Preservation and Seismic Safety Program (PASS) General Obligation Bond

GOBOC Report
June 2019

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Executive Summary

In November of 2016, the San Francisco voters authorized the City and County of San Francisco to repurpose existing bond authority, and issue up to $260.7 million of general obligation bonds to address critical housing needs, protect residents, and stabilize communities. The bonds will fund the Preservation and Seismic Safety Program (PASS), and enable the City, acting by and through its Mayor's Office of Housing and Community Development (MOHCD), to:

- **Preserve affordability in existing housing at risk of market-rate conversion**
- **Protect San Franciscans living in apartments at risk of displacement**
- **Improve the earthquake resilience of San Francisco's building stock**

The estimated PASS program funding is as follows:

Program Categories	PASS Program Funding[1]
Affordable (average of 80% AMI & up to 120% AMI)	$90 million – Below Market Rate Loans $14.7 million – Deferred Loans $104.7 million
Affordable (average of 80% AMI & up to 120% AMI) & Market Rate (unrestricted)	$156 million – Market Rate Loans
TOTAL	**$260.7 million**

[1] PASS Program Funding (Below Market Rate Loans, Deferred Loans, and Market Rate Loans) is expected to be combined with to maximize the total bond proceeds available to preserve affordable housing.

Background

Since 2012, City leaders and voters have repeatedly demonstrated their support for policies and investments that address the housing needs of San Francisco's workforce and vulnerable residents. In 2012, voters approved the creation of the Housing Trust Fund. In 2015, 74% of voters approved Proposition A, a $310 million general obligation affordable housing bond. Then in 2016, 76% of voters approved Proposition C to repurpose $260.7 million in unused bond capacity to fund the Preservation and Seismic Safety Program (PASS).

The repurposed bond capacity originated from the Seismic Safety Loan Program (SSLP), which was passed by the voters in 1992 Proposition A. The SSLP provided low-cost financing for property owners to perform seismic retrofits after the 1989 Loma Prieta earthquake. A total of $350 million of SSLP funding was authorized to finance affordable and market rate buildings, as follows:

- $150 million for affordable buildings
    - $90 million for Below Market Rate Loans
    - $60 million for Deferred Loans
- $200 million for Market Rate Loans to unrestricted buildings

Over the 20 years that followed, the SSLP was underutilized with only $89.3 million of bonds issued, of the original $350 million in bond authority. Affordable housing advocates, in partnership with MOHCD, responded with a proposal to broaden the scope of the unused funding to finance the acquisition, improvement, and rehabilitation of at-risk multifamily residential buildings and to convert those buildings to permanent affordable housing. The 2016 approval to expand the eligible uses of the SSLP has resulted in the development of the PASS Program.

Key Differences From Other City Bonds

With most General Obligation bonds, the City hires contractors to complete infrastructure improvements. For affordable housing, the City does not engage contractors directly or own the improvements directly. Rather, the City will make loans to developers who then hire contractors and own the improvements through Limited Liability Companies (LLCs). This approach allows projects to leverage outside investment. City loans help jump start development, as it is usually the least costly funding the project will receive. Loans to developers include affordability covenants to ensure that projects are affordable for the long-term.

