

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 10, 2014

Project Number CA-14-909

Project Name Stanford/Palo Alto Affordable Apartments
 Site Address: 2500 El Camino Real
 Palo Alto, CA 94306 County: Santa Clara
 Census Tract: 5117.050

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$994,931	\$0
Recommended:	\$994,931	\$0

Applicant Information

Applicant: Palo Alto ECR Partners, L.P.
 Contact: Frank Cardone
 Address: 18201 Von Karman Avenue, Suite 900
 Irvine, CA 92612
 Phone: (949) 660-7272 Fax: (949) 660-7273
 Email: fcardone@related.com

General Partner(s) or Principal Owner(s): Related/Palo Alto ECR Development Co., LLC
 Palo Alto MGP, LLC

General Partner Type: Joint Venture
 Parent Company(ies): The Related Companies of California
 Affordable Housing Access, Inc.

Developer: Related Development Company of California, LLC
 Investor/Consultant: US Bank, CDC
 Management Agent: Related Management Company

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 70
 No. & % of Tax Credit Units: 69 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 14
 Number of Units @ or below 60% of area median income: 55

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: January 1, 2015
 Credit Enhancement: None

Information

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

Unit Mix

24 1-Bedroom Units
 24 2-Bedroom Units
22 3-Bedroom Units
 70 Total Units

<u>Unit Type & Number</u>	<u>2014 Rents Targeted % of Area Median Income</u>	<u>2014 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
5 1 Bedroom	50%	50%	\$956
19 1 Bedroom	60%	60%	\$1,147
5 2 Bedrooms	50%	50%	\$1,147
18 2 Bedrooms	60%	60%	\$1,377
4 3 Bedrooms	50%	50%	\$1,325
18 3 Bedrooms	60%	60%	\$1,590
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Financing

Estimated Total Project Cost: \$54,962,886
 Estimated Residential Project Cost: \$52,326,718
 Estimated Commercial Project Cost: \$2,636,168

Residential

Construction Cost Per Square Foot: \$243
 Per Unit Cost: \$747,525*

Construction Financing

<u>Source</u>	<u>Amount</u>
MUFG Union Bank, N.A.	\$20,797,319
Stanford University Loan	\$11,660,000
Stanford University Donated Land Value	\$18,500,000
Deferred Reserves	\$406,279
Deferred Developer Fee	\$2,500,000
Tax Credit Equity	\$1,099,289

Permanent Financing

<u>Source</u>	<u>Amount</u>
MUFG Union Bank, N.A.	\$6,136,089
MUFG Union Bank, N.A. (Commercial)	\$1,673,911
Stanford University Loan	\$16,660,000
Stanford University Donated Land Value	\$18,500,000
GP Equity	\$1,000,000
Tax Credit Equity	\$10,992,886
TOTAL	\$54,962,886

*See "Special Issues/Other Significant Information" section of staff report

Determination of Credit Amount(s)

Requested Eligible Basis:	\$29,611,036
130% High Cost Adjustment:	No
Applicable Fraction:	100.00%
Qualified Basis:	\$29,611,036
Applicable Rate:	3.36%
Maximum Annual Federal Credit:	\$994,931
Approved Developer Fee in Project Cost:	\$2,500,000
Approved Developer Fee in Eligible Basis:	\$2,310,426
Investor/Consultant:	US Bank, CDC
Federal Tax Credit Factor:	\$1.10489

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:	\$29,611,036
Actual Eligible Basis:	\$32,049,978
Unadjusted Threshold Basis Limit:	\$20,809,768
Total Adjusted Threshold Basis Limit:	\$29,611,036

Adjustments to Basis Limit:

Parking Beneath Residential Units

Environmental Mitigation

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: 20%

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 3.36% 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: Staff noted a per unit development cost of \$747,525. While higher than the average in the area, the contributing factor to the high cost is the value of the donated land which accounts for \$264,285 of the \$747,525 per unit development cost. If excluded, the per unit development cost equates to \$483,239.

Local Reviewing Agency:

The Local Reviewing Agency, City of Palo Alto, 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
\$994,931	\$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 any one of the following programs: Leadership in Energy & Environmental Design (LEED); Green Communities; or the GreenPoint Rated Multifamily Guidelines
- The project will be developed beyond the minimum requirements of the green building program by meeting the GreenPoint Rated 125 standard.