

**MINUTES OF A REGULAR MEETING OF THE
REDEVELOPMENT AGENCY OF THE CITY AND
COUNTY OF SAN FRANCISCO HELD ON THE
3rd DAY MAY OF 2011**

The Commissioners of the Redevelopment Agency of the City and County of San Francisco met in a regular meeting at City Hall, 1 Dr. Carlton B. Goodlett Place, Room 416, in the City of San Francisco, California, at 4:00 p.m. on the 3rd day of May 2011, at the place and date duly established for holding of such a meeting.

President Swig called the meeting to order at 4:00 p.m.

Mr. Swig welcomed members of the public and radio listening audience and asked that all electronic devices including pagers and cellular telephones be turned off during the meeting. Mr. Swig asked members of the public who wished to address the Commission to fill out speaker cards, and to state their names for the record, and to limit their remarks to three minutes. Mr. Swig stated that the appropriate time for members of the public to address the Commission on matters not on the current Agenda, but related to general Agency business, would be Item 6 on the agenda. This portion of the Agenda is not intended for debate or discussion with the Commission or staff, and members of the public should simply state their business or matter they wish the Commission or staff to be aware of, and if they had questions, to follow-up with staff or Commissioners during a break or after adjournment. It is not appropriate for Commissioners to engage in a debate or respond on issues not properly set in a publicly-noticed meeting agenda.

1. RECOGNITION OF A QUORUM

The Commission Secretary announced the presence of a quorum with the following Commissioners present:

Rick Swig, President
Darshan Singh, Vice President
Rosario M. Anaya – arrived at 4:11 p.m.
Leroy King
Agnes Briones Ubalde

And the following were absent:

Francee Covington
Miguel M. Bustos

Fred Blackwell, Executive Director, and staff members were also present.

2. **REPORT ON ACTIONS TAKEN AT PREVIOUS CLOSED SESSION MEETING, IF ANY.** No Reportable Action.

3. **MATTERS OF UNFINISHED BUSINESS.** None.

4. **MATTERS OF NEW BUSINESS:**

REGULAR AGENDA

- (a) Approving the proposed budget for the period July 1, 2011 through June 30, 2012 and authorizing the Executive Director to submit the Budget to the Mayor's Office and the Board of Supervisors. (Resolution No. 52-2011)

Presenter: Amy Lee, Agency Staff

Speakers: None

President Swig requested clarification on the largest number listed under the shipyard as "other".

Ms. Bohee responded that it was the \$120 million federal TIFIA loan for transportation improvements that they are applying for in July and expect to close on; the first draw would be the \$17 million.

Mr. Swig asked about the administration budget on page 64. He pointed out that self insurance retention in fiscal year 10/11 was \$100,000 and wanted to know why it then jumps up to \$300,000 in 11/12.

Ms. Lee said that after talking to their legal counsel and insurance agents that this amount was in anticipation of potential lawsuits or settlements that they may need to make and wanted to make sure there was enough coverage. It mostly reflects old business from Yerba Buena which is closed, and lawsuits that were filed years ago. She indicated that they were still in the process of defining fault and liability and trying to figure out potential claims that may still be out there. They had to make sure they have the monies available if they have to pay out.

Mr. Swig asked why the Temps & Recruitment costs number jumps up to \$207,000 in fiscal year 11/12.

Ms. Lee responded that there was a hiring freeze in place but now they have some temporary help working at the Agency and they have decided to keep working with the temp help rather than hiring a new staff member. The budget reflects what was actually happening during this past year.

Commissioner Ubalde inquired about the South of Market project description. Ms. Ubalde indicated that she would like more detail on fiscal year 10/11 under economic and employment development. The budget outlines continued support for small business and the employment center but Ms. Ubalde was interested in seeing more detail in terms of outcome and achievement of the small businesses that have been involved in this project.

Ms. Lee stated that she could not provide that information at this time but could provide a briefing informational memo that would provide those details. Ms. Lee indicated that next year she intends to make substantial changes in the presentation of their documents and redesign their budget, specifically the narrative portion to clarify specific items, such as those requested by Commissioner Ubalde.

Commissioner Anaya requested clarification on the increase in personnel to incorporate the \$100,000.

Ms. Lee asked if Commissioner Anaya was referring to the increase in OPEB liability as well as the severance pay. Ms. Lee stated that one indication of good management is to make sure they are funding their liabilities and they do have outstanding, ongoing liabilities of \$1.2 billion which they fund partially on an annual basis of \$700,000. She indicated that she tries to budget anywhere between \$300,000-\$500,000 to make sure they are fully funded for their OPEB liabilities. Ms. Lee stated that the city and county have a budget of \$5 billion and they put up \$500,000 so she was confident in terms of the management of their liabilities. Under the new GATSBY policies they are now required to recognize any liabilities, even outstanding retiree employee health and basically they pay for it on an ongoing basis but also put in additional amounts so that their assets are fully funding the liabilities of the health benefits. That was the reason for the \$100,000 increase. Additionally, the \$100,000 severance pay is budgeted to cover people that retire or leave the Agency as they are mandated to pay them their entitled vacation pay.

