

## Citywide Affordable Housing Loan Committee

San Francisco Mayor's Office of Housing and Community Development  
Department of Human Services  
Department of Public Health  
Office of Community Investment & Infrastructure

### Evaluation of Request for Funding – **Local Operating Subsidy Program (LOSP)**

*Prepared By:* Joan McNamara

*Date prepared:* March 4, 2014

*Loan Committee Date:* March 21, 2014

*Sponsor Name:* Broadway Sansome Associates, L.P.  
*Project Name:* Broadway Sansome Apartments  
*Project Address (w. cross street):* 255 Broadway Street  
*Number of Units/Beds (specify):* 75 units including 36 units for homeless families and 1 manager unit

*Local Operating Subsidy Funds Requested:* Up to \$216,531 full year one budget  
Up to \$4,570,219 - 15 years

*Local Operating Subsidy Funds Recommended:*  
Up to \$216,531 full year one budget  
Up to \$4,570,219 - 15 years

#### 1. SUMMARY

Broadway Sansome Associates, L.P., with Chinatown Community Development Center (CCDC) as the sponsors, requests up to \$216,531 for first full year in General Funds through the Local Operating Subsidy Program (LOSP) to subsidize housing operations at Broadway Sansome Apartments under a 15 year contract. The 75 unit residential development currently under construction will open in January 2015 and will serve 36 homeless families referred by the Human Services Agency (HSA). The units will be a mix of studios, 1-BR, 2-BR and 3-BR units to provide supportive housing to a range of families. CCDC has also submitted an application for McKinney Shelter Plus Care rent subsidies for 4 units; if awarded in Spring 2014, the LOSP request will automatically be reduced proportionately. HSA will fund a portion of the services that will be provided by Chinatown Community Development Center.

The new building will have 74 family units and one manager's unit with 2 ground floor retail spaces, a central courtyard and garden, roof decks, and on-site service space. The projected operating costs for the project are within the low range for permanent supportive family housing at \$8,079 per unit per year. The LOSP request itself, is \$6,015

per unit per year, within the range of recent projects, assuming an average tenant income of 13 - 15% AMI.

CCDC initially agreed to house 18 homeless families at the site. However, last year CCDC along with the Families in SRO’s Collaborative advocated for an additional 18 homeless families bringing the total number of homeless households served at the site to 36. Nine (9) of these homeless units will be filled exclusively from Families in SRO’s Collaborative.

Staff recommends approval of this request.

## 2. PROJECT OPERATIONS

### 2.1. Unit Mix

Unit Type	#	Unit HH Composition	Homeless Units
Studios	10	Singles, couples	10
1-BR	36	Families and 1 manager unit	17
2-BR	24	Families	9
3-BR	5	Families	----
Total:	75		36

### 2.2. Annual Operating Budget

Please see the attached annualized budget for the initial year. Construction is estimated to be complete in December 2014; start-up and screening activities will commence in Fall 2014, funded by the \$10,000 Marketing & Lease Up line item in the development budget. Full operations and lease up are anticipated to begin on January 1, 2015.

#### 2.1.1 Income

Tenant Rents: Tenant rent projections for the LOSP households assume households will be below 15% Area Median Income (AMI). Tenants will be required to pay 30% of their income for rent, expected to average \$300 per month, excluding the utility allowance. Based on a recently funded HSA LOSP family project, Bayview Hill Gardens, this projected tenant rent is comparable given Broadway Sansome Apartments will have some of the same eligibility requirements. Tenant-paid rents are projected to provide \$129,600 in the first full year of operations. This tenant-paid rent projection assumes that families will have income from Calworks, SSI, and earned income.

Income – Other Subsidy: If successful in the McKinney Shelter Plus Care application, operations for (4) 1-BR units will be covered by Shelter Plus Care subsidies under a 1 year contract which is anticipated to be renewed on an ongoing basis, provided the sponsor continues to effectively operate the building. The McKinney subsidy would layer on an eligibility criterion of a significant disabling condition, such as mental illness, in addition to homelessness for those 4 units. The Shelter Plus Care subsidy would offset

the cost of operations for some of the LOSP units since it is a richer subsidy at \$18,612 per unit per year compared to the LOSP subsidy of \$6,015 per unit per year. The LOSP subsidy is structured to fill the gap in income needed to cover basic operations of the building.

