

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
November 16, 2011

Project Number CA-2011-920

Project Name Natoma Family Apartments
Site Address: 474 Natoma Street
San Francisco, CA 94103 County: San Francisco
Census Tract: 176.010

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,387,027	\$0
Recommended:	\$1,387,027	\$0

Applicant Information

Applicant: 474 Natoma, LLC
Contact: Donald Lusty
Address: 345 Spear Street, Suite 700
San Francisco, CA 94105
Phone: (415) 989-1111 Fax: (415) 495-4898
Email: dlusty@bridgehousing.com

General partner(s) or principal owner(s): BRIDGE Homes, Inc.
General Partner Type: Nonprofit
Developer: BRIDGE Housing Corporation
Investor/Consultant: Bank of America
Management Agent: BRIDGE Property Management Company

Project Information

Construction Type: New Construction
Total # Residential Buildings: 2
Total # of Units: 60
No. & % of Tax Credit Units: 59 100%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 35
Number of Units @ or below 60% of area median income: 24

Bond Information

Issuer: City and County of San Francisco
Expected Date of Issuance: December 2011
Credit Enhancement: None

Information

Housing Type: Non-Targeted
 Geographic Area: San Francisco County
 TCAC Project Analyst: Gina Ferguson

Unit Mix

7 SRO/Studio Units
 28 1-Bedroom Units
 18 2-Bedroom Units
 7 3-Bedroom Units

 60 Total Units

<u>Unit Type & Number</u>	<u>2011 Rents Targeted % of Area Median Income</u>	<u>2011 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
2 SRO/Studio	40%	40%	\$748
2 SRO/Studio	50%	50%	\$935
3 SRO/Studio	60%	60%	\$1,122
7 1 Bedroom	40%	40%	\$801
11 1 Bedroom	50%	50%	\$1,001
10 1 Bedroom	60%	60%	\$1,202
4 2 Bedrooms	40%	40%	\$962
6 2 Bedrooms	50%	50%	\$1,202
8 2 Bedrooms	60%	60%	\$1,443
2 3 Bedrooms	40%	40%	\$1,111
1 3 Bedrooms	50%	50%	\$1,388
3 3 Bedrooms	60%	60%	\$1,666
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$1,324

Project Financing

Estimated Total Project Cost: \$32,654,529

Residential

Construction Cost Per Square Foot: \$419
 Per Unit Cost: \$544,242

Construction Financing

Permanent Financing

<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Bank of America - Tax-Exempt Bonds	\$17,260,000	Bank of America - Tax-Exempt Bonds	\$1,610,500
San Francisco Redevelopment Agency	\$12,807,491	San Francisco Redevelopment Agency	\$15,470,713
Tax Credit Equity	\$800,000	Accrued Interest (SFRA)	\$239,372
		Tax Credit Equity	\$15,333,944
		TOTAL	\$32,654,529

Determination of Credit Amount(s)

Requested Eligible Basis:	\$31,380,984
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$40,795,279
Applicable Rate:	3.40%
Total Maximum Annual Federal Credit:	\$1,387,027
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,500,000
Investor/Consultant:	Bank of America
Federal Tax Credit Factor:	\$1.10553

Per Regulation Section 10322(i)(4)(A), 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:	\$31,380,984
Actual Eligible Basis:	\$31,380,984
Unadjusted Threshold Basis Limit:	\$19,873,800
Total Adjusted Threshold Basis Limit:	\$38,952,648

Adjustments to Basis Limit:

- Required to Pay Prevailing Wages
- Parking Beneath Residential Units
- 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: 59%

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 3.40% 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:

The developer has provided the following information regarding the relatively high per unit cost for Natoma Family Apartments. The cost of this project reflects the City’s desire to maximize the number of units on what is a very small (.27 acres), irregularly-shaped urban infill site. In order to accomplish this goal, a 9-story Type I building type, requiring upper floor setbacks, with below grade parking is required; the tight infill site also presents construction staging challenges, resulting in increased construction costs. The project has realized higher than normal architectural and engineering costs due to the reprogramming of the site from an affordable for-sale project to an affordable rental project, resulting from the down turn in the real estate market. Additionally, the project is subject to the City’s prevailing wage requirements, includes service space, and incorporates green building features such as a solar hot water system.

Local Reviewing Agency:

The Local Reviewing Agency, San Francisco Mayor's Office of Housing, has completed a site review of this project and strongly supports this project.

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
\$1,387,027	\$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 an allocation 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 provide the tenants with educational classes free of charge for a minimum of ten (10) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC.