

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 18, 2016
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: \$18,337,000

Project Information:

Name: 2698 California Apartments
Project Address: 2698 California Street
Project City, County, Zip Code: San Francisco, San Francisco, 94115

Project Sponsor Information:

Name: 2698 California, LP (Mercy Housing Calwest; JSCO CA Corridor LLC; and Japanese American Religious Federation Housing, Inc.)
Principals: Doug Shoemaker, Valerie Agostino, Barbara Gualco, Jane Graf, Stephan Daves, Ed Holder, Steve Spears, Benjamin Phillips, Sheela Jivan, Melissa Clayton, Bruce Saab, Jennifer Dolin, Vince Dodds, Joe Rosenblum for Mercy Housing Calwest; Jack D. Gardner, Daniel L. Levine and Mari Tustin for JSCO CA Corridor LLC; Will Tsukamoto, Matthew Matsuoka, Kei Nagai, Yoshio Nakashima and John Bollard for Japanese American Religious Federation Housing, Inc.)
Property Management Company: Mercy Housing Management Group

Project Financing Information:

Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Bank of America, N.A./Freddie Mac
TEFRA Noticing Date: October 16, 2015
TEFRA Adoption Date: December 1, 2015

Description of Proposed Project:

State Ceiling Pool: General
Total Number of Units: 39, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Family

The proposed project is an existing 5-story, 40-unit, 27,330 ft² steel framed building with a concrete core originally constructed in 1971 for the San Francisco Housing Authority. The site is approximately 8,123 ft² (0.19 acres) in size and is nearly square shaped. The 40 units in the building consist of 31 studio apartments, 8 one-bedroom apartments, and one two-bedroom unit. One of the one-bedroom units is designated as a manager's unit. All units are located on floors 2 through 4 and are serviced by one elevator. The first floor consists of a property management office, laundry room, and a community room with a kitchen. The community room opens up onto a landscaped terrace located on the northern frontage of the building. One of the major components of the building rehabilitation is the improvements to the structural system in order to meet the life safety and collapse prevention performance objectives of ASCE 41-13. Additionally the roof needs to be replaced and provide new gutters, scuppers, and downspouts at upper and lower roofs. The rehabilitation of the building will include a number of accessibility-related improvements in order to bring the building in line with ADA requirements; a new addition to expand the lobby that will include a new property management office; remodeling of first floor; replacing the existing unit doors; replacement of mechanical and electrical equipment; repairing the corridor ceiling; and various other upgrades. Also, smoke detectors will be replaced with smoke and carbon monoxide detectors with wiring in surface mounted raceways. As part of the rehabilitation work, three studio apartments will be converted to fully accessible units. A one-bedroom and two-bedroom unit will be converted to mobility units, with an additional three units remodeled to meet audible and visual accessibility standards.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
100% (39 units) restricted to 50% or less of area median income households.
Unit Mix: Studio, 1 & 2 bedrooms

The proposed project will not be providing service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$	32,409,038	
Estimated Hard Costs per Unit:	\$	219,289	(\$8,552,265 /39 units)
Estimated per Unit Cost:	\$	831,001	(\$32,409,038 /39 units)
Allocation per Unit:	\$	470,179	(\$18,337,000 /39 units)
Allocation per Restricted Rental Unit:	\$	470,179	(\$18,337,000 /39 restricted units)

The Project has total project costs of \$831,001 that appear high for the geographic area in which it is located.

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 18,337,000	\$ 2,795,000
SFHA Seller Carryback Loan	\$ 11,180,000	\$ 11,180,000
Accrued/Deferred Interest	\$ 537,013	\$ 537,013
Deferred Developer Fee	\$ 727,957	\$ 727,957
SF MOHCD Gap Loan	\$ 0	\$ 3,021,483
LIH Tax Credit Equity	\$ 587,379	\$ 13,647,585
GP Equity	\$ 0	\$ 500,000
Total Sources	\$ 31,369,349	\$ 32,409,038
Uses of Funds:		
Land Cost/Acquisition	\$ 11,180,000	
Predev. Interest/Holding Cost	\$ 309,500	
Accrued Interest-Seller Note	\$ 537,061	
Rehabilitation	\$ 9,947,953	
Relocation	\$ 724,010	
Architectural Fees	\$ 927,565	
Survey & Engineering	\$ 181,150	
Construction Interest & Fees	\$ 1,560,764	
Permanent Financing	\$ 20,000	
Legal Fees	\$ 178,000	
Reserves	\$ 682,598	
Appraisal	\$ 10,000	
Contingency Cost	\$ 1,989,591	
Other Project Costs (Soft Costs, Marketing, etc.)	\$ 1,016,088	
Developer Costs	\$ 3,144,806	
Total Uses	\$ 32,409,086	

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project is a private placement transaction provided by the Bank of America, N.A. which will convey the facility to the Federal Home Loan Mortgage Corporation (Freddie Mac) at conversion. During the construction financing phase the loan term will be for 24 months (plus one 6-month extension option) with a variable interest rate to LIBOR Daily Floating Rate of 0.43% plus a spread of 1.80% for an indicative rate of 2.23%. During the permanent financing phase, the loan term will be for 18 years with an amortization period of 35 years at a fixed rate equal to the 10-year Treasury Security of 1.82% plus a spread of 2.29% for an indicative rate of 4.11%. The bonds will be issued by the City and County of San Francisco.

Analyst Comments:

None

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: 80 out of 140
[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$18,337,000 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
Preservation Project	20	20	0
Exceeding Minimum Income Restrictions:	35	15	35
Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Preservation Project]	[10]	[10]	10
Gross Rents	5	5	5
Large Family Units	5	5	0
Leveraging	10	10	10
Community Revitalization Area	5	5	0
Site Amenities	10	10	10
Service Amenities	10	10	0
New Construction or Substantial Renovation	10	10	10
Sustainable Building Methods	10	10	0
Forgone Eligible Developer Fee (Competitive Allocation Process Only)	10	10	0
Minimum Term of Restrictions (Competitive Allocation Process Only)	10	10	0
Negative Points (No Maximum)	-10	-10	0
Total Points	140	120	80

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.