THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
September 16, 2015
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Richard Fischer

Applicant: City and County of San Francisco

Allocation Amount Requested:

Tax-exempt: $48,768,000

Project Information:

Name: **Robert B. Pitts Apartments**
Project Address: 1150 Scott Street
Project City, County, Zip Code: San Francisco, San Francisco, 94115

Project Sponsor Information:

Name: Robert Pitts Housing Partners, L.P. (Related/Robert Pitts Development Co., LLC & Tabernacle Community Development Corp.)
Principals: William A. Witte, Frank Cardone, Steve Sherman for Related/Robert Pitts Development Co.; Rev. Donald Green, Rev. Edgar Boyd, Rev. Calvin Jones, Rev. James McCray, Jr. for Tabernacle Community Development Corp.
Property Management Company: Related Management Company

Project Financing Information:

Bond Counsel: Squire Patton Boggs (US) LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Bank of America, N.A.
TEFRA Adoption Date: April 14, 2015

Description of Proposed Project:

State Ceiling Pool: General
Total Number of Units: 199, plus 2 manager units
Type: Acquisition and Rehabilitation
Type of Units: Family

The scope of work includes renovations to the 201 apartments in existing two- and three-story wood framed buildings at two city blocks surrounding 1150 Scott Street in San Francisco, California. The 37 buildings were originally constructed in 1991. Block 1 contains a community building along with gardens, play areas and parking lots. Block 2 consists of just apartments, play areas, gardens and parking. The intent of the modernization is to provide 201 apartments with support services, office spaces, common recreation and meeting areas that will not require significant modernization within the next twenty years. Modernization scope includes structural improvements to tie existing external stairs to the apartment buildings, MEP systems replacements, including new furnaces, new bathroom and kitchen ventilation, plumbing replacements, electrical and security component replacements throughout the buildings, along with accessibility, life safety, and finishes improvements. Some apartments will be reconfigured to provide full accessibility.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 98%

98% (196 units) restricted to 50% or less of area median income households.

Unit Mix: 2, 3 & 4 bedrooms

No service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	$	84,054,854	
Estimated Hard Costs per Unit:	$	167,236	($33,280,016 /199 units)
Estimated per Unit Cost:	$	422,386	($84,054,854 /199 units)
Allocation per Unit:	$	245,065	($48,768,000 /199 units)
Allocation per Restricted Rental Unit:	$	245,065	($48,768,000 /196 restricted units)

See Analyst Comments.

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	$ 48,768,000	$ 16,493,000
Developer Equity	$ 0	$ 500,000
LIH Tax Credit Equity	$ 1,625,662	$ 34,470,247
Direct & Indirect Public Funds	$ 31,287,943	$ 31,287,943
Other (Deffered Costs, LP Capital Contributions)	$ 2,373,249	$ 1,303,664
Total Sources	$ 84,054,854	$ 84,054,854

Uses of Funds:	
Acquisition/Land Purchase	$ 35,360,000
Rehabilitation Costs	$ 29,119,834
Relocation	$ 1,558,869
Architectural	$ 658,525
Survey & Engineering	$ 128,500
Contingency Costs	$ 5,220,558
Construction Period Expenses	$ 3,792,201
Permanent Financing Expenses	$ 20,000
Legal Fees	$ 130,000
Transfer and Holding Fees	$ 924,000
Capitalized Reserves	$ 2,912,993
Other Project Costs (Marketing, etc.)	$ 1,729,374
Developer Fee	$ 2,500,000
Total Uses	$ 84,054,854

Description of Financial Structure and Bond Issuance:

This is a Bank of America private placement City of San Francisco Rental Assistance Development. During the construction financing phase the loan term will be for 17 years with a (fixed) Indicative interest rate of 2.05%. During the permanent financing phase, the loan term will be for 17 years with an amortization period of 35 years at a (fixed) Indicative rate of 4.04%. There was no underwritten rate provided.

Analyst Comments:

The inclusion of the non-RAD Section 8 units at the SFHA payment standard generates substantial income, which causes the valuation under this approach to be very robust. Increased costs for labor and supplies. Annual escalation from the beginning of the RAD Phase I schematic design estimates to the final bids was approximately 10-12% with some of the larger and key trades such as Mechanical, Electrical and Plumbing, even higher. SFHA has been out of compliance with Section 504/accessibility requirements and all sites must create accessible units, including units for vision- and hearing-impaired individuals. In some cases this requires significant reconfiguration of unit floorplans, relocation of major systems through concrete slabs, new ramps, automatic door systems, etc. Robert B. Pitts, though built in 1991, faulty construction techniques have resulted in extensive dry rot and water intrusion, requiring replacement or repair of all windows and a significant amount of siding repairs or replacements. Also in the scope is the costly construction of new trash enclosures to address prevalent rodent infestations, and construction of a new laundry facility to replace informal washing machine hook-ups in apartments. Prevailing wages (HUD) . Local Business Enterprise/Small Business Enterprise hiring goals (SF) – City policy requires outreach to small subcontractor and professional services firms. Minimum wage ordinance (SF) – affects back office and admin staff. Section 3 (HUD and SFHA) – 30% of new hires must be disadvantaged workers; monitored by City and HUD. Resident hiring program (SFHA) – 25% of the construction workforce hours must be completed by public housing residents. Project Labor Agreement (SFHA) – To ensure labor peace during the construction period, SFHA negotiated a PLA with the Building Trades Council to offset the permanent loss of unionized jobs through the RAD conversion. The PLA results in additional costs and impacts to the construction budgets. For example, all non-union subcontractors must pay into the union pension fund on behalf of their workers; subs must hire their workers from the hiring hall rather than use their own workforce; all bidding documents must be made available to the building trades council online and in hard copy. As a result, many subcontractors (even union) choose not to bid on these RAD PLA projects since there is ample, less regulated work elsewhere in the Bay Area at this time, which led to thin subcontractor bid coverage, and drives up project costs. Those who did bid were more likely to hedge their productivity and cost risk by increasing their bids. The PLA requirements may have added an additional 6% to the construction costs for each budget. Relocation. Stemming from the RAD projects' costly construction scopes is an extensive relocation need. 100% of the residents of the 1,422 RAD Phase I units will need to be temporarily relocated, mostly in short phases, during construction periods ranging from 15 to 24 months. Low vacancy rates across the SFHA projects, particularly those serving seniors and disabled people, mean that opportunities for on-site relocation are limited; as a result most developers must find units in San Francisco's world-famous rental market known for low vacancy rates and high rents. While MOHCD, SFHA and RAD developers have pooled housing resources and sought creative solutions to the relocation conundrum, the volume of RAD units all with the same construction and relocation schedule, compounded by the SF rental vacancy rate of less than 2%, conspire to add heavy costs to the RAD projects.

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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: 75 out of 130

[See Attachment A**]**

Recommendation:

Staff recommends that the Committee approve $48,768,000 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	5
Leveraging	10	10	10
Community Revitalization Area	15	15	0
Site Amenities	10	10	10
Service Amenities	10	10	0
New Construction	10	10	0
Sustainable Building Methods	10	10	0
Negative Points	-10	-10	0
Total Points	**130**	**100**	**75**

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.