

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: Sarah Lester

Applicant: City and County of San Francisco

Allocation Amount Requested:
Tax-exempt: \$25,612,000

Project Information:
Name: 25 Sanchez Apartments
Project Address: 25 Sanchez Street
Project City, County, Zip Code: San Francisco, San Francisco, 94114

Project Sponsor Information:
Name: 25 Sanchez Housing Associates, LP (25 Sanchez LLC)
Principals: Cynthia Parker, Susan M. Johnson, Kemp Valentine, Rebecca Hlebasko, Kimberly McKay and Luis Granados
Property Management Company: BRIDGE Property Management Company

Project Financing Information:
Bond Counsel: Goodwin Proctor
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Bank of America, N.A.
TEFRA Adopted Date: April 14, 2015

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 89, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Senior Citizens/Special Needs

The proposed project is an existing 90-unit multifamily apartment complex that is located in the city and county of San Francisco. The project was built in 1972 and consists of one four-story low rise structure occupying a corner site at Duboce Avenue and Sanchez Street. The development is situated on a single 0.5 acre L-shaped lot, and the gross uilding area amounts to 51,553 square feet. The residential property is a senior/disabled oriented project with 75 studios, 14 one-bedrooms and 1 two-bedroom. The ehabilitation of the project is expected to begin in December of 2015 and be completed in December of 2016. The primary scope of work will include life safety and ccessibility improvements, voluntary structural upgrades, voluntary sprinkler upgrade to a fully sprinklered system, modernization or replacement of the original building systems and equipment, resident unit renovations, energy use reduction, and modifications to the ground floor common areas to better support the everyday needs of the residents. Energy upgrades will be made to comply with the TCAC threshold of 10% energy savings over existing by replacing light fixtures with more energy efficient lighting, installing new heating and domestic hot water boilers, and replacing all of the single pane windows with double pane windows. Given that the building has been under San Francisco Housing Authority ownership, an exact accounting of retrofits cannot be determined. However, the San Francisco Housing Authority recently implemented a \$41 million energy upgrade portfolio-wide. The proposed scope of work will also include site work, landscaping, accessibility signage and upgrades, and improvements to common areas. There are no offsite improvements contemplated in the renovation. Demolition will be selective in nature in order to cure deficiencies or repair decayed building components. No structures will be demolished in the renovation.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 99%
99% (88 units) restricted to 50% or less of area median income households.
Unit Mix: Studio, 1 & 2 bedrooms

No service amenities will be provided in the proposed project.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$ 46,363,556	
Estimated Hard Costs per Unit:	\$ 160,954	(\$14,324,906 /89 units)
Estimated per Unit Cost:	\$ 520,939	(\$46,363,556 /89 units)
Allocation per Unit:	\$ 287,775	(\$25,612,000 /89 units)
Allocation per Restricted Rental Unit:	\$ 291,045	(\$25,612,000 /88 restricted units)

The Project has total project costs of \$520,939 that appear high for the geographic area in which it is located. Please see "Analyst Comments" below.

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 25,612,000	\$ 4,423,000
Developer Equity	\$ 0	\$ 500,000
LIH Tax Credit Equity	\$ 864,759	\$ 19,537,185
Direct & Indirect Public Funds	\$ 16,366,744	\$ 21,144,885
Other (Costs Def. Until Conv./ Accrued deferred interest)	\$ 3,520,053	\$ 758,486
Total Sources	\$ 46,363,556	\$ 46,363,556
 Uses of Funds:		
Acquisition/Land Purchase	\$ 21,565,000	
Hard Construction Costs	\$ 12,292,659	
Architectural Fees	\$ 1,002,221	
Survey & Engineering	\$ 119,100	
Contractor Overhead & Profit	\$ 1,165,656	
Developer Fee	\$ 2,500,000	
Relocation	\$ 636,543	
Cost of Issuance	\$ 257,824	
Legal Fees	\$ 130,000	
Construction & Permanent Financing	\$ 2,535,289	
Contingency Cost	\$ 2,032,247	
Reserves	\$ 1,186,841	
Other Soft Costs (Third Party Reports, Furnishing, Marketing, etc.)	\$ 940,176	
Total Uses	\$ 46,363,556	

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a private placement transaction provided by Bank of America, N.A. (the "Bank") for both construction and permanent financing. During the construction phase, the loan term will be for 24 months. The interest rate will be a LIBOR floating indicative rate of 1.70%. During the permanent financing phase, the loan term will be for 17 years with an amortization period of 20 years. The interest rate will be a fixed indicative rate equal to the sum of 3.91%. The bonds will be issued by the City and County of San Francisco.

Analyst Comments:

The project is currently owned by the San Francisco Housing Authority (SFHA) and is subject to HUD contracts affecting the development and its use thereof through the placement of rental restrictions to provide affordable housing in the area.

High Cost Explanation:

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

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.

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

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: 70 out of 130

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$25,612,000 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	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	70

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.