

Citywide Affordable Housing Loan Committee

San Francisco Mayor's Office of Housing
San Francisco Redevelopment Agency
Human Services Agency
Department of Public Health

Evaluation of Request for Funding

NOFA/Program: Housing for Transition Age Youth

Prepared By: Lydia Ely

Date prepared: April 16, 2010

Loan Committee Date: April 23, 2010

<i>Applicant/Sponsor Name:</i>	Community Housing Partnership
<i>Project Name:</i>	The Edward II Inn
<i>Project Address (w. cross street):</i>	3155 Scott Street (at Lombard)
<i>Number of Units/Beds (specify):</i>	24 units + 1 manager's unit
<i>Amount of Funds Requested:</i>	\$2,000,000
<i>Amount of Funds Recommended:</i>	\$4,416,508
<i>Source of Funds Recommended:</i>	CDBG & HOME Funds
<i>Type of Financing:</i>	Acquisition/Predevelopment

1. SUMMARY

Community Housing Partnership is requesting funds for acquisition and predevelopment of the Edward II, a 29-unit tourist hotel located in the Marina District, as housing for Transition-Age Youth (TAY). CHP will rehabilitate the site and provide 24 transitional and permanent units for TAY, utilizing several operating subsidies; potential capital sources include tax credits and TAY-designated funds from the state Multifamily Housing Program (MHP). Larkin Street Youth Services will provide onsite supportive services. With MHP-TAY funding newly available from the State, the project represents a rare opportunity to provide supportive TAY housing in the Marina District, at no permanent cost to the City. This represents the first project proposed for funding under MOH's 2009 TAY NOFA.

Staff recommends approval of this request. In addition, staff recommends an additional \$2,416,509 be committed to the project at this time due to the following: a) the unexpected availability of additional funds eligible for use on this project; b) the savings in acquisition/predevelopment loan interest that can be achieved by replacing a proposed commercial loan with zero-interest MOH funds; and c) the fact that all MOH funds are expected to be repaid at the time permanent financing is closed.

2. BACKGROUND

2.1. Project History Leading to This Request.

In 2006, the Mayor convened the Transitional Youth Task Force to address the needs of Transition Age Youth in San Francisco. The Task Force published findings in July 2006 and charged City departments with developing detailed work plans for several relevant areas, including housing. MOH facilitated a six-month process focused on TAY housing, which included representatives of City agencies and nonprofit organizations, and culminated in a 2007-2012 Work Plan. The plan calls for MOH and SFRA to fund 400 units of housing – using a number of housing models – for various subpopulations of TAY.

In August 2009, MOH issued a NOFA for \$2 million – its only NOFA in 2009 -- to support TAY projects. After the deadline was extended to December 2009, six proposals were submitted. Scoring criteria included experience in development, property management and services for TAY or similar populations (30 points out of 100 points), neighborhood safety (15 points), proximity to TAY-appropriate amenities (10 points), leveraging (10 points, with an additional 15 bonus points possible for capital grants), and cost effectiveness based on MOH's share of capital sources (20 points).

Of the five proposals that met the NOFA's threshold requirements, MOH selected the top three scorers for funding. In the aggregate the top three applicants requested more than \$3.1M. These three applicants represent a variety of San Francisco neighborhoods and TAY models:

Project	Type	TAY units	TAY sub-Population	Neighborhood	Sponsor
Edward II	TAY only	25	mixed	Marina	CHP
Aarti Hotel	TAY only	40	TAY with mental illness	Tenderloin	TNDC
Booker T. Washington	mixed populations	15	Former foster youth	Western Addition	Booker T. Washington Community Center

Community Housing Partnership's application received the highest score, with 100 points. While the funding environment has changed substantially in the weeks since this application was received – particularly in assumptions about the tax credit rate, and in the future likely availability of the state's Multifamily Housing-TAY funding program (MHP-TAY) – the proposed project remains financially feasible and will help anchor San Francisco's TAY housing strategy.

2.2. Borrower/Grantee Profile.

Community Housing Partnership (CHP), the applicant, developer, and property manager, was founded in 1990 to create, implement and demonstrate solutions to homelessness in San Francisco by working in partnership with people who would otherwise be without a home. CHP develops and operates permanent supportive housing, integrating optional support services, community organizing, job training

and employment opportunities. Enjoying an extraordinary 98% tenant retention rate, CHP programs are nationally recognized as “best practices” in the supportive housing field. CHP owns, operates, or serves 738 units of permanent supportive housing, with 287 additional units due to open in the next three years. All tenants are formerly homeless, and over 5% are transition-age youth.

CHP’s staff of over 200 people is comprised of 58% formerly homeless individuals. The Executive Director, and directors of Property Management, Tenant Services, and Housing Development together have over 60 years of experience working in the non-profit community. CHP’s Board of Directors has set-asides for tenants and community members to ensure a cross-section of representation in the organization. Other board members are experts in a range of fields, including real estate, finance, and housing development. The Board has recently identified a new Executive Director, a process which took several months, involved all levels of the organization, and concluded with the hiring of Gail Gilman, long-time Tenant Services Director, as the new Executive Director.

A review of recent audits indicates steady organizational growth in operations and assets over the past three years. There have been minor reductions to General Fund Tenant Services contracts; however, CHP does not anticipate this having any significant impact on the services provided at the Edward II.

2.2.1 Asset Management Performance & Capacity.

CHP has adequate Asset Management Staffing capacity and that their practices and systems are up-to-date. CHP’s asset manager, Geoff McDonald, recently joined CHP as Director of Asset Management after serving on the CHP Board of Directors for 18 years – eight of them as Board President. Geoff’s background includes banking, finance and accounting. He worked as lender at Bank of America and California Bank & Trust for approximately 20 years, focused on affordable housing finance. Considering Geoff’s extensive knowledge of affordable housing, his transition into the role of Director of Asset Management for CHP is expected to go smoothly.

CHP also seems very attentive to the need to keep staffing ratios in sync as their portfolio expands. Staffing capacity will be important over the next few years as the three CHP projects currently in the development pipeline become operational.

MOH knows of no defaults or potential defaults. CHP submitted on-time all four of the Annual Monitoring Reports (AMRs) they owed for Reporting Year 2008, and their initial submissions were complete.

