

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

Second Street Studios, located at 1140 South Second Street in San Jose, requested and is being recommended for a reservation of \$1,947,117 in annual federal tax credits and \$4,992,608 in total state tax credits to finance the new construction of 134 units of housing serving special needs tenants with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by First Community Housing and will be located in Senate District 15 and Assembly District 27.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract. The project financing includes state funding from the IIG program of HCD.

**Project Number** CA-16-040

**Project Name** Second Street Studios  
 Site Address: 1140 South Second Street  
 San Jose, CA 95112 County: Santa Clara  
 Census Tract: 5031.120

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$1,947,117	\$4,992,608
Recommended:	\$1,947,117	\$4,992,608

**Applicant Information**

Applicant: Second Street Studios, LP  
 Contact: Tom Iamesi  
 Address: 75 East Santa Clara Street  
 San Jose, CA 95113  
 Phone: 408-291-8650 Fax: 408-993-9098  
 Email: tomi@firsthousing.org

General Partner(s) / Principal Owner(s): Second Street Studios, LLC  
 General Partner Type: Nonprofit  
 Parent Company(ies): First Community Housing  
 Developer: First Community Housing  
 Investor/Consultant: California Housing Partnership Corporation  
 Management Agent(s): The John Stewart Company

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 135  
 No. & % of Tax Credit Units: 134 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: HUD Section 8 Project-based Contract (134 units - 100%)  
 Average Targeted Affordability of Special Needs/SRO Project Units: 40.00%  
 Affordability Breakdown by Units and % (Lowest Income Points):  
     30% AMI: 34 25 %  
     40% AMI: 66 45 %  
     50% AMI: 34 25 %

**Information**

Set-Aside: Special Needs  
 Housing Type: Special Needs  
 Type of Special Needs: Homeless/formerly homeless  
 % of Special Need Units: 134 units 100%  
 Geographic Area: South and West Bay Region  
 TCAC Project Analyst: Connie Harina

**Unit Mix**

128 SRO/Studio Units  
 6 1-Bedroom Units  
 1 2-Bedroom Units  
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 135 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>
32 SRO/Studio	30%	30%	\$558
64 SRO/Studio	40%	40%	\$745
32 SRO/Studio	50%	50%	\$931
2 1 Bedroom	30%	30%	\$598
2 1 Bedroom	40%	40%	\$798
2 1 Bedroom	50%	50%	\$997
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$1,800

**Project Cost Summary at Application**

Land and Acquisition	\$5,742,805
Construction Costs	\$34,548,088
Rehabilitation Costs	\$0
Construction Contingency	\$1,687,475
Relocation	\$189,780
Architectural/Engineering	\$1,653,550
Const. Interest, Perm. Financing	\$2,183,115
Legal Fees, Appraisals	\$149,635
Reserves	\$2,651,926
Other Costs	\$2,620,996
Developer Fee	\$2,000,000
Commercial Costs	\$1,648,987
<b>Total</b>	<b>\$55,076,357</b>

**Project Financing**

Estimated Total Project Cost:	\$55,076,357
Estimated Residential Project Cost:	\$53,325,170
Estimated Commercial Project Cost:	\$1,751,187

**Residential**

Construction Cost Per Square Foot:	\$318
Per Unit Cost:	\$395,001
Effective Per Unit Cost*:	\$388,331

**Construction Financing**

Source	Amount
Silicon Valley Bank	\$25,891,000
City of San Jose	\$14,452,000
City of San Jose Park Fee Waiver	\$930,000
Accrued / Deferred Interest	\$867,120
HCD - IIG	\$4,000,000
AHP	\$1,340,000
Tax Credit Equity	\$3,736,788

**Permanent Financing**

Source	Amount
CCRC	\$6,939,128
City of San Jose	\$14,452,000
City of San Jose Park Fee Waiver	\$930,000
Accrued / Deferred Interest	\$867,120
HCD - IIG	\$4,000,000
AHP	\$1,340,000
Commercial Space Sales Proceeds	\$1,750,000
Tax Credit Equity	\$24,798,109
<b>TOTAL</b>	<b>\$55,076,357</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$16,642,025
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$21,634,633
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,947,117
Total State Credit:	\$4,992,608
Approved Developer Fee in Project Cost:	\$2,000,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$1.09473
State Tax Credit Factor:	\$0.69750

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:	\$16,642,025
Actual Eligible Basis:	\$42,693,362
Unadjusted Threshold Basis Limit:	\$23,686,102
Total Adjusted Threshold Basis Limit:	\$33,939,455

**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

Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels

100% of Units for Special Needs Population

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

- Install bamboo, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all kitchens, living rooms, and bathrooms where no VOC adhesives or backing is used
- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, ceramic tile, or natural linoleum in all common areas

Local Development Impact Fees

95% of Upper Floor Units are Elevator-Serviced

**Tie-Breaker Information**

First:	<b>Special Needs</b>
Final:	<b>73.638%</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. 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.

**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 of San Jose Department of Housing, 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:

<b>Federal Tax Credits/Annual</b>	<b>State Tax Credits/Total</b>
<b>\$1,947,117</b>	<b>\$4,992,608</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
Provide free or discounted transit passes	3	3	3
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	5	5
Special Needs/SRO project within ½ mile of facility serving tenant pop.	3	3	3
Within ½ mile of medical clinic or hospital	3	3	3
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 bdrms	5	5	5
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>NEW CONSTRUCTION/ADAPTIVE REUSE</b>			
Develop project in accordance w/ requirements of: LEED	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
Smoke Free Residence	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.**