CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
May 18, 2016

2698 California, located at 2698 California Street in San Francisco, requested and is being recommended for a reservation of $1,126,964 in annual federal tax credits to finance the acquisition and rehabilitation of 39 units of housing serving tenants with rents affordable to households earning 50% of area median income (AMI). The project will be developed by Mercy Housing California and is located in Senate District 11 and Assembly District 19.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract and HUD RAD Project-based Vouchers.

Project Number CA-16-843

Project Name 2698 California
Site Address: 2698 California Street
San Francisco, CA 94115 County: San Francisco
Census Tract: 134.000

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,126,964	$0
Recommended:	$1,126,964	$0

Applicant Information

Applicant: 2698 California L.P., a California Limited Partnership
Contact: Helen Lee
Address: 1360 Mission Street #300
San Francisco, CA 94103
Phone: 415-355-7117 Fax: 415-355-7101
Email: hlee@mercyhousing.org

General Partner(s) or Principal Owner(s): Mercy Housing Calwest
JSCO CA Corridor LLC
Japanese-American Religious Federation Housing, Inc.
General Partner Type: Joint Venture
Parent Company(ies): Mercy Housing California
The John Stewart Company
Japanese-American Religious Federation Housing, Inc.
Developer: Mercy Housing California
Investor/Consultant: California Housing Partnership Corporation
Management Agent: Mercy Housing Management Group

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	1
Total # of Units:	40
No. & % of Tax Credit Units:	39 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Contract (17 units - 44%) / HUD RAD Project-based Vouchers (22 units - 56%)
HCD MHP Funding:	No
55-Year Use/Affordability:	Yes

Number of Units @ or below 50% of area median income: 39

Bond Information

Issuer:	The City and County of San Francisco
Expected Date of Issuance:	September 15, 2016
Credit Enhancement:	N/A

Information

Housing Type:	Non-Targeted
Geographic Area:	San Francisco County
TCAC Project Analyst:	Connie Harina

Unit Mix

31 SRO/Studio Units
8 1-Bedroom Units
1 2-Bedroom Units
40 Total Units

Unit Type & Number		2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
21	SRO/Studio	50%	43%	$892
1	2 Bedrooms	50%	44%	$1,147
9	SRO/Studio	50%	43%	$892
8	1 Bedroom	50%	46%	$1,019
1	SRO/Studio	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application

Land and Acquisition	$12,026,513
Construction Costs	$0
Rehabilitation Costs	$9,947,953
Construction Contingency	$1,989,591
Relocation	$724,010
Architectural/Engineering	$1,108,715
Const. Interest, Perm. Financing	$1,580,764
Legal Fees, Appraisals	$188,000
Reserves	$682,598
Other Costs	$1,016,088
Developer Fee	$3,144,806
Commercial Costs	$0
Total	**$32,409,038**

Project Financing

Estimated Total Project Cost:	$32,409,038
Estimated Residential Project Cost:	$32,409,038
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$413
Per Unit Cost:	$810,226
Effective Per Unit Cost:	$512,527

Construction Financing

Source	Amount
Bank of America	$18,337,000
SFHA Seller Carryback Loan	$11,180,000
Accrued / Deferred Interest	$537,013
Deferred Developer Fee	$727,957
Tax Credit Equity	$587,379

Permanent Financing

Source	Amount
Bank of America	$2,795,000
SFHA Seller Carryback Loan	$11,180,000
San Francisco MOHCD	$3,021,483
Accrued / Deferred Interest	$537,013
Deferred Developer Fee	$727,957
General Partner Equity	$500,000
Tax Credit Equity	$13,647,585
TOTAL	**$32,409,038**

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$17,877,721
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$11,434,776
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$23,241,037
Qualified Basis (Acquisition):	$11,434,776
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$755,334
Maximum Annual Federal Credit, Acquisition:	$371,630
Total Maximum Annual Federal Credit:	$1,126,964
Approved Developer Fee (in Project Cost & Eligible Basis):	$3,144,806
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	$1.21100

Per Regulation Section 10322(h)(9)(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:	$29,312,497
Actual Eligible Basis:	$29,312,497
Unadjusted Threshold Basis Limit:	$13,237,066
Total Adjusted Threshold Basis Limit:	$30,445,252

Adjustments to Basis Limit

Required to Pay Prevailing Wages

● Project subject to a project labor agreement or Project will use skilled and trained workforce performing within an apprenticeable occupation.

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: 100%

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

Development costs are roughly $810,226 per unit. The factors affecting this cost includes high real estate costs, seismic upgrades transferring shear loads from the upper floors to the foundation as well as fire system, plumbing, and electrical upgrades.

The proposed rent does not include a utility allowance. The owner will pay for all utilities.

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
$1,126,964	**$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: None