SSP) acquisitions although PASS funds have been used to refinance non-SSP projects. PASS began funding projects in 2019. The original PASS Program Regulations provided guidance to non-profit developers on how to utilize the program.

- b. Reform Goals

In the years since the PASS program began, MOHCD has used PASS funds to support projects such as those with ADU's that was not anticipated in the original guidelines. Some projects that align

with the affordability mission of the program have required waiver approvals from the Loan Committee that are more perfunctory. The overall goal of the amended guidelines is to

- Save time for developers, attorneys, and other transaction staff by resolving process issues and aligning with other regulations
- Avoid confusion between the PASS and SSP guidelines.
- Codify MOHCD practices that have arisen over the life of the program that are not currently in the program regulations.

III. Key Changes

a. Stronger financial underwriting

During the first year of the Covid-19 pandemic, most PASS loans went into deferment due to an increase in vacancy. As a result, the most recently approved SSP guidelines increased the financial strength of projects to meet long term capital needs. The amended PASS regulations mirror changes to the SSP regulations by:

- Increasing debt service coverage ratio (DSCR) to 1.15 from 1.10
- Requiring the Physical Needs Assessment (“PNA”) to be for 20 years instead of 10.
- Requiring refunded property taxes and 50% of unused construction contingency to be deposited in the replacement reserve.

b. Acquisition/Construction to Permanent Loans

The revised program regulations include loan terms for “Acquisition/Construction to Permanent Loans” which have been increasingly used to finance PASS projects. The Housing Accelerator Fund (HAF) previously provided all acquisitions/construction loans for SSP projects on a soft commitment by MOHCD to do permanent loan conversion after the construction period. Due to the increase in interest rates, PASS funds are being used to cover the construction phase of projects. The amended program regulations provide loan terms for “Acquisition/Construction to Permanent Loans” which MOHCD has been providing to developers but has not been specified in the program regulations.

IV. Detailed Changes to the PASS Program regulations:

1. Section 1.2: Effective Date, Amendments:
 - a. Formally acknowledges MOHCD Director’s role in amending guidelines and sending guidelines to the Loan Committee for review.
2. Section 2.1: Eligible Properties:
 - a. Clarifies current practice concerning projects with ADU’s, verified in consultant with the City Attorney’s Office.
3. Section 2.2: Eligible Borrowers
 - a. Modifies requirement for eligible borrowers that for-profit enterprise must be in a joint venture with non-profit entity to obtain PASS funding. To date, no for-profit has utilized PASS funding. MOHCD staff believes the non-profit requirement better

meets the programs mission. City Attorney's office confirms that this is in line with the Proposition C and the amended wording is at their suggestion.

4. Section 2.4: Loan Term, Amortization, Prepayments
 - a. Added new loan type, "Acquisition/Construction to Permanent Loan," that was not covered in the original guidelines. The loan terms used in this amended section have been used on previous projects utilizing waivers.
 - b. Specifically noted that loans may be refinanced to extend the amortization period up to 55 years from the original loan closing date.
 - c. Provided more flexibility to MOHCD on how to structure any prepayment penalties for PASS loans.
5. Section 2.5: Security, Lien Position
 - a. In order to leverage PASS funds to support more project, lien position language is modified to provides MOHCD discretion to subordinate lien position to increase outside financing of projects from community banks and other government agencies that often require first lien position as a condition of lending to projects.
6. Section 3: Affordability Restrictions
 - a. Provides formal MOHCD discretion to approve projects that average above 80% AMI based on the circumstances of the project. Exceptions have been made previously. The amended program regulations provide guidance to non-profit developers on how and why exceptions are granted.
 - b. Clarifies MOHCD policy concerning annual rent increases and aligns MOHCD rent increases to MOHCD's Hold Harmless Policy.
7. Section 4.4: Marketing Requirements
 - a. Added clarification on which marketing policy and process projects should follow if they include Small Sites funding or do not use that funding source.
8. Section 5.4: Compliance Monitoring Fee
 - a. Clarifies that compliance monitoring fees are due at closing for the acquisition/construction period.
9. Section 5.5: Loan Servicing Fee
 - a. Clarifies that loans servicing fees are due at closing for the acquisition/construction period.
10. Section 6.2: Due Diligence Items
 - a. Specifies current practice, that PASS projects receiving subsidy from the Small Sites program do not need to provide additional documentation and due diligence for the PASS program.
 - b. Specifies that Physical Needs Assessment ("PNA") must be conducted within 12 months of closing.
 - c. Clarifies which documents are needed in projects where additional units are added.
11. Section 6.4: Debt Service Coverage Ratio
 - a. Aligns Debt Service Coverage Ratio requirements of PASS program to November 2022 SSP guidelines by setting a maximum debt service coverage ratio to 1.20 to ensure that only projects that need PASS funds are receiving funding.

