

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
November 15, 2017**

La Playa-Sycamore, a scattered site project located at 216 Leibrandt Avenue and 125 Sycamore Street in Santa Cruz, requested and is being recommended for a reservation of \$1,147,598 in annual federal tax credits to finance the acquisition and rehabilitation of 67 units of housing serving large families with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Mercy Housing California and is located in Senate District 17 and Assembly District 29.

La Playa-Sycamore is a re-syndication of two existing Low Income Housing Tax Credit (LIHTC) project, La Playa Marketplace (CA-1991-108) and Sycamore Street Commons (CA-1995-073). 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 Contract. The project financing includes state funding from the Family Housing Demonstration Program (FHDP) and California Housing Rehabilitation Program (CHRP) of the Department of Housing and Community Development (HCD).

Project Number CA-17-797

Project Name La Playa-Sycamore
Site Address: La Playa Site Sycamore Site
216 Leibrandt Avenue 125 Sycamore Street
Santa Cruz, CA 95060 Santa Cruz, CA 95060
County: Santa Cruz Santa Cruz
Census Tract: 1010.00 1010.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,147,598	\$0
Recommended:	\$1,147,598	\$0

Applicant Information

Applicant: Mercy Housing California 72, L.P.
Contact: Lauren Maddock
Address: 1360 Mission Street, Suite 300
San Francisco, CA 94103
Phone: 415-355-7100 **Fax:** 415-355-7101
Email: lmaddock@mercyhousing.org

General Partner(s) or Principal Owner(s): Central Coast Housing
General Partner Type: Nonprofit
Parent Company(ies): Central Coast Housing
Developer: Mercy Housing California
Investor/Consultant: US Bank Community Development Corp.
Management Agent: Mercy Housing Management Group Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 13
 Total # of Units: 68
 No. & % of Tax Credit Units: 67 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HOME / CDBG
 HUD Section 8 Project-based Contract (21 Units - 31%)
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 35% of area median income: 13
 Number of Units @ or below 50% of area median income: 31
 Number of Units @ or below 60% of area median income: 23

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: April 1, 2018
 Credit Enhancement: N/A

Information

Housing Type: Large Family
 Geographic Area: Central Coast Region
 TCAC Project Analyst: Zhuo Chen

Unit Mix

16 1-Bedroom Units
 21 2-Bedroom Units
 26 3-Bedroom Units
 5 4-Bedroom Units

 68 Total Units

Unit Type & Number	2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
<u>La Playa Site (CA-1991-108)</u>			
1 1 Bedroom	30%	30%	\$564
1 1 Bedroom	50%	50%	\$940
4 1 Bedroom	50%	50%	\$940
2 1 Bedroom	60%	56%	\$1,058

Unit Type & Number	2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
<u>Sycamore Site (CA-1995-073)</u>			
4 1 Bedroom	35%	35%	\$658
4 2 Bedrooms	35%	35%	\$789
3 3 Bedrooms	35%	35%	\$912
1 4 Bedrooms	35%	35%	\$1,017
5 3 Bedrooms	50%	50%	\$1,303
2 4 Bedrooms	50%	50%	\$1,453
4 1 Bedroom	50%	37%	\$698
12 2 Bedrooms	50%	44%	\$1,002
3 3 Bedrooms	50%	39%	\$1,005
5 2 Bedrooms	60%	54%	\$1,218
14 3 Bedrooms	60%	52%	\$1,365
2 4 Bedrooms	60%	60%	\$1,731
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$69,241,260

Project Cost Summary at Application

Land and Acquisition	\$15,739,512
Construction Costs	\$0
Rehabilitation Costs	\$8,692,429
Construction Contingency	\$1,303,887
Relocation	\$796,562
Architectural/Engineering	\$298,197
Const. Interest, Perm. Financing	\$1,420,235
Legal Fees, Appraisals	\$194,887
Reserves	\$688,329
Other Costs	\$418,183
Developer Fee	\$4,106,663
Commercial Costs	\$1,346,101
Total	\$35,004,985

