

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2016 Second Round

September 21, 2016

REVISED

Met South, located at 2128 Monterey Road in San Jose, requested and is being recommended for a reservation of \$894,720 in annual federal tax credits to finance the new construction of 30 units of housing serving large families with rents affordable to households earning 30-45% AMI of area median income (AMI). The project will be developed by Charities Housing and is 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 Vouchers.

Project Number CA-16-109

Project Name Met South

Site Address: 2128 Monterey Road
San Jose, CA 95112 County: Santa Clara

Census Tract: 5031.220

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$894,720	\$0
Recommended:	\$894,720	\$0

Applicant Information

Applicant: 2112 Monterey Road South, LP

Contact: Ava Kuo

Address: 1400 Parkmoor Ave., Suite 190
San Jose, CA 95126

Phone: 408-550-8314 Fax: 408-550-8339

Email: akuo@charitieshousing.org

General Partner(s) / Principal Owner(s): 2112 Monterey Road, LLC

General Partner Type: Nonprofit

Parent Company(ies): Charities Housing

Developer: Charities Housing

Investor/Consultant: California Housing Partnership Corporation

Management Agent(s): Charities Housing

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 31
 No. & % of Tax Credit Units: 30 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HOME / HUD Section 8 Project-based Vouchers (10 Units - 33%)
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 12 40 %
 45% AMI: 18 60 %

Information

Set-Aside: N/A
 Housing Type: Large Family
 Geographic Area: South And West Bay Region
 TCAC Project Analyst: Alex Ninh

Unit Mix

9 SRO/Studio Units
 8 1-Bedroom Units
 5 2-Bedroom Units
 9 3-Bedroom Units

 31 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>
9 SRO/Studio	30%	30%	\$586
1 1 Bedroom	30%	30%	\$628
1 2 Bedrooms	30%	30%	\$754
1 3 Bedrooms	30%	30%	\$871
7 1 Bedroom	45%	45%	\$941
3 2 Bedrooms	45%	45%	\$1,130
8 3 Bedrooms	45%	45%	\$1,306
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$3,524,431
Construction Costs	\$9,194,637
Rehabilitation Costs	\$0
Construction Contingency	\$472,276
Relocation	\$0
Architectural/Engineering	\$514,485
Const. Interest, Perm. Financing	\$1,369,051
Legal Fees, Appraisals	\$95,000
Reserves	\$251,814
Other Costs	\$1,360,268
Developer Fee	\$1,767,045
Commercial Costs	\$0
Total	\$18,549,007

Project Financing

Estimated Total Project Cost:	\$18,549,007
Estimated Residential Project Cost:	\$18,549,007
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$426
Per Unit Cost:	\$598,355
True Cash Per Unit Cost*:	\$575,741

Construction Financing

Source	Amount
Bank of America	\$8,449,798
City of San Jose	\$3,112,500
City of San Jose - Acq. Loan	\$3,043,290
Accrued Interest	\$210,348
Santa Clara County - HOME	\$720,000
Accrued Interest	\$31,680
Santa Clara County - Acq. Loan	\$149,230
City Land Grant	\$220,000
Parkland Fee Waiver	\$114,000
Deferred Costs	\$1,338,502
Deferred Developer Fee	\$367,045
Tax Credit Equity	\$792,614

Permanent Financing

Source	Amount
Bank of America - Tranche A	\$471,500
Bank of America - Tranche B	\$1,103,272
City of San Jose	\$3,112,500
City of San Jose - Acq. Loan	\$3,043,290
Accrued Interest	\$210,348
Santa Clara County - HOME	\$720,000
Accrued Interest	\$31,680
Santa Clara County - Acq. Loan	\$149,230
City Land Grant	\$220,000
Parkland Fee Waiver	\$114,000
Deferred Developer Fee	\$367,045
Tax Credit Equity	\$9,006,142
TOTAL	\$18,549,007

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$7,647,177
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$9,941,330
Applicable Rate:	9.00%
Maximum Annual Federal Credit:	\$894,720
Approved Developer Fee in Project Cost:	\$1,767,045
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$1.00659

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:	\$7,647,177
Actual Eligible Basis:	\$13,180,301
Unadjusted Threshold Basis Limit:	\$7,159,286
Total Adjusted Threshold Basis Limit:	\$10,224,100

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 75% or more of annual common area electricity use as indicated in TCAC Regulations.
- New construction: project buildings are at least 15% more energy efficient than current CA Code Energy Efficiency Standards as indicated in TCAC Regulations.
- Irrigated with reclaimed water, greywater, or rainwater (excluding community gardens)
- 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:	Large Family
Final:	58.340%

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:

This project is a Phase II to the Met North, Phase I project (CA-14-100) and both phases will share community facilities and services. Prior to the start of construction, all necessary agreements shall be in place to ensure that Phase II has access to both the required space free of charge and the services. The Joint Use Agreement shall be provided in the placed in service submission.

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, 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
\$894,720	\$0

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 fifteen 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
Within 1/8 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 3/4 mile of public park or community center open to general public	2	2	2
Within 1/4 mile of a neighborhood market of at least 5,000 sf	4	4	4
Within 1 mile of Franklin Elementary School	2	2	2
Within 1 mile of medical clinic or hospital	2	2	2
Within 1/2 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
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
Energy efficiency beyond CA Building Code Title 24 requirements: 15.0%	5	5	5
Water Efficiency: irrigate with reclaimed, greywater, or rain water	3	3	3
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