SAN FRANCISCO HEALTH COMMISSION

RESOLUTION NO. _____

AUTHORIZING THE DIRECTOR OF THE DEPARTMENT OF PUBLIC HEALTH TO EXECUTE AN OPTION TO GROUND LEASE WITH MERCY HOUSING CALIFORNIA103, L.P., FOR THE DEVELOPMENT OF APPROXIMATELY 158 AFFORDABLE SENIOR HOUSING UNITS ON A FUTURE AFFORDABLE HOUSING PARCEL AT LAGUNA HONDA HOSPITAL

WHEREAS, The City and County of San Francisco ("City"), acting through the Department of Public Health ("DPH") and the Mayor's Office of Housing and Community Development ("MOHCD"), is working with Mercy Housing California ("Mercy") to develop approximately 158 affordable senior housing units on property currently under the jurisdiction of DPH at Laguna Honda Hospital ("Project"); and

WHEREAS, The Health Commission previously approved a Memorandum of Understanding among DPH, MOHCD, and Mercy on May 4, 2026 establishing the framework for the development of the Project, including the eventual transfer of jurisdiction over the future affordable housing parcel from DPH to MOHCD and the subsequent execution of a long-term ground lease between MOHCD and Mercy's limited partnership affiliate for the development and operation of the Project; and

WHEREAS, The future affordable housing parcel is currently part of the larger Laguna Honda Hospital property under the jurisdiction of DPH and must be formally created through completion and approval of a Record of Survey and satisfaction of other requirements necessary to transfer jurisdiction of the parcel from DPH to MOHCD; and

WHEREAS, The Department of Public Works anticipates completing the Record of Survey in early 2027; and

WHEREAS, The deadline for Mercy to apply for state financing application is early February 2027, and at that time, they must demonstrate sufficient site control over the future affordable housing parcel in order to apply for such financing; and

WHEREAS, An Option to Ground Lease ("Option") is an agreement by which [define]; and

WHEREAS, If DPH and Mercy execute an Option to Ground Lease, the agreement would provide Mercy with sufficient site control for purposes of its financing application while allowing the City additional time to complete the Record of Survey, transfer jurisdiction of the future affordable housing parcel from DPH to MOHCD, and complete the other steps necessary for execution of the eventual ground lease; and

WHEREAS, The Option is intended to establish a framework for the eventual ground lease, including the basic business terms of the ground lease consistent with MOHCD's Ground Lease Policy, an exclusive period for negotiation of the ground lease, and deadlines for the parties to complete the ground lease; and

WHEREAS, The Option will not itself constitute a ground lease of the future affordable housing parcel or any other City property, will not convey possession or occupancy rights to Mercy, and will not authorize Mercy to enter upon or possess the future affordable housing parcel; and

WHEREAS, The Option will not authorize DPH to execute the eventual ground lease, and the City will retain control of the future affordable housing parcel until the applicable financing closing and execution and recording of the ground lease; and

WHEREAS, Following completion of the Record of Survey and transfer of jurisdiction of the future affordable housing parcel to MOHCD, the eventual ground lease is anticipated to be entered into between MOHCD and Mercy Housing California103, L.P., and will remain subject to all required City approvals, including approval by the Board of Supervisors, as applicable, and may also be expressly conditioned upon approval by the Health Commission during the period in which DPH retains jurisdiction over the parcel; and

WHEREAS, The Project must close its construction and permanent financing no later than December 10, 2027 in order to retain a federal tax credit benefit associated with the Project's eligibility for a Difficult to Develop Area ("DDA") basis boost; and

WHEREAS, Loss of the DDA basis boost is currently estimated to reduce the Project's available financing by approximately $8 million, and the Project does not currently have an identified source of funding to replace such amount, which could render the Project financially infeasible; and

WHEREAS, Execution of the Option is therefore intended to bridge the timing gap between Mercy's February 2027 state financing application deadline and completion of the Record of Survey, transfer of jurisdiction to MOHCD, and execution of the eventual ground lease, thereby helping maintain the Project's financing and development schedule; and

WHEREAS, The Health Commission has determined that authorizing the Department of Public Health Director of Health to execute the Option is consistent with the Health Commission's prior approval of the Project framework and will facilitate continued progress toward the development of affordable senior housing on the Laguna Honda Hospital campus; now, therefore, be it

RESOLVED, That the Health Commission hereby authorizes the Director of Health or his designee to enter into an Option to Ground Lease, substantially in the form presented to the Health Commission and on file with the Department of Public Health, between the City and County of San Francisco, acting through the Department of Public Health, and Mercy Housing California103, L.P., Mercy Housing California's limited partnership affiliate, relating to the future affordable housing parcel at Laguna Honda Hospital; and, be it

FURTHER RESOLVED, That the Director of Health, or the Director's designee, is authorized to approve and execute non-material amendments, modifications, extensions, or other documents reasonably necessary to implement the Option, provided that such amendments or modifications are consistent with the purposes and intent of this Resolution and are approved as to form by the City Attorney; and, be it

FURTHER RESOLVED, That nothing in this Resolution shall be construed as approval or authorization of the eventual ground lease of the future affordable housing parcel, which shall be subject to all approvals required by applicable law and City policy, including any required approval by the Board of Supervisors and any approval required from the Health Commission; and, be it

FURTHER RESOLVED, That nothing in this Resolution shall be construed as transferring jurisdiction over, leasing, conveying, or granting possession of the future affordable housing parcel to Mercy or Mercy Housing California103, L.P.; and, be it

FURTHER RESOLVED, That the Health Commission authorizes the Director of Health to take such additional actions as may be necessary to carry out the purposes of this Resolution, consistent with the terms of the Option and applicable law.

I hereby certify that the foregoing resolution was adopted by the San Francisco Health Commission at its meeting on _____, 2026.

Secretary to the Health Commission