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 Renewal (Local Operating Subsidy Program)

Prepared By: Mike McLoone
Loan Committee Date: March 5, 2021

Sponsor Name:	Mercy Housing California XXXIV
Project Name:	Edith Witt Senior Community
Project Address:	66 9th Street
Number of Units/Beds:	107 units
Formerly Homeless units:	27 units
LOSP-funded:	*11 Units*
Amount of Funds Requested:	$162,473 for Year 1 budget Up to $3,446,013 for 16 years (including Year 1)
Amount of Funds Recommended:	$3,446,013

1. SUMMARY AND BACKGROUND

Mercy Housing California XXXIV, a California Limited Partnership and affiliate of Mercy Housing California (Mercy), is requesting $3,446,013 in General Funds from the Local Operating Subsidy Program (LOSP) to subsidize the continuing operations of Edith Witt Senior Community (Project) for a period of 16 years, 3 weeks.

The Project is located in the South of Market neighborhood in Supervisorial District 6 at 66 9th Street between Mission Street and Market Street. The building construction type is Type I (high-rise, 10 stories of residential over a podium.) The ground floor includes approximately 11,300 square Feet (sf) consisting of a lobby, property management and resident services offices, a small health clinic, computer lab, mechanical and support spaces, and approximately 3,659 sf of space for parking for 10 vehicles. The residential portion of the building includes 107 units: 20 studios, 86 1-BR units, and a 3-BR manager's unit (unrestricted).

27 units are designated for formerly chronically homeless seniors and filled via referrals from the San Francisco Department of Homelessness and Supportive Housing (HSH) via the City's Coordinated Entry System. All of the restricted units are supported by operating subsidy: 95 units are supported by a PRAC-202 contract, and 11 units are supported by the LOSP subsidy.

Mercy manages the property and Catholic Charities CYO (CCCYO) provides on-site support to residents. Supportive Services for the 27 units housing formerly homeless seniors are funded under a contract with HSH.

The property was constructed in 2008 by Mercy Housing California and was the first project to be completed in San Francisco that used a mix of HUD Section 202, Tax Exempt Mortgage Revenue bonds and 4% Low-Income Housing Tax Credits. The San Francisco Redevelopment Agency contributed over $18 million in Tax Increment loan funds and approved a City Ground Lease that requires an annual rent payment requirement of $1.

Year 15 of the Tax Credit Compliance period is 2025. The LPA calls for an exit price to be determined either by exercising the Option or by exercising the Right of First Refusal (ROFR). The purchase price under the option is the greater of debt plus taxes or fair market value less six percent. The purchase price under the ROFR is a sum equal to an amount sufficient to pay all debts and liabilities and an amount sufficient to distribute to the Partners cash proceeds equal to the taxes projected to be imposed on the partners as a result of the sale. In either scenario, the exit would be subject to HUD's consent and would likely trigger a modified transfer of physical assets (TPA). Mercy's current plans for the exit are to negotiate a purchase price under the Option and simultaneously discuss the potential for re-syndication or recapitalization through another transaction, as the on-going asset plan is a requirement for TCAC and HUD in the exit approval process. In other limited partner exits with this investor, Mercy has been able to negotiate an exit price of outstanding asset management fees to the investor and legal costs only.

2019 LOSP household income average at the Project was $10,348, or 12% AMI, spanning a range of 7% to 16% AMI, which is typical of LOSP households. The tenant paid rent for LOSP units, at 30% of income, is $109 to $314.

The average age of the formerly chronically homeless tenants at the Project is 73 years, and the median is 72. The average length of tenancy currently is eight years, 2 months. 16 of the formerly chronically homeless tenants (67%) have been in place since the Project opened. To date, the Project has housed 42 formerly chronically homeless San Franciscans.

If this funding request is approved, a retroactive start date of 12/11/2020 would be executed resulting in a new contract with a term of 16 years, 3 weeks. Though all requested funds would be committed 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.