- b. Sets a minimum DSCR at 1.15 and requires 1.0 DSCR in year 20 per existing PASS underwriting practice.
- 12. Section 6.5.2: Replacement Reserves; Capitalized Amounts and Annual Deposits
 - a. Aligns initial replacement reserve standard for projects with 30 years or greater with replacement reserve standards for other projects.
 - b. Increase time period covered by the physical needs assessment (PNA) from 10 years to 20 years to better align with the requirements of the Small Sites Program and to provide for long-term project capital needs.
 - c. Specifies that replacement reserves must be deposited in interest-bearing account.
 - d. Aligns replacement reserve standards to those of SSP, requiring that property taxes refunded by the city and 50% of the unused construction contingency must be deposited into the project's replacement reserve account, in order to strengthen project's ability to meet long term capital needs.
- 13. Section 7.1: Application
 - a. Clarifies that MOHCD may modify required application requirements as needed.
 - b. Removes requirements for unnecessary application documents.
- 14. Section 7.2: Preliminary Approval/Denial
 - a. Specifies current practice, that PASS applications are approved or declined by the Director of MOHCD.
- 15. Section 10 Loan Servicing & Forbearance
 - a. Provides information on when loans are eligible for forbearance in line with previous MOHCD practice.
- 16. Section 12: Exceptions, Waivers
 - a. Clarifies that the MOHCD Director may approve waivers directly. Previously there was an unclear and non-substantive requirement for the Director to seek input, but not approval, from the Loan Committee. Due to the lack of substance in this requirement and the time constraints it imposed, it has been streamlined in this update.
- 17. Changes to Program Term Sheet
 - a. Eligible properties:
 - i. Aligns ADU policy with amended Section 2.1
 - b. Loan Term, Amortization, Prepayments:
 - i. Adds specifics concerning acquisition/construction loans. Clarifies that loans may be refinanced after year 20 and that the total loan term will be no greater than 55 years of original closing which aligns to the maximum borrowing period currently allowable.
 - c. Security, Lien Position
 - i. Allows MOHCD to subordinate lien position, in accordance with amended Section 2.5.
 - b. Affordability restrictions
 - i. Provides a clear minimum of 55 years for affordability restrictions.
 - c. Marketing requirements
 - i. Aligns with Marketing Requirements added in Section 4.4

- d. Debt Service Coverage Ratio
 - i. Aligns DSCR to amended Section 6.4.
 - e. Replacement Reserves
 - i. Aligns per unit initial replacement reserve account deposit to amended Section 6.5.2.
 - f. Application
 - i. Updated required documents to match Section 7.1.
18. City and County of San Francisco Mandatory Contracting Provisions
- a. Edits section on prevailing wages to match actual requirements per City Attorney.
19. Insurance Requirements
- a. Previous insurance requirement section is replaced with the current insurance requirement guidelines that are approved by MOHCD.

Exhibits

Exhibit A – Existing PASS Program Regulations

Exhibit B – Proposed Updated PASS Program Regulations

Exhibit C – Redline of Changes to Existing Program Regulations

REQUEST TO UPDATE THE MOHCD'S PASS LOAN GUIDELINES

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

Fri 8/2/2024 4:01 PM

To:Cameron, Ituala (MYR) <ituala.cameron@sfgov.org>

Cc:Defiesta, Agnes (MYR) <agnes.defiesta@sfgov.org>;Lee, Melissa (MYR) <melissa.lee@sfgov.org>;Adams, Dan (MYR) <Dan.Adams@sfgov.org>

Good afternoon,

I approve the above request which was presented to the August 2, 2024 meeting of the Citywide Affordable Housing Loan Committee.