Ms. Anaya asked if the additional \$100,000 in salaries would include the liabilities they are referring to.

Ms. Lee indicated that they have \$1.2 million annual liability for their retirees and for health benefits for current employees and they pay monthly up to \$700,000 and should try to make a net payment of \$500,000 per year. Last year they paid \$300,000 and this year she is adding another \$100,000 to be closer to fully funding their liability. Ms. Lee thanked everyone on the Commission for their support of the budget.

Mr. Swig thanked Ms. Lee and her staff for her hard work in putting together the budget during these difficult times.

ADOPTION: IT WAS MOVED BY VICE PRESIDENT SINGH, SECONDED BY COMMISSIONER UBALDE, AND UNANIMOUSLY CARRIED, THAT RESOLUTION NO. 52-2011, APPROVING THE PROPOSED BUDGET FOR THE PERIOD JULY 1, 2011 THROUGH JUNE 30, 2012 AND AUTHORIZING THE EXECUTIVE DIRECTOR TO SUBMIT THE BUDGET TO THE MAYOR'S OFFICE AND THE BOARD OF SUPERVISORS, BE ADOPTED.

AGENDA ITEMS 4(b), (c), (d), and (e) WERE PRESENTED TOGETHER, BUT ACTED ON SEPARATELY

- (b) Authorizing an application to the U.S. Department of Housing and Urban Development for Choice Neighborhoods Initiative Grant Funds in an amount not to exceed \$30,500,000 and acceptance of such funds in conjunction with the replacement of 256 public housing units and the construction of 248 very low-income rental units at the Alice Griffith Public Housing site, and adopting environmental findings pursuant to the California Environmental Quality Act; Bayview Hunters Point Redevelopment Project Area, Citywide Tax Increment Housing Program. (Resolution No. 53-2011)
- (c) Authorizing a First Amendment to the Personal Services Contract with Seifel Consulting, Inc., a California corporation, to increase the contract in an amount not to exceed \$47,500, for consulting services related to the Choice Neighborhoods Initiative Grant application for the revitalization of Alice Griffith Public Housing; Bayview Hunters Point Redevelopment Project Area, Citywide Tax Increment Housing Program. (Resolution No. 54-2011)
- (d) Authorizing a Purchase and Sale Agreement with McCormack Baron Salazar, Inc., a Missouri corporation, for the sale of real property located at the east side of Arelious Walker Drive at Gilman Avenue, Assessor's Parcel Number 4884/27; Bayview Hunters Point Redevelopment Project Area, Citywide Tax Increment Housing Program. (Resolution No. 55-2011)
- (e) Authorizing a Ground Lease Agreement with Bayview Supportive Housing, LLC, a California limited liability company, for the development of 121 units of very low-income senior rental housing, 5800 Third Street, Lot 3, and making environmental findings pursuant to the California Environmental Quality Act; Bayview Hunters Point Redevelopment Project Area, Citywide Tax Increment Housing Program. (Resolution No. 56-2011)

Presenter: Kate Hartley, Agency Staff

Speakers: Oscar James, Dorris Vincent

Commissioner King commended staff on a good job.

Vice President Singh stated that he would like to hear from the Seifel team and wanted to know who was present from Seifel.

Marie Munson from Seifel Consulting identified herself.

Commissioner Ubalde asked who the other finalists were in the Choice Neighborhood competition.

Ms. Hartley indicated that there were applications from Boston, Chicago, New Orleans, Seattle, and Florida. There are three that are similar in scale to theirs and two that are quite small and don't have the full neighborhood impact that their transformation plan has. Ms. Hartley indicated that some are farther along than others but believed that they had a very good chance of getting funding. She also noted that HUD has indicated that if any fiscal year 11/12 funds are available for choice neighborhoods, that they may divert those funds to fiscal year 2010 applicants, up to 4 awards, so it is possible that HUD would fund all 6 finalists.

Ms. Ubalde indicated that this is a truly vital ground initiative and that \$30 million is a significant amount of money to be able to implement these important programs in a community that has been neglected. Ms. Ubalde asked if Seifel Consulting is working with anybody in DC at HUD as lobbying support to increase their chances, and wanted to know if there was anything they can do as commissioners to encourage support for this project.

