

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
July 16, 2014
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Leslie J. Campaz

Applicant: City and County of San Francisco

Allocation Amount Requested:
Tax-exempt: \$25,000,000

Project Information:
Name: Bill Sorro Community Apartments
Project Address: 200 6th Street
Project City, County, Zip Code: San Francisco, San Francisco, 94103

Project Sponsor Information:
Name: Mercy Housing California 51, LP (Mercy Housing California Family Properties; South of Market Mercy Housing)
Principals: Douglas Shoemaker, Barbara Gualco, Jane Graf, Stephan Daves, Ed Holder, Steve Spears, Benjamin Phillips, Lillian Murphy, Melissa Clayton, Bruce Saab, Jennifer Dolin, Joe Rosenblum, Vince Dodds and Amy Bayley for both entities.
Property Management Company: Mercy Housing Management Group

Project Financing Information:
Bond Counsel: Squire Sanders
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Citibank, N.A.(construction)/ HUD Section 811 (perm)
TEFRA Adopted Date: March 25, 2014

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 66, plus 1 manager unit
Type: New Construction
Type of Units: Family

The proposed Bill Sorro Community affordable development will be located in the San Francisco's South of Market District at 6th and Howard Streets. It will consist of a 9-story Type-I concrete building with 10 studio apartments, 24 one-bedroom units, 24 two-bedroom units, 10 three-bedroom units and one two-bedroom manager's unit. Additionally there will be a community room, management offices, two laundry rooms, and approximately 2,500 square foot of retail space fronting 6th Street. All of the apartments in the building will be rented out to families earning up to 50% of area median income. All apartments will have an ADA compliant kitchen and bathroom. The kitchen will feature a range, dual-basin sink, and storage cabinets. Two-bedroom and three bedroom units will have a single basin sink and dishwasher. The finishes within the apartments have been selected to maximize durability while keeping costs as low as possible. Notable sustainable features include solar hot water, high efficiency glazing with exterior shading in selected areas for ample daylight in units, a rain-screen facade system with continuous exterior insulation and low-VOC finishes.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
100% (66 units) restricted to 50% or less of area median income households.
Unit Mix: Studio, 1, 2 & 3 bedrooms

There are no service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

| | | |
|---|---------------|-------------------------------------|
| Estimated Total Development Cost: | \$ 40,067,487 | |
| Estimated Hard Costs per Unit: | \$ 390,541 | (\$2,574,000 /66 units) |
| Estimated per Unit Cost: | \$ 607,083 | (\$40,067,487 /66 units) |
| Allocation per Unit: | \$ 378,788 | (\$25,000,000 /66 units) |
| Allocation per Restricted Rental Unit: | \$ 378,788 | (\$25,000,000 /66 restricted units) |

| Sources of Funds: | Construction | Permanent |
|----------------------------------|----------------------|----------------------|
| Tax-Exempt Bond Proceeds | \$ 25,000,000 | \$ 0 |
| Developer Equity | \$ 0 | \$ 1,300,000 |
| Direct and Indirect Public Funds | \$ 11,887,506 | \$ 20,909,131 |
| Deferred Fee | \$ 0 | \$ 98,500 |
| LIH Tax Credit Equity | \$ 951,958 | \$ 17,759,856 |
| Total Sources | \$ 37,839,464 | \$ 40,067,487 |

| Uses of Funds: | |
|------------------------------------|----------------------|
| Acquisition/Land Purchase | \$ 0 |
| Hard Construction Costs | \$ 25,775,754 |
| Architect & Engineering Fees | \$ 2,323,100 |
| Contractor Overhead & Profit | \$ 3,047,202 |
| Developer Fee | \$ 2,500,000 |
| Cost of Issuance | \$ 513,940 |
| Capitalized Interest | \$ 1,128,944 |
| Other Soft Costs (Marketing, etc.) | \$ 4,778,547 |
| Total Uses | \$ 40,067,487 |

Description of Financial Structure and Bond Issuance:

This will be a private placement bond transaction with the bonds being purchased by Citibank, N.A. The bonds will be issued by the City and County of San Francisco. The bond amount will be for \$25,000,000 during construction. HUD Section 811 will cover the permanent financing. During the construction phase, the bonds shall bear interest at a rate equal to 1 month LIBOR plus a spread of 2.00% with a term period of 30 months plus a 6-month extension.

Analyst Comments:

According to the developer, the factors contributing to the high cost per unit are as follows:

1. The Bill Sorro Community is located in a designated historic district, which required that the new building incorporate some historic elements (brick veneer, massing consistent with historic neighboring buildings).
2. The site has extremely poor soil, and existing basement condition and existing timber piles; these conditions required shoring and soil cement columns to be placed every 4' on center to a depth of 30' plus.
3. New Market Octavia zoning requirements required a significant amount of open space. New storm water retention requirements require a cistern and water reuse/recycling piping.
4. The demolition of a contributory building in a historic district required an EIR process. The total cost for the EIR was \$500,000.
5. Additionally, the State requires that we carry a Transition Reserve of \$185,000 to cover rents losses in the case that operating subsidy for the 14 Section 811 units is lost.

Legal Questionnaire:

The Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed to question the financial viability or legal integrity of the Applicant.

Total Points: 87.5 out of 130
[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$25,000,000 in tax exempt bond allocation.

ATTACHMENT A

EVALUATION SCORING:

| Point Criteria | Maximum Points Allowed for Non-Mixed Income Projects | Maximum Points Allowed for Mixed Income Projects | Points Scored |
|---|--|--|---------------|
| Federally Assisted At-Risk Project or HOPE VI Project | 20 | 20 | 0 |
| Exceeding Minimum Income Restrictions: | 35 | 15 | 35 |
| Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project] | [10] | [10] | 10 |
| Gross Rents | 5 | 5 | 5 |
| Large Family Units | 5 | 5 | 0 |
| Leveraging | 10 | 10 | 10 |
| Community Revitalization Area | 15 | 15 | 0 |
| Site Amenities | 10 | 10 | 7.5 |
| Service Amenities | 10 | 10 | 0 |
| New Construction | 10 | 10 | 10 |
| Sustainable Building Methods | 10 | 10 | 10 |
| Negative Points | -10 | -10 | 0 |
| Total Points | 130 | 100 | 87.5 |

The criteria for which points are awarded will also be incorporated into the Resolution transferring Allocation to the Applicant as well as the appropriate bond documents and loan and finance agreements.