The amount of LOSP funds requested was derived by applying MOHCD's standard underwriting assumptions over a 16-year projection period. LOSP funds cover the gap between the Project's operating expenses, fees and reserve deposits and tenant paid rents, subsidy and other Project income. If approved, funds would be disbursed under the contract in accordance with the attached schedule (see Exhibit A), with possible reductions to an annual disbursement if the project reports any preceding annual LOSP operating surpluses, as required by LOSP funding rules.

A total of $162,473 in assistance is budgeted for the first year (CY2021). This equates to an annual subsidy of $14,770, or $1,231 monthly per LOSP unit.

2. OPERATING BUDGET AND PROFORMA – COMPLIANCE WITH UNDERWRITING STANDARDS

The proposed Year 1 Operating Budget and 16-year Cash Flow projection for the Project meet all applicable underwriting standards that are required of any project that is seeking capital financing or operating subsidy from MOHCD.

Operating Proforma		
Underwriting Standard	**Meets Standard? (Y/N)**	**Notes**
Debt Service Coverage Ratio is between minimum 1.10:1 and maximum 1.15:1 at year 15	N/A	The project has no hard debt
Debt Service Coverage Ratio stays above 1.00:1 for entirety of projected 20-year cash flow	N/A	See above
Vacancy meets TCAC Standards (10% for special needs populations, 5% otherwise) except for projects with rent subsidy contracts of 5 years or more	Y	Proposed vacancy rate is 3.5% for rents, .35% for subsidy, based on historic actual vacancy.
Annual Income Growth from tenant rents is increased at 1% per year for LOSP units and 2.5% for non-LOSP units.	Y	
Annual Operating Expenses are increased at 3.5% per year	Y	
Base year operating expenses per unit are reasonable per comparables	Y	Total Operating Expenses in 2021 are $13,129 per unit. This is a slight increase above prior project trends, but well below the LOSP portfolio average, and comparable to a group of similar LOSP projects. See Section 3 below for details.
Property Management Fee is at allowable HUD Maximum	Y	Total Property Management Fee for 2021 is $98,732 or $77 per unit per month (PUPM), just under the current HUD Maximum of $78 PUPM
Property Management staffing level is reasonable per comparables	Y	10.0 FTEs, including 2 FTE office staff, 1 FTE management staff, 2.0 FTE maintenance/custodial, 3 FTE for desk clerks, and 2 FTE Supportive Services.
Asset Management and Partnership Management Fees meet standards	N/A // Y	The fees are not included in the operating budget. Both fees are paid out of special reserves that were capitalized specifically for these fee payments. The proposed annual AM Fee is $2,000/yr., well below the current maximum fee of $22,670 under MOHCD policy. The 2021 PM fee is $20,257, below the

		current maximum fee of $22,670 under MOHCD policy.
Replacement Reserve Deposits meet or exceed TCAC or MOHCD minimum standards	Y	Proposed Replacement Reserve Deposits are $1,524 per unit, or $163k/yr, based on the recommendations from the 2014 CNA, and also required by HUD.
Limited Partnership Asset Management Fee meets standards	N/A	The budget does not include any LP AM Fee

3. PROPOSED LOSP BUDGET

The 1st Year Operating Budget (Attachment B) for CY2021 serves as the basis of the tallies for the overall LOSP Grant period. It is informed by the actual income and expenses of the Project in recent years. The prior LOSP budget for the Project appears to have been sized appropriately: Mercy reported an 8k LOSP surplus for 2019, and small shortfalls the preceding 2 years.

3.1. Annual Operating Income Evaluation

LOSP Tenant Rent: $32,362 is projected for 2021. This is 17% of the total revenue and represents an average monthly rent of $245 (equivalent of 10% AMI). As in all LOSP projects, tenants pay 30% of monthly income as rent. Mercy projects tenant rents to be the same as 2019 because of COVID-related impacts.

LOSP Subsidy: A total of $162,473 is budgeted for Year 1. The total funding comprises 83% of the LOSP portion of Effective Gross Income and equates to $14,748 per unit per year and $1,229 per month.