Project Financing

Estimated Total Project Cost:	\$35,004,985
Estimated Residential Project Cost:	\$33,658,884
Estimated Commercial Project Cost:	\$1,346,101

Residential

Construction Cost Per Square Foot:	\$129
Per Unit Cost:	\$494,984
True Cash Per Unit Cost*:	\$421,956

Construction Financing

Source	Amount
US Bank	\$17,800,865
HCD - FHDP (Sycamore, Assumed)	\$2,072,173
HCD - HOME (Sycamore, Assumed)	\$1,357,898
City ¹ - RDA (Sycamore, Assumed)	\$863,970
HCD - CHRP (La Playa, Assumed)	\$566,861
City ¹ - CDBG (La Playa, Assumed)	\$359,913
City ¹ - Red Cross (La Playa, Assumed)	\$433,295
City ¹ (La Playa, Assumed)	\$106,427
Seller Carryback Loan	\$4,513,822
GP Operating Deficit Loan (La Playa)	\$238,333
Existing Reserves	\$259,576
Deferred Developer Fee	\$650,648
General Partner Equity	\$1,523,156
Tax Credit Equity	\$1,615,827

Permanent Financing

Source	Amount
US Bank - Tranche A	\$1,851,000
US Bank - Tranche B	\$3,877,000
HCD - FHDP (Sycamore, Assumed)	\$2,072,173
HCD - HOME (Sycamore, Assumed)	\$1,357,898
City ¹ - RDA (Sycamore, Assumed)	\$863,970
HCD - CHRP (La Playa, Assumed)	\$566,861
City ¹ - CDBG (La Playa, Assumed)	\$359,913
City ¹ - Red Cross (La Playa)	\$433,295
City ¹ (La Playa, Assumed)	\$106,427
Seller Carryback Loan	\$4,513,822
GP Operating Deficit Loan (La Playa)	\$238,333
General Partner Loan	\$4,765,397
Existing Reserves	\$259,576
Deferred Developer Fee	\$650,648
General Partner Equity	\$1,523,156
Tax Credit Equity	\$11,565,516
TOTAL	\$35,004,985

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

¹City: City of Santa Cruz

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$13,862,232
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$17,622,183
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$18,020,902
Qualified Basis (Acquisition):	\$17,622,183
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$574,877
Maximum Annual Federal Credit, Acquisition:	\$572,721
Total Maximum Annual Federal Credit:	\$1,147,598
Approved Developer Fee (in Project Cost & Eligible Basis):	\$4,106,663
Investor/Consultant:	US Bank Community Development Corp.
Federal Tax Credit Factor:	\$1.00780

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.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$31,484,415
Actual Eligible Basis:	\$31,484,415
Unadjusted Threshold Basis Limit:	\$22,163,241
Total Adjusted Threshold Basis Limit:	\$40,780,363

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: 46%
55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 38%

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

This project involves the substantial rehabilitation of 2 scattered-sites originally constructed in mid 1990s in the City of Santa Cruz.

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreements for La Playa Marketplace (CA-1991-108) and Sycamore Street Commons (CA-1995-073). 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 for La Playa is from 01/01/1994 through 12/31/2008, and the initial 15 year compliance period for Sycamore is from 01/01/1998 through 12/31/2012. The existing regulatory agreement of La Playa expires on 12/31/2048, and the existing regulatory agreement of Sycamore expires on 12/31/2052. The existing regulatory agreement income targeting for La Playa is such that average income of all low-income tenants (8 units) does not exceed 51% AMI. The existing regulatory agreement income targeting for Sycamore is 24 units at or below 50% AMI and 25 units at or below 60% AMI. The new reservation of tax credits will result in moderately deeper rent/income targeting than the original award of tax credits. La Playa will be restricting 1 unit at or below 30% AMI, 5 units at or below 50% AMI, and 2 units at or below 60% AMI. Sycamore will be restricting 12 units at or below 35% AMI, 26 units at at or below 50% AMI, and 21 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 without distribution of Net Project Equity, and thus is waived from the requirements under TCAC Regulation Section 10320(b)(4)(B).

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
\$1,147,598	\$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.