

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**2008 Second Round Cycle**  
**Tax-Exempt Bond Project with State Credits**  
**October 8, 2008**

**Project Number** CA-2008-906

**Project Name** Fourth Street Apartments  
**Site Address:** 1470 N. 4<sup>th</sup> Street  
San Jose, CA 95112 **County:** Santa Clara  
**Census Tract:** 5051.00

**Applicant Information**

**Applicant:** Fourth Street Apartments, L.P.  
**Contact** Geoffrey Morgan  
**Address:** 75 E. Santa Clara Street, Suite 1300  
San Jose, CA 95113  
**Phone:** (408)291-8650 **Fax:** (408)993-9098  
**Sponsors Type:** Non-profit

**Information**

**Housing Type:** Large Family

**Bond Information**

**Issuer:** CalHFA  
**Expected Date of Issuance:** September, 2008  
**Credit Enhancement:** No

**Eligible Basis**

**Actual:** \$44,018,086  
**Requested:** \$44,018,086  
**Maximum Permitted:** \$60,105,135

**Extra Feature Adjustments:**

**Required to Pay Prevailing Wages:** 20%  
**Parking Beneath Residential Units:** 7%  
**55-Year Use/Affordability Restriction – 1% for each 1% of Low-Income Units are Income Targeted Between 50% AMI & 36% AMI:** 40%  
**55-Year Use/Affordability Restriction – 2% for each 1% of Low-Income Units are Income Targeted at 35% AMI or Below:** 70%

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
<b>Requested:</b>	\$1,540,633	\$5,722,351
<b>Recommended:</b>	\$1,540,633	\$5,722,351

**Project Information**

**Construction Type:** New Construction  
**Federal Subsidy:** Tax-Exempt  
**HCD MHP Funding:** Yes  
**Total # of Units:** 100  
**Total # Residential Buildings:** 1

**Income/Rent Targeting**

Federal Setaside Elected: 40%/60%  
 % & No. of Targeted Units: 100% - 100 units (Includes Manager's Unit)  
 55-Year Use/Affordability Restriction: Yes  
 Breakdown by %: 35% @ 30%, 15% @ 45%, 25% @ 50%  
 Number of Units @ or below 30% of area median income: 35  
 Number of Units @ or below 45% of area median income: 15  
 Number of Units @ or below 50% of area median income: 25  
 Number of Units @ or below 60% of area median income: 25

Selection Criteria	Max. Possible Points	Requested Points	Points Awarded
<b>Owner/Management Characteristics</b> <b>Maximum of 9 points</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>Maximum of 10 points</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Site Amenities</b> <b>Maximum of 15 points</b>	<b>15</b>	<b>15</b>	<b>13</b>
Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density	7	7	7
Within ½ mile of public park or community center open to general public	2	2	2
Within ¼ mile of convenience market where staples are sold	2	2	2
Large Family project within ½ mile of public school that project children may attend	2	2	2
Special Needs or SRO project within 1/2 mile of a facility operated to serve population	3	3	0
<b>Service Amenities</b> <b>Maximum of 10 points</b>	<b>10</b>	<b>10</b>	<b>10</b>
High speed internet service provided in each unit	5	5	5
Educational classes (e.g. ESL, Computer training, etc. and aren't same as After School)	5	5	5
<b>Sustainable Building Methods</b> <b>Maximum of 8 points</b>	<b>8</b>	<b>8</b>	<b>8</b>
Flow restrictors for kitchen & bath faucets or water-saving fixtures	1	1	1
Formaldehyde free cabinets, countertops and shelving	1	1	1
CRI Green-label, low-VOC carpet and pad	1	1	1
Bathroom fans in all bathrooms w/humidistat, timer and outdoor exhaust	2	2	2
Formaldehyde-free insulation	1	1	1
Recycled materials incorporated into: concrete, carpet, road base or landscape	1	1	1
Project has nonsmoking buildings or contiguous sections within a building	1	1	1
<b>Lowest Income</b> <b>Maximum of 52 points</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>Maximum of 20 points</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>Total Points</b>	<b>124</b>	<b>124</b>	<b>122</b>

<u>Unit Type &amp; Number</u>	<u>2008 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
20 One-Bedroom	25%	\$497
19 One-Bedroom	50%	\$995
11 Two-Bedroom	25%	\$596
5 Two-Bedroom	45%	\$1,074
4 Two-Bedroom	50%	\$1,193
5 Two-Bedroom	55%	\$1,313
5 Two-Bedroom	60%	\$1,432
4 Three-Bedroom	25%	\$689
10 Three-Bedroom	45%	\$1,241
2 Three-Bedroom	50%	\$1,379

10	Three-Bedroom	55%	\$1,517
4	Three-Bedroom	60%	\$1,655
1	Two-Bedroom	Manager's Unit	\$1,390

The general partner or principal owner Fourth Street Apartments, LLC.

The project developer is First Community Housing.

The management services will be provided by Jon Berkley Management.

The market analysis was provided by Newport Realty Advisors.

The Local Reviewing Agency, the City of San Jose, has completed a site review of this project and strongly supports this project.

**Project Financing**

Estimated Total Project Cost: \$47,842,371 Per Unit Cost: \$478,424 Construction Cost Per Sq. Foot: \$418

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
CalHFA Tax-Exempt Loan	\$30,000,000	CalHFA Special Needs Loan	\$9,589,000
CalHFA Taxable Tail	\$3,965,000	HCD-MHP	\$8,789,846
City of San Jose	\$9,177,509	City Of San Jose	\$9,875,000
City of San Jose Deferred Interest	\$697,491	G.P. Equity-IIG Prop 1C Grant	\$1,513,561
G.P. Equity-IIG Prop 1C Grant	\$1,513,561	G.P. Equity	\$100
Investor Equity	\$1,900,000	Deferred Developer Fee	\$200,000
		Investor Equity	\$17,874,864
		<b>TOTAL</b>	<b>\$47,842,371</b>

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$44,018,086
130% High Cost Adjustment:	No
Applicable Fraction:	100%
Qualified Basis:	\$44,018,086
Applicable Rate:	3.50%
Total Maximum Annual Federal Credit:	\$1,540,633
State Credit Applicable Rate:	13%
Total State Credit:	\$5,722,351
Approved Developer Fee:	\$1,400,000
Tax Credit Factor: Community Economics	\$.846

Applicant requests and staff recommends annual federal credits of \$1,540,633 and total state credits of \$5,722,351 based on a qualified basis of \$44,018,086 and a funding shortfall of \$17,874,864.

**Cost Analysis and Line Item Review**

The requested eligible basis \$44,018,086 is below TCAC's adjusted threshold basis limit \$60,105,135. The applicant requested basis limit includes the adjustment for extraordinary features including the following: Required to Pay Prevailing Wages; Parking Beneath Residential Units; the use/affordability restriction for projects where 1% for each 1% of low-income units are income targeted between 50% AMI & 36% AMI, and 55-year use/affordability restriction for projects where 2% for each 1% of low-income units are income targeted at 35% AMI & below. Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitation.

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 3.50% of the qualified basis. Unless the applicant fixed the rate at bond issuance, the Federal Rate applicable to the month the project is placed-in-service will be used to determine the final allocation.

**Special Issues/Other Significant Information:** None

**Recommendation:** Staff recommends that the Committee make a reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal/Annual	State/Total
<b>\$1,540,633</b>	<b>\$5,722,351</b>

### **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 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 will be permitted without the express approval of TCAC.

The applicant must pay TCAC an 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 anticipated to be the final project costs, staff recommends that a reservation be made in the amount of federal and state credit shown above on condition that the final project costs be supported by itemized lender approved costs, and certified costs of the buildings as completed.

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 credits 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**

Applicants that received 20 points for readiness to proceed must meet ALL of the following requirements. The applicant must be ready to begin construction within 150 days of the Credit Reservation which is **March 9, 2009**, as evidenced by submission, within that time of, recorded deeds of trust for all construction financing, payment of all construction lender fees, issuance of building permits and notice to proceed delivered to the contractor. Failure to meet this timeline will result in rescission of the Credit Reservation.

Applicant received points for high-speed internet and educational classes provided to residents as service amenities. In addition to these service amenities, the applicant/owner is required to provide the tenants with contracts for services for a minimum of ten (10) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC.

Project Analyst: David Navarrette