CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
REVISED
March 16, 2017

New Palace Hotel, located at 1814 5th Avenue in San Diego, requested and is being recommended for a reservation of $753,222 in annual federal tax credits to finance the acquisition and rehabilitation of 77 units of housing serving seniors with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Housing Development Partners and is located in Senate District 39 and Assembly District 79.

New Palace Hotel is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, New Palace Hotel (CA-89-020). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers. The project financing includes state funding from the Special Needs Housing Program (SNHP) from CalHFA.

Project Number CA-17-708

Project Name New Palace Hotel Apartments
Site Address: 1814 5th Avenue
San Diego, CA 92101 County: San Diego
Census Tract: 57.000

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$753,222	$0
Recommended:	$753,222	$0

Applicant Information

Applicant:	HDP New Palace, LP
Contact:	Pari Ryan
Address:	1100 Broadway San Diego, CA 92101
Phone:	(619) 269-4640
Email:	pryan@hdpartners.org

General Partner(s) or Principal Owner(s):	HDP New Palace Management LLC
General Partner Type:	Nonprofit
Parent Company(ies):	Housing Development Partners
Developer:	Housing Development Partners
Investor/Consultant:	Boston Capital
Management Agent:	SK Management

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	1
Total # of Units:	80
No. & % of Tax Credit Units:	77 97.47%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-Based Vouchers (79 Units - 100%)
55-Year Use/Affordability:	Yes
Number of Units @ or below 50% of area median income:	8
Number of Units @ or below 60% of area median income:	69

Bond Information

Issuer:	Housing Authority of the City of San Diego
Expected Date of Issuance:	June 30, 2017
Credit Enhancement:	N/A

Information

Housing Type:	Seniors
Geographic Area:	San Diego County
TCAC Project Analyst:	DC Navarrette

Unit Mix

80 SRO/Studio Units
80 Total Units

Unit Type & Number		2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
69	SRO/Studio	60%	60%	$892
8	SRO/Studio	50%	50%	$743
1	SRO/Studio	Manager’s Unit	Manager’s Unit	$0
2	SRO/Studio	Market Rate Unit	Market Rate Unit	$892

Projected Lifetime Rent Benefit: $16,789,080

Project Cost Summary at Application

Land and Acquisition	$7,751,425
Construction Costs	$0
Rehabilitation Costs	$7,938,045
Construction Contingency	$0
Relocation	$510,000
Architectural/Engineering	$414,189
Const. Interest, Perm. Financing	$1,527,106
Legal Fees, Appraisals	$86,800
Reserves	$488,797
Other Costs	$827,472
Developer Fee	$2,500,000
Commercial Costs	$0
Total	**$22,043,833**

Project Financing

Estimated Total Project Cost:	$22,043,833
Estimated Residential Project Cost:	$22,043,833
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$246
Per Unit Cost:	$275,548
True Cash Per Unit Cost*:	$240,035

Construction Financing

Source	Amount
Citi Community Capital	$12,000,000
San Diego Housing Commission	$2,948,000
Civic San Diego	$1,960,000
San Diego County - SNHP	$1,400,000
Seller Carryback Note	$1,740,739
Existing Reserves	$48,000
Tax Credit Equity	$1,220,970

Permanent Financing

Source	Amount
Citi Community Capital	$4,560,000
San Diego Housing Commission	$3,100,000
Civic San Diego	$1,960,000
San Diego County - SNHP	$1,400,000
Seller Carryback Note	$1,740,739
Existing Reserves	$48,000
Deferred Developer Fee	$1,100,292
Tax Credit Equity	$8,134,802
TOTAL	**$22,043,833**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$11,820,740
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$8,647,355
Applicable Fraction:	97.47%
Qualified Basis (Rehabilitation):	$14,977,925
Qualified Basis (Acquisition):	$8,428,435
Applicable Rate:	3.22%
Maximum Annual Federal Credit, Rehabilitation:	$481,826
Maximum Annual Federal Credit, Acquisition:	$271,396
Total Maximum Annual Federal Credit:	$753,222
Approved Developer Fee (in Project Cost & Eligible Basis):	$2,500,000
Investor/Consultant:	Boston Capital
Federal Tax Credit Factor:	$1.08000

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:	$20,468,095
Actual Eligible Basis:	$20,468,095
Unadjusted Threshold Basis Limit:	$16,243,680
Total Adjusted Threshold Basis Limit:	$22,741,152

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

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: 10%

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 3.22% 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 proposed rents do not include any utility allowances. The owner will pay for all utilities.

The applicant requested and has been granted a partial waiver to reduce the 10% mobility feature requirement under TCAC Regulation Section 10325(f)(7)(K) down to 6% due to excessive expense. The project shall provide 6% of units (5 units) meeting the provisions of California Building Code Chapter 11(B) regarding mobility accessibility features. Furthermore the Applicant has been granted a waiver of the requirement to place latch side clearances at the entry doors of the four existing accessible units. Additionally, the applicant requested and has been granted a waiver of requirements to alter the existing trash rooms in order to provide facilities complying with the provisions of California Building Code Chapter 11(B) for access for the mobility impaired.

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-89-020). To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period is from 01/01/1992 through 12/31/2006. The existing regulatory agreement expires 12/31/2022. The existing regulatory agreement income targeting is 100% of units at or below 60% AMI. The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s).

The project is a resyndication occurring concurrently with a Transfer Event that qualified for an exemption because this is the transfer of ownerships of a project subject to an existing tax credit regulatory agreement with a remaining term of five (5) years or less.

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**
$753,222	**$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 rehabilitation project commits to improve energy efficiency above the modeled energy consumption of the building(s) by a 15% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERS II) post rehabilitation.
- The project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- 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.