Ms. Hartley thanked Commissioner Ubalde for that offer and stated that they are working with the Mayor's Office of Housing who is collaborating with their DC lobbyist and assistants and congressional delegation. Ms. Hartley indicated that she will let them know about Commissioner Ubalde's offer. In addition Ms. Hartley stated that their development team is diverse and has experience in public housing redevelopment programs. She believed they are using their connections with HUD to their advantage.

Commissioner Anaya asked if there was already a policy to have preference for the current residents in any redevelopment.

Ms. Hartley responded that the Bayview Hunters Point occupancy priorities does give preference to households that have been displaced, such as certificate of preference holders, and also gives preference to households that are in assisted housing, such as public housing or that are in burdened households, that is, paying more than 50% of their income for rent. Alice Griffith seniors would have absolute first priority at 5800 Third Street as long as they were able to get the Housing Choice vouchers. That would be an important part of the project because not only would seniors be in a place where they could take advantage of supportive senior services, the financing structure of 5800 Third would benefit, but they could be assured that a portion of those units would go directly to existing community members.

Ms. Anaya stated that it was very important that they let the public know and reassure them about that fact, because many years ago this was a big problem with redevelopment. Ms. Anaya also asked about the provision and continuation of job readiness, training and placement in programs and wanted clarification on the meaning of “job continuation”.

Ms. Hartley stated that they currently fund JRI and they work with the city and the CityBuild program. Urban Strategies through funding by CP Development is onsite at Alice Griffith assisting their residents currently with job training and placement opportunities. Ms. Hartley indicated that they would take money from the HUD grant, supplement existing Agency funding that is going to job training and placement and expand the program.

Ms. Anaya wanted to know how long this has been going on and do they know the outcome.

Ms. Hartley responded that Urban Strategies has been working at Alice Griffith specifically for approximately nine months, and JRI and CityBuild as programs have preceded Urban Strategies coming to Alice Griffith and have been working very effectively at Hunters View. They just received new job data regarding the Hunters View work showing the number of hours allocated to actual Hunters View residents working which was very high and they were quite pleased with the results. In summary, Hunters View residents are getting jobs at Hunters View with the assistance of JRI and CityBuild. They will be modeling a similar program at Alice Griffith once construction starts there.

Commissioner Anaya requested figures and outcomes for this project in the future.

Mr. Blackwell clarified that they do not have outcomes for Alice Griffith at this time because construction has not yet started but stated what they are doing here is replicating what they have done at other sites. Most of the work that they are referring to is the prep work to make sure that once development starts to occur at Alice Griffith, people are prepared to take advantage of those jobs. What they would report would be outcomes at Hunters View instead.

Ms. Anaya then requested outcomes for Hunters View projects.

President Swig stated that this is not a “winner takes all” and there may be as many as 4 or 6 grant winners, and congratulated them on the creativity of wrapping in 5800 Third.

Commissioner King put forth a motion to move Items 4(b, c, d & e).

Commissioner Ubalde seconded Mr. King’s motion.

ADOPTION: IT WAS MOVED BY COMMISSIONER KING, SECONDED BY COMMISSIONER UBALDE, AND UNANIMOUSLY CARRIED, THAT RESOLUTION NO. 53-2011, AUTHORIZING AN APPLICATION TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FOR CHOICE NEIGHBORHOODS INITIATIVE GRANT FUNDS IN AN AMOUNT NOT TO EXCEED \$30,500,000 AND ACCEPTANCE OF SUCH FUNDS IN CONJUNCTION WITH THE REPLACEMENT OF 256 PUBLIC HOUSING UNITS AND THE CONSTRUCTION OF 248 VERY LOW-INCOME RENTAL UNITS AT THE ALICE GRIFFITH PUBLIC HOUSING SITE, AND ADOPTING ENVIRONMENTAL FINDINGS PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT; BAYVIEW HUNTERS POINT REDEVELOPMENT PROJECT AREA, CITYWIDE TAX INCREMENT HOUSING PROGRAM; RESOLUTION NO. 54-2011, AUTHORIZING A FIRST AMENDMENT TO THE PERSONAL SERVICES CONTRACT WITH SEIFEL CONSULTING, INC., A CALIFORNIA CORPORATION, TO INCREASE THE CONTRACT IN AN AMOUNT NOT TO EXCEED \$47,500, FOR CONSULTING SERVICES RELATED TO THE CHOICE NEIGHBORHOODS INITIATIVE GRANT APPLICATION FOR THE REVITALIZATION OF ALICE GRIFFITH PUBLIC HOUSING; BAYVIEW HUNTERS POINT REDEVELOPMENT PROJECT AREA, CITYWIDE TAX INCREMENT HOUSING PROGRAM; RESOLUTION NO. 55-2011, AUTHORIZING A PURCHASE AND SALE AGREEMENT WITH MCCORMACK BARON SALAZAR, INC., A MISSOURI CORPORATION, FOR THE SALE OF REAL PROPERTY LOCATED AT THE EAST SIDE OF ARELIUS WALKER DRIVE AT GILMAN AVENUE,

