

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 11, 2013

Project Number CA-13-896

Project Name Alpha Square
 Site Address: 14th & Market Street
 San Diego, CA 92101 County: San Diego
 Census Tract: 51.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$417,407	\$0
Recommended:	\$417,407	\$0

Applicant Information

Applicant: Alpha Square 4%, LP
 Contact: Robert McElroy
 Address: 3737 Fifth Avenue, Suite 203
 San Diego, CA 92013
 Phone: (619) 542-1877 Fax: (619) 542-0264
 Email: Bob@alphaproject.org

General Partner(s) or Principal Owner(s): Metro Hotel Community Association
 Pacific Southwest Community Development Corp.
 General Partner Type: Nonprofit
 Parent Company(ies): Metro Hotel Community Association
 Pacific Southwest Community Development Corp.
 Developer: Chelsea Investment Corporation
 Investor/Consultant: US Bank
 Management Agent: Royal Property Mgmt Group, Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 53
 No. & % of Tax Credit Units: 53 100.00%
 Federal Set-Aside Elected: 20%/50%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 53

Bond Information

Issuer: San Diego Housing Commission
 Expected Date of Issuance: February 15, 2014
 Credit Enhancement: N/A

Information

Housing Type: Single Room Occupancy
 Geographic Area: San Diego County
 TCAC Project Analyst: DC Navarrette

Unit Mix

53 SRO/Studio Units
 53 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>
53 SRO/Studio	45%	45%	\$635

Project Financing

Estimated Total Project Cost: \$11,154,534
 Estimated Residential Project Cost: \$11,154,534

Residential

Construction Cost Per Square Foot: \$203
 Per Unit Cost: \$210,463

Construction Financing

<u>Source</u>	<u>Amount</u>
Construction Loan	\$6,291,527
City of San Diego - Loan	\$2,747,313
Accrued Loan Interest	\$117,324
City of San Diego - Ground Lease	\$664,279
Deferred Costs	\$1,180,419
Tax Credit Equity	\$438,277

Permanent Financing

<u>Source</u>	<u>Amount</u>
City of San Diego - Loan	\$5,494,626
Accrued Loan Interest	\$117,324
City of San Diego - Ground Lease	\$664,279
Deferred Costs	\$495,531
Tax Credit Equity	\$4,382,774
TOTAL	\$5,542,584

Determination of Credit Amount(s)

Requested Eligible Basis:	\$10,038,438
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$13,049,969
Applicable Rate:	3.20%
Maximum Annual Federal Credit:	\$417,407
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,309,361
Investor/Consultant:	US Bank
Federal Tax Credit Factor:	\$1.05000

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:	\$10,038,438
Actual Eligible Basis:	\$10,038,438
Unadjusted Threshold Basis Limit:	\$10,212,676
Total Adjusted Threshold Basis Limit:	\$24,043,054

Adjustments to Basis Limit:

Required to Pay Prevailing Wages

Local Development Impact Fees

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: 100%

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 meet 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: This is the second phase of a previously awarded application, CA-13-152. This phase will utilize the existing manager's units from the first phase.

The estimated 3 month operating reserve is slightly below the required amount based regulation section 10327(c)(8)(C). The applicant is advised this number must meet TCAC minimum requirements at the time of placed in service.

Local Reviewing Agency:

The Local Reviewing Agency, the San Diego Housing Commission, 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

Federal Tax Credits/Annual	State Tax Credits/Total
\$417,407	\$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 project commits to becoming certified under Leadership in Energy & Environmental Design (LEED)
- The project will be developed beyond the minimum requirements of the green building program by meeting the LEED for Homes SILVER standard.
- The project will exceed Title 24 Standards for New Construction / Adaptive Reuse by 20% of the California Building Code.