

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

July 20, 2016

1300 4th Street, located at 626 Mission Bay Boulevard North in San Francisco, requested and is being recommended for a reservation of \$3,557,359 in annual federal tax credits to finance the new construction of 142 units of housing serving tenants with rents affordable to households earning 50-60% 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 LOSP Vouchers. The project financing includes state funding from the AHSC program of HCD.

Project Number CA-16-900

Project Name 1300 4th Street
Site Address: 626 Mission Bay Boulevard North
San Francisco, CA 94158 County: San Francisco
Census Tract: 607.000

| Tax Credit Amounts | Federal/Annual | State/Total |
|---------------------------|-----------------------|--------------------|
| Requested: | \$3,557,359 | \$0 |
| Recommended: | \$3,557,359 | \$0 |

Applicant Information

Applicant: 1300 Fourth Street 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): 1300 Fourth Street 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: New Construction
 Total # Residential Buildings: 3
 Total # of Units: 143
 No. & % of Tax Credit Units: 142 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 29
 Number of Units @ or below 60% of area median income: 113

Bond Information

Issuer: Mayor's Office of Housing & Community Development
 Expected Date of Issuance: August 1, 2016
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: San Francisco County
 TCAC Project Analyst: Connie Harina

Unit Mix

53 1-Bedroom Units
 47 2-Bedroom Units
 43 3-Bedroom Units

 143 Total Units

| <u>Unit Type & Number</u> | <u>2016 Rents Targeted % of Area Median Income</u> | <u>2016 Rents Actual % of Area Median Income</u> | <u>Proposed Rent (including utilities)</u> |
|-------------------------------|--|--|--|
| 44 1 Bedroom | 60% | 44% | \$1,019 |
| 36 2 Bedrooms | 60% | 41% | \$1,146 |
| 33 3 Bedrooms | 60% | 40% | \$1,274 |
| 7 1 Bedroom | 50% | 11% | \$263 |
| 8 2 Bedrooms | 50% | 8% | \$225 |
| 8 3 Bedrooms | 50% | 7% | \$225 |
| 2 1 Bedroom | 50% | 9% | \$200 |
| 2 2 Bedrooms | 50% | 8% | \$225 |
| 2 3 Bedrooms | 50% | 7% | \$225 |
| 1 2 Bedrooms | Manager's Unit | Manager's Unit | \$0 |

Project Cost Summary at Application

| | |
|----------------------------------|---------------------|
| Land and Acquisition | \$831,769 |
| Construction Costs | \$67,595,910 |
| Rehabilitation Costs | \$0 |
| Construction Contingency | \$3,410,340 |
| Relocation | \$0 |
| Architectural/Engineering | \$3,872,420 |
| Const. Interest, Perm. Financing | \$5,691,814 |
| Legal Fees, Appraisals | \$43,779 |
| Reserves | \$623,005 |
| Other Costs | \$3,399,538 |
| Developer Fee | \$4,618,029 |
| Commercial Costs | \$3,059,386 |
| Total | \$93,145,989 |

Project Financing

| | |
|-------------------------------------|--------------|
| Estimated Total Project Cost: | \$93,145,989 |
| Estimated Residential Project Cost: | \$89,785,133 |
| Estimated Commercial Project Cost: | \$3,360,856 |

Residential

| | |
|------------------------------------|-----------|
| Construction Cost Per Square Foot: | \$502 |
| Per Unit Cost: | \$627,868 |
| True Cash Per Unit Cost*: | \$623,157 |

Construction Financing

| Source | Amount |
|---------------------------|--------------|
| Citi Community Capital | \$52,500,000 |
| OCH | \$30,750,000 |
| Accrued Deferred Interest | \$820,190 |
| Tax Credit Equity | \$4,183,685 |

Permanent Financing

| Source | Amount |
|---------------------------|---------------------|
| Permanent Loan | \$6,550,000 |
| OCH | \$35,750,000 |
| Accrued Deferred Interest | \$820,190 |
| HCD - AHSC | \$4,999,989 |
| AHP | \$1,420,000 |
| General Partner Equity | \$1,489,072 |
| Deferred Developer Fee | \$698,957 |
| Tax Credit Equity | \$41,417,781 |
| TOTAL | \$93,145,989 |

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

Determination of Credit Amount(s)

| | |
|---|---------------------|
| Requested Eligible Basis: | \$85,781,502 |
| 130% High Cost Adjustment: | Yes |
| Applicable Fraction: | 100.00% |
| Qualified Basis: | \$111,515,952 |
| Applicable Rate: | 3.25% |
| Total Maximum Annual Federal Credit: | \$3,557,359 |
| Approved Developer Fee in Project Cost: | \$4,618,029 |
| Approved Developer Fee in Eligible Basis: | \$4,316,559 |
| Investor/Consultant: | Community Economics |
| Federal Tax Credit Factor: | \$1.16428 |

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: | \$85,781,502 |
| Actual Eligible Basis: | \$85,781,502 |
| Unadjusted Threshold Basis Limit: | \$64,580,246 |
| Total Adjusted Threshold Basis Limit: | \$90,412,344 |

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
55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 20%

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 3.25% 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 1300 4th Street project contains 143 total units, 29 of which will be designated for formerly homeless or at-risk for homelessness families and supported financially by the City of San Francisco's Local Operating Subsidy Program (LOSP). Residents of the 29 LOSP units will not pay utilities so there are no utility allowances on these units.

Local Reviewing Agency

The Local Reviewing Agency, the San Francisco Mayor's Office of Housing and Community Development, 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 |
| \$3,557,359 | \$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

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project commits to becoming certified under the following program:
GreenPoint Rated Multifamily Guidelines
- The project will be developed beyond the minimum requirements of the green building program by meeting the GreenPoint Rated silver standard.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.