

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2016 First Round**

**June 8, 2016**

**REVISED**

Canon Kip Community House, located at 705 Natoma Street in San Francisco, requested and is being recommended for a reservation of \$810,370 in annual federal tax credits and \$2,077,872 in total state tax credits to finance the acquisition and rehabilitation of 103 units of housing serving special needs tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Episcopal Community Services and is located in Senate District 11 and Assembly District 17.

Canon Kip Community House is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Canon Kip Community House (CA-92-103). See **Special Issues/Other Significant Information** below for additional resyndication information. The project will be receiving rental assistance in the form of HUD Shelter + Care Project-based Contract and HUD VASH Project-based Contract. The project financing includes state funding from the MHP and RHCP programs of HCD.

**Project Number** CA-16-016

**Project Name** Canon Kip Community House  
Site Address: 705 Natoma Street  
San Francisco, CA 94103 County: San Francisco  
Census Tract: 176.010

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$810,370	\$2,077,872
Recommended:	\$810,370	\$2,077,872

**Applicant Information**

Applicant: Canon Kip Associates II, L.P.  
Contact: Ken Reggio  
Address: 165 8th Street, 3rd Floor  
San Francisco, CA 94103  
Phone: 415-487-3300  
Email: kreggio@ecs-sf.org

General Partner(s) / Principal Owner(s): Canon Kip, Inc., a CA nonprofit public benefit corp.  
General Partner Type: Nonprofit  
Parent Company(ies): Episcopal Community Services  
Developer: Episcopal Community Services  
Investor/Consultant: National Equity Fund, Inc.  
Management Agent(s): Caritas Management Corporation

**Project Information**

Construction Type: Acquisition & Rehabilitation  
 Total # Residential Buildings: 1  
 Total # of Units: 104  
 No. & % of Tax Credit Units: 103 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: HUD Shelter + Care Project-based Contract (80 units - 77%) /  
 HUD VASH Project-based Contract (19 units - 18%) / HOME / CDBG  
 Average Targeted Affordability of Special Needs/SRO Project Units: 39.00%  
 Affordability Breakdown by Units and % (Lowest Income Points):  
 30% AMI: 11 10 %  
 35% AMI: 26 25 %  
 40% AMI: 11 10 %  
 45% AMI: 32 30 %

**Information**

Set-Aside: Nonprofit (homeless assistance)  
 Housing Type: Special Needs  
 Type of Special Needs: Homeless / formerly homeless / persons with physical, mental, or  
 development disabilities  
 % of Special Need Units: 80 units 78%  
 Geographic Area: San Francisco County  
 TCAC Project Analyst: Connie Harina

**Unit Mix**

103 SRO/Studio Units  
1 1-Bedroom Units  
 104 Total Units

<u>Unit Type &amp; 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>
11 SRO/Studio	30%	12%	\$250
26 SRO/Studio	35%	12%	\$250
10 SRO/Studio	40%	12%	\$250
32 SRO/Studio	45%	12%	\$250
1 SRO/Studio	40%	12%	\$250
23 SRO/Studio	60%	23%	\$468
1 1 Bedroom	Manager's Unit	Manager's Unit	\$0

**Project Cost Summary at Application**

Land and Acquisition	\$6,418,989
Construction Costs	\$0
Rehabilitation Costs	\$10,343,787
Construction Contingency	\$1,551,568
Relocation	\$817,203
Architectural/Engineering	\$1,102,093
Construction Interest, Perm Financing	\$831,739
Legal Fees, Appraisals	\$59,000
Reserves	\$998,506
Other Costs	\$954,940
Developer Fee	\$1,000,000
Commercial Costs	\$0
<b>Total</b>	<b>\$24,077,825</b>

**Project Financing**

Estimated Total Project Cost:	\$24,077,825
Estimated Residential Project Cost:	\$24,077,825
Estimated Commercial Project Cost:	\$0

**Residential**

Construction Cost Per Square Foot:	\$236
Per Unit Cost:	\$231,518
Effective Per Unit Cost*:	\$231,518

**Construction Financing**

Source	Amount
Construction Loan	\$11,458,137
City and County of San Francisco (SF)	\$2,500,000
City and County of SF - CDBG	\$500,000
Accrued Deferred Interest	\$353,500
City and County of SF - HOME	\$1,390,525
Accrued Deferred Interest	\$958,883
HCD RHCP (Assumed)	\$1,950,000
Accrued Deferred Interest	\$1,094,121
AHP	\$1,030,000
General Partner Cash Reserves	\$603,404
Tax Credit Equity	\$754,669

