

Mayor's Office of Housing (MOH)
UPDATE REPORT
ON THE
SEISMIC SAFETY LOAN PROGRAM
April 2009

For the

**Citizen's General Obligation Bond
Oversight Committee**

The Citizen's General Obligation Bond Oversight Committee (CGOBOC) requested an update report on the operations of the Seismic Safety Loan Program (SSLP). The request asked that particular attention be given to \$1,482,441 of unspent, unencumbered and unbudgeted funds that were proceeds from bond sales under the authority provided to SSLP in 1992. This amount appeared on Controller's Office records as of December 31, 2008. This report will provide CGOBOC with the information that it requested.

In 1992, San Francisco voters passed the Seismic Safety Bond measure in order to ensure that financing would be available to carry out seismic retrofit projects on identified unreinforced masonry buildings (UMBs) in the City. These retrofits were required by a San Francisco City ordinance. Proceeds from bond sales under the program are used to provide financing to UMB owners through operations of SSLP.

At the beginning of SSLP operations, \$35 million of seismic bonds were sold in order to create a loan fund. The City Treasurer deposited the proceeds from the bond sales in interest earning accounts for the benefit of the loan program. It was anticipated that the \$35 million would be disbursed to borrowers during the first year of SSLP operations. However, the demand for financing from SSLP ended up being much less than planned. As a result, there was a substantial fund balance held in the accounts designated by the Treasurer's Office from 1994 to FY2003. In 2003, \$27 million of the initial bond issuance was defeased thus reducing the fund balance and subsequent interest earnings.

The \$1.4 million reported by the Controller's Office in December 2008 represents the remaining balance from interest earned on the SSLP bond funds (none of this balance represents bond proceeds). In addition, there is a small portion of the balance earned from loan fees. During the life of the program, SSLP has earned approximately \$16.6 million in interest income. Of this amount, \$5.5 million has been spent on program administration, \$9.7 million on loans and bond defeasance and \$1.4 million remains. Because of a change in SSLP operations, this balance will not grow substantially. In 2007 new procedures were instituted whereby bonds are only sold for a specific project after a loan application has been approved by the SSLP Loan Committee. The funds from the bond sales are drawn down relatively quickly by the borrowers to pay costs related to their projects. The interest earned by the City after the bond sales, therefore, is minimal.

The distinction made between funds derived directly from bond sales and the interest earned on held bond funds is significant. The City Attorney's Office determined that funds derived directly from bond sales could not be used for general administration of SSLP. The UMB Seismic Bond measure also mandated that loan repayments could only be used to service the debt from the seismic bond sales. Therefore the interest earned from held bond funds is, practically, the only source of funds that can be used for administration of SSLP.

The Mayor's Office of Housing will use these remaining funds to support the ongoing operational costs of the program. Specifically, there are costs associated with underwriting, monitoring, and facilitating projects, loan servicing, City Attorney fees,

and a proportional allocation of department overhead. In recent years annual expenditures have been between \$300,000 and \$400,000. At this rate, the Mayor's Office of Housing expects these remaining funds to be fully expended during the next four years. Current program activity includes 20 active SSLP loans, 3 projects under construction and 5 projects in the pipeline. In addition, while the number of eligible buildings still in need of retrofit work has been considerably reduced, an estimated 200 such buildings still remain and as demonstrated by at least two recent applicants to the program, some owners who would otherwise be able to obtain financing in the commercial market may be forced to turn to the SSLP instead.

Administrative costs for SSLP operations have been substantially reduced since the beginning of the program. At the outset, five full time staff members were included in the SSLP budget. Most of the administrative functions of SSLP are now being carried out by MOH staff on a part-time basis. Additionally, in the past, administrative costs for SSLP included payment for work orders from the City Attorney's Office and the Human Rights Commission. Administrative costs were also incurred for work done by private consultants who served as a Financial Consultant and a Loan Servicer. The program still needs the services of the City Attorney's Office and assistance with loan servicing, but such costs have been significantly reduced and will be reduced further in the future.