

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

December 13, 2017

Water Street Apartments, located at 708, 712, and 718 Water Street in Santa Cruz, requested and is being recommended for a reservation of \$676,662 in annual federal tax credits to finance the new construction of 40 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by FTF Water Street, LLC and will be located in Senate District 17 and Assembly District 29.

The project will be receiving rental assistance in the form of HUD Project-based Vouchers.

Project Number CA-17-805

Project Name Water Street Apartments
Site Address: 708, 712, and 718 Water Street
Santa Cruz, CA 95060 County: Santa Cruz
Census Tract: 1008.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$676,662	\$0
Recommended:	\$676,662	\$0

Applicant Information

Applicant: Water Street Apartments Investors, L.P.
Contact: Jim Rendler
Address: P.O. Box 15602
San Luis Obispo, CA 93406
Phone: (408) 891-8303
Email: jrendler@ftfhousing.com

General Partner(s) or Principal Owner(s): FTF Water Street, LLC
Pacific Housing, Inc.
General Partner Type: Joint Venture
Parent Company(ies): For the Future Housing
Pacific Housing, Inc.
Developer: FTF Water Street, LLC
Investor/Consultant: Boston Capital
Management Agent: EAH Housing

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 41
 No. & % of Tax Credit Units: 40 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Project-based Vouchers (33 Units - 83%)
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 5
 Number of Units @ or below 60% of area median income: 35

Bond Information

Issuer: California Public Finance Authority
 Expected Date of Issuance: March 15, 2018
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Tiffani Negrete

Unit Mix

22 1-Bedroom Units
 19 2-Bedroom Units

 41 Total Units

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
6 1 Bedroom	60%	60%	\$1,128
1 2 Bedrooms	60%	60%	\$1,353
3 1 Bedroom	50%	50%	\$940
13 1 Bedroom	60%	60%	\$1,128
2 2 Bedrooms	50%	50%	\$1,127
15 2 Bedrooms	60%	60%	\$1,353
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$34,322,640

Project Cost Summary at Application

Land and Acquisition	\$2,505,000
Construction Costs	\$11,151,455
Rehabilitation Costs	\$0
Construction Contingency	\$477,589
Relocation	\$0
Architectural/Engineering	\$557,358
Const. Interest, Perm. Financing	\$871,760
Legal Fees, Appraisals	\$120,000
Reserves	\$373,043
Other Costs	\$1,182,063
Developer Fee	\$2,089,001
Commercial Costs	\$0
Total	\$19,327,269

Project Financing

Estimated Total Project Cost:	\$19,327,269
Estimated Residential Project Cost:	\$19,327,269
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$355
Per Unit Cost:	\$471,397
True Cash Per Unit Cost*:	\$454,113

Construction Financing

Source	Amount
Pacific Western Bank - T.E. Bonds	\$13,000,000
City of Santa Cruz	\$3,610,272
Deferred Interest	\$150,552
Deferred Developer Fee	\$1,674,890
Tax Credit Equity	\$891,555

Permanent Financing

Source	Amount
Pacific Western Bank - T.E. Bonds	\$7,750,000
City of Santa Cruz	\$4,289,795
Deferred Interest	\$150,552
Deferred Developer Fee	\$708,633
Tax Credit Equity	\$6,428,289
TOTAL	\$19,327,269

*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

Determination of Credit Amount(s)

Requested Eligible Basis:	\$16,015,677
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$20,820,380
Applicable Rate:	3.25%
Total Maximum Annual Federal Credit:	\$676,662
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,089,001
Investor/Consultant:	Boston Capital
Federal Tax Credit Factor:	\$0.95000

Per Regulation Section 10327(c)(6), the “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$16,015,677
Actual Eligible Basis:	\$16,015,677
Unadjusted Threshold Basis Limit:	\$11,052,234
Total Adjusted Threshold Basis Limit:	\$16,274,076

Adjustments to Basis Limit

- Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages
- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 12%

Cost Analysis and Line Item Review

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC’s underwriting guidelines and TCAC limitations. Annual operating expenses exceed the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.25% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Special Issues/Other Significant Information: None.

Local Reviewing Agency

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

Recommendation

Staff recommends that the Committee make a preliminary reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal Tax Credits/Annual	State Tax Credits/Total
\$676,662	\$0

Standard Conditions

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee’s next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

Additional Conditions

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.