

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: \$39,843,000

Project Information:
Name: Holly Court Apartments
Project Address: 100 Appleton Way
Project City, County, Zip Code: San Francisco, San Francisco, 94110

Project Sponsor Information:
Name: Holly Courts Housing Associates, L.P. (Holly Courts Housing LLC)
Principals: Cynthia Parker, Susan M. Johnson, D.Kemp Valentine, Rebecca Hlebasko, Kimberly McKay, Luis Granados and Rachel Eborá for Holly Courts Housing 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: 117, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Family

Holly Courts is 118 family units in 10 poured-in-place concrete two-story townhouses, with a mix of 48 one-bedroom, 60 two-bedroom, and 10 three-bedroom units. The development is located on a 2.7 acre wedge-shaped city block between Appleton and Highland Avenues and between Patton Street and Holly Park Circle. The site contains 10 common space courtyards, with private backyards for the first-story units. Original construction was completed in 1940, and the property has been identified as having historic significance and is eligible for listing on both the National and California Registers of Historic Places. 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 a community room, laundry room and several play structures and common areas. 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, modernization or replacement of the original building systems and equipment, resident unit renovations, energy use education, and mitigation of the current ventilation and organic growth concerns. Energy upgrades will be made to comply with the TCAC threshold of 10% energy savings over existing by replacing lighting with new energy efficient lighting.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 96%
96% (112 units) restricted to 50% or less of area median income households.
Unit Mix: 1, 2 & 3 bedrooms

There are no service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$ 70,987,312	
Estimated Hard Costs per Unit:	\$ 202,485	(\$23,690,712 /117 units)
Estimated per Unit Cost:	\$ 606,729	(\$70,987,312 /117 units)
Allocation per Unit:	\$ 340,538	(\$39,843,000 /117 units)
Allocation per Restricted Rental Unit:	\$ 355,741	(\$39,843,000 /112 restricted units)

See Analyst comments for High Cost explanation.

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 39,843,000	\$ 10,474,000
Developer Equity	\$ 0	\$ 500,000
Deferred Developer Fee	\$ 449,838	\$ 449,838
LIH Tax Credit Equity	\$ 1,338,662	\$ 28,730,233
Direct & Indirect Public Funds	\$ 26,984,039	\$ 29,484,039
Other (Deferred Costs and Accrued Interest)	\$ 2,371,773	\$ 1,349,202
Total Sources	\$ 70,987,312	\$ 70,987,312
Uses of Funds:		
Acquisition/Land Purchase	\$ 32,840,000	
Rehabilitation	\$ 21,340,048	
Relocation	\$ 1,668,809	
Architectural	\$ 1,450,000	
Survey & Engineering	\$ 122,520	
Contingency Costs	\$ 3,233,707	
Construction Period Expenses	\$ 4,224,589	
Permanent Financing Expenses	\$ 20,000	
Legal Fees	\$ 155,000	
Capitalized Reserves	\$ 2,010,202	
Other Soft Costs (Marketing, etc.)	\$ 1,422,437	
Developer Costs	\$ 2,500,000	
Total Uses	\$ 70,987,312	

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 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 4.13%. 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. Holly Courts, built in 1940, this project is the first public housing built west of the Mississippi River and still has virtually all of its original infrastructure, including electrical systems, sewer, and galvanized water piping. Constructed of poured-in-place concrete and painted in moisture-trapping elastomeric paint, without adequate ventilation, the building has ubiquitous moisture management and interior air quality challenges and there is pervasive mold, requiring the removal of all drywall on the inside of exterior facing walls in all 12 buildings, insulation and an air gap, and replacement of the drywall. 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. Holly Courts will have 5 phases of 2.5-3 months of relocation impacting approximately 25 households per phase. There are two vacancies available in this 118-unit project. While the City has offered 10 units at a City-owned site below market prices, 10-12 households will still need to be relocated in the market, where a two-bedroom furnished corporate unit near San Francisco Airport now rents for \$6500 per month. Relocation costs are estimated at \$1.8 million.

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 \$39,843,000 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.