Income – Other: Miscellaneous income from laundry and vending are initially budgeted at \$6,750 per year, and will escalate at a rate of 2.5%.

Income – Local Operating Subsidy:

LOSP subsidy for 36 units (49% of total 74 units), \$216,531 (\$6,015/ PUPA and \$501 / PUPM) is shown in the annualized Year One budget. LOSP is based on pro-rata share of expenses and the subsidy is sized to fund a break-even budget, including operating expenses, replacement reserve deposits, Asset Management Fee, and MHP mandatory interest payment for all 36 homeless housing units.

2.1.2 Operating Expenses: Year One annual operating expenses, before debt service and reserves (and all other below the line expenses), is \$597,810 which equates to \$8,079 PUPA. These operating expenses are low compared to other recent family LOSP projects. However, a significant difference is Broadway Sansome Apartments will not have 24-hour desk coverage, which helps in lowering costs. Total operating costs, including debt and reserves and all other expenses, is \$737,089 which equates to \$9,828 PUPA.

CCDC is basing the projected operating expenses on current operating costs at Broadway Family Apartments, another family development, which is located within a block of this development.

Staffing: The staffing plan and salary amounts are based on Broadway Family Apartments, another CCDC family building in operation for 7 years. However, the key difference is Broadway Sansome will serve homeless families whereas Broadway Family is a building comprised of low income family households only. Given this distinction, staff is recommending that CCDC work with the City to review if the proposed staffing plan shown below is appropriate.

<b>Position</b>	<b>FTE</b>	<b>Notes</b>
Resident Manager	1	\$50,840
Assistant Resident Manager	.5	\$22,000 Provide support to the Property Manager with program compliance, reporting requirements, coordination between service providers and property management
Maintenance Worker II	1	\$30,000
Janitor	.6	\$30,420
<b>TOTAL</b>	<b>3.1</b>	Property management staff only

Management Fees: The Sponsor will collect \$55 per unit per month in property management fees. This amount is just slightly above the base rate of \$52/unit/month per HUD Regional Office Memo dated July 2011.

Asset Management Fee: An asset management fee in the amount of \$17,800 is requested above the line as permitted by the MOHCD Asset Management Fee policy, and is permitted at this amount for 2015.

Salaries and Benefits: Salaries and benefits are budgeted at \$94,000, covering the Resident Manager and Assistant Resident Manager.

Administration: Administration line items are budgeted at \$48,450, and cover typical functions such as legal, screening, office supplies and equipment, computers and telephones. These are reasonable, based on recent comparables.

Utilities: Utilities are budgeted at \$118,999. While the building is individually metered for electricity, the line item covers electricity, water, gas for the common areas and building wide boilers for domestic hot water and heating. It also includes sewer. The sponsor has calculated per unit costs based on Broadway Family Apartments.

Taxes: The line item covers a small amount for local real estate assessments at \$4,075 and \$64,000 for payroll taxes related to staff.

Insurance: Insurance is budgeted at \$78,825 for Property & Liability, Workers Comp and Crime Insurance, and is based on an estimate. This amount is low as compared to other family properties.

Maintenance and Repair: This line item in the amount of \$73,061 includes payroll for one full time janitorial staff and one full time maintenance worker; contracts for grounds, exterminating, fire alarm and elevator; garbage and trash removal; and HVAC repairs and maintenance; and is reasonable.

Debt Service: HCD MHP Supportive capital funding requires a mandatory annual interest payment of .42% resulting in annual payment of \$31,422 per year.

Replacement Reserve Deposits: Replacement reserve deposits are shown at \$600 per unit per year in compliance with HCD requirements.

Operating Reserve Deposits: The project is obligated to maintain an operating reserve account equivalent to 25% of expenses and debt and reserves, assuming expenses increase by 3.5%. This reserve was capitalized in the development budget.