ASSESSOR'S PARCEL NUMBER 4884/27; BAYVIEW HUNTERS POINT REDEVELOPMENT PROJECT AREA, CITYWIDE TAX INCREMENT HOUSING PROGRAM; AND, RESOLUTION NO. 56-2011, AUTHORIZING A PURCHASE AND SALE AGREEMENT WITH MCCORMACK BARON SALAZAR, INC., A MISSOURI CORPORATION, FOR THE SALE OF REAL PROPERTY LOCATED AT THE EAST SIDE OF ARELIOS WALKER DRIVE AT GILMAN AVENUE, ASSESSOR'S PARCEL NUMBER 4884/27; BAYVIEW HUNTERS POINT REDEVELOPMENT PROJECT AREA, CITYWIDE TAX INCREMENT HOUSING PROGRAM, BE ADOPTED.

AGENDA ITEMS 4(f) AND (g) WERE PRESENTED TOGETHER, BUT ACTED ON SEPARATELY

- (f) Authorizing a Loan Agreement with Midori Housing Corporation, a California nonprofit public benefit corporation, in an amount not to exceed \$309,500, for sprinkler system upgrades at the Midori Hotel, 77 units of very low-income rental housing for residents living with mental illness, 240 Hyde Street; Citywide Tax Increment Housing Program. (Resolution No. 57-2011)

- (g) Authorizing a First Amendment to the Rental Acquisition and Rehabilitation Program Loan Agreement with Conard House, Inc., a California nonprofit public benefit corporation, for the Midori Hotel, 77 units of very low-income rental housing for residents living with mental illness, to reduce the interest rate, commencing on the effective date of the First Amendment, from 10% to 3%, to extend the term to 55 years, and to convert the debt service requirement from mandatory monthly principal repayments to residual receipts, 240 Hyde Street; Citywide Tax Increment Housing Program. (Resolution No. 58-2011)

Presenter: Kate Hartley, Agency Staff

Speakers: None

Mr. King asked how many people manage the building.

Ms. Hartley stated the total expenses on a per unit basis, which are just over \$7,000 exclusive of reserves and about \$7,600 with reserves, are lower than most of their supported housing developments. She commended Connor House for doing a good job of managing the building which has a special needs population.

Vice President Singh inquired about the new funds of \$309,500 at 3% interest, 55-year term, and asked whether this was considered a grant or a loan.

Ms. Hartley stated that the new funds were not a grant but do function similarly to a grant because they only require repayment if there is surplus cash which would be if income exceeds expenses. After the existing HCD loan is retired in 2020, it is possible that there will be some surplus cash with which the sponsor can make payments. The loan will accrue interest over time and be due in 55 years. That gives them options if there is ever a transfer of the property, a sale or if there is a refinancing, then the agencies that will have to be paid.

Vice President Singh reiterated that otherwise this would become a grant.

Ms. Hartley agreed.

Commissioner Anaya requested to hear from the Connor House representatives.

Mark Bennett, Director of Real Estate for Connor House, stated that they had the John Stuart Company look at their facility and give them recommendations about the capital upgrades to the property. He stated that they are able to manage the property with the funds that they collect now from the tenants and a subsidy from the Dept. of Public Health. The sprinkler upgrade, however, is beyond their means and if they could obtain assistance for that, then they could maintain the long-term viability of the program for the next 20 years.

Vice President Singh inquired about the work they had previously done and wanted to know about the contractor they selected for the work.

Mr. Bennett stated the low-bidder for the project was FDC who had acceptable references and had done similar work in the community with this type of housing.

Mr. Singh asked Mr. Bennett if he was satisfied with the work this company had done for him before.

Mr. Bennett said yes.

President Swig recalled his positive memories of Connor House because his mother sat on the board years ago and knew that they are very well respected. He said he does not question the benefit for the Midori Hotel but questioned the fiction of these loans. He stated that this is all fiction and asked the Executive Director to add to the conversation. He said they create fiction because they are

basically adjusting a loan to suit the current business terms and in fact, making the same mistake that was made when the original loan was granted at 10% because those were the market conditions then and now we are adjusting to what are the perceived market conditions are today. He stated that if he lasts as long as Mr. King, this item might come up again five more times because they will have to keep adjusting the interest rate and the deal structure to the market conditions that are in existence seven or ten years from now. Mr. Swig stated that he felt that this was a contrivance but clarified that he would like to make sure this item gets passed and the business gets done.

