Citywide Affordable Housing Loan Committee

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

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

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Date prepared: 02/11/2014

Loan Committee Date: 02/21/2014

Sponsor Name:	Plaza Apartments Associates, L.P.	
Project Name:	Plaza Apartments	
Project Address (w. cross street):	988 Howard Street (at 6th Street)	
Number of Units/Beds (specify):	106 LOSP units (106 total units)	
Local Operating Subsidy Funds Requested:	$ 858,260	Full Year One Budget
	$ 19,119,769	15 years
Amount of Funds Recommended:	$ 858,260	Full Year One Budget
	$19,119,769	15 years

1. SUMMARY

Plaza Apartments Associates L.P. ("PAALP") (the Sponsor) requests $858,260 in General Funds for the first full year of operations under a new 15 year LOSP contract to subsidize the Plaza Apartments, which provides 106 units of supportive permanent housing for homeless clients referred by the Department of Public Health (DPH). The proposed contract is for a period of 15 years beginning on July 1, 2014, totaling $19,119,769 and will subsidize 100% of the units. DPH will continue to fund the supportive services through a separate contract with the current services provider, Conard House.

Plaza Apartments was developed in 2006 and has been operating with support from DPH's Direct Access to Housing (DAH) program. With this request, the LOSP will provide the subsidy for a new 15-year contract. The operating cost for the project in the first full year of operations under this new contract is $1,353,718 ($12,771 per unit per year). The requested LOSP amount for the same first full year is $858,260 ($8,097 per unit per year). The comparable projects most relevant to that of the Plaza are Kelly Cullen Community, Richardson Apartments, and Rene Cazanave Apartments. Based on the projections for those projects, the Plaza has a higher operating cost per unit but is also the smallest of these projects at 106 units, making costs less scalable. Reasons that explain the higher costs are high utility costs (even with the lower unit count) since the Plaza does not qualify for the CARE program, less commercial income to off-set the residential costs to the building, and high staffing costs associated with the robust property management provided at the Plaza.

Staff recommends approval of this request.

2. PROJECT OVERVIEW

In 2006, the Public Initiatives Development Corporation ("PIDC"), a non-profit public benefit corporation formed by the former San Francisco Redevelopment Agency ("Agency"), completed construction on 106 new affordable housing units for homeless single adults and couples at 988-992 Howard Street at the corner of 6th Street. PIDC was formed in 2001 to assist the former Redevelopment Agency in the development of affordable housing as set forth in the Articles, Bylaws, and a Cooperative Agreement between the former Agency and PIDC. The PIDC's Board of Directors consists of staff from MOHCD including, the Director of Community Development, the Chief Financial Officer, and the Director of the Mayor's Office of Housing and Community Development. MOHCD's Housing Development Director, Teresa Yanga, serves as the Development Corporation's Executive Director. PIDC created Plaza Apartments Associates L.P ("PAALP")., a limited partnership for the purpose of the tax credit investment, and is a co-managing general partner of the partnership. MOHCD, as the Successor Housing Agency to the San Francisco Redevelopment Agency, is fee owner of the property and retains ownership of the land via a long-term ground lease with the limited partnership. The sole lender on the project is MOHCD as the Successor Housing Agency to the San Francisco Redevelopment Agency. As of January 2014, the project's outstanding loan balance to MOHCD is $11,200,518 plus approximately $1,843,513 in accrued interest. Currently MOHCD is seeking qualifications for a new managing general partner ("MGP") to replace PIDC. The expectation is that selection of the new MGP will happen prior to June 30, 2014.

In 2003 the PIDC entered into a contract with the John Stewart Company (JSCo) to lease, manage, and operate the Plaza Apartments. That contract was later amended ,restated and then assigned to Plaza Apartments Associates L.P. The Department of Public Health's Direct Access to Housing program entered into a contract for the period of November 1, 2005, through June 30, 2014, through which DPH provided operating subsidies to the limited partnership to enable the project to house formerly homeless single adults who were clients of the public health system. That contract has been amended from time to time over the original contract period and has incorporated annual increases. The current LOSP contract request would replace the DAH contract and would run for 15 years from July 1, 2014 through June 30, 2029.

3. PROJECT OPERATIONS

3.1 Project Income

Tenant Rents: Tenants will provide $577,992 in the first full year of operations under this new 15 year contract, an average of $454 per unit per month. Under the DAH program, tenants pay 50% of income for rent. DAH has utilized a benchmark tenant rent portion of $360 in underwriting more recent LOSP projects. However given the Plaza's operating history to date, and the fact that the project houses 6-8 couples at any given time, a rent of $454 per month is presented here. Tenant contribution is increased at a level of 2% per year (which is lower than MOHCD's standard underwriting rate of 2.5%) to mirror actual increases in SSI levels over recent years. The most rigorous income restriction under TCAC is at 35% of Area Median Income (AMI).

Commercial Income: The site includes three retail leases which are leased according to the following terms:

Tenant	Monthly Amount	Per square foot	Expiration	Notes
Subway Sandwiches	$3,554.80	$2.40	10-31-2014	
Northeast Community Federal Credit Union	$729.40	$1.48	Expires 1-1-2018	Two 5-year options available after 2018
Bindlestiff Studio Theater	$1,000 less rent modifications outlined in an agreement between Bindlestiff and SFRA	$2.70	08-31-2014 (the initial term), plus two five-year options	
Sprint Cell Tower	$3,689.62 (increased annually by 3%)	n.a.	Jan, 1, 2016	4 automatic renewals of 5 years each. 3% annual increase.
TOTAL MONTHLY	$6,619.40			
TOTAL ANNUALLY	$108,024			
LESS MODIFICATIONS	($28,900)			
NET INCOME	$79,124.00			

The MOHCD underwriting policy recommends a vacancy rate of 50% for unleased commercial space. While the Plaza's commercial spaces are fully leased, a vacancy rate of 50% is recommended to reflect the financial challenges of doing business in the 6th Street Corridor.

Income – Other: Miscellaneous income from laundry, late fees, damages and cleaning fees total $19,836 per year. These are reasonable and will escalate at a rate of 2.5% per year in keeping with MOHCD policy.

Income – Local Operating Subsidy: $858,260 ($8,097 PUPA and $675 / PUPM) is shown in the annualized Year One budget. The subsidy is sized to fund a break-even budget, including operating expenses, replacement reserve deposits, and Asset Management Fees, for all 106 supportive housing units.

3.1.2 Operating Expenses: Annual operating expenses in Year One, before debt service and reserves, are $1,353,718, which equates to $12,771 per unit per year.

Overall operating costs are higher than average and as mentioned above, they are due in part to the costs of staffing, higher utility costs, and less commercial income available to the project to off-set the residential costs. The Plaza has 24 hour desk clerk coverage which contributes to operating cost per unit.

Staffing: The staffing plan includes 10.2 FTE, not including supportive services staff At this proposed staffing level the ratio of households to property management is approximately 1:10.4 residents, which is high compared to other LOSP projects.

Position	**FTE**	**Notes**
General Manager	1	
Assistant Manager	1	Rent collection, recertification, and compliance.
Desk Clerks	4.2	Sponsor intends to use asst. mgr to cover some shifts.
Janitorial and Cleaning	2	1 Janitor and 1 Housekeeper
Maintenance	2	1 Supervisor and one maintenance worker.
TOTAL	10.2	1 staff per 10.4 residents

The Sponsor feels this is an appropriate staffing level given the special needs of the tenants and the location of the project on 6th Street. Moreover, a relatively high unit turnover rate demands more staff time. Plaza Apartments does not bill for "back office" positions of the property manager such as Compliance Manager, Compliance Specialist, and Facilities Manager, all of which are included.

Management Fees: The Sponsor collects $52.53 per unit per month in property management fees, a bookkeeping fee of $7.50 per unit per month, plus 6% of the commercial rent amount (before concessions are granted) as a leasing fee.

Administrative Expenses: Costs include typical functions such as screening, office supplies and equipment, computers and telephones. These are reasonable based on recent comparables and on MOHCD underwriting guidelines.

Utilities: Utilities costs at the Plaza are the highest for SROs in the MOHCD portfolio and are trended at an average of 4.9%, in excess of MOHCD's standard underwriting increase of 3.5%, to mirror actual rate increases (approximately 9%) by the utility companies in recent years. The high cost is somewhat surprising since the building has photovoltaic (solar) panels on the roof and the building was constructed with LEED features to increase efficiency. However, since all units offer private bath and kitchenettes (electric stovetop, no oven, disposal, microwave, fans), costs can be expected to be higher than a typical SRO that doesn't offer these amenities. The units are separately metered but not subject to the lifeline (CARE) rates for low income residents because they are paid for by the owner, which at this time is not a non-profit entity. This could change under the planned selection of the new MGP should that selected entity include a qualifying nonprofit agency. Moreover, between 6 and 8 units have double occupancy, resulting in a double utility load, and there are two full-service elevators. Specifically, electricity costs are projected to increase by 7.5% per year and gas by 5%.

This is mainly attributable to the fact that the project has not qualified to date for the PG&E CARE rate program.

Supplies and Maintenance: Costs are calculated based on the Sponsor's experience at the Plaza.

Taxes and Insurance: The property tax bill for FY 2013-2014 for the retail spaces was $25,490.92, of which $7,468.84 was for the Subway lease (paid by the Sponsor), $2,370.66 for the Credit Union (reimbursed by the tenant), and $15,651.42 for Bindlestiff. Bindlestiff received their real estate exemption and the project's budget has been reimbursed.

Miscellaneous Expenses: The windows at the Plaza are mounted from the exterior as an extra waterproofing measure. There are extra costs, accounted for in this budget line, to deal with window replacements that need to occur above the third floor.

