

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: California Housing Finance Agency

Allocation Amount Requested:
Tax-exempt: \$29,004,040

Project Information:
Name: O'Farrell Towers Apartments
Project Address: 477 O'Farrell Street
Project City, County, Zip Code: San Francisco, San Francisco, 94102

Project Sponsor Information:
Name: O'Farrell Towers Associates, LP (O'Farrell Towers GP, LLC)
Principals: Donald S. Falk, Paul Sussman and Elizabeth Orlin
Property Management Company: Tenderloin Neighborhood Development

Project Financing Information:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Citibank, N.A.
TEFRA Adopted Date: August 7, 2015

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 100, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Senior Citizens

The proposed project is an existing senior development located in the City and County of San Francisco. The property was originally built in 1986 and is in moderate to poor condition with deferred maintenance issues. It is a 12-story, three elevators, served building that consists of 101 units, which includes one manager's unit. The parcel size is 12,519 square feet, which is approximately 0.29 acres. The property is currently operating as an affordable income restricted property with a JUD Section 8 HAP 20-year contract that was renewed in 2011. The subject's rents will be at or below 50% of the Area Median Income. All units will continue to offer a "project-based" subsidy and will consist of 1-bedroom units. The proposed rehabilitation will consist of: repairing past water instruction issues and replacing building systems at the end of their useful life, improve accessibility, reconfiguration of ground floor community spaces and offices, renovation to increase energy efficiencies and implement some "green" building methods and features, upgrades to exterior and interior building and common area space including: roof replacement; repair exterior building glass fiber reinforced concrete; new exterior paint; window replacement; upgrades to HVAC system, fire alarm; replacement of hot water boilers; and installation of new solar hot water panels. Interior unit improvements will include: new radiators; new bathroom humidistats; new kitchen appliances/cabinets/sinks/countertops; and new flooring covering. Rehabilitation will commence in November 2015 and will be completed within 14-months or by December 2016.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
100% (100 units) restricted to 50% or less of area median income households.
Unit Mix: 1 bedroom

The proposed project will include a bona fide service coordinator/social worker for a minimum full-time equivalent of 353 hours per year

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$ 54,901,088	
Estimated Hard Costs per Unit:	\$ 123,312	(\$12,331,198 /100 units)
Estimated per Unit Cost:	\$ 549,011	(\$54,901,088 /100 units)
Allocation per Unit:	\$ 290,040	(\$29,004,040 /100 units)
Allocation per Restricted Rental Unit:	\$ 290,040	(\$29,004,040 /100 restricted units)

The Project has total project costs that appear high for the geographic area in which it is located. According to the Project sponsor, the high cost is due to: 1) Acquisition costs; 2) Accrued Land Rent; 3) Relocation costs; and 4) Operating and Transition Reserves (to cover losses should the Section 8 subsidy not receive an annual renewal).

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 29,004,040	\$ 17,785,700
Seller Carryback	\$ 16,970,901	\$ 16,970,901
LIH Tax Credit Equity	\$ 1,458,192	\$ 17,219,614
Sponsor Loan	\$ 1,282,468	\$ 1,282,503
Other (Net Operating Income & Accrued Deferred Interest)	\$ 1,634,715	\$ 1,640,648
Other (GP Equity)	\$ 0	\$ 1,722
Total Sources	\$ 50,350,316	\$ 54,901,088
Uses of Funds:		
Acquisition/Land Purchase	\$ 27,501,250	
Hard Construction Costs	\$ 11,574,020	
Relocation	\$ 1,145,984	
Architect & Engineering Fees	\$ 966,863	
Reports & Studies	\$ 26,500	
Contractor Overhead & Profit	\$ 757,178	
Developer Fee	\$ 2,550,000	
Legal Fees	\$ 168,250	
Contingency Costs	\$ 2,035,760	
Const. & Perm. Financing	\$ 1,441,442	
Reserves	\$ 2,784,803	
Soft Costs (Fees & Expenses, Interest., Marketing, Furn., etc.)	\$ 672,485	
Other (Accrued (previously) Land Rent Due)	\$ 3,276,553	
Total Uses	\$ 54,901,088	

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a private placement transaction provided by Citibank, N.A. (the "Bank") for both construction and permanent financing. During the construction phase, the loan term will be for 24 months, plus one 6-month extension option. The interest rate will be a variable rate equal to one (1) month LIBOR plus a spread of 1.75%. During the permanent financing phase, the loan term will be for 32 years with an amortization period of 35 years. The interest rate will be a fixed rate equal to the sum of 18-year LIBOR swap rates plus a spread of 2.00%. At the time of application, the Permanent Phase Interest Rate Index was approximately, 2.86% for an indicative rate of 4.86%. The bonds will be issued by the California Housing Finance Agency.

Analyst Comments:

Not Applicable

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: 65 out of 130

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$29,004,040 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	0
Community Revitalization Area	15	15	0
Site Amenities	10	10	10
Service Amenities	10	10	5
New Construction	10	10	0
Sustainable Building Methods	10	10	0
Negative Points	-10	-10	0
Total Points	130	100	65

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.