Need for the Investment

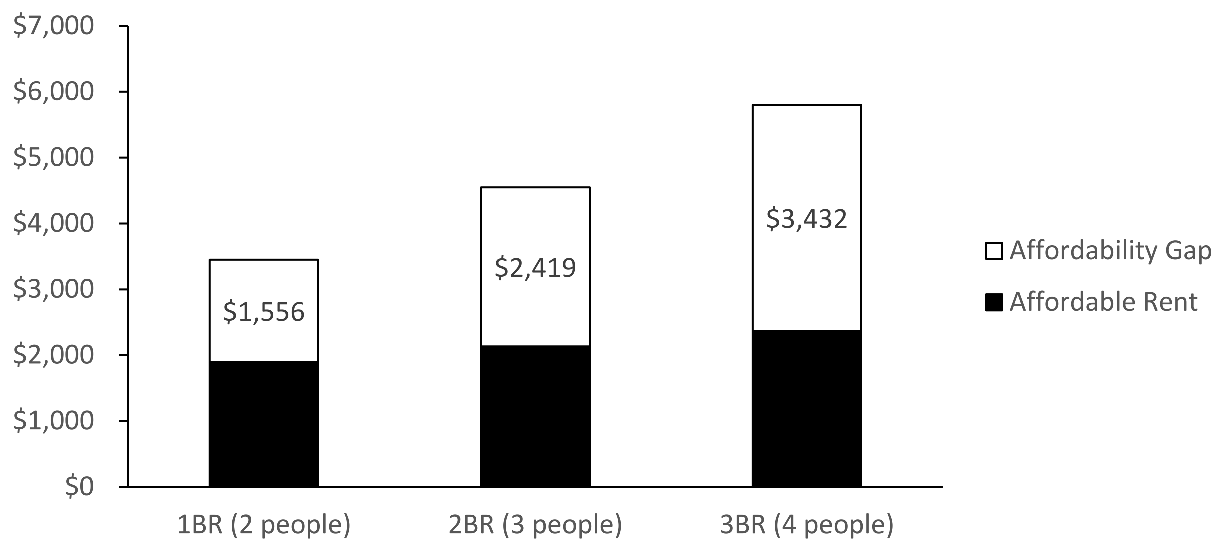
Since 2011, market-rate rental costs have far outpaced income increases for most working households. This "affordability gap" leaves families and individuals vulnerable to displacement and homelessness. Though there has been significant affordable housing production and preservation in the last five years, a critical need for more affordable housing continues. High costs and low supply bring personal hardship, accelerate displacement, undermine balanced economic growth, and cause environmental damage as workers endure longer daily work commutes.

Further, as housing prices have risen, market pressures on the existing housing stock has increased. This Bond will assist in the acquisition and preservation of multifamily properties throughout San Francisco that are particularly vulnerable to market pressure resulting in property sales, increased evictions and rising tenant rents.

Widening Affordability Gap
The Affordability Gap is the difference between what housing costs and what households of various sizes can afford to pay. It is pegged to income level using the percentage of San Francisco's Area Median Income (AMI) and household size.

San Francisco has among the highest AMI in the nation, but for many it is still not enough to afford a market-rate apartment. For example, in 2018, a two-person household at 80% AMI earned $75,750, which translates to an affordable rent of approximately $1,894 for a one-bedroom apartment. Average one-bedroom market-rate apartments rent for $3,450, leaving a gap of approximately $1,556 more than is affordable. Larger households face an even greater affordability gap. For a household of four earning 80% of AMI, the monthly shortfall is $3,432. For those earning less than 80% AMI a market-rate apartment can be completely out of reach.

Market Rate Rent vs. Affordable Rent
(80% AMI Households)



Target Populations

The PASS Program funds will expand and preserve the affordable housing supply by:

- Taking at-risk multifamily properties off the speculative market and preserving them as permanent affordable housing
- Investing in properties with years of deferred maintenance to make them safer and healthier homes for San Franciscans
- Investing in neighborhoods to promote and preserve economic diversity
- Creating housing opportunities for a broad population, including families, seniors, single working adults, veterans, disabled households, and income levels ranging from extremely low- to moderate.

PASS Program Overview

PASS plays a critical role in the City's anti-eviction and preservation strategy to finance the acquisition and rehabilitation of at-risk multifamily buildings, remove them from the speculative market, and preserve them as permanently affordable housing. Specifically, PASS provides access to a nimble source of low-cost and long-term financing that is not currently available on the conventional market, or through MOHCD's existing financing programs. It is anticipated that in aggregate, the PASS Program will facilitate the preservation of up to 1,400 apartments, reduce the need for other public resources, support the long-term financial feasibility of participating developments, and allow preservation-oriented sponsors to compete more effectively in the acquisition of at-risk buildings offered in the open market.

