Agenda Item No. 8.19
Application No. 15-394

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:	$19,514,000
Project Information:	
Name:	**462 Duboce Apartments**
Project Address:	462 Duboce Avenue; 349 Hermann Street
Project City, County, Zip Code:	San Francisco, San Francisco, 94117
Project Sponsor Information:	
Name:	462 Duboce Housing Associates (462 Duboce, LLC)
Principals:	Cynthia Parker, Susan M. Johnson, D. Kemp Valentine, Rebecca Hlebasko, Kimberly McKay, Luis Granados for 462 Duboce, LLC
Property Management Company:	Bridge Property Management Company
Project Financing Information:	
Bond Counsel:	Goodwin Procter 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:	41, plus 1 manager unit
Type:	Acquisition and Rehabilitation
Type of Units:	Senior Citizens/Special Needs

462 Duboce Apartments is an existing 42-unit multifamily apartment complex that is located in the City and County of San Francisco. The project was built in 1971 and consists of one five and four-story low rise structure occupying the middle of the block of Duboce Avenue. The residential property is a senior/disabled oriented project with 34 studios and 8 onebedrooms. All units contain one bathroom, a living/dining area, closets, window treatments, carpet or resilient floor coverings, wall heaters, and kitchens with refrigerators, and stove/ovens. In addition, the development contains one elevator, a community room, laundry room and 3 parking spaces in a gated parking garage. The rehabilitation of the project is expected to begin in December of 2015 and be completed in February of 2017. The primary scope of work will include life safety and accessibility 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 and second floor common areas to better support the everyday needs of the residents. Energy upgrades will be made by replacing all of the single pane windows with double pane windows. Modernization of the building's elevator will also augment the property in addition to providing important functional elevator access to units.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

100% (41 units) restricted to 50% or less of area median income households.

Unit Mix: Studio & 1 bedroom

There are no service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	$	31,238,881	
Estimated Hard Costs per Unit:	$	337,462	($13,835,942 /41 units)
Estimated per Unit Cost:	$	761,924	($31,238,881 /41 units)
Allocation per Unit:	$	475,951	($19,514,000 /41 units)
Allocation per Restricted Rental Unit:	$	475,951	($19,514,000 /41 restricted units)

See Analyst comments for High Cost explanation.

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	$ 19,514,000	$ 663,000
Developer Equity	$ 0	$ 500,000
Deferred Developer Fee	$ 86,492	$ 86,492
LIH Tax Credit Equity	$ 1,006,782	$ 13,999,272
Direct & Indirect Public Funds	$ 9,378,872	$ 15,572,435
Other (Deferred Costs and Accrued Interest)	$ 1,252,735	$ 417,682
Total Sources	$ 31,238,881	$ 31,238,881

Uses of Funds:	
Acquisition/Land Purchase	$ 8,850,000
Rehabilitation Costs	$ 12,451,684
Relocation	$ 751,565
Architectural	$ 859,467
Survey & Engineering	$ 103,250
Contingency Costs	$ 1,874,053
Construction Period Expenses	$ 2,126,113
Permanent Financing Expenses	$ 10,000
Legal & Transfer Fees	$ 342,000
Capitalized Reserves	$ 530,316
Other Soft Costs	$ 840,433
Developer Costs	$ 2,500,000
Total Uses	$ 31,238,881

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 30 months with a 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 3.89%. 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. 462 Duboce. High seismic costs of 1.9 million across this small, 42-unit building help contribute to construction costs of over $276,000 per unit. 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 $19,514,000 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.