3.2 Annual Operating Expenses Evaluation

Operating expenses in Year 1 are budgeted at $1,404,779 , or $13,129 per unit per year. This amount represents an annual growth rate of roughly 4.5% above 2019 actual expenses, trending 1% higher than MOHCD's default escalation assumptions.

Relative to what had been budgeted for LOSP subsidy for 2021, the Project is proposing an increase of roughly $34,000, a 27% increase. The increase is caused primarily by three portions of the budget:

Utilities: Mercy is requesting a 12% increase ($30k) over the 2019 amount. Mercy reports that most of that increase was already seen in 2020. Water & Sewer are the main drivers. This is consistent with trends being reported across the MOHCD portfolio.

Property & Liability Insurance: Mercy is proposing a 47% increase ($33k) over the 2019 amount. Mercy's Risk Management Department reports that there are significant increases expected due to a variety of causes (COVID-19, wildfires, other weather events, civil unrest), and that the increasing trend began in 2019.

Staffing: Mercy proposes to shift to use an alternative split to allocate a greater share (20% instead of 10%) of the project's overall Office and Manager Salaries to the LOSP budget, based on history of building operations. According to Mercy, at least 20% of Incident

Reports involve LOSP residents and interaction with Desk Clerks for assistance or other services are generated by LOSP residents. This results in an increase of nearly $39k, which is more than double the amount from 2019.

Overall, the proposed staffing costs are only 5% more than 2019.

Staffing: $472,742 is budgeted for staff. With a total of 10 FTEs for 106 units, the ratio of staff to units/tenants is approximately 1 to 11, which is comparable to other LOSP projects; a sample of nine LOSP projects shows a range from 1:6 to 1:15, with an average of 1:9.

Consolidated Staffing Costs –
as budgeted in Management, Salaries/Benefits and Maintenance & Repair

Title	FTE allocated to Project	Exp allocated to Project
Office Salaries		
Assistant Property Manager	1.0	$43,996
Assistant Property Manager-Front Desk	1.0	$43,465
Desk Clerk	1.0	$38,483
Desk Clerk	1.0	$38,483
Desk Clerk	1.0	$38,483
Subtotal	**5.0**	**$202,910**
Manager Salaries		
Senior Property Manager	1.0	$85,584
Subtotal	**1.0**	**$85,584**
Janitorial		
Janitor/Housekeeper	1.0	$39,026
Subtotal	**1.0**	**$39,026**
Maintenance		
Maintenance Manager	1.0	$64,860
Subtotal	**1.0**	**$64,860**
Supportive Service - Op Budget Only		
Case Manager	1.0	$40,184
Case Manager	1.0	$40,184
Subtotal	**2.0**	**$80,367**
Total FTEs and Expenses	**10.0**	**$472,747**

3.3 Reserve Deposits, Debt Service, Fees

The project is not currently required by the City to perform a Capital Needs Assessment (CNA), but completed one anyway in 2014. The withdrawals in the proposed budget are based on the needs projected in the 2014 CNA. With a current balance over $1.6 million, the Replacement Reserve appears to be adequately funded to meet all of the projected rehab needs over the next 20 years. Mercy does not currently see any need to increase the annual deposit to the Replacement Reserve.