2.3 Development Experience.

	Developed	Owned
No. Projects	7	7
No. Units	458	454

CHP's Housing Development Department is comprised of David Schnur (Director), two FTE project managers, Hershey Hirschkop and Michael Chao, and a .6 FTE who is subsidized through the Rose Fellowship, Laura Shipman. Between them they are managing five projects with a total of 405 units. Three of these projects are being co-developed with other non-profit developers, with CHP in the role of supporting developer. CHP's most recent project—Zygmunt Arendt House—is renting up as of February 2010.

2.4 How selected. Community Housing Partnership submitted its application for funding on December 30, 2009, in response to MOH's Transition Age Youth Housing NOFA, which was issued in August 2009. The application was one of six received and received the highest score, with 100 out of 115 possible points. See Section 2.1 for more information on the TAY NOFA process.

3 SITE

3.1 Brief Site Description. The Edward II Inn – a three-story 8,742 sf. tourist hotel with no permanent tenants -- is located at 3155 Scott Street at the corner of Lombard Street. Currently the building includes 29 tourist rooms – some with shared baths – which will be converted to 24 tenant units with private bath, and a one-bedroom manager's unit. The existing structure is in good condition and has undergone remodeling several times. The basement was excavated to provide a level slab, the roof is less than 10 years old, and the windows are double-glazed type; sound-attenuated types were installed along the Lombard Street frontage in 1996. The basement and first floor are fully sprinklered, electrical service is adequate, and the plumbing is good quality cast iron and copper piping. Bathroom fixtures are modern and in good condition. The building is not accessible to wheelchairs and does not have an elevator.

3.2 Site Characteristics.

3.2.1 Location/size/unusual characteristics.

The Edward II is located in the Marina/Cow Hollow neighborhood, close to many shops, convenient to public transportation and very close to the Presidio, an urban national park with many resources. The building is in District 2 (Supervisor Alioto-Pier), in zip code 94123. The building is situated on a sloping corner lot of approximately 50 feet by 69 feet, creating varying levels within the ground floor.

3.2.2 Adjacent uses and neighborhood amenities

Cow Hollow is among San Francisco's safest neighborhoods in San Francisco. In the TAY NOFA process, the Edward II project received the maximum number of points based on an analysis of local crime statistics and other data from the Department of Public Health's Healthy Development Management Tool (HDMT) and from the San Francisco Police Department. The Edward II is located in a stable neighborhood with socioeconomic diversity not found in areas where most of the City's affordable housing is currently located. Adjacent properties on Scott Street and in the surrounding areas to the north and south are residential, including both small apartment buildings and three-story Edwardians. Buildings

to the east and west along Lombard Street are primarily tourist hotels mixed with ground floor retail-residential buildings, and are of similar scale and character.

A number of neighbors have expressed concerns about the management of some of these hotels, in particular the Bridge Motel, located at Lombard and Divisadero. According to a civil complaint filed by the City Attorney in October 2009, the building is a “public nuisance”; owners and managers of the motel have ignored many housing, fire and health code violations. The police were called to the site 91 times over a seven-month period in 2008-2009 and made arrests in connection with charges including armed robbery, burglary, drug sales, battery, counterfeiting, and malicious mischief.

As mentioned previously, neighborhood amenities (10 points) and overall safety (15 points) were scored in the TAY NOFA. This proposal received the highest amenities score due to the educational opportunities, recreation facilities, stores, and organizations located within 5 blocks or within 10 minutes by public transportation:

- The SF Public Library branch at 1800 Chestnut St offers public computer and internet access, a Teen Magazine collection, books, book on CD’s, DVD’s, and music CD’s.
- City College of San Francisco’s Fort Mason Campus, at Marina Blvd. and Laguna, offers both credit and non-credit undergraduate courses and adult continuing education classes.
- The Fort Mason Center complex contains three dozen non-profits, hosting more than 15,000 events, activities and classes each year for all ages, along with six theaters and two museums, including the Golden Gate National Recreation Center, and sailing and recreation programs.
- The Presidio YMCA, at 63 Funston Ave., offers a variety of programs targeted at teenagers and young adults: Outdoor Adventure, aquatics, fitness classes, health screenings, structured recreation programs, and CPR/First aid training. There is a focus on parent/child events, and child care is available.
- The Moscone Recreation Center, 1800 Chestnut St., offers programming through the Rec & Park Department, and includes tennis courts, baseball/softball diamonds, a playground, and sports programs and leagues.

Also in the neighborhood are the Marina Green, Crissy Field, and the Presidio.

Other nearby amenities include three banks; inexpensive restaurants and diners; a Walgreens; a Blockbuster Video; two movie theaters, and a Safeway. Muni lines #28, 43 and 76 (Sundays only) pass directly by the Edward II on Lombard, and Muni lines #22, 30, 30X, 41 and 45 stop within three blocks.

Larkin Street Youth Services' Drop-in Center at 1142 Sutter Street is 15 minutes away, and offers services for transition-age youth including case management, referrals to substance abuse and mental health counseling, support groups and onsite medical services.

3.3 Environmental Issues/Site Suitability.

There are no known environmental issues at this time. Proposed structural improvements are minimal and will require very little disturbance of existing soils. There are no known hazards. A Phase I study is being undertaken to determine if any toxics are present; asbestos and lead testing will also be conducted.

4 ENTITLEMENTS

4.1 Zoning. The site is zoned NC-3. The proposed change of use from tourist hotel to residential group housing is allowable as of right under this zoning type; however, density controls would limit the project to 16 units. The sponsor therefore will pursue the creation of an affordable housing Special Use District (SUD) permitting the proposed density. Supervisor Alioto-Pier and staff have expressed support for such a zoning change and are willing to introduce legislation; CHP has retained Gregg Miller of Pillsbury Winthrop Shaw Pittman LLP as the project's *pro bono* land use attorney to assist CHP through the entitlement process. The SUD will also require a CEQA review; the project may be categorically exempt due to the narrow scope of the proposed zoning change. Based on results of a March 18 pre-application meeting with the Planning Department, the sponsor has procured a historical consultant to prepare a preliminary historic resources review of the site.