PASS provides MOHCD's borrowers with low-cost and long-term access to debt financing to acquire, rehabilitate, and preserve existing buildings as permanently affordable housing. Eligible projects may be small buildings like those typically funded by the City's Small Sites Program (e.g. 5 to 25 units), larger multifamily structures (e.g. 25+ units), or Single Room Occupancy hotels (SROs) of all sizes.

Eligible Uses

- Acquisition/rehabilitation, preservation of affordable housing, and seismic retrofits
- Small sites (5 to 25 unit buildings)
- Larger multifamily and mixed-use residential buildings (25+ units)
- Single-Room Occupancy hotels

What is not PASS Eligible?

- New construction
- Acquisition without rehabilitation

PASS loans shall be fully secured by a first-position lien against the fee interest of the property and may be structured as either Acquisition/Construction Loans (Direct Financing), or Permanent Loans (Take-out Financing). Loans may be comprised of a combination of (i) Below Market Rate Loans, (ii) Deferred Loans, or (iii) Market Rate Loans. With little to no anticipated demand for market rate properties, MOHCD staff expect that each eligible affordable property will be financed with a combination of all three funding sources to maximize the utilization of the bond proceeds at the lowest interest rate to borrowers.

MOHCD's occupancy restrictions will be recorded against the deed and permanently restrict all units to households earning no more than 120% of AMI at turnover, and require that the project's combined average rents are no higher than 80% of AMI.

PASS and the Small Sites Program

The Small Sites Program (SSP) is an acquisition and rehabilitation subsidy loan program for existing, typically rent-controlled, buildings of up to 25 units. The program was created to protect and establish long-term affordable housing in smaller properties throughout San Francisco that are particularly vulnerable to market pressure resulting in property sales, increased evictions and rising tenant rents. In the face of this increasing pressure on tenants, the City developed the Small Sites Program in order to support non-profit and for-profit entities to successfully remove these sites from the market and restrict them for the long-term. The overarching program goals are to:

1) **Protect and stabilize housing for current tenants at a range of income levels**

2) **Remove SSP properties from the speculative market while increasing the supply of permanently affordable rental housing**

3) **Create financially stable, self-sustaining housing that serves multiple generations of low to moderate income households**

To date, SSP has provided $62.78 million in financing to preserve 29 developments with 211 residential units, and 13 commercial spaces. The PASS Program will complement and enhance MOHCD's ongoing anti-displacement and preservation work under the SSP Program. By replacing more expensive conventional debt with low-cost, long-term senior PASS financing, the City will significantly reduce borrowing costs and the need for other public resources such as SSP. Additional benefits include improved financial feasibility, deeper levels of affordability, and new tools to enable preservation-oriented developers to compete more effectively in the acquisition of at-risk buildings offered in the open market.

Ani Rivera - Small Sites Property

Ani is Director of Galeria de la Raza

Renter for 20 years

First Issuance – Series 2019A

Highlights

- February 2019 – the City issued the first round of funding for the PASS Program in the amount of $72.42 million, and a blended loan interest rate of 3.41% for up to 40 years.
- March 2019 – PASS Program Regulations adopted by Citywide Affordable Housing Loan Committee
- May 2019 – First PASS loan closing of 30 project pipeline
    - Total Funding: $1.022 million
- June 2019 – Second and Third PASS loan closings
    - Total Funding: $3.212 million