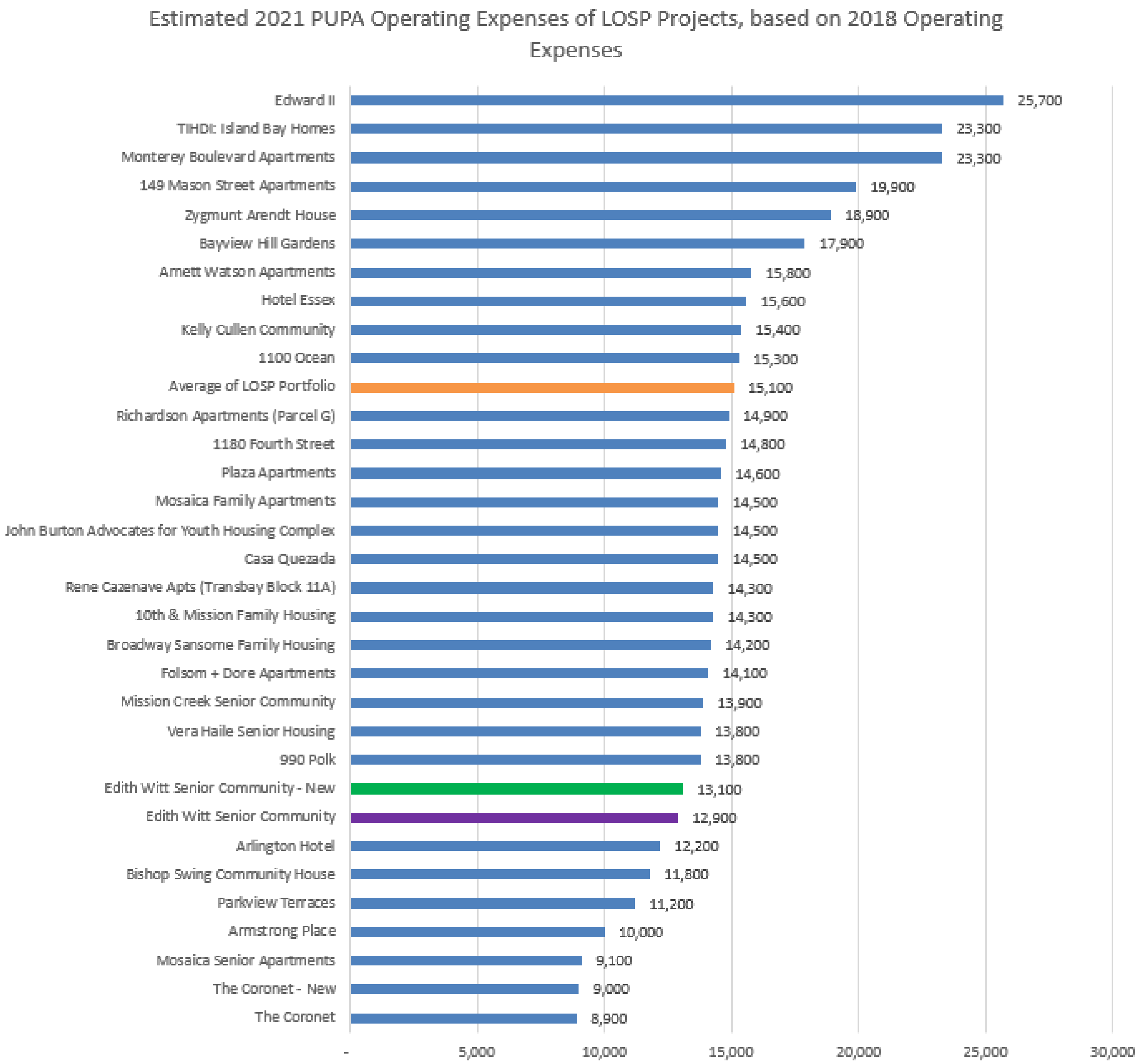
Because the LOSP funds subsidize operations only to a break-even level, the LOSP portion of the budget shows no surplus cash or residual receipts. Because the project does not rely exclusively on LOSP for operating subsidy, there is potential for the project to generate non-LOSP surplus, but under the 202/PRAC rules, any non-LOSP surplus is retained in an account that is controlled by HUD.

3.4 Sixteen (16)-Year Cash Flow Projection

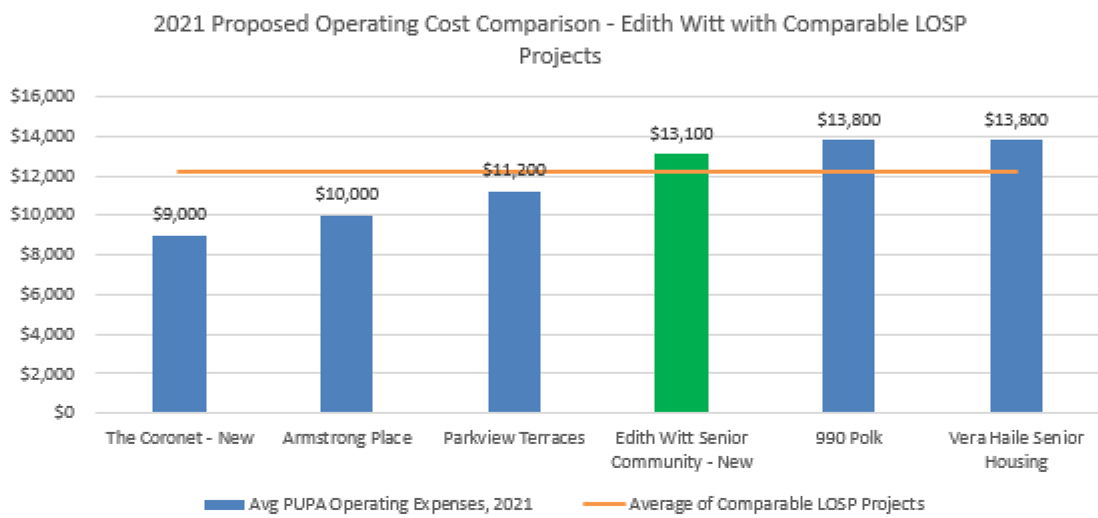
- Tenant Rents: LOSP tenant rents escalated at 1%, non-LOSP at 2.5%, per MOHCD standards.
- 202/PRAC subsidy: escalation is 3.5% per HUD standards.
- Residential vacancy rate from 2014-2019 was 0.7%. Because of increases seen in recent years with the timelines associated with receiving & processing referrals when filling vacancies, Mercy proposes a more conservative 3.5% over the 20-year period.
- Operating expenses are escalated at 3.5% annually, per MOHCD default assumptions
- Replacement Reserve (RR) funding is sufficient to address all expected capital replacement needs over the entire 20-year period, with the projected RR balances of at least 11k per unit per year over the next 20 years.
- The Operating Reserve is currently underfunded relative to MOHCD's requirements under the capital funding loan agreement because HUD 202 program rules prohibit the use of operating budget funds for this purpose. Mercy is confident in the adequacy of Operating Reserve funding and has agreed to request a formal waiver of the MOHCD minimum balance requirement.
- The LOSP subsidy is projected to increase an average of 3.76% annually over the term of the contract, which is typical or slightly less than most LOSP projects.

4. OPERATING COST COMPARATIVE ANALYSIS

Comparison with LOSP Portfolio: In 2018, MOHCD's portfolio had a total of 30 supportive housing projects that were receiving LOSP operating grant funding. When trended up to 2021, average total operating expenses (before replacement reserve deposits and hard debt service) averaged $15,100 per unit per year (PUPY), with a range from $8,900 to $25,700 PUPY. One of the greatest determinants of PUPY operating expenses is project size, with PUPY operating expenses higher for smaller and scattered-site buildings and lower for larger, single-site buildings. The proposed per unit annual operating expenses of $13,100 is well below above the average for the overall LOSP portfolio of $15,100.



<u>Comparison with similar LOSP Projects</u>: The Project's proposed operating expenses are slightly higher when compared with the PUPY expenses for five other LOSP projects of similar size and target population, including one other project under renewal currently:



5. SUPPORT SERVICES EVALUATION

To support the needs of the formerly chronically homeless population, the project receives Supportive Services funding that is tracked in a separate budget. To serve the remainder of the project's seniors, 2.0 FTE of supportive services funding is also included in the Project's operating budget.

Catholic Charities CYO is under contract with HSH to provide an array of optional supportive services onsite to the Project's formerly chronically homeless tenants.