Deferred Developer Fee: CCDC is due \$82,500 in deferred developer fee. This fee will be paid out over 5 years @ \$16,500/year.

Partnership Management and Investor Services Fees: \$17,820 is budgeted for partnership management and \$4,000 for investor services fees below the line, which increases at a rate of 3% as permitted by MOH's asset management policy.

2.3. 20-Year Cash Flow: The attached 20 Year Cash Flow Projection shows the estimated amount of annual subsidy that will be needed for the 15 year grant period. The projection was made using MOHCD's standard underwriting guidelines. Actual payments will be based on approved annual operating budgets and not on this projection.

- tenant rent income trends at 1% per year, which is below MOHCD Underwriting Guidelines of 2.5%, based on actual average increases in SSI

income over the past eight years. Other miscellaneous income trends at 2% in keeping with MOHCD guidelines. 5% vacancy loss is assumed on the tenant rent income, which complies with MOHCD underwriting guidelines for a LOSP funded project.

- operating expenses trend at 3.5% per year, per MOHCD Underwriting Guidelines, with exceptions as described above.
- projected City operating subsidy increases at approximately 3.5% per year. Projected McKinney Shelter + Care subsidy, if awarded, trends at 2.5%.

### **3. TARGET POPULATION AND PROGRAM STRUCTURE**

Broadway Sansome Apartments is a family development that will include a formerly homeless population. A number of the homeless families may have special needs, such as mental illness, substance abuse issues, physical disabilities, and domestic violence issues. If awarded Shelter Plus Care subsidies, the four covered units will be offered to dually diagnosed homeless households who meet the McKinney eligibility criteria (four 1-BRs).

HSA will identify housing applicants through referrals made by homeless service providers, the Access Point Agencies (APA), on a rotating basis. At initial lease up, each APA will identify a referral that fits the specific eligibility requirements for the project from its current case load until the building is fully leased up. Upon vacancy, each referral source will provide one applicant on a rotating basis from their population being served.

These APAs include family homeless and domestic violence shelters, transitional housing programs and other community based organizations that work with the target population. Eligible clients of APA who have a former SFRA Certificate of Preference will receive preference for a housing referral. Twenty seven (27) of the total homeless units will rotate through all the family APAs. The remaining 9 homeless units will get referrals exclusively from the Families in SRO's Collaborative.

### **4. SERVICES**

- A. Narrative. Chinatown Community Development Center commits to providing supportive services to Broadway Sansome Apartment residents, in the form of on-site educational, health and wellness and skill-building classes coordinated by an on-site resident services coordinator. A minimum of 84 class hours will be scheduled throughout the year and will depend on the interests and needs of the resident population. In other CCDC buildings services included:
- a. A variety of wellness classes and workshops in partnership with On Lok Lifeways and the San Francisco State University and Samuel Merritt University Schools of Nursing;
  - b. Money management in partnership with SF EARN; and

- c. Energy and water conservation, composting, recycling in partnership with the SF Department of Environment

These services are provided in-kind and are valued at approximately \$15,000/year.

The service program will have 1.5 FTE on site staff, and an additional .45 FTE off site supervisory staff. CCDC will provide the Services Coordinator position and supervisory staff.

Staff Position	Agency	FTE	Group Served
Intensive Case Manager	CCDC	1.0	All
Resident Services Coordinator	CCDC	.5	All

- B. Services Budget. Support services at Broadway Sansome will be funded through a contract between Chinatown Community Development Center and the Human Services Agency, to be finalized by Summer 2014.

## 5. RECOMMENDED CONDITIONS

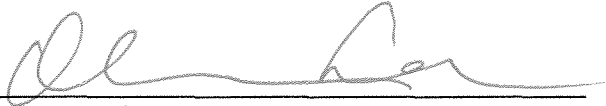
- 1. Six (6) months prior to start of lease up process, CCDC to work with City to develop a more comprehensive services plan and budget and to revisit property management staffing assumptions including front desk coverage and all other positions related to managing the building.

