

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
August 19, 2015

The Lodge at Eureka, located at 428 8th Street in Eureka, CA, requested and is being recommended for a reservation of \$279,656 in annual federal tax credits to finance the acquisition and rehabilitation/adaptive reuse of 49 units of housing serving seniors with rents affordable to households earning 35%-60% of area median income (AMI). The project will be developed by Danco Communities and will be located in Senate District 2 and Assembly District 2.

Project Number CA-15-861

Project Name The Lodge at Eureka
 Site Address: 428 8th Street
 Eureka, CA 95501 County: Humboldt
 Census Tract: 1.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$279,656	\$0
Recommended:	\$279,656	\$0

Applicant Information

Applicant: Eureka 8th Street LP
 Contact: Chris Dart
 Address: 5251 Ericson Way
 Arcata, CA 95521
 Phone: (707) 822-9000 Fax: (707) 822-9596
 Email: cdart@danco-group.com

General Partner(s) or Principal Owner(s): Johnson & Johnson Investments LLC
 Community Revitalization & Development Corp.
 General Partner Type: Joint Venture
 Parent Company(ies): Johnson & Johnson Investments LLC
 Community Revitalization & Development Corp.
 Danco Communities
 Developer: Danco Communities
 Investor/Consultant: Raymond James Tax Credit Funds Inc.
 Management Agent: Danco Property Management

Project Information

Construction Type: Acquisition & Rehabilitation / Adaptive Reuse
 Total # Residential Buildings: 1
 Total # of Units: 50
 No. & % of Tax Credit Units: 49 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HOME
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 35% of area median income: 4
 Number of Units @ or below 50% of area median income: 30
 Number of Units @ or below 60% of area median income: 15

Bond Information

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

Information

Housing Type: Seniors
 Geographic Area: Rural
 TCAC Project Analyst: Connie Harina / Daniel Tran

Unit Mix

8 SRO/Studio Units
 36 1-Bedroom Units
 5 2-Bedroom Units
 1 3-Bedroom Units

 50 Total Units

<u>Unit Type & Number</u>	<u>2015 Rents Targeted % of Area Median Income</u>	<u>2015 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
2 SRO/Studio	35%	35%	\$349
2 SRO/Studio	45%	45%	\$448
1 SRO/Studio	50%	50%	\$498
3 SRO/Studio	60%	60%	\$598
2 1 Bedroom	35%	35%	\$374
6 1 Bedroom	45%	45%	\$480
18 1 Bedroom	50%	50%	\$534
10 1 Bedroom	60%	60%	\$641
3 2 Bedrooms	50%	50%	\$641
2 2 Bedrooms	60%	60%	\$769
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$1,500,000
Construction Costs	\$1,034,867
Rehabilitation Costs	\$2,767,323
Construction Contingency	\$187,639
Relocation	\$0
Architectural/Engineering	\$250,000
Construction Interest, Perm Financing	\$434,750
Legal Fees, Appraisals	\$116,000
Reserves	\$121,701
Other Costs	\$516,625
Developer Fee	\$884,893
Commercial Costs	\$0
Total	\$7,813,798

Project Financing

Estimated Total Project Cost:	\$7,813,798
Estimated Residential Project Cost:	\$7,813,798

Residential

Construction Cost Per Square Foot:	\$66
Per Unit Cost:	\$156,276

Construction Financing

Source	Amount
Citibank	\$4,460,000
HCD - HOME	\$2,141,696
City of Eureka	\$800,000
Tax Credit Equity	\$412,102

Permanent Financing

Source	Amount
Citibank	\$500,000
HCD - HOME	\$3,700,000
City of Eureka	\$800,000
Deferred Developer Fee	\$66,178
Tax Credit Equity	\$2,747,620
TOTAL	\$7,813,798

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$5,634,178
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$1,150,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$7,324,431
Qualified Basis (Acquisition):	\$1,150,000
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$241,706
Maximum Annual Federal Credit, Acquisition:	\$37,950
Total Maximum Annual Federal Credit:	\$279,656
Approved Developer Fee (in Project Cost & Eligible Basis):	\$884,893
Investor/Consultant:	Raymond James Tax Credit Funds Inc.
Federal Tax Credit Factor:	\$0.98250

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:	\$6,784,178
Actual Eligible Basis:	\$6,784,178
Unadjusted Threshold Basis Limit:	\$11,457,256
Total Adjusted Threshold Basis Limit:	\$20,279,343

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:	61%
55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below:	16%

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 are below the minimum operating expenses established in the Regulations (See "Special Issues/Other Significant Information" section of staff report), and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.30% 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 applicant's estimate of the project's operating expenses of \$3,600 per unit per year is 5% below the TCAC minimum operating expense requirement for this type of project of \$3,800. As allowed under TCAC Regulation Section 10327(g)(1) the operating expenses may be up to 15% below the TCAC minimum if approved by the Executive Director and confirmed by the permanent lender and the tax credit equity investor. TCAC has approved this lower operating expense figure of \$3,600 per unit.

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
\$279,656	\$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