Mr. Olsen Lee stated that he was around in 1990 when they first started the process and that back then they all trended revenues and expenses very differently than they do today. Having some level of project based assistance in that particular building gave them false hope that there would be revenues and that this building might have the capacity to support its debt. Clearly that has not been the case. He agreed that they should not be repeating mistakes but should be evolving as a lender. He indicated that the current structure they are using for these transactions are still loans in part because they use taxable money and there are a variety of reasons to use loans and a variety of reasons that they are transacting them under these particular terms. One of the key items is residual receipt so in the event that there are additional project-based section 8's and they pay off some debt, there may be actual cash flow that can be generated from the building and thus is a sharing of that cash flow between the sponsor and the agency. In this case the interest rate of 3% will accrue, which is what they want, because in part there is outstanding state debt on the project that is also accruing. One of the things they are doing is matching the growth of the statement. Mr. Lee explained that in year 2020 when the state demands their money, if there was a grant there only, the Agency would have no position on this particular project. What they are doing is creating a comparable indebtedness on the project and they will then share it jointly in terms of how to restructure that particular transaction so the state would not get 100% back just because they have a loan on it that accrued.

Mr. Swig inquired as to what was the point of that because in the end, there is no way that this building is going to service that debt because it's being accrued and at the end of 20 years there will be a restructuring and a settlement. He inquired as to why they are adjusting the interest rate if the debt is never going to get paid anyway; why not just keep it the same as it has been?

Mr. Lee indicated that the current structure of 10% is actually payable as a 15-year note that for the first 15 years which was not paid and then required hard debt payments which this building cannot afford; they could keep the 10% as a

residual which would allow them to continue to accrue but typically in these transactions they provide for an interest rate of up to 3% and in part this is to accrue some level of interest but not so much that it is unreasonable.

President Swig then stated that if this deal were to have been done in the early 80's, the interest rate could have been 18% or 20% because that was the going rate then. However, at the time this project was done the going rate was 10%. Mr. Swig indicated that today there is the so-called "false debt economy" where the fed is keeping the rate at trace and everybody else is raising their rate. Mr. Swig questioned the game and the reality of cutting this debt down to 3% and questioned why they were doing this if it is going to turn into a grant anyway.

Mr. Lee stated that it is not necessarily going to turn into a grant and the key aspects of the underwriting is the residual receipt nature; that is hard debt vs. residual receipt regardless of the interest rate. The other reason why they do debt vs. a grant is that for grants they have to sue for performance, for debt they can just call the debt and it is an easier way of providing for enforcement. Part of the goal is positioning this building, the developer, and the city with the state in terms of how much debt is truly on this project. Clearly the amount of debt on the project between the state and the Agency will indeed exceed the economic value of the building but he indicated that he wanted to go into those negotiations with the state with a level of debt comparable to theirs so they can be in a better negotiating position.

Mr. Swig inquired why they are dropping the debt all the way down to 3% instead of somewhere more reasonable like 5% or 7%. He stated that in a year from now if interest rates go the way their own budget is predicting, a 3% interest rate is going to look dirt cheap and two years from now even cheaper. He again asked why the interest rate drops so dramatically from 10% to 3% and suggested a mutual position at 5% or 7%. Mr. Swig agreed that 10% was a bit usurious.

Mr. Lee stated that the 3% interest rate was picked because it is so below market rate, would provide some level of approval and not be too ridiculous and was not picked to mirror current interest rates. Mr. Lee indicated that they could take another look at this project and consider a rate that is indexed in some way like LIBOR cost of funds.

Mr. Swig stated that perhaps this debt should be a LIBOR plus structure. Mr. Swig suggested setting it at LIBOR plus 300, which will get you to exactly the same thing, and then four years from now if LIBOR happens to be 300, then this

goes to 6, which would still be a reasonable rate and because it is not payable, it really becomes more of a market-centric, market-real situation.

Mr. Lee responded that this simply has always been their practice and stated that Mr. Swig had raised a really good point about whether this is a variable rate or not which always complicates the accounting for the accrual but they could look at setting the interest rate annually and base it upon some sort of index.

Mr. Swig stated that he would like to see a structure that is more market-real and defensible in the future. He suggested a LIBOR plus 3 to get to the same interest rate and then place a restriction on it that it would be revisited and adjusted every two or three years to that same LIBOR plus 3. Then the bookkeeping would not be difficult because it would only fluctuate every couple of periods but the interest rate would be more realistic to the moment and certainly defensible. Mr. Swig commented that he could see items like this coming back to them five or six years from now and they would have to revisit the same situation as opposed to being more market-real, putting it on a sliding and then adjusting it at reasonable periods that are administratively easy to deal with.