Legal fees and Bad Debt: The project is currently projecting $21,100 for legal fees related to the property and $16,736 for bad debt.

Replacement Reserve Deposits: Replacement reserve deposits are shown at $683 per unit per year, non-escalating, in keeping with the project's loan agreements. While this amount exceeds MOHCD's requirement of $300 for a project of this type and size, a project Capital Needs Assessment has established the need for the higher reserve amount. The current reserve balance is $248,546.

Debt Service: MOHCD has soft debt on the project which is non-amortizing and does not require hard payments. As of January 2014, the project's outstanding loan balance to MOHCD is $11,200,518 plus approximately $1,843,513 in accrued interest.

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%. The operating reserve account currently holds $408,162.

Asset Management and Partnership Management Fees: $18,420 is budgeted for asset management, conforming to MOHCD's asset management fee policy.

3.1.3 15-Year Cash Flow: The attached 15-Year Cash Flow Projection shows the estimated amount of annual subsidy that will be needed for the 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 2.5% in keeping with MOHCD guidelines. 5% vacancy loss is assumed on the residential income, which complies with MOHCD underwriting guidelines.
- Projected City operating subsidy increases at approximately 1.0% per year.

4. TARGET POPULATION AND PROGRAM STRUCTURE

The target population is homeless and disabled single adults who are high users of the San Francisco Public Health care system and are mentally ill, chronic substance users and/or living with HIV/AIDS or other disabling medical issues. This population consists of tenants with co-occurring disorders, including medical and/or mental health, substance use and/or HIV/AIDS.

5. SERVICES

A. Narrative: The following description reflects the current services plan and objectives being met. Tenants of the Plaza Apartments need services to assist them with stabilizing in and retaining their housing, maintaining self-sufficiency and continuing to live independently. To achieve this, tenants need immediate and long-term access to mental health, substance use, and medical services. They need direct access to intensive individual case management services that includes: intake, assessment, individualized care planning; third party rent payment and/or money management services; benefits and entitlement advocacy; medication management; individual and group counseling; crisis intervention services; employment and/or training and/or educational services. The current services contract runs through 12/31/2015.

Conard House has been providing psychosocial supportive services at the Plaza since 2006 through a contract with DPH's Community Behavioral Health Services (CBHS) division which includes the Plaza as well as 390 other supportive housing units in SROs and other congregate facilities.

Approximately 86% of clients eligible for services are recipients of Medi-Cal benefits. Their Outpatient Services are funded by Medi-Cal revenue in this contract. The other 14% are funded by a third party or by the County General Fund revenue in this contract.

The Outpatient Services program is based on a psycho-social rehabilitation model in a supportive community providing a range of activities and services for beneficiaries who would be at risk of hospitalization or other institutional placement if they were not in the residential treatment program. The Outpatient services are provided in a non-institutional, residential setting. Emphases are on improving clients' socialization and independent living skills, improving clients' abilities to improve and or maintain mental and physical health, being aware of clients' substance use status, and linking clients to needed services when necessary.

Outpatient Services delivered, per the CRDC, include Mental Health Services, Crisis Intervention and Case Management. Targeted Case Management is directed at maintaining housing and independent living, teaching and reinforcing self-management skills, monitoring physical health and mental and substance use status, making appropriate linkages to needed services when necessary, and preventing hospitalization and/or homelessness.

Medi-Cal billings as a source of services funding and may require that a service provider with these billing capabilities be part of the services team.

B. Services Budget. Support services at Plaza Apartments are funded through a contract with the Department of Public Health which for the 2014 Fiscal year totals $605,178. Conard House is the contracted services provider. There is a budget line item for $3,000 in the attached LOSP budget which goes toward resident service supplies and community meeting needs.

6. RECOMMENDED CONDITIONS

none

7. LOAN COMMITTEE MODIFICATIONS

The Managing General Partner is to review operations budget on an annual basis in an effort to reduce costs.

8. LOAN COMMITTEE RECOMMENDATION

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

[ ] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

______________________________ Date: ______________

Olson Lee, Director
Mayor's Office of Housing and Community Development

[X] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

______________________________ for Date: 2.21.14

Tiffany Bohee, Executive Director
Office of Community Investment and Infrastructure

[X] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

______________________________ Date: 2/21/14

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

[X] APPROVE. [ ] DISAPPROVE. [ ] TAKE NO ACTION.

______________________________ Date: 2/21/14

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

Attachments: LOSP Program Description
Operating Budget – 1st Year
Cash Flow Projection
Operating Cost Comparison
Exhibit A1 A2 of LOSP Contract

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 first full year of operations year will be included in DPH's budget in the amount of up to *$858,260* and will be work-ordered to MOHCD for administration. The total amount of funds requested is based on historical data from the property and actuals provided to MOHCD by John Stewart Company who has been managing the property.

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.