4.2 Local/Federal Environmental Review. Rehabilitation of an existing structure is generally categorically exempt under CEQA; however, as stated above, the Special Use District (SUD) will require CEQA review. Since MOH financing will include federal funding, a NEPA and Section 106 review will be required; the project sponsor has procured a NEPA/Section 106 consultant.

4.3 Article 34 Authority. A letter dated February 4, 2010 was issued by the Mayor's Office of Housing, indicating MOH has allocated authority for the site.

4.4 Community Support. Before submitting its application under the TAY NOFA, CHP began working with Supervisor Alioto-Pier's office to identify key neighborhood and business organizations and community leaders to gain support for the project. A February 19 meeting included CHP and representatives from the Marina Community Association, the Golden Gate Valley Association, and the Marina Cow Hollow Neighbors and Merchants group; the Cow Hollow Association President intended to participate but did not attend. On March 3, MOH Director and staff met with the sponsor and service provider;

representatives of the Marina Community Association, Marina Cow Hollow Neighbors and Merchants Association, and Cow Hollow Association; and staff from Supervisor Alioto-Pier's office. CHP has also contacted the Union Street Association and the Marina Merchants Association. CHP has requested meetings with all neighborhood associations to provide information on the project and plan next steps. CHP also intends to form a Project Advisory Committee. None of the neighborhood associations has yet taken a position on the project.

A number of neighbors have contacted MOH directly with questions and concerns about the project, and about the TAY NOFA process and the MOH funding process. Neighbor concerns include safety and security, tenant screening, reduction in property values, the appropriateness of the site, the proposed change from use as a tourist hotel, and overall quality-of-life issues in the Lombard Street corridor. Neighbors have recently organized to address problems at the Bridge Motel, a residential hotel located a few blocks away, which is a source of multiple concerns including poor management, DBI violations, and ongoing criminal activity. The City Attorney has initiated a lawsuit against the owners of the hotel, which is privately operated and does not receive referrals from any City agencies.

Neighborhood notification is required under Prop. I. Specifically, the sponsor is required to post signs or mail notices informing neighbors of the proposed project after Loan Committee's recommendation to the Mayor but before loan documents are executed by the Mayor.

5 DEVELOPMENT PLAN

5.1 Rationale for Proposed Project. The proposed project addresses Priority #1 in the City's 2005-2010 Consolidated Plan to create housing opportunities for homeless people. It further addresses City goals for TAY housing, as set out in MOH's TAY housing plan, *Housing for Transitional Age Youth: Work Plan and Recommendations 2007-2012*, which establishes a goal of 400 new TAY housing units for homeless and marginally housed transitional youth over five years, 2007-2012; this goal has since been extended to 2015. The plan explicitly recommends housing in a variety of models, for a variety of subpopulations and in neighborhoods that provide a safe environment for youth in transition.

5.2 Site Control. Community Housing Partnership has executed a purchase and sale agreement with the site owner. Key terms are as follows:

- Sales price: \$3.45 million
- Contingencies: Feasibility and financing, to be waived by March 24th with one 30-day extension
- Closing: Within 60 days of lifting contingencies, with one 30-day extension

The seller's initial appraisal valued the property at \$4.5 million (income and cost approach), based on its highest and best use as a tourist hotel. The contracted purchase price of \$3.45 million, reached after extensive negotiations, represents a significant discount from the appraised value. A second appraisal, commissioned by a potential acquisition funder, was completed in mid-March and confirmed a value of \$3.45 million.

5.2.1 Proposed Property Ownership Structure Community Housing Partnership will own the land and improvements. CHP will establish a Limited Partnership at a later date, for the purposes of tax credit financing, and will transfer the property to that entity.

5.3 Proposed Rehab Scope. The proposed light to moderate rehab of the building will reduce the unit count from 29 units to 24 resident units, each with private bath, and one manager's unit; upgrade systems, install sprinklers and make cosmetic improvements.

At the first floor, the reception areas and meeting spaces will be reconfigured as a lobby, property management office, tenant services office, a program room, a community kitchen with adjacent dining area, laundry room, two public restrooms, tenant lounge, bike storage space, and a resident manager's suite. Renovated first floor spaces will maintain the overall home-like feeling by replicating existing finishes such as wood base, hardwood flooring or carpeting, wooden doors, and mullioned wooden sash windows wherever possible. A lift or Limited Use Limited Access (LULA) elevator will provide access to all first floor areas.

At the two upper residential floors, CHP will combine tourist rooms lacking bathrooms into eight units with bathrooms. The upper floors will not be accessible. Floor plans are not currently available.

The scope will include a new entry system, security system (with exterior video monitoring and door/window alarms) and electronic door locks, upgrades to the sprinkler system and water service, minor structural stabilization in the basement, 25% window replacement, minor repairs at the roof, and repainting. The building already has an in-house phone system, cable, and internet wiring.

MOH's Construction Supervisor has visited the site and reviewed the preliminary scope. There are no major concerns as of this early stage. MOH will investigate the feasibility of implementing energy and water upgrades through the Green Retrofit Program.

5.4 Construction Type. Type V, wood frame construction.

5.5 Commercial Space. The site's small pub/cafe serves the hotel and is operated by the owner. Under CHP ownership it will likely be dismantled to make room for a new ADA-accessible unit, community space, and tenant services space.

5.6 Service Space. As stated above, the first floor reception areas and meeting spaces will be reconfigured as a lobby, property management office, tenant

services office, a program room, a community kitchen with adjacent dining area, laundry room, two public restrooms, tenant lounge, bike storage space, fully accessible units, and a resident manager’s suite. The proposed space seems adequate to the need.

5.7 Green Building. CHP is committed to LEED Silver certification for new projects; however, due to the small size of the project, CHP will not pursue LEED for the Edward II. Where possible, all products in the building will be from recycled materials; energy and water efficiency will be incorporated and materials will be as toxin-free as possible. Where possible Energy-star rated appliances will be used; solar power at the roof, if cost-effective, will be included in the scope.