**Permanent Financing**

Source	Amount
City and County of SF	\$2,500,000
City and County of SF - CDBG	\$500,000
Accrued Deferred Interest	\$353,500
City and County of SF - HOME	\$1,390,525
Accrued Deferred Interest	\$958,883
HCD MHP	\$3,000,000
HCD RHCP (Assumed)	\$1,950,000
Accrued Deferred Interest	\$1,094,121
AHP	\$1,030,000
General Partner Cash Reserves	\$603,404
Tax Credit Equity	\$10,697,392
<b>TOTAL</b>	<b>\$24,077,825</b>

\*Less Donated Land, Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation):	\$6,926,240
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$9,004,112
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$810,370
Total State Credit:	\$2,077,872
Approved Developer Fee in Project Cost:	\$1,000,000
Approved Developer Fee in Eligible Basis:	\$803,598
Investor/Consultant:	National Equity Fund, Inc.
Federal Tax Credit Factor:	\$1.14058
State Tax Credit Factor:	\$0.70000

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:	\$6,926,239
Actual Eligible Basis:	\$17,420,398
Unadjusted Threshold Basis Limit:	\$29,475,088
Total Adjusted Threshold Basis Limit:	\$32,422,597

**Adjustments to Basis Limit**

95% of Upper Floor Units are Elevator-Serviced

**Tie-Breaker Information**

Initial:	N/A
First:	<b>Special Needs</b>
Final:	<b>62.808%</b>

**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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.21%. 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 proposed rent does not include a utility allowance. The owner will pay for all utilities.

Staff noted the developer fee cost in acquisition basis was in excess of the limit required by regulation. The acquisition basis was reduced down to the to meet the limits required by regulation. The reduction does not affect the amount of credits recommended.

The applicant requested and was granted a waiver to the manager unit requirement of TCAC Regulation Section 10325(f)(7)(J) under the following conditions: (1) the property management staff is employed full-time at the property, (2) coverage by on-site 24-hour desk or security staff capable of responding to emergencies, and (3) all staff or contractors performing this task shall be knowledgeable of how the property's fire system operates and be trained in, and participated in, fire evacuation drills for tenants. TCAC reserves the right to revoke this waiver if, in its sole discretion, it determines as part of any on-site inspection that the project has not been adequately operated and/or maintained.

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 12/31/2048. The existing regulatory agreement income targeting is 103 units at 40% AMI.

The project is a re-syndication occurring concurrently with a Transfer Event without distribution of Net Project Equity, and thus is waived from setting aside a Short Term Work Capitalized Replacement Reserve that is otherwise required.

**Legal Status**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

**Local Reviewing Agency**

The Local Reviewing Agency, the City and County of San Francisco Mayor's Office of Housing and Community Development, has completed a site review of this project and stongly 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>\$810,370</b>	<b>\$2,077,872</b>

**Standard Conditions**

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of ten years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(6) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

**Additional Conditions:** None

<b>Points System</b>	<b>Max. Possible Points</b>	<b>Requested Points</b>	<b>Points Awarded</b>
<b>Cost Efficiency / Credit Reduction / Public Funds</b>	<b>20</b>	<b>20</b>	<b>20</b>
Public Funds	20	20	20
<b>Owner / Management Characteristics</b>	<b>9</b>	<b>9</b>	<b>9</b>
General Partner Experience	6	6	6
Management Experience	3	3	3
<b>Housing Needs</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Site Amenities</b>	<b>15</b>	<b>15</b>	<b>15</b>
Within ½ mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within ½ mile of public park or community center open to general public	3	3	3
Within ½ mile of public library	3	3	3
Within ½ mile of a full-scale grocery/supermarket of at least 25,000 sf	5	0	0
Within ¼ mile of a neighborhood market of at least 5,000 sf	0	4	4
Special Needs/SRO project within ½ mile of facility serving tenant pop.	3	0	0
Within ½ mile of a pharmacy	2	2	2
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>SPECIAL NEEDS AND SRO HOUSING TYPES</b>			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	5
Service Coordinator/Other Services Specialist, min. ratio 1 FTE to 360 bdrm	5	5	5
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>REHABILITATION</b>			
Develop project in accordance w/ requirements of: GreenPoint Rated	5	5	5
<b>Lowest Income</b>	<b>52</b>	<b>52</b>	<b>52</b>
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
<b>Readiness to Proceed</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Miscellaneous Federal and State Policies</b>	<b>2</b>	<b>2</b>	<b>2</b>
State Credit Substitution	2	2	2
<b>Total Points</b>	<b>138</b>	<b>138</b>	<b>138</b>

**Please Note:** If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

**DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.**