	Market Rate Loans	Below Market Rate Loans	Deferred Loans	Total Amount
SOURCES AND USES				
Sources:				
Series 2019A Par Amount	41,382,961	26,683,149	4,353,890	72,420,000
Total Sources	**41,382,961**	**26,683,149**	**4,353,890**	**72,420,000**
Uses:				
Project Fund Deposits				
Project Fund	40,835,032	26,329,853	4,296,243	71,461,128
CSA Audit Fee	81,670	52,660	8,592	142,922
Total Project Fund Deposits	40,916,702	26,382,512	4,304,836	71,604,050
Cost of Issuance	307,435	198,230	32,345	538,011
Underwriter's Discount	117,440	75,723	12,356	205,519
CGOBOC Fee	41,383	26,683	4,354	72,420
Total Delivery Expense	465,623	300,227	48,988	814,839
Total Uses	**41,382,961**	**26,683,149**	**4,353,890**	**72,420,000**

First Issuance – Series 2019A Pipeline

Issuance #	Project Name	Sponsor	Units	Estimated Loan Disbursement Date	Market Rate Loan	Below Market Rate Loan	Deferred Loan	Total PASS Loans
1	60 28th Street	MEDA	6	5/31/2019	583,971	376,607	61,422	1,022,000
1	Purple House	SFCLT	10	6/30/2019	610,339	394,461	64,140	1,069,000
1	1201 Powell Street	CCDC	17	6/30/2019	1,165,656	751,740	122,604	2,143,000
1	4830 Mission Street	MEDA	21	7/31/2019	6,336,826	4,086,665	666,509	11,090,000
1	1411 Florida Street	MEDA	7	7/31/2019	942,810	608,025	99,165	1,650,000
1	3280 17th Street	MEDA	11	7/31/2019	3,296,978	2,126,245	346,777	5,770,000
1	65-69 Woodward	MEDA	6	8/31/2019	874,242	563,805	91,953	1,530,000
1	462 Green Street	CCDC	6	8/31/2019	268,558	173,195	28,247	470,000
1	3840 Folsom Street	MEDA	4	9/30/2019	377,124	243,210	39,666	660,000
1	937 Clay Street	CCDC	73	9/30/2019	2,125,608	1,370,820	223,572	3,720,000
1	654 Capp Street	MEDA	6	10/31/2019	1,222,796	788,590	128,614	2,140,000
1	305 San Carlos Street	MEDA	10	10/31/2019	1,474,212	950,730	155,058	2,580,000
1	534 Natoma Street	SFCLT	5	12/31/2019	697,108	449,570	73,322	1,220,000
1	1500 Cortland Avenue	MEDA	4	12/31/2019	428,550	276,375	45,075	750,000
1	3800 Mission Street	MEDA	5	2/29/2020	742,820	479,050	78,130	1,300,000
1	270 Turk Street	TNDC	86	3/31/2020	7,485,340	4,827,350	787,310	13,100,000
1	568 Natoma Street	SFCLT	5	3/31/2020	565,686	364,815	59,499	990,000
1	Merry-Go-Round House	SFCLT	14	6/30/2020	1,165,656	751,740	122,604	2,040,000
1	1535 Jackson Street	CCDC	19	6/30/2020	1,017,092	655,930	106,978	1,780,000
1	Pigeon Palace	SFCLT	6	9/30/2020	937,096	604,340	98,564	1,640,000
1	1049 Market Street	THC	15	12/31/2020	371,410	239,525	39,065	650,000
1	151 Duboce Avenue	SFCLT	4	12/31/2020	342,840	221,100	36,060	600,000
1	344 Precita Avenue	MEDA	3	3/31/2021	531,402	342,705	55,893	930,000
1	Gran Oriente Filipino	MHDC	24	6/30/2021	3,119,844	2,012,010	328,146	5,460,000
1	308 Turk Street	SFCLT	20	6/30/2021	1,725,628	1,112,870	181,502	3,020,000
1	1684 Grove Street	SFCLT	3	12/31/2021	479,976	309,540	50,484	840,000
1	1353 Folsom Street	SFCLT	3	12/31/2021	497,118	320,595	52,287	870,000
1	70 Belcher Street	SFCLT	5	1/31/2022	645,682	416,405	67,913	1,130,000
1	380 San Jose Avenue	MEDA	4	1/31/2022	457,120	294,800	48,080	800,000
1	644 Guerrero Street	MEDA	4	1/31/2022	382,838	246,895	40,267	670,000
Subtotal	**30 projects**		**406**		**40,872,326**	**26,359,708**	**4,298,906**	**71,634,000**