5.8 Population to Be Served. The Edward II will serve transition-age youth, aged 18 to 24, who are at risk of homelessness, including youth aging out of foster care. The sponsor is working with the Department of Public Health and the Human Services Agency during the predevelopment period to determine which services and rental subsidy funds will be utilized by the project. Exact services and operating subsidies will be determined at a later date.

5.9 Proposed Unit Mix and Affordability Table and Narrative

Unit Type	Current Number of Units	Curr. Avg. Sq. Feet	Average Current Rent	Proposed Number of Units	Proposed Avg. Sq. Feet	Max. Rent	Max. % AMI	Target % AMI	Rent or Operating Subsidies
SRO studio	26	200	n.a	24	250	\$339	20%	6%	9 MHSA, 4 THP+, 4 HIV+, 7 LOSP
1BR	3	500	n/a	1 mgr	500	\$1,325	n/a	n/a	n/a
2BR									
3BR									
4BR									
Total Units	29			25					

Preliminary assumptions include \$150-\$218/month in tenant rent. TAY are likely to have little income when initially moving into housing; in addition, rule, TAY incomes tend to fluctuate from month.

5.10 Marketing & Occupancy Preferences The Sponsor will market the units in keeping with all funder requirements and fair housing laws. While the marketing plan will depend on the ultimate decisions around subsidy and referral sources, some referrals will come from the Larkin Street continuum of care, as well as from outside of Larkin Street Youth Services, which maintains formal Memoranda of Understanding with more than a dozen health and human services agencies including Asian & Pacific Islander Wellness Center, Bayview Hunters Point Foundation, Bay Area Young Positives, SAGE, Casa de Las Madres,

Edgewood Center, Homeless Youth Alliance, Huckleberry Youth Programs, 3rd Street Youth Center and Clinic, and the University of California – San Francisco. Larkin Street is experienced at managing multiple referral sources including public agencies, intra-agency transfers between Larkin Street programs, and outside CBOs.

TAY housing providers struggle with the issue of youth who “age out” of the 18-24 age group and therefore become ineligible for their housing. Moreover, it is illegal to set a time limit on a youth’s tenancy in permanent housing or evict based on age. In the experience of Larkin Street, most youth choose to move to other housing within two to three years, and the services program is designed to prepare youth for independent living.

5.11 Relocation. Not applicable. There are no permanent tenants. As the café/pub is operated by the current owner, there will be no commercial relocation benefits. CHP will retain the lease on the existing, permitted billboard which is rented at \$6,000 per month.

5.12 Accessibility. The building is inaccessible from the street, and the ground floor has five different grade changes at the interior. The building does not have the space or structure for the addition of an elevator, making the upper two floors inaccessible as well. A February 2010 site visit with MOD staff confirmed the challenges of the site. The sponsor is proposing to consolidate the five different ground-floor levels into two levels, separated by a lift or Limited Use Limited Access (LULA) elevator. A fully accessible unit would be created on this level, which is where services and community space will be located. This approach would require the sponsor to submit a Hardship Request to the Mayor’s Office of Disability. In addition, one unit each for the hearing impaired and the visually impaired will be provided.

Unit Type	Current Number	% of Total	Proposed Number	% of Total
Accessible	0	0	1	4%
Adaptable				
non-access/adapt	29	0	24	96%
TOTAL	29		25	

5.13 Performance Schedule.

No.	Performance Milestone	Estimated or Actual Date
1	Acquisition/Predev Financing Commitment	<u>April 2010</u>
2.	Site Acquisition	<u>July 2010</u>
3.	Development Team Selection	
a.	Architect	<u>May 2010</u>

b.	General Contractor	<u>July 2010</u>
c.	Owner's Representative	<u>May 2010</u>
d.	Property Manager	<u>N.A.</u>
e.	Service Provider	<u>N.A.</u>
4.	Design	
a.	Submittal of Schematic Design & Cost Estimate	<u>July 2010</u>
b.	Submittal of Design Development & Cost Estimate	<u>September 2010</u>
c.	Submittal of Pre-Bid Set & Cost Estimate (75%-80% CDs)	<u>January 2011</u>
5.	Environ Review/Land-Use Entitlements	
a.	CEQA Environ Review Submission	<u>July 2010</u>
b.	NEPA Environ Review Submission	<u>July 2010</u>
c.	SUD/CUP/PUD/Variances Submission	<u>April 2010</u>
6.	Permits	
a.	Building / Site Permit Application Submitted	<u>January 2011</u>
b.	Addendum #1 Submitted	
c.	Addendum #2 Submitted	
7.	Request for Bids Issued	<u>December 2010</u>
8.	Service Plan Submission	
a.	Preliminary	<u>June 2010</u>
9.	Additional City Financing	<u>N/A</u>
10.	Other Financing	
a.	MHP Application	<u>October 2010</u>
b.	Construction Financing RFP	<u>N/A</u>
c.	AHP Application	<u>October 2010</u>
d.	CDLAC Application	<u>N/A</u>
e.	TCAC Application	<u>March 2011</u>
f.	HUD 202 or 811 Application	<u>N/A</u>
11.	Closing	
a.	Construction Closing	<u>July 2011</u>
b.	Permanent Financing Closing	<u>December 2012</u>

12.	Construction	
a.	Notice to Proceed	<u>July 2011</u>
b.	Temporary Certificate of Occupancy/Cert of Substantial Completion	<u>March 2012</u>
13.	Marketing/Rent-up	
a.	Marketing Plan Submission	<u>November 2011</u>
b.	Commence Marketing	<u>November 2011</u>
c.	95% Occupancy	<u>May 2012</u>
14.	Cost Certification/8609	<u>January 2013</u>
15.	Close Out MOH/ Loan(s)	<u>December 2012</u>

6 DEVELOPMENT TEAM

6.1 Project Manager. Hershey Hirschkop will serve as project manager, with support from David Schnur, Director of Housing Development at CHP. With a background in architecture and construction, Ms. Hirschkop has over 7 years of experience in affordable housing, 5 years as project manager. She has been with CHP for 3.5 years and works full-time. Approximately 50% of Ms. Hirschkop's time will be spent on this project; the remainder of her time will be spent on the Cambridge Hotel and on other project work.

Mr. Schnur has been with CHP for 5 years, 1 year as senior project manager and 4 years in his current position. He will spend approximately 10% of his time supervising this project.

