

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: \$69,238,000

Project Information:
Name: Hunters Point East West Apartments
Project Address: 1068 Oakdale Ave.; 798 Jerrold Ave.
Project City, County, Zip Code: San Francisco, San Francisco, 94124

Project Sponsor Information:
Name: Hunters Point East West, L.P. (JSCO HPEW, LLC, Related/Hunters Point, LLC, San Francisco Housing Development Corporation, & Hunters Point Affordable Housing, Inc.)
Principals: Jack Gardner for JSCO HPEW, LLC; William Witte for Related/Hunters Point, LLC; David Sobel for San Francisco Housing Development Corporation; Larry Hollingsworth Hunters Point Affordable Housing, Inc.
Property Management Company: John Stewart Compnay

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.
TEFRA Adoption Date: April 14, 2015

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 211, plus 2 manager units
Type: Acquisition and Rehabilitation
Type of Units: Family

The Hunters Point East West housing development was built in 1954 and is currently owned and operated by the San Francisco Housing Authority. As a result of ongoing deferred maintenance, the buildings and site amenities are in a severe state of disrepair. The heating, ventilation, and mechanical systems require substantial upgrades, the building envelopes and roofing are in urgent need of replacement, and the units require extensive renovations to the finishes and structures. All units feature 1, 1.5 or 2 baths as well as a refrigerator, stove, and wall-mounted furnace. The site also features two community rooms that will be used for case management, service connection, and direct programming. The project is scheduled to commence construction in November 2015, and will be completed 18 months later by April 2017. The rehabilitation will result in no permanent displacement. All renovations will occur with tenants in place.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 99%
99% (209 units) restricted to 50% or less of area median income households.
Unit Mix: 1, 2, 3, 4, 5 & 6 bedrooms

There are no service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$ 123,586,357	
Estimated Hard Costs per Unit:	\$ 226,336	(\$47,756,802 /211 units)
Estimated per Unit Cost:	\$ 585,717	(\$123,586,357 /211 units)
Allocation per Unit:	\$ 328,142	(\$69,238,000 /211 units)
Allocation per Restricted Rental Unit:	\$ 331,282	(\$69,238,000 /209 restricted units)

See Analyst comments for High Cost explanation.

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 69,238,000	\$ 13,395,000
Developer Equity	\$ 0	\$ 500,000
LIH Tax Credit Equity	\$ 2,520,064	\$ 52,301,269
Direct & Indirect Public Funds	\$ 48,260,594	\$ 55,077,810
Other(Defer. Costs & Capital Contributions)	\$ 3,567,699	\$ 2,312,278
Total Sources	\$ 123,586,357	\$ 123,586,357
Uses of Funds:		
Acquisition/Land Purchase	\$ 53,000,000	
Rehabilitation Costs	\$ 40,599,469	
Relocation	\$ 2,987,500	
Architectural	\$ 775,402	
Survey & Engineering	\$ 1,184,079	
Contingency Costs	\$ 8,710,593	
Construction Period Expenses	\$ 7,876,003	
Permanent Financing Expenses	\$ 5,000	
Legal Fees	\$ 115,000	
Capitalized Reserves	\$ 3,449,230	
Other Soft Costs	\$ 2,384,082	
Developer Costs	\$ 2,500,000	
Total Uses	\$ 123,586,358	

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 24 months with a daily floating indicative interest rate of 1.70%. 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. Hunters Point East West, built in the mid 1950s as temporary housing for World War II veterans who sought work in the Hunters Point shipyard, this project is in extremely poor condition with extensive deferred maintenance and will require over \$40 million to address the aforementioned priorities, including life-safety concerns such as installation of a full fire sprinkler system, and to ensure 20 years of useful life. 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. Hunter's Point East -West is a large project (213 units) and large relocation phases will be required to keep total construction duration at a reasonable length. In addition, gang and turf violence requires additional units be held in order to ensure no family is put in danger during their temporary relocation. The project requires 34 relocation units be held throughout the construction period.

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: 71.6 out of 130

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$69,238,000 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	6.6
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	71.6

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.