

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**Tax-Exempt Bond Project**  
**October 21, 2015**

O'Farrell Towers, located at 477 O'Farrell Street in San Francisco, CA, requested and is being recommended for a reservation of \$1,754,405 in annual federal tax credits to finance the acquisition and rehabilitation of 100 units of housing serving seniors with rents affordable to households earning 50% of area median income (AMI). The project will be developed by Tenderloin Neighborhood Development Corporation and will be located in Senate District 11 and Assembly District 17.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

**Project Number** CA-15-899

**Project Name** O'Farrell Towers  
 Site Address: 477 O'Farrell Street  
 San Francisco, CA 94102 County: San Francisco  
 Census Tract: 123.01

| <b>Tax Credit Amounts</b> | <b>Federal/Annual</b> | <b>State/Total</b> |
|---------------------------|-----------------------|--------------------|
| Requested:                | \$1,754,405           | \$0                |
| Recommended:              | \$1,754,405           | \$0                |

**Applicant Information**

Applicant: O'Farrell Towers Associates, L.P.  
 Contact: Donald S. Falk  
 Address: 201 Eddy Street  
 San Francisco, CA 94102  
 Phone: 415 358-3923 Fax: 415 776-3952  
 Email: dfalk@tndc.org

General Partner(s) or Principal Owner(s): O'Farrell Towers GP LLC  
 General Partner Type: Nonprofit  
 Parent Company(ies): Tenderloin Neighborhood Development Corporation  
 Developer: Tenderloin Neighborhood Development Corporation  
 Investor/Consultant: Community Economics  
 Management Agent: Tenderloin Neighborhood Development Corporation

**Project Information**

Construction Type: Acquisition & Rehabilitation  
 Total # Residential Buildings: 1  
 Total # of Units: 101  
 No. & % of Tax Credit Units: 100 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Contract (101 units - 100%)  
 HCD MHP Funding: No  
 55-Year Use/Affordability: Yes  
 Number of Units @ or below 50% of area median income: 100

**Bond Information**

Issuer: California Housing Finance Agency  
 Expected Date of Issuance: December 16, 2015  
 Credit Enhancement: N/A

**Information**

Housing Type: Seniors  
 Geographic Area: San Francisco County  
 TCAC Project Analyst: Connie Harina

**Unit Mix**

101 1-Bedroom Units  
 101 Total Units

| <u>Unit Type &amp; Number</u> | <u>2015 Rents Targeted<br/>% of Area Median<br/>Income</u> | <u>2015 Rents Actual<br/>% of Area Median<br/>Income</u> | <u>Proposed<br/>Rent<br/>(including<br/>utilities)</u> |
|-------------------------------|--|--|--|
| 100 1 Bedroom                 | 50%  | 46%  | \$1,019  |
| 1 1 Bedroom                   | Manager's Unit   | Manager's Unit   | \$0  |

**Project Cost Summary at Application**

|                                       |                     |
|---------------------------------------|---------------------|
| Land and Acquisition                  | \$33,744,333        |
| Construction Costs                    | \$0                 |
| Rehabilitation Costs                  | \$12,331,198        |
| Construction Contingency              | \$1,714,886         |
| Relocation                            | \$1,145,984         |
| Architectural/Engineering             | \$966,863           |
| Construction Interest, Perm Financing | \$1,513,402         |
| Legal Fees, Appraisals                | \$73,250            |
| Reserves                              | \$1,784,803         |
| Other Costs                           | \$2,014,168         |
| Developer Fee                         | \$2,500,000         |
| Commercial Costs                      | \$201,485           |
| <b>Total</b>                          | <b>\$57,990,372</b> |

**Project Financing**

|                                     |              |
|-------------------------------------|--------------|
| Estimated Total Project Cost:       | \$57,990,372 |
| Estimated Residential Project Cost: | \$57,770,437 |
| Estimated Commercial Project Cost   | \$219,935    |

**Residential**

|                                    |           |
|------------------------------------|-----------|
| Construction Cost Per Square Foot: | \$154     |
| Per Unit Cost:                     | \$571,985 |

**Construction Financing**

| Source                         | Amount       |
|--------------------------------|--------------|
| Citibank                       | \$28,940,257 |
| San Francisco Land Lease Value | \$6,444,568  |
| Seller Carryback               | \$13,758,125 |
| Accrued / Deferred Interest    | \$345,934    |
| Existing Reserves              | \$1,282,503  |
| Net Operating Income           | \$1,296,180  |
| Tax Credit Equity              | \$1,516,002  |

**Permanent Financing**

| Source                         | Amount              |
|--------------------------------|---------------------|
| Citibank                       | \$17,785,700        |
| San Francisco Land Lease Value | \$6,444,568         |
| Seller Carryback               | \$13,758,125        |
| Accrued / Deferred Interest    | \$345,934           |
| Existing Reserves              | \$1,282,503         |
| Net Operating Income           | \$1,296,180         |
| General Partner Equity         | \$1,722             |
| Tax Credit Equity              | \$17,075,640        |
| <b>TOTAL</b>                   | <b>\$57,990,372</b> |

**Determination of Credit Amount(s)**

|  |                     |
|--|---------------------|
| Requested Eligible Basis (Rehabilitation):     | \$19,524,986        |
| 130% High Cost Adjustment:                     | Yes                 |
| Requested Eligible Basis (Acquisition):        | \$27,781,315        |
| Applicable Fraction:                           | 100.00%             |
| Qualified Basis (Rehabilitation):              | \$25,382,481        |
| Qualified Basis (Acquisition):                 | \$27,781,315        |
| Applicable Rate:                               | 3.30%               |
| Maximum Annual Federal Credit, Rehabilitation: | \$837,622           |
| Maximum Annual Federal Credit, Acquisition:    | \$916,783           |
| Total Maximum Annual Federal Credit:           | \$1,754,405         |
| Approved Developer Fee in Project Cost:        | \$2,500,000         |
| Approved Developer Fee in Eligible Basis:      | \$2,481,550         |
| Investor/Consultant:                           | Community Economics |
| Federal Tax Credit Factor:                     | \$0.97330           |

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:  | \$47,306,300 |
| Actual Eligible Basis:                | \$47,306,300 |
| Unadjusted Threshold Basis Limit:     | \$36,103,965 |
| Total Adjusted Threshold Basis Limit: | \$72,207,930 |

**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: 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 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 3.30% 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:** None.

**Local Reviewing Agency:**

The Local Reviewing Agency, the City and County of San Francisco, has completed a site review of this project and 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:

|                                   |                                |
|-----------------------------------|--------------------------------|
| <b>Federal Tax Credits/Annual</b> | <b>State Tax Credits/Total</b> |
| <b>\$1,754,405</b>                | <b>\$0</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 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 provide the tenants with the following service amenities free of charge 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:

- Contract with a full time equivalent bona fide service coordinator / social worker for a minimum number of hours per year on-site