

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
December 16, 2015**

Morh I Housing, located at 1039, 953, 1219 and 1171 8th Street in Oakland, requested and is being recommended for a reservation of \$2,602,585 in annual federal tax credits to finance the acquisition and rehabilitation of 125 units of housing serving tenants with rents affordable to households earning 45-50% of area median income (AMI). The project will be developed by Community Preservation Partners, LLC and is located in Senate District 9 and Assembly District 18.

Morh I Housing is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Morh I Housing (CA-00-214). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

Project Number CA-15-926

Project Name Morh I Housing

	<u>Tract 1</u>	<u>Tract 2</u>
Site Address:	1039 and 953 8th Street Oakland, CA 94607	1219 and 1171 8th Street Oakland, CA 94607
Census Tract:	4025.000	4105.000
County:	Alameda	

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$2,602,585	\$0
Recommended:	\$2,602,585	\$0

Applicant Information

Applicant: Morh Community Partners, LP
Contact: Seth Gellis
Address: 17782 Sky Park Circle
Irvine, CA 92614
Phone: 949-236-8278
Email: sgellis@wncinc.com

General Partner(s) or Principal Owner(s): Morh GP, LLC
FFAH MORH, LLC
General Partner Type: Joint Venture
Parent Company(ies): WNC Development Partners, LLC
FFAH, Inc.
Developer: Community Preservation Partners, LLC
Investor/Consultant: WNC & Associates
Management Agent: Related Management Company

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 26
 Total # of Units: 126
 No. & % of Tax Credit Units: 125 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Contract (125 units - 100%)
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 125

Bond Information

Issuer: California Housing Finance Agency
 Expected Date of Issuance: January 1, 2016
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: North and East Bay Region
 TCAC Project Analyst: Connie Harina

Unit Mix

56 3-Bedroom Units
 70 4-Bedroom Units

 126 Total Units

Unit Type & Number	2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
27 3 Bedrooms	50%	50%	\$1,208
36 4 Bedrooms	50%	50%	\$1,347
29 3 Bedrooms	45%	45%	\$1,087
33 4 Bedrooms	45%	45%	\$1,212
1 4 Bedrooms	Manager's Unit	Manager's Unit	\$3,485

Project Cost Summary at Application

Land and Acquisition	\$59,000,000
Construction Costs	\$0
Rehabilitation Costs	\$7,561,699
Construction Contingency	\$746,098
Relocation	\$630,000
Architectural/Engineering	\$156,000
Construction Interest, Perm Financing	\$5,963,340
Legal Fees, Appraisals	\$312,500
Reserves	\$6,293,550
Other Costs	\$862,864
Developer Fee	\$2,500,000
Commercial Costs	\$0
Total	\$84,026,051

Project Financing

Estimated Total Project Cost:	\$84,026,051
Estimated Residential Project Cost:	\$84,026,051

Residential

Construction Cost Per Square Foot:	\$50
Per Unit Cost:	\$666,873

Construction Financing

Source	Amount
Citi Bank	\$61,600,000
Net Operating Income	\$3,902,255
Deferred Developer Fee	\$2,500,000
Tax Credit Equity	\$16,023,796

Permanent Financing

Source	Amount
Citi Bank	\$51,600,000
Net Operating Income	\$3,902,255
Deferred Developer Fee	\$1,326,783
Tax Credit Equity	\$27,197,013
TOTAL	\$84,026,051

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$15,381,699
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$58,869,992
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$19,996,208
Qualified Basis (Acquisition):	\$58,869,992
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$659,875
Maximum Annual Federal Credit, Acquisition:	\$1,942,710
Total Maximum Annual Federal Credit:	\$2,602,585
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,500,000
Investor/Consultant:	WNC & Associates
Federal Tax Credit Factor:	\$1.04500

Per Regulation Section 10322(h)(9)(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:	\$74,251,690
Actual Eligible Basis:	\$74,251,690
Unadjusted Threshold Basis Limit:	\$50,764,000
Total Adjusted Threshold Basis Limit:	\$101,528,000

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

This project consists of 2 scattered sites and is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Morh I Apartments (CA-00-214).

To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period is from January 1 of the owner's elected first year of credit through December 31 of the 15th year. The existing regulatory agreement expires 12/31/54. The existing regulatory agreement income targeting is 50% of the units at 45% AMI and 50% of the units at 50% AMI.

Local Reviewing Agency

The Local Reviewing Agency, the City of Oakland - Housing Development Services, 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
\$2,602,585	\$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.