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: City and County of San Francisco

Allocation Amount Requested:

Tax-exempt: $14,297,000

Project Information:

Name: **227 Bay Apartments**
Project Address: 227 Bay Street
Project City, County, Zip Code: San Francisco, San Francisco, 94133

Project Sponsor Information:

Name: Bay Street, LP (Chinatown Public Housing LLC)
Principals: Norman Fong, Cindy Wu, Susie Wong and Amy Chung
Property Management Company: Chinatown Community Development Center

Project Financing Information:

Bond Counsel: Squire Patton Boggs (US) LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Bank of America, N.A.
TEFRA Adopted Date: April 14, 2015

Description of Proposed Project:

State Ceiling Pool: General
Total Number of Units: 49, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Senior Citizens/Special Needs

The proposed project is an existing 50-unit housing development for low-income seniors and people with disabilities currently owned by San Francisco Housing Agency. This four-story building was originally constructed in 1971. The site area is approximately 12,162 sq. ft. (.279 acres). The 49 units are restricted to low-income seniors and people with disabilities, who pay no more than 30% of their income in rent. (The remaining unit is the Manager's Unit.) The building includes a mix of studios and one-bedrooms to accommodate individuals and couples. The scope of work for the rehabilitation project currently proposed is as follows: building envelope repair; safety improvements; life safety (fire alarm replacement, installation of fire sprinkler system); apartment improvements; common area improvements; accessibility; and green retrofits. Construction is expected to start by November 1, 2015 and be completed by May 1, 2017.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

100% (49 units) restricted to 50% or less of area median income households.

Unit Mix: Studio & 1 bedroom

No service amenities will be provided in the proposed project.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	$	24,780,836	
Estimated Hard Costs per Unit:	$	182,562	($8,945,522 /49 units)
Estimated per Unit Cost:	$	505,731	($24,780,836 /49 units)
Allocation per Unit:	$	291,776	($14,297,000 /49 units)
Allocation per Restricted Rental Unit:	$	291,776	($14,297,000 /49 restricted units)

The Project has total project costs of $505,731 that appear high for the geographic area in which it is located. Please see "Analyst Comments" below.

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	$ 14,297,000	$ 1,249,000
Developer Equity	$ 0	$ 500,000
LIH Tax Credit Equity	$ 973,607	$ 10,636,074
Direct & Indirect Public Funds	$ 8,128,907	$ 12,036,672
Other (Costs Def. Until Conv./ Accrued deferred interest)	$ 1,381,322	$ 359,090
Total Sources	$ 24,780,836	$ 24,780,836

Uses of Funds:	
Acquisition/Land Purchase	$ 8,786,500
Hard Construction Costs	$ 8,945,522
Architect & Engineering Fees	$ 679,337
Contractor Overhead & Profit	$ 272,916
Developer Fee	$ 2,500,000
Relocation	$ 904,601
Cost of Issuance	$ 230,604
Legal Fees	$ 105,000
Construction & Permanent Financing	$ 1,226,991
Contingency Cost	$ 82,528
Reserves	$ 549,652
Other Soft Costs (Third Party Reports, Furnishing, Marketing, etc.)	$ 497,185
Total Uses	$ 24,780,836

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a private placement transaction provided by Bank of America, N.A. (the "Bank") for both construction and permanent financing. During the construction phase, the loan term will be for 18 months. The interest rate will be a LIBOR floating indicative rate of 1.70%. During the permanent financing phase, the loan term and the amortization period will both be for 15 years. The interest rate will be a fixed indicative rate equal to the sum of 3.80%. The bonds will be issued by the City and County of San Francisco.

Analyst Comments:

227 Bay Street is part of the San Francisco Housing Authority's (SFHA) Public Housing Portfolio. The San Francisco Housing Authority currently owns the property and acts as the project's property management agent. Through a competitive RFP process, the City of San Francisco and the SFHA selected Chinatown Community Development Center ("Chinatown CDC") to rehabilitate the site and become its property management agent and resident service provider as part of the Department of Housing and Urban Development's Rental Assistance Demonstration (RAD) Program. The building will be owned by Bay Street, L.P., of which the managing general partner, Chinatown Public Housing, LLC, is a Chinatown CDC affiliate. Bay Street, L.P., has executed an option to enter into a long-term ground lease with the SFHA.

High Cost Explanation:

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

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.

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.

Analyst Comments: (contd.)

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: 60 out of 130

[See Attachment A**]**

Recommendation:

Staff recommends that the Committee approve $22,168,000 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	0
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**	**60**

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.