## 6. LOAN COMMITTEE MODIFICATIONS

**7. LOAN COMMITTEE RECOMMENDATION**

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

APPROVE.     DISAPPROVE.     TAKE NO ACTION.



Olson Lee, Director  
Mayor's Office of Housing

Date: 3/21/14

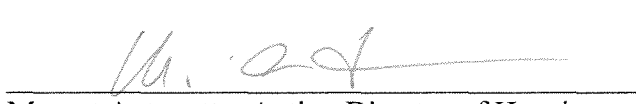
APPROVE.     DISAPPROVE.     TAKE NO ACTION.



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

Date: 3/21/14

APPROVE.     DISAPPROVE.     TAKE NO ACTION.



Margot Antonetty, Acting Director of Housing and Urban Health  
Department of Public Health

Date: 3/21/14

Attachments: LOSP Program Description

- Operating Budget – 1<sup>st</sup> Year
- Cash Flow Projection
- Exhibit A1 A2 Full LOSP
- Operating Cost Comparison

**LOAN COMMITTEE RECOMMENDATION**

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

APPROVE.     DISAPPROVE.     TAKE NO ACTION.

\_\_\_\_\_  
Olson Lee, Director  
Mayor's Office of Housing

Date: \_\_\_\_\_

APPROVE.     DISAPPROVE.     TAKE NO ACTION.

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

Date: \_\_\_\_\_

APPROVE.     DISAPPROVE.     TAKE NO ACTION.

\_\_\_\_\_  
Margot Antonetty, Interim Director of Housing and Urban Health  
Department of Public Health

Date: \_\_\_\_\_

APPROVE.     DISAPPROVE.     TAKE NO ACTION.

  
\_\_\_\_\_  
Tiffany Bohee, Executive Director  
Office of Community Investment and Infrastructure

Date: 3-21-14

Attach: Development Budget

20 Year Operating Proforma



## ATTACHMENT A

### LOSP PROGRAM DESCRIPTION

The requested funds would be delivered to the sponsor through a grant agreement with a term of up to 15 years, and, with the exception of the current fiscal year, will be subject to annual appropriations by the Board of Supervisors. Funds for the 2014-2015 fiscal year will be included in HSA's budget in the amount of up to \$\_\_\_\_\_, and will be work-ordered to MOHCD for administration. The total amount of funds requested is based on Broadway Sansome Apartment's current operating budget and 15-year cash flow projection using MOHCD standard underwriting guidelines.

Actual subsidy payment for the next fiscal year would be based on the attached annual operating budget and cash flow. Subsidy payments for the remaining years of the contract would be based on subsequent operating budgets to be approved annually by the City. These budgets would be informed by actual financial performance of the project, per annual audits, and would include reasonable costs based on the specific needs of this building and reflect prudent property management practices and supportive housing industry standards. The subsidy payments for a given year will be equal to the projected shortfall (difference between income and expenses/reserve deposits/fees) as shown in the approved operating budget for that year. The City will make one subsidy payment to the sponsor per year at the beginning of each fiscal year.

If the subsidy payments made to a sponsor in any given fiscal year exceed the projected shortfall, then the sponsor must deposit the excess subsidy amount into a Local Operating Subsidy reserve specifically set up to accommodate any over-payments received from the operating subsidy. If the shortfall exceeds the subsidy payments, then the sponsor may withdraw funds from the project's operating reserve to cover project operating expenses not covered by the subsidy payments.

Currently, the LOSP program requires sponsors to submit to the City, within 4 months of the end of each year, or by April of each year, an audited financial statement showing the actual project income, expenses and shortfall for the prior year. If the statement shows that the actual shortfall was lower than the projected shortfall in the approved annual operating budget, then the subsidy payments for the subsequent year will be reduced by the difference between the actual and the projected shortfall. If the statement shows that the actual shortfall was higher than the projected shortfall such that the sponsor had to withdraw funds from the operating reserve, then the subsidy payments for the following year will be increased to allow for the additional costs and also to replenish the reserve if increased expenses are approved by MOHCD.