

**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*

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**Applicant:** City and County of San Francisco

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**Allocation Amount Requested:**  
**Tax-exempt:** \$21,770,000

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**Project Information:**  
**Name:** 430 Turk Street  
**Project Address:** 430 Turk Street  
**Project City, County, Zip Code:** San Francisco, San Francisco, 94102

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**Project Sponsor Information:**  
**Name:** 430 Turk Associates, L.P. (430 Turk GP LLC)  
**Principals:** Donald S. Falk, for 430Turk GP LLC  
**Property Management Company:** Tenderloin Neighborhood Development Corporation Group, Inc.

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**Project Financing Information:**  
**Bond Counsel:** Jones Hall, A Professional Law Corporation  
**Underwriter:** Not Applicable  
**Credit Enhancement Provider:** Not Applicable  
**Private Placement Purchaser:** Bank of America, N. A.  
**TEFRA Adoption Date:** April 14, 2015

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**Description of Proposed Project:**  
**State Ceiling Pool:** General  
**Total Number of Units:** 89, No manager units  
**Type:** Acquisition and Rehabilitation  
**Type of Units:** Senior Citizens/Special Needs

The subject property, located at 430 Turk Street in San Francisco, California, sits on a nearly flat 0.43 acre parcel. The existing population is seniors and individuals living with a physical or mental disability. The occupied rehabilitation of the building is expected to begin in November 2015 and finish in December 2016. The subject building is a nine-story multi-use building constructed in 1987. The residential portion to be developed includes a ground floor lobby, secure parking garage, laundry facilities, and an outdoor patio on the roof of the second floor. Unit amenities include a kitchen with an electric range, refrigerator, and bathroom. Some units also include a small outdoor patio. The scope of rehabilitation in the dwelling units includes replacing cabinetry, plumbing fixtures and fittings, appliances, new floor finishes, doors and hardware. The scope of work for the building includes additional structural bracing of the top floor and roof steel framing, expansion of the ground floor lobby to include community meeting space, offices for property management and services. The fire alarm system will be modified to comply with current requirements for detection. There will also be significant upgrades to the building's accessibility for handicapped residents, including modifying five units to meet full mobility standards and four units to meet communication standards.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 100%  
100% (89 units) restricted to 50% or less of area median income households.  
**Unit Mix:** Studio, 1 & 2 bedrooms

There are no service amenities.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

|   |    |            |                                     |
|---|----|------------|-------------------------------------|
| <b>Estimated Total Development Cost:</b>      | \$ | 38,183,009 |                                     |
| <b>Estimated Hard Costs per Unit:</b>         | \$ | 145,621    | (\$12,960,311 /89 units)            |
| <b>Estimated per Unit Cost:</b>               | \$ | 429,023    | (\$38,183,009 /89 units)            |
| <b>Allocation per Unit:</b>                   | \$ | 244,607    | (\$21,770,000 /89 units)            |
| <b>Allocation per Restricted Rental Unit:</b> | \$ | 244,607    | (\$21,770,000 /89 restricted units) |

See Analyst comments for High Cost explanation.

| <b>Sources of Funds:</b>                    | Construction         | Permanent            |
|---|----------------------|----------------------|
| Tax-Exempt Bond Proceeds                    | \$ 21,770,000        | \$ 2,874,000         |
| Developer Equity                            | \$ 0                 | \$ 500,000           |
| LIH Tax Credit Equity                       | \$ 711,258           | \$ 16,125,164        |
| Direct & Indirect Public Funds              | \$ 13,592,136        | \$ 18,173,531        |
| Other (Deferred Costs and Accrued Interest) | \$ 2,109,615         | \$ 510,314           |
| <b>Total Sources</b>                        | <b>\$ 38,183,009</b> | <b>\$ 38,183,009</b> |
| <br><b>Uses of Funds:</b>                   |                      |                      |
| Acquisition/Land Purchase                   | \$ 15,475,000        |                      |
| Rehabilitation Costs                        | \$ 11,213,972        |                      |
| Relocation                                  | \$ 838,280           |                      |
| Architectural                               | \$ 1,278,296         |                      |
| Survey & Engineering                        | \$ 133,276           |                      |
| Contingency Costs                           | \$ 2,672,119         |                      |
| Construction Period Expenses                | \$ 1,621,404         |                      |
| Permanent Financing Expenses                | \$ 20,000            |                      |
| Legal Fees                                  | \$ 90,000            |                      |
| Capitalized Reserves                        | \$ 1,517,760         |                      |
| Other Soft Costs                            | \$ 822,902           |                      |
| Developer Costs                             | \$ 2,500,000         |                      |
| <b>Total Uses</b>                           | <b>\$ 38,183,009</b> |                      |

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**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 18 months with a daily floating indicative interest rate of 1.70%. During the permanent financing phase, the loan term will be for 15 years with an amortization period of 15 years at a (fixed) Indicative rate of 3.71%. There was no underwritten rate provided.

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**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. 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.

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**Total Points:** 70 out of 130  
[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$21,770,000 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<br>[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             |
| <b>Total Points</b>   | <b>130</b>   | <b>100</b>                                       | <b>70</b>     |

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.