

**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*

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**Applicant:** City and County of San Francisco  
**Allocation Amount Requested:**  
**Tax-exempt:** \$18,047,000

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**Project Information:**  
**Name:** 345 Arguello Apartments  
**Project Address:** 345 Arguello Boulevard  
**Project City, County, Zip Code:** San Francisco, San Francisco, 94118

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**Project Sponsor Information:**  
**Name:** 345 Arguello, L.P. (Mercy Housing Calwest, JSCO CA Corridor LLC, Japanese American Religious Federation Housing, Inc.)  
**Principals:** Doug Shoemaker, Valerie Agostino, Barbara Gualco, Jane Graf, Stephan Daves, Ed Holder, Steve Spears, Benjamin Phillips, Sheela Jivan, Melissa Clayton, Bruce Saab, Jennifer Dolin, Joe Rosenblum and Vince Dodds for Mercy Housing Calwest; Loren Sanborn, Steve McElroy, Margaret Miller, Lori Horn for JSCO CA Corridor LLC; Will Tsukamoto, Kei Nagai, Yoshio Nakshima, John Bollard for the Japanese American Religious Federation Housing, Inc.  
**Property Management Company:** Mercy Housing Management Group

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**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

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**Description of Proposed Project:**  
**State Ceiling Pool:** General  
**Total Number of Units:** 68, plus 1 manager unit  
**Type:** Acquisition and Rehabilitation  
**Type of Units:** Senior Citizens/Special Needs

345 Arguello is a wood framed, 5-story, 41,054 square feet building containing 69 units for seniors and disabled individuals originally constructed in 1974 for the San Francisco Housing Authority. The 69 units in this building are primarily a mix of studio and one-bedroom apartments with one 936 square feet two-bedroom unit. There are 59 studios approximately 400 square feet large and 9 one-bedroom units that are approximately 500 square feet large. All of the upper floor units on the rear side of the building have a small balcony while every other unit on the front side of the building has a balcony. One of the one bedroom units is designated as the manager's unit. Two elevators serve the units located on floors 2-5, however only one elevator is large ADA compliant. The rehabilitation will commence thereafter (in October 2015) and will be completed within 15-months or by December 2016.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 100%  
100% (68 units) restricted to 50% or less of area median income households.  
**Unit Mix:** Studio, 1 & 2 bedrooms

There are no service amenities.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

<b>Estimated Total Development Cost:</b>	\$ 31,533,479	
<b>Estimated Hard Costs per Unit:</b>	\$ 169,495	(\$11,525,668 /68 units)
<b>Estimated per Unit Cost:</b>	\$ 463,728	(\$31,533,479 /68 units)
<b>Allocation per Unit:</b>	\$ 265,397	(\$18,047,000 /68 units)
<b>Allocation per Restricted Rental Unit:</b>	\$ 265,397	(\$18,047,000 /68 restricted units)

See Analyst comments for High Cost explanation.

<b>Sources of Funds:</b>	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 18,047,000	\$ 3,832,000
Developer Equity	\$ 0	\$ 500,000
LIH Tax Credit Equity	\$ 675,035	\$ 13,397,704
Direct & Indirect Public Funds	\$ 10,757,681	\$ 13,376,916
Other (Deferred Costs and Accrued Interest)	\$ 2,053,763	\$ 426,859
<b>Total Sources</b>	<b>\$ 31,533,479</b>	<b>\$ 31,533,479</b>
<b>Uses of Funds:</b>		
Acquisition/Land Purchase	\$ 11,580,000	
Rehabilitation Costs	\$ 10,441,164	
Relocation	\$ 512,500	
Architectural	\$ 874,809	
Survey & Engineering	\$ 219,700	
Contingency Costs	\$ 2,467,070	
Construction Period Expenses	\$ 1,438,631	
Permanent Financing Expenses	\$ 20,000	
Legal Fees	\$ 202,250	
Capitalized Reserves	\$ 809,285	
Other Soft Costs (Impact Fees, Audit Fees, etc.)	\$ 468,070	
Developer Costs	\$ 2,500,000	
<b>Total Uses</b>	<b>\$ 31,533,479</b>	

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**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 25 years at a (fixed) Indicative rate of 3.97%. There was no underwritten rate provided.

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**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. 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.

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**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.

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**Total Points:** 70 out of 130

[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$18,047,000 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
<b>Total Points</b>	<b>130</b>	<b>100</b>	<b>70</b>

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.