

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2017 Second Round**

**September 20, 2017**

Villas on the Park, located at 278 and 286 North Second Street in San Jose, requested and is being recommended for a reservation of \$2,234,210 in annual federal tax credits to finance the new construction of 83 units of housing serving special needs tenants with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by Affirmed Housing Group, Inc. and is located in Senate District 15 and Assembly District 27.

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

**Project Number** CA-17-141

**Project Name** Villas on the Park  
**Site Address:** 278 and 286 North Second Street  
San Jose, CA 95112 County: Santa Clara  
**Census Tract:** 5010.000

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$2,234,210	\$0
Recommended:	\$2,234,210	\$0

**Applicant Information**

**Applicant:** Villas on the Park San Jose, L.P.  
**Contact:** Melody Lock  
**Address:** 13520 Evening Creek Drive North, Suite 160  
San Diego, CA 92128  
**Phone:** 858-679-2459 **Fax:** 858-679-9076  
**Email:** melody@affirmedhousing.com

**General Partner(s) / Principal Owner(s):** AHG Villas San Jose, LLC  
PV Villas on the Park, GP, LLC

**Parent Companies:** Affirmed Housing Group, Inc.  
Path Ventures

**General Partner Type:** Joint Venture

**Developer:** Affirmed Housing Group, Inc.

**Investor/Consultant:** Enterprise Community Investment, Inc.

**Management Agent(s):** The John Stewart Company

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 84  
 No. & % of Tax Credit Units: 83 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: HUD Section 8 Project Based Vouchers (83 units - 100%)  
 Average Targeted Affordability of Special Needs/SRO Project Units: 39.88%  
 Affordability Breakdown by Units and % (Lowest Income Points):  
 30% AMI: 42 50 %  
 50% AMI: 41 40 %

**Information**

Set-Aside: Special Needs/SRO  
 Housing Type: Special Needs  
 Type of Special Needs: Homeless / formally homeless  
 % of Special Need Units: 83 units 100%  
 Geographic Area: South and West Bay Region  
 TCAC Project Analyst: Marlene McDonough

**Unit Mix**

83 SRO/Studio Units  
1 2-Bedroom Units  
 84 Total Units

<u>Unit Type &amp; 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>
42 SRO/Studio	30%	30%	\$627
41 SRO/Studio	50%	50%	\$1,045
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$37,443,120

**Project Cost Summary at Application**

Land and Acquisition	\$5,000,000
Construction Costs	\$23,174,000
Rehabilitation Costs	\$0
Construction Contingency	\$1,159,000
Relocation	\$0
Architectural/Engineering	\$1,428,000
Const. Interest, Perm. Financing	\$1,399,000
Legal Fees, Appraisals	\$158,000
Reserves	\$851,000
Other Costs	\$3,756,499
Developer Fee	\$1,852,106
Commercial Costs	\$0
<b>Total</b>	<b>\$38,777,605</b>

**Project Financing**

Estimated Total Project Cost:	\$38,777,605
Estimated Residential Project Cost:	\$38,777,605
Estimated Commercial Project Cost:	\$0

**Residential**

Construction Cost Per Square Foot:	\$407
Per Unit Cost:	\$461,638
True Cash Per Unit Cost*:	\$461,638

**Construction Financing**

Source	Amount
US Bank	\$19,819,123
City of San Jose	\$9,728,427
City of San Jose - Land	\$4,500,000
Tax Credit Equity	\$4,730,055

**Permanent Financing**

Source	Amount
US Bank - Tranche B	\$4,200,000
City of San Jose	\$9,728,427
City of San Jose - Land	\$4,500,000
Tax Credit Equity	\$20,349,178
<b>TOTAL</b>	<b>\$38,777,605</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$19,095,808
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$24,824,550
Applicable Rate:	9.00%
Maximum Annual Federal Credit:	\$2,234,210
Approved Developer Fee in Project Cost:	\$1,852,106
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	Enterprise Community Investment, Inc.
Federal Tax Credit Factor:	\$0.91080

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, except that the adjustment factor related to costs described in Section 10327(c)(2)(A) shall be recalculated at placed in service where applicable.

**Eligible Basis and Basis Limit**

Requested Unadjusted Eligible Basis:	\$19,095,808
Actual Eligible Basis:	\$31,351,500
Unadjusted Threshold Basis Limit:	\$17,474,976
Total Adjusted Threshold Basis Limit:	\$27,070,715

**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

Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels

100% of Units for Special Needs Population

One or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:

- Project has onsite renewable generation estimated to produce 50% or more of annual tenant electricity use as indicated in TCAC Regulations.

- Install bamboo, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all kitchens, living rooms, and bathrooms where no VOC adhesives or backing is used

- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, ceramic tile, or natural linoleum in all common areas

Local Development Impact Fees

95% of Upper Floor Units are Elevator-Serviced

**Tie-Breaker Information**

First:	<b>Special Needs</b>
Final:	<b>75.589%</b>

**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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.23%. 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 rent does not include a utility allowance. The owner will pay for all utilities.

**Legal Status**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

**Local Reviewing Agency**

The Local Reviewing Agency, City of San Jose-Housing Department, 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:

<b>Federal Tax Credits/Annual</b>	<b>State Tax Credits/Total</b>
<b>\$2,234,210</b>	<b>\$0</b>

**Standard Conditions**

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of fifteen years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(6) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

**Additional Conditions:** None.

<b>Points System</b>	<b>Max. Possible Points</b>	<b>Requested Points</b>	<b>Points Awarded</b>
<b>Cost Efficiency / Credit Reduction / Public Funds</b>	<b>20</b>	<b>20</b>	<b>20</b>
Public Funds	20	20	20
<b>Owner / Management Characteristics</b>	<b>9</b>	<b>9</b>	<b>9</b>
General Partner Experience	6	6	6
Management Experience	3	3	3
<b>Housing Needs</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Site Amenities</b>	<b>15</b>	<b>15</b>	<b>15</b>
Within 1/8 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	2	2	2
Within 1/2 mile of a neighborhood market of at least 5,000 sf	3	3	3
Within 1/2 mile of medical clinic or hospital	3	3	3
Within 1/2 mile of a pharmacy	2	2	2
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>SPECIAL NEEDS AND SRO HOUSING TYPES</b>			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	5
Service Coordinator/Other Services Specialist, min. ratio 1 FTE to 360 bdrms	5	5	5
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>NEW CONSTRUCTION/ADAPTIVE REUSE</b>			
Develop project in accordance w/ requirements of: GreenPoint Rated Program	5	5	5
<b>Lowest Income</b>	<b>52</b>	<b>52</b>	<b>52</b>
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
<b>Readiness to Proceed</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Miscellaneous Federal and State Policies</b>	<b>2</b>	<b>2</b>	<b>2</b>
State Credit Substitution	2	2	2
<b>Total Points</b>	<b>138</b>	<b>138</b>	<b>138</b>

**Please Note:** If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

**DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.**