6.2 Architect. To be selected.

6.3 Contractor. To be selected

6.4 Consultants. Community Economics

6.5 Property Manager. CHP will provide property management. CHP has been providing property management for 20 years at numerous buildings in San Francisco serving homeless and low income individuals, couples, and families with children, including projects owned by other organizations. CHP has experience managing buildings financed with a variety of local, state, federal and private capital, including tax credits, and has worked with rental subsidies including Section 8, Shelter Plus Care, MHSA, LOSP and more.

CHP provides the staffing of desk clerks, maintenance and janitorial staff, and is responsible for security and daily operations. Property Management and Tenant Services staff work together to connect residents with support services.

6.6 Service Provider Profile.

Larkin Street Youth Services is the preeminent provider of services and supportive housing to homeless and at risk youth in San Francisco. Larkin was the

proposed service provider on four of the six TAY proposals received in response to the December 2009 TAY NOFA. The mission of LSYS is to create a continuum of services that inspires youth to move beyond the street and to nurture potential, promote dignity, and support bold steps by all. Last year, over 3,600 youth—64% of San Francisco’s estimated 5,700 homeless and runaway youth—accessed Larkin Street’s onsite programs. The Street Outreach program made more than 5,500 contacts with youth, offering basic care, snacks and referrals. LSYS offers 12 housing programs providing emergency and short-term beds and transitional and permanent housing through a variety of models; 13 other programs provide services including healthcare, employment, and education.

LSYS’ Executive Director, Sherilyn Adams, leads Larkin Street with over 20 years of experience in program development and nonprofit management, addressing issues such as substance abuse, mental health, HIV/AIDS, child abuse, and family violence. The Edward II will be part of Larkin Street’s existing Community Based Housing Program, and as such the case manager for the site will be supervised by one of the managers in that Division.

7 FINANCING PLAN (SOURCES AND USES)

7.1 Current Request: The current request will allow the sponsor to acquire the site and complete necessary predevelopment activities including entitlements. Funds will cover predevelopment activities up until the start of construction.

7.2 Prior City/Agency Funding. Not applicable.

7.3 Proposed Predevelopment Financing

7.3.1 Predevelopment Sources Table: (City/Agency, non-City/Agency)

Sources	Amount	Per Unit	Terms/Notes/Status
City Sources	\$4,416,508	\$176,660	will be repaid at permanent close
Total City Sources	\$4,416,508	\$176,660	
Non-City Sources	\$0	\$0.00	
Total Non-City Sources	\$0	\$0.00	
Total Predev Sources	\$4,416,508		

7.3.2 Predevelopment Sources Evaluation Narrative

With its original December 2009 application for TAY Funds, CHP explored a number of predevelopment sources including the Opportunity Fund, a new source that bundles financing from a number of sources. However, the financing and interest rates were not favorable and would have added almost \$500,000 to the project costs. When additional MOH funds became available, staff recommended funding the acquisition and predevelopment costs in full, in order to reduce overall project costs.

7.3.3 Predevelopment Uses Table:

Uses	Amount	Per Unit	Per BR	Per S.F.
Acquisition	\$3,500,875	\$ 140,035	\$ 140,035	\$ 400
Construction	\$ 15,000	\$ 600	\$ 600	\$ 2
Construction Contingency	\$ -	\$ -	\$ -	\$ -
Architecture/Engineering	\$ 156,306	\$ 6,252	\$ 6,252	\$ 18
Survey & Engineering	\$ 63,000	\$ 2,520	\$ 2,520	\$ 7
Financing Costs	\$ 23,500	\$ 940	\$ 940	\$ 3
Legal Costs	\$ 25,000	\$ 1,000	\$ 1,000	\$ 3
Other Soft Costs	\$ 229,501	\$ 9,180	\$ 9,180	\$ 26
Soft Cost Contingency	\$ 44,130	\$ 1,765	\$ 1,765	\$ 5
Reserves	\$ -	\$ -	\$ -	\$ -
Holding Costs	\$ 166,095	\$ 6,644	\$ 6,644	\$ 19
Developer Fee	\$ 193,101	\$ 7,724	\$ 7,724	\$ 22
Total Predev Uses	\$4,416,508	\$ 176,660	\$176,660	\$ 505

7.3.4 Predevelopment Uses Evaluation Narrative

- Acquisition – Acquisition cost of \$3.45 million is reduced from an appraised value of \$4.5 million. March 2010 appraisal confirms value. Additional \$50,875 for escrow fees and transfer tax.
- Architecture/Engineering – Estimated at 11.79% of hard construction costs; this is consistent with MOH Underwriting guidelines for a project this size. The sponsor is requesting \$156,306 during predevelopment period; this is 80% of total contract of \$195,383.
- Financing Costs – For TCAC application fees and the original Opportunity Fund application fee.
- Construction - \$15,000 will fund exploratory demolition to determine the scope of work for improvements to the structural, plumbing, and electrical systems.
- Legal - \$25,000 includes transfer tax, and transaction fees, and legal costs.
- Other Soft Costs: Appraisal (\$5,000), Market Study (\$7,500), Entitlements/Permit Fees (\$60,000), Community Outreach (\$35,000), NEPA/CEQA Review and consultants (\$70,000), Construction Management (\$32,000) and Financial Consultant (\$20,000) are within reason.
- Soft Cost Contingency – 10% in conformance with MOH’s underwriting guidelines.
- Holding costs – sponsor is budgeting a three-year holding period with insurance costs of \$15,000 per year and property taxes (1.17% of sale value). CHP is negotiating with a potential short-term operator of the site as a tourist hotel after acquisition; any revenues from this contract would reduce the holding costs.

- **Developer Costs/Fee** – \$193,101 during predevelopment, based on maximum fee permitted in basis by TCAC. This represents 57% of the Project Administration portion of the developer fee, which is 50% of the total fee. While TCAC guidelines allow \$681,570, HCD’s limit for the project is \$575,000. CHP will contribute the difference of between TCAC and HCD developer fee limits as GP equity.

7.4 Potential Proposed Permanent Financing

Proposed permanent financing is being presented here to demonstrate the project’s overall feasibility but is not intended to be presented for Loan Committee’s approval at this time.

The TAY NOFA asked respondents to calculate .85 cents on the dollar for tax credit equity. Since the NOFA date, tax credit pricing has shifted to .70 on the dollar. However, the sponsor is still assuming that no permanent MOH financing will be required, in light of the recent availability of MHP-TAY funds.

7.4.1 Permanent Sources Table

Sources	Amount	Per Unit	Terms/Notes/Status
City Sources	\$0	\$0	
Total City Sources	\$0	\$0	
Non-City Sources			
MHP	\$3,968,040	\$158,722	
AHP	\$375,000	\$15,000	
MHSA	\$900,000	\$100,000	9 units
GP Equity	\$97,404	\$3,896	
LP Equity	\$2,882,695	\$115,308	
Total Non-City Sources	<u>\$8,223,139</u>	<u>\$328,926</u>	
Total Perm Sources	\$8,223,139	\$328,926	

7.4.2 Permanent Sources Evaluation Narrative:

- **MOH** –The proposed per unit City subsidy will be 0. Predevelopment funds will be taken out by permanent financing from HCD and tax credit equity.
- **MHP-Prop 1 C for TAY** – On April 15, 2010, HCD announced that the NOFA for MHP-TAY funds would be published on May 6. A maximum of \$200,000 is available per unit, up to a project limit of \$5 million. Applications will be received on a rolling basis, over the counter, under funds are expended.
- **MHSA** –Assumes nine units at \$100,000 each, and \$104,000 capitalized operating subsidy per unit. Requires application to CalHFA in October 2010.
- **Affordable Housing Program** – The NOFA instructed applicants to show AHP funding at \$5,000 per unit; however, CHP anticipates that this project would successfully compete for AHP funding with a \$15,000 per unit request.

- **LP Equity:** As instructed by the NOFA, the Sponsor’s initial development budget assumed .85 pay in on the 9% tax credits and assumed access to the tax credit exchange program in the event that the project's small size, specialized population and dependence on operating subsidies raises challenges in attracting investor interest. Upon MOH’s request the sponsor has adjusted the pay-in to .70 on the dollar. The project is also feasible with non-competitive 4% credits, using tax-exempt construction financing either from CalHFA or a private placement, though this scenario has not been fully explored.
- **GP Equity:** The budgeted CHP contribution equal to the difference between TCAC and HCD developer fee limits.

7.5 Permanent Uses Table:

Uses	Amount	Per Unit	Per BR	Per S.F.
Acquisition	\$ 3,500,875	\$ 140,035	\$ 140,035	\$ 400
Construction	\$ 1,766,833	\$ 70,673	\$ 70,673	\$ 202
Construction Contingency	\$ 257,525	\$ 10,301	\$ 10,301	\$ 29
Architecture/Engineering	\$ 195,383	\$ 7,815	\$ 7,815	\$ 22
Survey & Engineering	\$ 84,000	\$ 3,360	\$ 3,360	\$ 10
Financing Costs	\$ 231,089	\$ 9,244	\$ 9,244	\$ 26
Legal Costs	\$ 80,000	\$ 3,200	\$ 3,200	\$ 9
Other Soft Costs	\$ 579,560	\$ 23,182	\$ 23,182	\$ 66
Soft Cost Contingency	\$ 104,703	\$ 4,188	\$ 4,188	\$ 12
Reserves	\$ 584,672	\$ 23,387	\$ 23,387	\$ 67
Developer Holding Costs	\$ 166,095	\$ 6,644	\$ 6,644	\$ 19
Developer Fee	\$ 672,404	\$ 26,896	\$ 26,896	\$ 77
Total Perm Uses	\$ 8,223,139	\$ 328,926	\$ 328,926	\$ 939

See attached **Uses by Sources Table** and see attached **Comparison Table**

7.6 Permanent Uses Evaluation Narrative:

- Construction costs – \$1,766,833 - Preliminary prices are based on a conceptual hard cost estimate and an eight-month construction period, prepared by a contractor that has visited the site and is experienced in rehab projects. The scope includes ADA upgrades required by MOD. OH&P/ General Conditions will be limited to 14% of total hard costs at bidding.
- Construction Contingency – \$257,525 includes standard 15% construction contingency for rehab projects.
- Architecture and Engineering fees – \$195,383 - in keeping with MOH guidelines for a small project.
- Financing Costs – \$231,089, including \$30,000 in syndication fees. The construction loan terms assume an interest rate of 7%, a 10 month construction period and an eight month permanent closing period. This is conservative and allows for closing MHSA and MHP permanent loans.

- Legal – \$80,000 for legal costs for predevelopment, construction lender, and syndication costs; assumes six loan closings. Legal costs will decrease if the tax credit exchange program is utilized.
- Other Soft Costs:
 - Construction Management – \$48,000 – Assumes \$2,000 per month for 24 month preconstruction period. Conforms with MOH guidelines.
 - Marketing/Rent-up – \$107,500, including \$100,000 for marketing and \$7,500 for events. These costs are high given project size but may be appropriate given project’s four proposed subsidy sources and resulting referral sources (foster care, DPH HIV+, LOSP, MHSA)
 - Capitalized Operating Reserves. \$122,172 This represent six months of operating reserves as required by many tax credit investors and recommended on the advice of CHP’s financial consultant.
- Other Reserves – The budget includes a supplemental capitalized operating reserve of \$400,000.
- Capitalized Replacement Reserves - \$37,500. MOH guidelines recommend \$600/unit; however, this project is sized at \$1,500/unit, reflecting financial consultant advice on tax credit investors’ current expectations. The sponsor plans to conduct a CNA, with reserves funded according to its findings.
- Developer fee/admin fee analysis. The sponsor is requesting \$672,404 over the life of the project. Developer fee over \$575,000 will be contributed to the project as the General Partner contribution.