Mr. Lee stated he would go back to his colleagues at the Mayor's office about how to set the interest rate and had one more thing to say in defense of the low interest rate. That is, they want an interest rate which will accrue because this will affect the balance sheet at Connor House and they do not want to put Connor House at financial risk. That would be an argument for keeping a below-market rate or one that limits the accrual.

Mr. Swig stated that this is not a defensible interest rate because Mr. Bennett had used the word "arbitrary" which means that a rate was chosen that seemed to be right for the moment as opposed to something that was potentially defensible for a long period of time. Mr. Swig suggested that they look to an alternative model that looks to the future, even at LIBOR plus 2 which would even be less than the rate they are asking currently, but if LIBOR were to shift up 4 points eight years from now, which might reflect market conditions at that time, then the loan would be set to a realistic scenario as opposed to an arbitrary one which they now have to live with for 20 years. Mr. Swig requested that they look at this and reconsider the rate.

Ms. Hartley stated that the 3% interest rate is not arbitrary but is based on back-end loss analysis and capital accounts for their tax-credit deals, which they apply across the board for fairness but is really an important number because tax-credit financing is the main vehicle by which all their developments are

financed and without tax-credit financing they would not produce much housing. Ms. Hartley stated that it is very likely that at some point in the future, the Midori, which is a 1930's building, will need additional funds for renovation and they might seek tax-credit financing. So if they were to impose a higher interest rate, it would credit a level of debt that would be very difficult for a tax-credit restructuring to accommodate. Also the 3% interest rate goes to the limited partner investor liability after 10-15 years in the deal. If the interest rate is too high, then losses are created for the investor that become a financial liability and that investor will not want to invest in the project. That is where that 1% -3% numbers comes from and it needs to be fixed because it provides certainty for the limited partner investor. Some deals are not tax-credit deals and in that case the 1%-3% is more industry standard than something that is very important to that project. If they are to impose variable rates, the investor will not know exactly what their liability is, making a tax-credit investment difficult, if not impossible.

Vice President Singh inquired whether they ever collect any money back from the loans they give to the developers and others.

Mr. Lee responded in the affirmative and stated that it depends on project to project. He stated that those on supportive housing are less likely to provide for a repayment but they have had repayments from other projects where it is not in the form of loan repayments but because they use their land lease structure, where the cash flow from the development goes to pay the land rent first and then the loan, they do get payments from certain projects that they have assisted in the past, primarily through the land lease payment. He stated that occasionally they do get payments from the loans themselves depending on the individual projects. Mr. Lee stated that they do make loans that they do expect to be repaid as well as making loans that create losses for investors. It depends on the project and its mission in terms of the population it is serving and the project's ability to actually make the payment. Their goal is to encourage the development of affordable housing which at times requires below-market financing to facilitate that. Sometimes those projects actually can make repayments, which they then take through the budget process and recirculate them into other affordable housing projects.

Mr. Singh inquired as to how many have been repaid and how many have been forgiven.

Mr. Lee stated that if they start out as a loan they remain a loan.

Mr. Singh inquired that out of 10 loans, how many have they collected back.

Mr. Lee indicated that in terms of collecting back the original principal, because their loans are 50 year loans, all of those loans are still outstanding and what those loans do as they remain outstanding is to ensure that the borrower, in this case Connor House, is still in the business of providing affordable housing and if they weren't in the business of providing affordable housing, then they would definitely have to repay that loan. So overall it is not a question of repayment performance but the performance in terms of the services provided to the city to get that loan and reasonable payment terms of those loans. In the single-family program, they have loans that get repaid all the time and it is a very different situation. But for the multi-family rental projects, the developers have very long-term loans and long-term requirements to keep the building as affordable housing and so many of those loans are not due.

Mr. Singh indicated that he remembered that in 1987 or so, the interest rate was at 16% or 17% during the Carter administration and he considered what they are doing now to be some kind of joke.

Mr. Lee replied that he would not call it a joke per se. Again the whole point of their lending, whether it is a loan or a grant, is for the purpose of creating affordable housing. He stated that one can disagree about how they price those loans but the purpose of the loan is more to assist the affordable housing as well as assist themselves in enforcing those particular agreements and there are those cases where the buildings can support themselves and they actually get repayment. He indicated that they would like repayments if at all possible but it is not always possible when you are serving the extremely low income population or the supported housing population.

Vice President Singh reiterated that they really don't know what percentage of borrowers repaid the loan back.

Mr. Lee indicated that the majority of the multi-family loans (probably 99%) are still outstanding loans and unless the borrower defaulted on their loan for performance, those loans are all outstanding.

