

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2016 First Round
June 8, 2016

Morgan Hill Family - Scattered Site, located at 40 E. Dunne Ave., 16873 Monterey Road, and 16170-80 Monterey Road in Morgan Hill, requested and is being recommended for a reservation of \$785,228 in annual federal tax credits and \$2,617,425 in total state tax credits to finance the new construction of 40 units of housing serving large families with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by EAH Inc. and will be located in Senate District 17 and Assembly District 30.

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

Project Number CA-16-033

Project Name Morgan Hill Family - Scattered Site

Site Address:	<u>Site A</u> 40 E. Dunne Ave. Morgan Hill, CA 95037	<u>Site B</u> 16873 Monterey Road Morgan Hill, CA 95037
	<u>Site C</u> 16170-80 Monterey Road Morgan Hill, CA 95037	

County: Santa Clara
 Census Tract: 5123.130

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$785,228	\$2,617,425
Recommended:	\$785,228	\$2,617,425

Applicant Information

Applicant: EAH Inc.
 Contact: Dave Egan
 Address: 2169 E. Francisco Blvd., Suite B
 San Rafael, CA 94901
 Phone: 415-295-8870 Fax: 415-295-8870
 Email: david.egan@eahhousing.org

General Partner(s) / Principal Owner(s):	Orchards EAH, LLC
General Partner Type:	Nonprofit
Parent Company(ies):	EAH Inc.
Developer:	EAH Inc.
Investor/Consultant:	California Housing Partnership Corporation
Management Agent(s):	EAH Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 4
 Total # of Units: 41
 No. & % of Tax Credit Units: 40 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HOME / CDBG /
 HUD Section 8 Project-based Vouchers (20 units - 50%)

Affordability Breakdown by Units and % (Lowest Income Points):

30% AMI: 11 25 %
 40% AMI: 6 15 %
 50% AMI: 12 30 %

Information

Set-Aside: N/A
 Housing Type: Large Family
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Mayra Lozano

Unit Mix

6 1-Bedroom Units
 22 2-Bedroom Units
 13 3-Bedroom Units

 41 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>
3 1 Bedroom	30%	29%	\$577
3 2 Bedrooms	30%	29%	\$691
2 3 Bedrooms	30%	29%	\$792
3 1 Bedroom	30%	10%	\$199
5 2 Bedrooms	40%	39%	\$930
1 2 Bedrooms	40%	39%	\$930
8 3 Bedrooms	50%	49%	\$1,345
2 2 Bedrooms	50%	49%	\$1,169
2 3 Bedrooms	50%	49%	\$1,345
11 2 Bedrooms	60%	59%	\$1,408
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$2,457,493
Construction Costs	\$12,156,746
Rehabilitation Costs	\$0
Construction Contingency	\$1,488,070
Relocation	\$0
Architectural/Engineering	\$987,339
Const. Interest, Perm Financing	\$1,013,763
Legal Fees, Appraisals	\$118,693
Reserves	\$171,753
Other Costs	\$3,330,814
Developer Fee	\$1,000,000
Commercial Costs	\$953,650
Total	\$23,678,321

Project Financing

Estimated Total Project Cost:	\$23,678,321
Estimated Residential Project Cost:	\$22,681,871
Estimated Commercial Project Cost:	\$996,450

Residential

Construction Cost Per Square Foot:	\$286
Per Unit Cost:	\$553,216
Effective Per Unit Cost*:	\$538,264

Construction Financing

Source	Amount
Wells Fargo Bank	\$14,808,037
City of Morgan Hill	\$4,500,000
Seller Carryback Loan	\$390,000
Santa Clara County - CDBG	\$660,723
Santa Clara County - HOME	\$756,269
Santa Clara County - MHSA	\$283,267
Accrued Soft Loan Interest	\$157,098
Costs Deferred Until Conversion	\$906,293
Deferred Developer Fee	\$250,000
Tax Credit Equity	\$966,634

Permanent Financing

Source	Amount
Wells Fargo Bank - Tranche A	\$1,884,000
Wells Fargo Bank - Tranche B	\$4,208,000
City of Morgan Hill	\$4,500,000
Seller Carryback Loan	\$390,000
Santa Clara County - CDBG	\$660,723
Santa Clara County - HOME	\$756,269
Santa Clara County - MHSA	\$283,267
Accrued Soft Loan Interest	\$157,098
GP Equity	\$100
Deferred Developer Fee	\$250,000
Tax Credit Equity	\$10,588,864
TOTAL	\$23,678,321

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$8,724,750
130% High Cost Adjustment:	No
Applicable Fraction:	100.00%
Qualified Basis:	\$8,724,750
Applicable Rate:	9.00%
Applicable Rate:	3.21%
Total Maximum Annual Federal Credit:	\$785,228
Total State Credit:	\$2,617,425
Approved Developer Fee in Project Cost:	\$1,000,000
Approved Developer Fee in Eligible Basis:	\$957,200
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$1.11520
State Tax Credit Factor:	\$0.69993

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:	\$8,724,750
Actual Eligible Basis:	\$20,012,784
Unadjusted Threshold Basis Limit:	\$10,540,628
Total Adjusted Threshold Basis Limit:	\$15,726,355

Adjustments to Basis Limit

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages

One or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:

- Project has onsite renewable generation estimated to produce 50% or more of annual electricity use as indicated in TCAC Regulations. If combined available roof area is insufficient, project shall have onsite renewable generation based on at least 90% of the available solar accessible roof area.
- New construction: project buildings are at least 15% or more energy efficient than 2013 Energy Efficiency Standards as indicated in TCAC Regulations.

Local Development Impact Fees

Tie-Breaker Information

First:	Large Family
Final:	51.203%

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 includes a utility allowance for water and sewage. The meters will be read by an independent third party provider, "Conservice", and will bill tenants directly for water and sewer usage. The individual meters will be located between the primary meter and each unit.

This scattered site project consists of three noncontiguous sites within 1 mile of each other. All three sites are new construction projects and in total will include one, two, and three-bedroom units totaling 40 affordable units and one manager unit, which will reside in Site C.

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, City of Morgan Hill, 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
\$785,228	\$2,617,425

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

Points System	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency / Credit Reduction / Public Funds	20	20	20
Public Funds	20	20	20
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Site A			
Within 1/3 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	2	2	2
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	4	4	4
Within 1 mile of a pharmacy	1	1	1
Site B			
Within 1/3 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	2	2	2
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	4	4	4
Within 1 mile of a pharmacy	1	1	1
Site C			
Within 1/3 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1/2 mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Within 1/2 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Service Coordinator, minimum ratio of 1 FTE to 600 bedrooms	5	5	5
Adult ed/health & wellness/skill bldg classes, min. 60 hrs/yr instruction	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements of: GreenPoint Rated Program	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed	15	15	15
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	138	138	138

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.