

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
September 21, 2016

Potrero Block X, located at 1101 Connecticut St. in San Francisco, requested and is being recommended for a reservation of \$2,574,601 in annual federal tax credits to finance the new construction of 71 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Potrero Housing Associates I, L.P. and will be located in Senate District 11 and Assembly District 17.

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

Project Number CA-16-926

Project Name Potrero Block X
Site Address: 1101 Connecticut St.
 San Francisco, CA 94107 County: San Francisco
Census Tract: 9809.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$2,574,601	\$0
Recommended:	\$2,574,601	\$0

Applicant Information

Applicant: Potrero Housing Associates I, L.P.
Contact: Dan Adams
Address: 600 California St., Suite 900
 San Francisco, CA 94108
Phone: 415-989-1111 **Fax:** 415-495-4898
Email: dadams@bridgehousing.com

General Partner(s) or Principal Owner(s): MCB Family Housing, Inc.
General Partner Type: Nonprofit
Parent Company(ies): BRIDGE Housing Corporation
Developer: Potrero Housing Associates I, L.P.
Investor/Consultant: California Housing Partnership Corp.
Management Agent: BRIDGE Property Management Company

Project Information

Construction Type: New Construction
Total # Residential Buildings: 1
Total # of Units: 72
No. & % of Tax Credit Units: 71 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Vouchers (53 units - 75%)
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 39
Number of Units @ or below 60% of area median income: 32

Bond Information

Issuer: City and County of San Francisco
Expected Date of Issuance: December 1, 2016
Credit Enhancement: N/A

Information

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

Unit Mix

2 SRO/Studio Units
10 1-Bedroom Units
51 2-Bedroom Units
9 3-Bedroom Units
72 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>
3 1 Bedroom	50%	25%	\$567
18 2 Bedrooms	50%	25%	\$678
4 3 Bedrooms	50%	24%	\$780
2 1 Bedroom	50%	47%	\$1,078
10 2 Bedrooms	50%	44%	\$1,213
2 3 Bedrooms	50%	42%	\$1,346
1 SRO/Studio	60%	44%	\$942
2 1 Bedroom	60%	47%	\$1,078
6 2 Bedrooms	60%	44%	\$1,213
1 SRO/Studio	60%	53%	\$1,130
2 1 Bedroom	60%	56%	\$1,292
5 2 Bedrooms	60%	53%	\$1,454
1 3 Bedrooms	60%	51%	\$1,616
1 1 Bedroom	60%	47%	\$1,078
11 2 Bedrooms	60%	44%	\$1,213
2 3 Bedrooms	60%	42%	\$1,346
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$6,398,042
Construction Costs	\$38,479,697
Rehabilitation Costs	\$0
Construction Contingency	\$6,219,238
Relocation	\$0
Architectural/Engineering	\$2,545,302
Const. Interest, Perm. Financing	\$4,543,749
Legal Fees, Appraisals	\$122,500
Reserves	\$674,461
Other Costs	\$3,848,518
Developer Fee	\$4,353,800
Commercial Costs	\$0
Total	\$67,185,307

Project Financing

Estimated Total Project Cost:	\$67,185,307
Estimated Residential Project Cost:	\$67,185,307
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$503
Per Unit Cost:	\$933,129
True Cash Per Unit Cost*:	\$869,049

Construction Financing

Source	Amount
Citibank	\$49,454,000
San Francisco MOHCD - Gap Loan	\$9,098,447
San Francisco MOHCD - Predev Loan	\$630,000
Accrued/Deferred Interest	\$510,743
Deferred Developer Fee	\$1,853,800
Tax Credit Equity	\$1,470,741

Permanent Financing

Source	Amount
Citibank	\$12,615,000
Citibank - Subordinate Loan	\$1,200,000
HCD - AHSC Hsg. Infrastructure	\$1,500,000
HCD - AHSC Loan	\$7,250,000
San Francisco MOHCD - Gap Loan	\$9,098,447
San Francisco MOHCD - Predev Loan	\$630,000
Land Value	\$2,760,000
Accrued/Deferred Interest	\$510,743
General Partner Equity	\$500,000
Deferred Developer Fee	\$1,853,800
Tax Credit Equity	\$29,267,317
TOTAL	\$67,185,307

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$60,937,303
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$79,218,494
Applicable Rate:	3.25%
Maximum Annual Federal Credit:	\$2,574,601
Approved Developer Fee (in Project Cost & Eligible Basis):	\$4,353,800
Investor/Consultant:	California Housing Partnership Corp.
Federal Tax Credit Factor:	\$1.13677

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:	\$60,937,303
Actual Eligible Basis:	\$60,937,303
Unadjusted Threshold Basis Limit:	\$31,962,520
Total Adjusted Threshold Basis Limit:	\$61,048,413

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
- 95% of Upper Floor Units are Elevator-Serviced
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 54%

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

Staff noted a per unit development cost of \$933,129 per unit. When discounting the development costs by the value of the donation of land and the amount of developer fee being deferred, the "True Cash Per Unit Cost" is \$869,049. The applicant also noted that the per unit cost is attributed to a 14% grade in some areas, green features such as solar hot water and photovoltaic panels, water efficient fixtures, and a greywater system. Additionally, excavation costs due to serpentine rock, Potrero Block X is subject to a Dust Control Plan and Asbestos Dust Mitigation Plan prior to earth disturbing activities.

Local Reviewing Agency

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

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
\$2,574,601	\$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:
Leadership in Energy & Environmental Design (LEED)
- The project will be developed beyond the minimum requirements of the green building program by meeting the LEED for Homes 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.