Vice President Singh stated that they have not received anything yet.

Mr. Lee stated that the fact that they are outstanding does not mean that they have not gotten paid, but rather they have not been fully repaid, but it does not mean that they are in default or that they have not made the required payments.

Commissioner Anaya indicated her support for what President Swig was saying in that they are okay with what they are doing here but suggested calling it what

it is. Why not call it a grant instead of a loan? Ms. Anaya stated that this may be for further conversation among commissioners but this structure does make her feel uncomfortable.

Mr. Blackwell stated that if they were to make these loans into grants, their ability to enforce the affordability, the maintenance, the overseeing of the units, goes away because with a grant, you basically provide the money and you walk away. The only recourse when you provide a grant is that you sue. By making these loans, it gives them much more oversight ability, more involvement in the project and keep in mind what they are trying to do here is to create the maximum number of affordable housing units in the city and keep them affordable in perpetuity. It is not their intent nor should it be for them to get out of these deals; they want to stay in these deals so they stay affordable, so they continue to have the oversight role and if for some reason there is a default or someone goes out of business, they still want to have the ability to recoup that and keep these units on the market into perpetuity. So the purpose of making these loans instead of grants is to keep the Agency in these deals in a different kind of way than a grant implies.

President Swig wrapped up the conversation as productive dialogue and stated that this discussion expresses the concerns of how this Commission protects the interest of the public because that is what they do there. They have to remind themselves that this Commission is here to protect the interests of that public which has the benefit of affordable housing whether it's low income or seniors or formerly homeless. At the same time they are protecting the public that is providing the funds through a variety of tax bases or other forms of financial subsidy and making sure that the Agency is spending their money in a wise and responsible fashion. Mr. Swig thanked Ms. Hartley and Mr. Olsen for indulging their questions about this project.

Vice President Singh put forth a motion to move Item 4(f & g).

Commissioner Anaya seconded Mr. Singh's motions.

ADOPTION: IT WAS MOVED BY VICE PRESIDENT SINGH, SECONDED BY COMMISSIONER ANAYA, AND UNANIMOUSLY CARRIED, THAT RESOLUTION NO. 57-2011, AUTHORIZING A LOAN AGREEMENT WITH MIDORI HOUSING CORPORATION, A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION, IN AN AMOUNT NOT TO EXCEED \$309,500, FOR SPRINKLER SYSTEM UPGRADES AT THE MIDORI HOTEL, 77 UNITS OF VERY LOW-INCOME RENTAL HOUSING FOR RESIDENTS LIVING WITH MENTAL

ILLNESS, 240 HYDE STREET; CITYWIDE TAX INCREMENT HOUSING PROGRAM; AND, RESOLUTION NO. 58-2011, AUTHORIZING A FIRST AMENDMENT TO THE RENTAL ACQUISITION AND REHABILITATION PROGRAM LOAN AGREEMENT WITH CONARD HOUSE, INC., A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION, FOR THE MIDORI HOTEL, 77 UNITS OF VERY LOW-INCOME RENTAL HOUSING FOR RESIDENTS LIVING WITH MENTAL ILLNESS, TO REDUCE THE INTEREST RATE, COMMENCING ON THE EFFECTIVE DATE OF THE FIRST AMENDMENT, FROM 10% TO 3%, TO EXTEND THE TERM TO 55 YEARS, AND TO CONVERT THE DEBT SERVICE REQUIREMENT FROM MANDATORY MONTHLY PRINCIPAL REPAYMENTS TO RESIDUAL RECEIPTS, 240 HYDE STREET; CITYWIDE TAX INCREMENT HOUSING PROGRAM, BE ADOPTED.

5. **MATTERS NOT APPEARING ON AGENDA:** None

6. **PERSONS WISHING TO ADDRESS THE MEMBERS ON NON-AGENDA, BUT AGENCY-RELATED MATTERS**

Oscar James

7. **REPORT OF THE PRESIDENT:**

- President Swig reported that the Agency had their retreat last week and received some very solid briefings from the Mayor's Office of Economic Development and from Supervisor President Chiu's office about what may transpire given the great unknowns in Sacramento. Mr. Swig stated that the bottom line is that nobody knows and therefore they cannot take any steps. In the afternoon there were follow-up conversations on workforce items and about understanding the great efforts which are being put forth to employ people from San Francisco as much as possible on new projects; people who have previously been unemployable because they are not afforded the training and to keep employing people from the neighborhoods, the right people for new projects now and for the future in San Francisco. Mr. Swig remarked on the massive effort that is going forward to try to provide training to people who are untrained and unskilled and to put those who have skills in a position to get the jobs when the projects emerge and really try to keep the money being spent in San Francisco in the pockets of San Francisco workers. He stated that it was a very good discussion and a lot of information was positively shared.