Second Issuance – Prospects

Issuance #	Project Name	Sponsor	Units	Loan Disbursement Date
2	3329 20th Street	MEDA	10	11/30/2022
2	269 Richland Avenue	MEDA	6	3/31/2023
2	4042 Fulton Street	SFCLT	5	3/31/2023
2	63 Lapidge Street	MEDA	6	4/30/2023
2	3198 24th Street	MEDA	8	5/31/2023
2	1015 Shotwell Street	MEDA	10	5/31/2023
2	2217 Mission Street	MEDA	8	5/31/2023
2	19 Precita Avenue	MEDA	3	6/30/2023
2	35 Fair Avenue	MEDA	4	7/31/2023
2	3353 26th Street	MEDA	10	11/30/2023
Subtotal	**10 projects**		**70**	

Project Summaries

60 28th Street

Project Details

Sponsor	Mission Economic Development Agency
Location	60 28th Street
Neighborhood	Bernal Heights, District 8
Loan Closing Date	5/8/2019
Program Type	PASS, SSP
Number of Units	4 one bedrooms
	2 two bedrooms
	6 total units
Total Bond Funding	$1.022 million
Total Development Cost	$3.213 million

Project Highlights

- Households Served: Average rent affordable at 69% AMI, low- and moderate-income families with children, low-income seniors, multigenerational building residents.
- Takeout financing of a SFHAF loan, which funded the acquisition, moderate rehabilitation, and soft-story retrofit of a two-story building.
- Low-cost PASS financing facilitated a more comprehensive rehabilitation, while reducing the SSP subsidy by $59,000.

4830 Mission Street

Project Details

Sponsor	Mission Economic Development Agency
Location	4830 Mission Street
Neighborhood	Outer Mission, District 11
Loan Closing Date	Expected in July 2019
Program Type	PASS, SSP
Number of Units	6 one bedrooms
	15 two bedrooms
	21 total units
	6 commercial units
Total Bond Funding	$11.1 million
Total Development Cost	$15.4 million

Project Highlights

- Households Served: Average AMI < 73%, predominantly Latino and Filipino, including several multigenerational families with children and seniors.
- Expected takeout financing of a SFHAF loan, which funded the acquisition, moderate rehabilitation, and soft-story retrofit of a two-story building.
- Expected low-cost and long-term PASS financing will protect existing residents and local businesses, and reduce the subsidy needs from the Small Sites Program by approximately $2 million.

270 Turk Street

Project Details

Sponsor	Tenderloin Neighborhood Development Corporation
Location	270 Turk Street
Neighborhood	Tenderloin, District 6
Loan Closing Date	Expected in March 2020
Program Type	PASS, Big Sites
Number of Units	69 studios 17 one bedrooms 86 total units
Total Bond Funding	$13.1 million
Total Development Cost	$27.5 million

Project Highlights

- Households Served: Average AMI < 60%, predominantly low-income individuals and families at risk of displacement, and up to 24 formerly homeless residents.
- Expected takeout financing of a SFHAF loan, which funded the acquisition and rehabilitation, of a ten-story building.
- Expected low-cost and long-term PASS financing will allow TNDC to acquire and rehabilitate the property, remove it from the speculative market, and preserve it as permanently affordable housing for low- and extremely low-income households.

Metrics of Success

The primary metrics of success for the PASS Program are:

- Total number of developments, residential units, and commercial units preserved
- Total number of households served by target population
- Total amount invested

MOHCD will track progress and provide regular updates as loan originations proceed.