CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 13, 2017

Step Up On Second, located at 1328 Second Street in Santa Monica, requested and is being recommended for a reservation of $493,983 in annual federal tax credits to finance the acquisition and rehabilitation of 35 units of housing serving special needs tenants with rents affordable to households earning 40% of area median income (AMI). The project will be developed by Step Up On Second, Inc. and is located in Senate District 26 and Assembly District 50.

Step Up On Second is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Step Up On Second Street (CA-1992-176). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers, HUD Continuum of Care Program Grant, and Shelter Plus Care.

Project Number CA-17-803

Project Name Step Up On Second
Site Address: 1328 Second Street
Santa Monica, CA 90401 County: Los Angeles
Census Tract: 7019.02

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$493,983	$0
Recommended:	$493,983	$0

Applicant Information

Applicant:	Step Up On Second Preservation, L.P
Contact:	Tod Lipka
Address:	1328 Second Street Santa Monica, CA 90401
Phone:	(310) 394-6889 Fax: (310) 394-6883
Email:	tod@stepuponsecond.org

General Partner(s) or Principal Owner(s):	Step Up On Second Street, Inc.
General Partner Type:	Nonprofit
Parent Company(ies):	Step Up On Second Street, Inc.
Developer:	Step Up On Second Street, Inc.
Investor/Consultant:	Aegon USA Realty Advisors, LLC
Management Agent:	Step Up On Second Street, Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 1
Total # of Units: 36
No. & % of Tax Credit Units: 35 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Vouchers (9 Units - 26%)
Shelter Plus Care (9 Units - 26%)
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 35

Bond Information

Issuer: California Municipal Finance Authority
Expected Date of Issuance: February 15, 2018
Credit Enhancement: N/A

Information

Housing Type: Special Needs
Geographic Area: Balance of Los Angeles County
TCAC Project Analyst: Zhuo Chen

Unit Mix

35 SRO/Studio Units
1 1-Bedroom Units
36 Total Units

Unit Type & Number		2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
6	SRO/Studio	40%	16%	$248
3	SRO/Studio	40%	16%	$248
9	SRO/Studio	40%	16%	$248
17	SRO/Studio	40%	0%	$0
1	1 Bedroom	Manager's Unit	Manager's Unit	$0

Projected Lifetime Rent Benefit: $36,267,000

Project Cost Summary at Application	
Land and Acquisition	$11,000,000
Construction Costs	$0
Rehabilitation Costs	$915,293
Construction Contingency	$135,000
Relocation	$180,000
Architectural/Engineering	$180,000
Const. Interest, Perm. Financing	$899,760
Legal Fees, Appraisals	$198,600
Reserves	$162,066
Other Costs	$270,437
Developer Fee	$1,901,195
Commercial Costs	$2,000,000
Total	**$17,842,351**

Project Financing	
Estimated Total Project Cost:	$17,842,351
Estimated Residential Project Cost:	$15,842,351
Estimated Commercial Project Cost:	$2,000,000

Residential	
Construction Cost Per Square Foot:	$46
Per Unit Cost:	$440,065
True Cash Per Unit Cost*:	$253,901

Construction Financing

Source	Amount
R4 Capital Funding - T.E. Bonds	$9,000,000
Seller Carryback - Commercial	$2,000,000
City of Santa Monica (Assumed)	$2,314,674
City of Santa Monica (Assumed)	$1,331,252
Deferred Developer Fee	$1,696,305
General Partner Equity	$65,743
Tax Credit Equity	$1,434,378

Permanent Financing

Source	Amount
R4 Capital Funding - T.E. Bonds	$1,686,019
Seller Carryback - Residential	$5,547,998
Seller Carryback - Commercial	$2,000,000
City of Santa Monica (Assumed)	$2,314,674
City of Santa Monica (Assumed)	$1,331,252
Net Operating Income	$115,406
General Partner Equity	$65,743
Tax Credit Equity	$4,781,259
TOTAL	**$17,842,351**

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

Determination of Credit Amount(s)	
Requested Eligible Basis (Rehabilitation):	$2,500,831
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$12,075,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$3,251,080
Qualified Basis (Acquisition):	$12,075,000
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$101,545
Maximum Annual Federal Credit, Acquisition:	$392,438
Total Maximum Annual Federal Credit:	$493,983
Approved Developer Fee (in Project Cost & Eligible Basis):	$1,901,195

Investor/Consultant:	Aegon USA Realty Advisors, LLC
Federal Tax Credit Factor:	$0.96790

Per Regulation Section 10327(c)(6), 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:	$14,575,831
Actual Eligible Basis:	$14,575,831
Unadjusted Threshold Basis Limit:	$7,340,720
Total Adjusted Threshold Basis Limit:	$14,681,440

Adjustments to Basis Limit

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 100%

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

Pursuant to TCAC Regulation Section 10326(g)(5), general partners and management companies lacking documented experience with Section 42 requirements using the minimum scoring standards at Section 10325(c)(2)(A) and (B) shall be required to complete training as prescribed by TCAC prior to a project’s placing in service. Specifically, the general partner and the management company, Step Up On Second Street, Inc., shall complete training as prescribed by TCAC prior to the project's placing in service.

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-1992-176). To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period is from 01/01/1984 through 12/31/1998. The existing regulatory agreement expires 12/31/2038. The existing regulatory agreement income targeting is all 35 units at or below 40% AMI. The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s).

The project is a resyndication occurring concurrently with a Transfer Event with distribution of Net Project Equity. The rehabilitation scope of work shall include all of the Short Term Work in the amount of $65,743. There is a general partner equity contribution of at least $65,743, allowing the applicant to receive eligible basis for the entire Short Term Work amount.

Local Reviewing Agency
The Local Reviewing Agency, the City of Santa Monica, 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
$493,983	**$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: None.