8. REPORT OF THE EXECUTIVE DIRECTOR:

(a) *Update on Governor's proposal to dissolve Redevelopment Agencies*

- Director Blackwell stated that one important development has taken place since last week: Senator Wright (D-So. Cal), introduced Senate Bill 286 which has within it a set of very important and far-reaching reforms to redevelopment. There are about 6 or 7 areas of reform that are being proposed that Senator Wright worked on with California Redevelopment Association and the California League of Cities. The bill is going to be heard by the Governor's Finance Subcommittee of the Senate and it is expected that this bill will make it out of committee tomorrow. The first has to do with administrative costs for redevelopment agencies. One of the criticisms about redevelopment has been that local jurisdictions, cities and counties have often been using redevelopment funds to pay for non-redevelopment activities, specifically council members, elected officials, and city staff who aren't working on redevelopment activities are being paid with tax-increment dollars. One of the reforms is to put a cap on administrative expenses and to be clear about the nexus between administrative expenses and redevelopment activities. Second is a set of reforms that has to do with the size of redevelopment; the criticism being that redevelopment has become too large and too much of the property tax given to jurisdictions across the state is being redirected to redevelopment activities. This reform has to do with limiting the amount of total geography in a jurisdiction that can be in a redevelopment project area, limiting the total amount of property tax revenue being generated in a jurisdiction that can go to redevelopment activities and limiting the amount of tax increment that can be spent in existing project areas on areas that no longer are blighted. The third reform deals with paying much more attention to how blight is being defined. As the Commission knows, the way to define a redevelopment area is by putting forth a set of findings related to blight, the criticism of which has been that redevelopment areas have been established without the adequate level of blight. This reform would set up a system of checks and balances when it comes to the establishment of blight findings and involve the courts more. The fourth area of reform/criticism is allowable use for tax-increment financing. After the state comptroller's office audit, they found that tax-increment is being spent on things that are not appropriate; one example being tax-increment being spent on luxury golf courses or big sports facilities or auto malls. While CRL (California Redevelopment Law) has tightened that, the new proposal states that you cannot spend tax-increment on items without voter approval. The fifth category of reform is about repositioning redevelopment. There is much discussion about realigning redevelopment more closely with sustainable development principles, such as investments

that encourage in-field development rather than sprawl, focusing on transit-oriented development, investments for brownfields rather than green fields and focusing on investments that reduce greenhouse gas emissions. And there is a listing of affirmative statements that state what they want tax increment to be associated with. The next reform deals with accountability. The audits that took place this year for redevelopment agencies had not taken place in a long time and the reason the state said that these audits do not happen is because they cannot afford for them to happen. This proposal imposes a .025 assessment (which is a portion of the allocated tax increment) on agencies that would go to the state so the state would have the resources to do the audits on an annual basis with a sampling of redevelopment agencies being audited. The last reform deals with project areas established after 2012, where the schools' portion of the tax increment or the property tax, would not be touched. This is important because for newly established project areas, redevelopment agencies will no longer create the state burden which is associated with backfilling the schools' portion of the property tax. The backers of this reform package hope that it is strong enough to get the governor's elimination proposal off the table. A revision of the budget is expected to be presented in Sacramento in mid May. It is anticipated that the debate around redevelopment will heat up again soon after mid-May, including the above set of reforms and including the alternative financial package.

9. COMMISSIONERS' QUESTIONS AND MATTERS:

- Commissioner Ubalde had a question for the Executive Director about the Filipino-American cultural center. Ms. Ubalde stated that she thought that now it was in the hands of the Planning Commission but requested an update.
 - Director Blackwell indicated that right before the end of the year there were heated negotiations about the Westfield or the Metreon Revitalization and the connection between that and the establishment of space for the Filipino cultural center. The agreement at the time was that Westfield would pay a portion of the tenant improvements for the cultural center as well as provide them with some operating support, with the next step being for them to get into a lease. Since that debate, negotiations have gotten bogged down and the Agency has reinserted themselves into those negotiations in order to bring them to closure. One of the problems is that the cost associated with tenant improvements at the center are higher than the center thought they would be at the time and they are trying to figure out ways to fill the gap. Mr. Blackwell stated he hoped to have a more detailed update soon on the project.

10. CLOSED SESSION: NONE

11. ADJOURNMENT:

It was moved by Vice President Singh, seconded by Commissioner King and unanimously carried that the meeting be adjourned at 5:43 p.m.

Respectfully submitted,

Gina E. Solis
Agency Secretary

ADOPTED: