

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2013 First Round

June 12, 2013

REVISED

Project Number CA-13-831

Project Name Cochrane Village
Site Address: 18555 Butterfield Blvd.
Morgan Hill, CA 95037 County: Santa Clara
Census Tract: 5123.110

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$530,867	\$756,466
Recommended:	\$530,867	\$756,466

Applicant Information

Applicant: EAH Inc.
Contact: Benny Kwong
Address: 2168 E. Francisco Blvd., Suite B
San Rafael, CA 94901
Phone: (415) 295-8857 Fax: (415) 295-8957
Email: benny.kwong@eahhousing.org

General partner(s) or principal owner(s): Cochrane Morgan Hill EAH, LLC
General Partner Type: Nonprofit
Developer: EAH Inc.
Investor/Consultant: California Housing Partnership Corp.
Management Agent: EAH Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 12
Total # of Units: 96
No. & % of Tax Credit Units: 94 100%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / HOME / CDBG
Affordability Breakdown by Units and % (Lowest Income Points):
30% AMI: 10 10 %
40% AMI: 40 40 %
50% AMI: 29 30 %

Affordability Breakdown by % (Basis Limit Increase):

Number of Units @ or below 35% of area median income: 10
Number of Units @ or below 50% of area median income: 69
Number of Units @ or below 60% of area median income: 15

Bond Information

Issuer: CA Municipal Finance Authority
 Expected Date of Issuance: 09/15/13
 Credit Enhancement: None

Information

Housing Type: Large Family
 Geographic Area: South & West Bay Region
 TCAC Project Analyst: Benjamin Schwartz

Unit Mix

16 1-Bedroom Units
 40 2-Bedroom Units
 36 3-Bedroom Units
 4 4-Bedroom Units

 96 Total Units

<u>Unit Type & Number</u>	<u>2013 Rents Targeted % of Area Median Income</u>	<u>2013 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
1 1 Bedroom	30%	30%	\$570
4 2 Bedrooms	30%	30%	\$684
4 3 Bedrooms	30%	28%	\$736
1 4 Bedrooms	30%	24%	\$717
7 1 Bedroom	40%	40%	\$760
17 2 Bedrooms	40%	38%	\$876
14 3 Bedrooms	40%	40%	\$1,054
2 4 Bedrooms	40%	40%	\$1,176
5 1 Bedroom	50%	50%	\$950
13 2 Bedrooms	50%	50%	\$1,140
11 3 Bedrooms	50%	50%	\$1,317
3 1 Bedroom	60%	59%	\$1,115
6 2 Bedrooms	60%	59%	\$1,350
5 3 Bedrooms	60%	57%	\$1,495
1 4 Bedrooms	60%	54%	\$1,581
2 3 Bedrooms	Manager's Unit	Manager's Unit	\$1,396

Project Financing

Estimated Total Project Cost:	\$18,186,244
Estimated Residential Project Cost:	\$18,186,244

Construction Financing

Source	Amount
Citi Community Capital	\$11,250,000
Seller Carryback	\$528,523
City of Morgan Hill - RDA 1 (Existing)	\$2,490,077
City of Morgan Hill - RDA 2 (Existing)	\$599,697
Santa Clara County - HOME (Existing)	\$1,311,639
Santa Clara County - CDBG (Existing)	\$418,154
Accrued/Deferred Interest during Const.	\$178,415
GP Equity	\$200,000
Deferred Developer Fee	\$508,753
Tax Credit Equity	\$462,384

Residential

Construction Cost Per Square Foot:	\$37
Per Unit Cost:	\$189,440

Permanent Financing

Source	Amount
Citi Community Capital	\$5,650,700
Seller Carryback	\$528,523
City of Morgan Hill - RDA 1 (Existing)	\$2,490,077
City of Morgan Hill - RDA 2 (Existing)	\$599,697
Santa Clara County - HOME (Existing)	\$1,311,639
Santa Clara County - CDBG (Existing)	\$418,154
Accrued/Deferred Interest during Const.	\$178,415
Solar/PV Rebates	\$155,678
Income from Operations	\$332,770
GP Equity	\$200,000
Deferred Developer Fee	\$508,753
Tax Credit Equity	\$5,811,838
TOTAL	\$18,186,244

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$5,818,969
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	\$10,770,640
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$5,818,969
Applicable Rate:	3.20%
Qualified Basis (Acquisition):	\$10,770,640
Applicable Rate:	3.20%
Maximum Annual Federal Credit, Rehabilitation:	\$186,207
Maximum Annual Federal Credit, Acquisition:	\$344,660
Total Maximum Annual Federal Credit:	\$530,867
Total State Credit:	\$756,466
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,271,884
Investor/Consultant:	California Housing Partnership Corp.
Federal Tax Credit Factor:	\$1.00000
State Tax Credit Factor:	\$0.66515

Per Regulation Section 10322(i)(4)(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:	\$16,589,609
Actual Eligible Basis:	\$16,589,609
Unadjusted Threshold Basis Limit:	\$24,875,364
Total Adjusted Threshold Basis Limit:	\$48,009,453

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: 73%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 20%

Tie-Breaker Information

Final: N/A

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 3.20% 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 estimate of the contractor’s profit, overhead and general requirement costs exceed the limits established by regulation. Be cautioned that at final review, prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceeds the limits will not be allowed; otherwise the Tax Credit originally awarded may be decreased.

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 Morgan Hill, 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:

Federal Tax Credits/Annual	State Tax Credits/Total
\$530,867	\$756,466

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.

The applicant must submit all documentation required for any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation.

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 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.

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 ten 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

Points System	Max. Possible Points	Requested Points	Points Awarded
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	13	11
Within 1/3 mile of a bus stop, service every 30 minutes in rush hours	5	5	0
Within 1/3 mile of a regular bus stop or rapid transit system stop	3	0	3
Within 1/2 mile of a full-scale grocery/supermarket of at least 25,000 sf	4	4	4
Within 1 mile of a public high school	3	3	3
Within 1/2 mile of a pharmacy	1	1	1
Service Amenities	10	10	10
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Service Coordinator, minimum ratio of 1 FTE to 600 bedrooms	5	5	5
Adult ed/health & wellness/skill bldg classes, minimum 60 hrs/yr instruction	5	5	5
Sustainable Building Methods	10	10	10
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating): 20%	5	5	5
Additional rehab measures: PV generation that offsets either 50% of	3	3	3
Additional rehab measures: Sustainable Building Mgmt Practices	3	3	3
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed	20	20	20
Total Points	126	124	122

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.