Thank you,
Lydia

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Lydia Ely
Deputy Director, Housing
Mayor's Office of Housing and Community Development
Office phone: (628) 652-5821
Cell phone: (415) 225-2936

RE: REQUEST TO UPDATE THE MOHCD'S PASS LOAN GUIDELINES

Hewson, Elizabeth (HOM) <elizabeth.hewson@sfgov.org>

Fri 8/2/2024 12:11 PM

To: Cameron, Ituala (MYR) <ituala.cameron@sfgov.org>

Cc: Lee, Melissa (MYR) <melissa.lee@sfgov.org>; Defiesta, Agnes (MYR) <agnes.defiesta@sfgov.org>; Menjivar, Salvador (HOM) <salvador.menjivar1@sfgov.org>

On behalf of Salvador Menjivar, I approve the requested updates to the MOHCD PASS Loan Guidelines.

Thank you Ituala.

Best,
Elizabeth



Elizabeth Hewson (she/her)

Manager of Supportive Housing Programs

San Francisco Department of Homelessness and Supportive Housing

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From: Cameron, Ituala (MYR) <ituala.cameron@sfgov.org>

Sent: Friday, August 2, 2024 12:07 PM

To: Hewson, Elizabeth (HOM) <elizabeth.hewson@sfgov.org>

Cc: Lee, Melissa (MYR) <melissa.lee@sfgov.org>; Defiesta, Agnes (MYR) <agnes.defiesta@sfgov.org>; Menjivar, Salvador (HOM) <salvador.menjivar1@sfgov.org>

Subject: REQUEST TO UPDATE THE MOHCD'S PASS LOAN GUIDELINES

Hi, Elizabeth.

Please respond to this email with your vote on the above agenda item. I will send two more emails for your vote on the other items.

Kind regards,

Ituala Cameron
Executive Assistant
Mayor's Office of Housing and Community Development

REQUEST TO UPDATE THE MOHCD'S PASS LOAN GUIDELINES

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

Fri 8/2/2024 11:51 AM

To:Cameron, Ituala (MYR) <ituala.cameron@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 Ituala,

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.sfcii.org

RE: Citywide Affordable Housing Loan Committee

Van Degna, Anna (CON) <anna.vandegna@sfgov.org>

Fri 8/2/2024 11:30 AM

To: Cameron, Ituala (MYR) <ituala.cameron@sfgov.org>

I approve the PASS changes

Anna Van Degna
Public Finance Director
Controller's Office of Public Finance
City & County of San Francisco
Ph. (415)-554-5956

From: Cameron, Ituala (MYR) <ituala.cameron@sfgov.org>

Sent: Thursday, August 1, 2024 5:11 PM

To: Van Degna, Anna (CON) <anna.vandegna@sfgov.org>

Subject: Re: Citywide Affordable Housing Loan Committee

Importance: High

Good afternoon, Anna.

I wanted to confirm your attendance for tomorrow's Loan Committee meeting.

Ituala Cameron
Executive Assistant
Mayor's Office of Housing and Community Development

From: Amaya, Vanessa (MYR)

