

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

2675 Folsom Street, located at 2675 Folsom Street and 970 Treat Avenue in San Francisco, requested and is being recommended for a reservation of \$557,488 in annual federal tax credits to finance the new construction of 24 units of housing serving tenants with rents affordable to households earning 50% of area median income (AMI). The project will be developed by SF Folsom JV, LLC and will be located in Senate District 11 and Assembly District 17.

Project Number CA-17-810

Project Name 2675 Folsom Street
Site Address: 2675 Folsom Street and 970 Treat Avenue
San Francisco, CA 94110 County: San Francisco
Census Tract: 228.03

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$557,488	\$0
Recommended:	\$557,488	\$0

Applicant Information

Applicant: 2675 Folsom Owner, LLC
Contact: Theo F. Oliphant
Address: 580 California Street, 16th Floor
San Francisco, CA 94104
Phone: 415-992-6997
Email: toliphant@axisdevgroup.com

General Partner(s) or Principal Owner(s): SF Folsom JV, LLC
AOF/Pacific Affordable Housing Corp.

General Partner Type: Joint Venture

Parent Company(ies): SF Folsom JV, LLC
AOF/Pacific Affordable Housing Corp.

Developer: SF Folsom JV, LLC

Investor/Consultant: Hunt Investment Management

Management Agent: Greystar California, Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 117
 No. & % of Tax Credit Units: 24 20.51%
 Federal Set-Aside Elected: 20%/50%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 24

Bond Information

Issuer: City and County of San Francisco
 Expected Date of Issuance: March 3, 2018
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: San Francisco County
 TCAC Project Analyst: Jack Waegell

Unit Mix

32 SRO/Studio Units
 38 1-Bedroom Units
 45 2-Bedroom Units
 2 3-Bedroom Units

 117 Total Units

	Unit Type & Number	2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
*	5 SRO/Studio	50%	44%	\$1,009
	3 SRO/Studio	50%	44%	\$1,009
	8 1 Bedroom	50%	47%	\$1,154
	8 2 Bedrooms	50%	44%	\$1,298
	19 SRO/Studio	Market Rate Unit	Market Rate Unit	\$3,300
	5 SRO/Studio	Market Rate Unit	Market Rate Unit	\$3,600
	30 1 Bedroom	Market Rate Unit	Market Rate Unit	\$4,400

* One of the affordable studio units will be occupied by a tax-credit qualified property manager.

Projected Lifetime Rent Benefit: \$31,970,400

Project Cost Summary at Application

Land and Acquisition	\$25,370,294
Construction Costs	\$48,675,652
Rehabilitation Costs	\$0
Construction Contingency	\$2,145,320
Relocation	\$0
Architectural/Engineering	\$2,732,176
Const. Interest, Perm. Financing	\$11,679,167
Legal Fees, Appraisals	\$4,250
Reserves	\$1,185,417
Other Costs	\$6,295,366
Developer Fee	\$4,254,496
Commercial Costs	\$0
Total	\$102,342,138

Project Financing

Estimated Total Project Cost:	\$102,342,138
Estimated Residential Project Cost:	\$102,342,138
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$453
Per Unit Cost:	\$874,719
True Cash Per Unit Cost*:	\$852,672

Construction Financing

Source	Amount
Hunt Mortgage Group-Tax Exempt Bonds	\$69,000,000
Hunt Mortgage Group-Taxable Bonds	\$16,000,000
Market Rate Equity	\$13,798,840
Deferred Developer Fee	\$3,543,298

Permanent Financing

Source	Amount
Hunt Mortgage Group - Loan	\$80,667,629
Market Rate Equity	\$13,798,840
Deferred Developer Fee	\$2,579,533
Tax Credit Equity	\$5,296,136
TOTAL	\$102,342,138

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$68,105,825
130% High Cost Adjustment:	Yes
Applicable Fraction:	19.37%
Qualified Basis:	\$17,153,476
Applicable Rate:	3.25%
Total Maximum Annual Federal Credit:	\$557,488
Approved Developer Fee (in Project Cost & Eligible Basis):	\$4,254,496
Investor/Consultant:	Hunt Investment Management
Federal Tax Credit Factor:	\$0.95000

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:	\$68,105,825
Actual Eligible Basis:	\$69,285,222
Unadjusted Threshold Basis Limit:	\$47,523,764
Total Adjusted Threshold Basis Limit:	\$68,105,825

Adjustments to Basis Limit

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

- Project has onsite renewable generation estimated to produce 50% or more of annual tenant electricity use as indicated in TCAC Regulations.
- New construction: project buildings are at least 15% more energy efficient than 2016 Energy Efficiency Standards (California Code of Regulations, Title 24, Part 6) as indicated in TCAC Regulations.
- 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

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 are below the minimum operating expenses established in the Regulations (see "**Special Issues/Other Significant Information**" section below), 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

This a mixed-income project with 24 affordable tax-credit qualified units including a tax-credit qualified property manager's unit, and 93 market rate units.

Development costs are approximately \$874,719 per unit. The project's relatively high estimated costs are the result of a long entitlement process including executing an agreement with construction trade unions and high acquisition costs.

The applicant's estimate of the project's annual operating expenses at \$6,912 per unit is below TCAC's minimum operating expense figure for this type of project located in San Francisco at \$7,300 per unit. As allowed under regulation section 10327(g)(1) TCAC approves the annual operating expenses at \$6,912 per unit with agreement of the permanent lender and equity investor.

The project will have parking spaces and storage spaces available to rent by the tenants at their option for an additional charge in addition to their unit rent. The eligible basis for these improvements has been excluded from eligible basis.

The applicable fraction in the preliminary application is less than 20%. At placed in service the applicable fraction must be at least 20%.

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
\$557,488	\$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 Leadership in Energy & Environmental Design (LEED).
- The project will exceed 2016 Title 24 Standards for New Construction / Adaptive Reuse by 12% of the California Building Code.
- The project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- 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.