The current contract has a 3-year term (7/1/2019 - 6/30/2022) and funding in the amount of $423,084, with $141,716 budgeted for the current fiscal year.

While referrals are coming from Coordinated Entry, the project is still part of the Legacy DAH program which maintains program rules requiring enrollment in third party rent payment services, clients maximizing benefits they are eligible for, and temporary vacancies not to exceed 90 calendar days.

The services are provided at Tier IV. The services funding provides three positions funded 1FTE each: Senior Division Director, Program Coordinator and Case Manager II. The Senior Division Director is responsible for monitoring program contracts, budgets, and outcome reporting; oversees day-to-day service delivery; and hires, trains and develops all program staff. The Program Coordinator is responsible for coordination of all community events; supports case manager and meets with clients needing more clinical experience. The Case Manager II provides case management services to case load; meets daily with clients to identify needs and leverage services to support client; works with team to plan and produce community events.

The case management staffing ratio is 3.0 FTEs to 27 units or 1:9. Supportive services include outreach and assessment; case management; benefits advocacy and assistance; referrals and coordination of services; housing stability support and connection to primary medical care.

Catholic Charities CYO is in good standing under the current contract.

6. CONCLUSION

MOHCD staff recommend approval of the request. This project leverages a large 202/PRAC contract so that it can serve 27 formerly chronically homeless seniors while only needing LOSP subsidy for 11 units. The project is effectively managing its financial resources, successfully serving senior population and be helping to stabilize vulnerable older San Franciscans.

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.

____ Date: ____________________

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

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

____ Date: ____________________

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

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

____ Date: ____________________

Sally Oerth, Interim Executive Director
Office of Community Investment and Infrastructure

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

____ Date: ____________________

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

Attachments: A. LOSP Program Description
B. 1st Year Operating Budget
C. 16-year Operating Pro Forma
D. LOSP Funding and Disbursement Schedule

Chavez, Rosanna (MYR)

From: Shaw, Eric (MYR)
Sent: Friday, March 5, 2021 11:52 AM
To: Chavez, Rosanna (MYR)
Subject: LOSP Renewal of Edith Witt

Approve

Eric D. Shaw
Director

Mayor's Office of Housing and Community Development
City and County of San Francisco
1 South Van Ness Avenue, 5th Floor

Chavez, Rosanna (MYR)

From: Menjivar, Salvador (HOM)
Sent: Tuesday, March 9, 2021 2:54 PM
To: Chavez, Rosanna (MYR)
Cc: Shaw, Eric (MYR)
Subject: LOSP Renewal for Edith Witt

I approve the request for LOSP Renewal for Edith Witt

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

Learn: hsh.sfgov.org | Follow: @SF_HSH | Like: @SanFranciscoHSH

Chavez, Rosanna (MYR)

From: Oerth, Sally (CII)
Sent: Friday, March 5, 2021 11:24 AM
To: Chavez, Rosanna (MYR)
Cc: Shaw, Eric (MYR); McLoone, Michael (MYR)
Subject: LOSP Renewal for Edith Witt - 3.5.21 Loan Committee

I approve the LOSP renewal request for the Edith Witt Senior Housing project, as presented at the 3/5/21 Loan Committee.

OCII office of COMMUNITY INVESTMENT and INFRASTRUCTURE

Sally Oerth
Interim Executive Director

One South Van Ness Avenue, 5th Floor
San Francisco, CA 94103
415.749.2588
www.sfocii.org

Chavez, Rosanna (MYR)

From: Katz, Bridget (CON)
Sent: Friday, March 5, 2021 11:23 AM
To: Chavez, Rosanna (MYR)
Cc: Shaw, Eric (MYR)
Subject: LOSP Renewal Edith Witt

Approve

Bridget Katz
Development Finance Specialist, Office of Public Finance
Controller's Office | City & County of San Francisco
Office Phone: (415) 554-6240
Cell Phone: (858) 442-7059
E-mail: bridget.katz@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 developing 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.