Sent: Friday, July 7, 2023 10:27 AM

To: Amaya, Vanessa (MYR) <Vanessa.Amaya@sfgov.org>; Chavez, Rosanna (MYR) <rosanna.chavez@sfgov.org>; Wong, Harry (MYR) <harry.j.wong@sfgov.org>; Defiesta, Agnes (MYR) <agnes.defiesta@sfgov.org>; Blitzer, Mara (MYR) <mara.blitzer@sfgov.org>; Ely, Lydia (MYR) <lydia.ely@sfgov.org>; Obstfeld, Kimberly (CII) <kimberly.obstfeld@sfgov.org>; Colomello, Elizabeth (CII) <elizabeth.colomello@sfgov.org>; Sims, Pamela (CII) <pam.sims@sfgov.org>; Romero, Anne (MYR) <anne.romero@sfgov.org>; Heavens, Cindy (MYR) <cindy.heavens@sfgov.org>; Amaral, Sara (MYR) <sara.amaral@sfgov.org>; Van Degna, Anna (CON) <anna.vandegna@sfgov.org>; Menjivar, Salvador (HOM) <salvador.menjivar1@sfgov.org>; Shaw, Eric (MYR) <eric.shaw@sfgov.org>; Tonia Lediju, PhD <ledijut@sfha.org>; Baca, Robert (MYR) <robert.baca@sfgov.org>; Cortez, Omar (MYR) <omar.cortez@sfgov.org>; Faust, Holly B. (MYR) <holly.b.faust@sfgov.org>; Dwyer, Brendan (MYR) <brendan.dwyer@sfgov.org>; Madden, Scott (MYR) <scott.madden@sfgov.org>; McLoone, Michael (MYR) <michael.mcloone@sfgov.org>; Vanzuulen, Ryan (MYR) <ryan.vanzuulen@sfgov.org>; Abadilla Rivera, Audrey (MYR) <audrey.abadilla@sfgov.org>; Suskin, Jane (CII) <jane.suskin@sfgov.org>; Katz, Bridget (CON) <bridget.katz@sfgov.org>; Shepard, Judy (MYR) <judy.shepard@sfgov.org>; Wilcox, William (MYR) <william.wilcox@sfgov.org>; Masry, Omar (MYR) <omar.masry@sfgov.org>; Morales, James (CII) <james.morales@sfgov.org>; Oliver, John (MYR) <john.p.oliver@sfgov.org>; Fukutome-Lopez, Amanda (MYR) <amanda.fukutome-lope@sfgov.org>; Heckman, Gretchen (CII) <gretchen.heckman@sfgov.org>; Kaslofsky, Thor (CII) <Thor.Kaslofsky@sfgov.org>; Tsou, Jackie (MYR) <jackie.tsou@sfgov.org>; Ellison-Labat, Wesley (MYR) <wesley.ellison-labat@sfgov.org>; Tenpas, Sarah (MYR) <sarah.tenpas@sfgov.org>; Wang, Robin (MYR) <Robin.Wang@sfgov.org>; Stanley, Anne (MYR) <anne.stanley@sfgov.org>; Gage, Alea (MYR) <alea.gage@sfgov.org>; Kuo, Jasmine (CII) <jasmine.kuo@sfgov.org>; Trivedi, Vishal (CON) <vishal.trivedi@sfgov.org>; Otero, Carmen (MYR) <carmen.otero@sfgov.org>; Graves, Matthew (MYR) <matthew.graves@sfgov.org>; Rubin, Sophie (MYR) <Sophie.Rubin@sfgov.org>; Cameron, Ituala (MYR) <ituala.cameron@sfgov.org>; Lee, Melissa (MYR) <melissa.lee@sfgov.org>; Collins, Jennifer M. (MYR) <Jennifer.M.Collins@sfgov.org>; Strong, Andrew (MYR) <andrew.strong@sfgov.org>; Slutzkin, Marc (CII) <marc.slutzkin@sfgov.org>; Wong, Phillip (CII) <philip.c.wong@sfgov.org>; Madden, Scott (MYR) <scott.madden@sfgov.org>; Adams, Dan (MYR-DEM) <dan.adams@sfgov.org>

Cc: cathy.davis <cathy.davis@bhpmss.org>; Charmaine Curtis <Charmaine@Curtis-development.com>; Jackson Rabinowitsh <jackson@Curtis-development.com>; jwood@jsc.net <jwood@jsc.net>

Subject: Citywide Affordable Housing Loan Committee

When: Friday, August 2, 2024 11:15 AM-1:00 PM.

Where: Microsoft Teams Meeting

Loan Committee Meetings are every 1st and 3rd Friday. Please note this series is for the 1st Friday of each month.

Microsoft Teams meeting

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