

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
July 16, 2014**

Project Number CA-14-864

Project Name Sharmon Palms Lane
Site Address: 739, 751, 775, 844, 858, 870, 886, 898, 910, 949, 952, 961,
964, 975 and 989 Sharmon Palms Lane
Campbell, CA 95008 County: Santa Clara
Census Tract: 5067.020

| Tax Credit Amounts | Federal/Annual | State/Total |
|---------------------------|-----------------------|--------------------|
| Requested: | \$654,151 | \$0 |
| Recommended: | \$654,151 | \$0 |

Applicant Information

Applicant: Sharmon Palms Lane Associates, L.P.
Contact: Matthew O. Franklin
Address: 303 Vintage Park Drive, Suite 250
Foster City, CA 94404
Phone: 650-356-2900 Fax: 650-357-9766
Email: mfranklin@midpen-housing.org

General Partner(s) or Principal Owner(s): Sharmon Palms Lane LLC
General Partner Type: Nonprofit
Parent Company(ies): MidPen Housing Corporation
Developer: MidPen Housing Corporation
Consultant: Community Economics, Inc.
Management Agent: MidPen Property Management Corporation

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 15
Total # of Units: 60
No. & % of Tax Credit Units: 59 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / CDBG
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 35% of area median income: 6
Number of Units @ or below 50% of area median income: 34
Number of Units @ or below 60% of area median income: 19

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: September 15, 2014
 Credit Enhancement: None

Information

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

Unit Mix

7 1-Bedroom Units
 46 2-Bedroom Units
7 3-Bedroom Units
 60 Total Units

| <u>Unit Type & Number</u> | <u>2014 Rents Targeted % of Area Median Income</u> | <u>2014 Rents Actual % of Area Median Income</u> | <u>Proposed Rent (including utilities)</u> |
|-------------------------------|--|--|--|
| 1 1 Bedroom | 30% | 30% | \$573 |
| 2 1 Bedroom | 40% | 40% | \$764 |
| 1 1 Bedroom | 50% | 50% | \$956 |
| 3 1 Bedroom | 60% | 60% | \$1,147 |
| 4 2 Bedrooms | 30% | 30% | \$688 |
| 11 2 Bedrooms | 40% | 39% | \$891 |
| 18 2 Bedrooms | 50% | 45% | \$1,038 |
| 12 2 Bedrooms | 60% | 49% | \$1,124 |
| 1 3 Bedrooms | 30% | 30% | \$795 |
| 2 3 Bedrooms | 50% | 50% | \$1,314 |
| 4 3 Bedrooms | 60% | 60% | \$1,590 |
| 1 2 Bedrooms | Manager's Unit | Manager's Unit | \$0 |

Project Financing

| | |
|-------------------------------------|--------------|
| Estimated Total Project Cost: | \$22,372,369 |
| Estimated Residential Project Cost: | \$22,372,369 |

Residential

| | |
|------------------------------------|-----------|
| Construction Cost Per Square Foot: | \$110 |
| Per Unit Cost: | \$372,873 |

Construction Financing

| Source | Amount |
|---------------------------------|--------------|
| Union Bank Construction Loan | \$11,000,000 |
| HCD CHRP Assumed Loan | \$2,315,249 |
| City of Campbell | \$2,150,751 |
| Santa Clara County CDBG | \$465,964 |
| Santa Clara County CDBG | \$294,467 |
| Santa Clara County CDBG | \$537,267 |
| Santa Clara County Rental Rehab | \$1,095,154 |
| Income from Operations | \$251,750 |
| Seller Take-Back | \$730,000 |
| Tax Credit Equity | \$647,147 |

Permanent Financing

| Source | Amount |
|---------------------------------|---------------------|
| Union Bank Mortgage Loan | \$2,695,000 |
| HCD CHRP Assumed Loan | \$2,315,249 |
| City of Campbell | \$2,150,751 |
| Santa Clara County CDBG | \$465,964 |
| Santa Clara County CDBG | \$294,467 |
| Santa Clara County CDBG | \$537,267 |
| Santa Clara County Rental Rehab | \$1,095,154 |
| MidPen Housing Corporation Loan | \$4,088,368 |
| Income from Operations | \$251,750 |
| GP Equity & Seller Take-Back | \$730,743 |
| Energy Credit Equity | \$129,956 |
| Deferred Developer Fee | \$424,376 |
| Tax Credit Equity | \$7,193,324 |
| TOTAL | \$22,372,369 |

Determination of Credit Amount(s)

| | |
|--|---------------------------|
| Requested Eligible Basis (Rehabilitation): | \$8,731,357 |
| 130% High Cost Adjustment: | No |
| Requested Eligible Basis (Acquisition): | \$10,737,400 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | \$8,731,357 |
| Qualified Basis (Acquisition): | \$10,737,400 |
| Applicable Rate: | 3.36% |
| Maximum Annual Federal Credit, Rehabilitation: | \$293,374 |
| Maximum Annual Federal Credit, Acquisition: | \$360,777 |
| Total Maximum Annual Federal Credit: | \$654,151 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | \$2,500,000 |
| Investor/Consultant: | Community Economics, Inc. |
| Federal Tax Credit Factor: | \$1.09964 |

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: | \$19,468,757 |
| Actual Eligible Basis: | \$19,468,757 |
| Unadjusted Threshold Basis Limit: | \$17,548,353 |
| Total Adjusted Threshold Basis Limit: | \$31,060,585 |

Adjustments to Basis Limit:

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 57%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 20%

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 3.36% 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: This project is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Sharmon Palms (CA-91-085).

Local Reviewing Agency:

The Local Reviewing Agency, City of Campbell, 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 |
| \$654,151 | \$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 improve energy efficiency above the modeled energy consumption of the building(s) by a 20% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERSII) post rehabilitation.