Fee Category	MOH Policy	Calculation	Eligible Amount	Fee Requested
Maximum Allowable Dev Fee	TC Projects: Max. TCAC Fee for 9% projects (whether funded by 9% or 4% TC)	TCAC Based Fee = 15% of eligible rehab basis plus 3% of acquisition basis, or \$672,404; MHP limits to \$575,000	\$672,404	\$672,404
	<u>Project Management Fee:</u> ½ of Maximum MOH Allowable Developer Fee disbursed per Project Management Milestones; \$1.0M for MHP-funded projects		\$336,202;	\$336,202 \$193,101 during predev
	<u>At-Risk Fee:</u> Remaining ½ of Maximum MOH Developer Fee; \$200,000 for MHP-funded projects		\$336,202	\$336,202

Project Management Disbursement Schedule	% of Project Mgmt Fee	Amount
At Acquisition or closing of	40%	\$77,240

preconstruction financing		
At completion of Schematic Design	25%	\$48,275
At approval of Construction Documents	35%	\$67,585

7.7 This Request/Phasing Narrative

The sponsor is requesting \$4,416,028 to acquire the site and for predevelopment activities.

8 PROJECT OPERATIONS

8.1 Annual Operating Budget

The annual operating budget is presented to demonstrate the project's overall feasibility and is not intended to be presented for Loan Committee approval.

1st Year Cash Flow Table (1st year of stabilized occupancy and debt service)

Income		
Tenant Rents	\$ 43,344	
Tenant Assistance Payments	\$ 243,506	
Commercial Space	\$ 6,000	existing billboard
Misc Income	3348	Manager's Unit
Gross Potential Income	0 \$ 296,198	
Vacancy Loss	- \$ 14,510	Vacancy Rate 5%
Effective Gross Income	0 281,688	
Operating Expenses		
Management	24,216	\$62/unit +6360 rent free unit
Salaries/Benefits	64,669	
Administration	19,135	
Utilities	34,155	
Taxes	8,634	
Insurance	21,097	
Maintenance & Repair	55,264	
Total Operating Expenses	0 227,170	Op Exp per Unit
Supportive Services	-	9,465.42
Net Operating Income	0 54,518	
Debt Service	17,917	
Reserves	21,601	
Cash Flow	0 15,000	
Uses of Cash Flow		
Asset Management Fee	5,750	
Partnership Management Fee	9,250	
	15,000	

8.2 Annual Operating Budget Evaluation.

The sponsor is working with the Department of Public Health and the Human Services Agency during the predevelopment period to determine which services and

rental subsidy funds will be utilized by the project. Exact services and operating subsidies will be determined at a later date. It is expected that the project will seek ongoing operating support through the Local Operating Subsidy Program (LOSP).

The sponsor is also negotiating with a hotel management firm which would operate the building as a tourist hotel until start of construction. It is estimated that the project operations will not break even during this period; however, it will generate income to offset the holding costs.

The line item expenses are generally compatible with CHP's portfolio. However the PUPA is slightly higher than the average TAY site, due in part to the size of the building. As the building will have a full time building manager who will work in partnership with tenant services, the services budget is lower than average.

- Office Salaries .08 FTE @\$65,000, provides back up to the Manager and is on-call when the manager is not available. Provides support around occupancy and other issues. There is no plan for 24-hour front desk coverage.
- Manager Salaries. 1 FTE @ \$45,000 includes standard building manager duties including intake and income certification. Works with tenants and coordinates with tenant services staff. This individual will live on-site and will be available after-hours. Work hours will be staggered and coordinated with tenant services to ensure a staff presence in the evenings and weekends.
- Advertising and Marketing. Expenses related to working with the City to get referrals and screen new tenants – primarily for producing and copying materials such as flyers for access points, screening documents, training materials, etc – and unlawful detainers and criminal background check for new tenants.
- Maintenance and Repair: Payroll. *Janitorial* - 2hrs/day 7 a week (plus vacation/holidays)@\$11.60/hr to ensure the exterior and interior of the building is kept clean. CHP will likely hire a staff person(s) from Larkin's employment program. In addition, tenants will be expected to keep common areas such as the community kitchen clean without support from staff. *Repair* - CHP runs a centralized maintenance crew and has budgeted for a senior technician at 15 hours per week to work at the site @\$21/hour.
- Security Payroll - 160 hours/year at \$13.60/hr to cover for the manager in their absence to monitor activity in the building.
- Reserves. Budget shows \$600 per year in replacement reserves, in excess of MOH's requirement (\$400/pupa) and in keeping with MHSA's stringent reserve requirements.
- Asset & Partnership Management fees. Sponsor has budgeted a combined total of \$15,000 for these items, which is lower than the current guidelines, in expectation that funders will expect a reduced fee at a smaller-than-typical property. CHP does not plan to increase its asset management staff beyond the property management positions described here.

8.3 20-year Cash Flow

Income: Increases at 2.5% annually
Expenses: Increase at 3.5% annually
Negative Cash Flow: None projected

See Attached **20-Year Cash Flow Table**.

8.4 Capital Needs Assessment & Replacement Reserve Analysis A CNA has not yet been conducted; the \$600/unit/year replacement reserve assumption follows the most conservative underwriting guidelines (MHSA) among the building's proposed permanent financing sources.

9 SUPPORT SERVICES

9.1 Services Plan. Larkin Street Youth Services (LSYS) will provide support services for all residents, including case management, life skills training, and benefits counseling to familiarize residents with the rigors of subsidized living including paying rent, reporting income changes, negotiating conflict with other residents, accessing mainstream resources to which they are entitled, and navigating San Francisco's network of service providers. In group and individual sessions, Larkin Street staff provides training in HIV prevention, access to testing through Larkin Street's HIV Prevention program, drug awareness, healthy relationships, and conflict management. Ongoing money management workshops help residents understand simple and complex money-related issues faced on a daily basis.

Because services are voluntary, LSYS staff provides ongoing outreach and engagement efforts to build and maintain relationships with each tenant through informal individual interactions, monthly community meetings and recreational outings to build trust and camaraderie among tenants, and between tenants and Larkin Street staff. LSYS staff also serves as a liaison between residents and CHP building manager to provide mediation with property management, advocate for residents, and create written action plans to avoid loss of housing. This includes mediating conflict within the building, assisting residents in filing incident reports to CHP, and ensuring that issues of concern are addressed efficiently and to the satisfaction of all parties concerned. When necessary, Larkin staff provides crisis intervention to address any immediate concerns affecting residents' safety or housing status.

When a young person's needs exceed the capacity of the services provided onsite, LSYS staff facilitate referrals and linkages to Larkin Street's continuum of services—including mental health and substance abuse counseling, primary medical care and HIV specialty—or other community providers for treatment. Reliable referral relationships that have proven beneficial to many residents include SF Human Services Agency, Department of Public Health's Independent Living Skills Program, Community Mental Health, and the DPH's Housing and Urban Health program.

Ongoing group social activities and outings are designed to build community within the building, fostering an environment of mutual respect and support. Monthly

activities might include grocery shopping trips to area markets, bowling, museum tours, and picnics. Monthly community meetings will give residents the opportunity not only to socialize and build community, but also to provide tenant feedback by voicing concerns and making suggestions.

LSYS and CHP will work in partnership on service provision, with a focus on increasing tenant self-sufficiency, aiming to prepare residents for independent living in the community. Programs addressing this goal will include groups and individual support around daily living skills (cooking, hygiene), money management (budgeting, use of credit cards, savings, Individual Development Accounts), and social skills. In addition, LSYS will provide support around living communally (conflict resolution, communication with property management, and managing guests).

Larkin Street also emphasizes employment and education for all clients. At intake, staff assess tenants' skills and goals, and all residents are encouraged to participate in educational and employment services offered through Larkin Street's HIRE UP Education and Employment Center. HIRE UP offers GED preparation classes and the popular Job Readiness Certification course designed to introduce new job skills, reinforce strengths, and applaud commitment. HIRE Learning offers intensive career-track training and paid internships in fields such as animal care, culinary arts, HIV prevention, and non-profit careers.

Through the SHEC (Supportive Housing Employment Collaborative), tenants can access pre-employment readiness, educational support, money management classes, and can strengthen job-readiness skills in a structured yet supportive environments. Graduates of SHEC training programs (Desk Clerk Training, Maintenance Training, and C.H.E.F.S. -Conquering Homelessness Through Employment in Food Service) are able to work with CHP-E (Community Housing Partnership Enterprise), a business venture that places homeless people in the field of property management.

For tenants experiencing barriers to employment due to mental health or substance use issues, LSYS staff will link them to appropriate counseling. Tenants will be able to participate in the TASH (Treatment and Supportive Housing) program, a SAMHSA-funded six month outpatient substance abuse treatment program run by CHP. A TAY-specific TASH group will be offered weekly.

The Edward II will allow for a more intensive level of care and greater opportunities for community building and peer support than LSYS' current community-based scattered site housing model for these youth populations. Co-locating units in a single building adds a level of housing services to help those young people who need a middle step between homelessness and greater independence in the community.

Larkin Street and CHP will be providing additional services that are not included in this budget. These include classes and job placement assistance offered by CHP's employment and training department, CHP's outpatient substance abuse treatment program for supportive housing residents, In addition, CHP and LSYS can provide referral and linkages to a wide range of off-site, non-profit organizations which

provide a variety of services to TAY. Larkin offers a full continuum of services to which the tenants will have access in addition to the services provided on-site. As a result of these additional resources, the PUPA is budgeted at approximately \$2,000 less than the standard proposed by the TAY Working Group.

Funding for support services has not been secured so it is not possible to answer what the mechanism will be for management of the funds. Ideally, Larkin Street will directly contract with a funder for the provision of support services at the site, and develop an MOU with CHP.

9.2 Services Budget.

As of this early date in the predevelopment period, no funds have been committed for services. However, Human Services Agency staff has reviewed the services plan.

Services Budget			
Number of Youth served:			24
Item		Amount	Notes
SALARIES			
	FTE		
Director of Community Svc	0.04	2,904	Supervision
Program Manager	0.07	4,033	Supervision
Case Manager	1.00	45,000	Full time case manager
Counselor	0.50	17,500	Part-time, focus on activities
Subtotal	1.62	69,437	
Fringe	21.1%	14,651	
Total Salaries		84,089	
OPERATING COSTS			
Telecommunications		2,000	Portion of phones and internet Shared with property mgmt
Copier Lease		1,322	
Insurance		162	
Staff Travel		243	
Total Operating		3,726	
PROGRAM SUPPLIES			
Office Supplies		600	Events, programs and activities
Tenant Activities		3,300	
Total Program Supplies		3,900	
Subtotal Direct Costs		91,715	
INDIRECT COSTS			
Indirect rate (15%)		13,757	
Total Expenses		105,472	
PUPA		4,394	

9.3 DPH/HSA Assessment of Service Plan and Budget. Not necessary at this early stage. However, DPH staff are aware of the project's overall structure and service plan.

10 THRESHOLD ELIGIBILITY REQUIREMENTS

The Sponsor met all of the Eligibility Requirements for the TAY NOFA.

11 RANKING CRITERIA

The Sponsor was the top-ranked respondent to the TAY NOFA.

12 STAFF RECOMMENDATIONS

12.1 Proposed Loan/Grant Terms

- Amount - \$4,416,028
- Term – Fifty-Five Years
- Rate – 0%
- Repayment – Repay at permanent MHP closing/8609

12.2 Recommended disbursement conditions/schedule

- MOH will limit overall disbursements for predevelopment activities to \$500,000 until the project is granted an award from the MHP-TAY program.
- MOH will limit overall disbursements for predevelopment activities to \$600,000 pending approval of the Special Use District (SUD).

13 LOAN COMMITTEE MODIFICATIONS

LOAN COMMITTEE RECOMMENDATION

Approval indicates approval with modifications, when so determined by the Committee.

APPROVE. DISAPPROVE. TAKE NO ACTION.

Doug Shoemaker, Director
Mayor's Office of Housing

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Fred Blackwell, Executive Director
San Francisco Redevelopment Agency

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Joyce Crum, Director of Housing and Homeless Programs
Department of Human Services

Date: _____

APPROVE. DISAPPROVE. TAKE NO ACTION.

Marc Trotz, Director of Housing and Urban Health
Department of Public Health

Date: _____

Attachments:

- Development Budget
- 20-year Operating Pro Forma
- Comparison of City Investment in Other Housing Developments