**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**
**Project Staff Report**
**Tax-Exempt Bond Project**
**March 21, 2018**

SP7, located at 519 East 7th Street and 647 South San Pedro Street in Los Angeles, requested and is being recommended for a reservation of $1,752,826 in annual federal tax credits to finance the new construction and acquisition and rehabilitation of 99 units of housing serving special needs tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by The Skid Row Housing Trust and is located in Senate District 30 and Assembly District 53.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers and Shelter Plus Care. The project financing includes state funding from the VHHP program of HCD and MHSA from CalHFA.

**Project Number** CA-18-722

**Project Name** SP7

| | | |
|---|---|---|
| Site Address: | **Site 1** | **Site 2** |
| | 519 East 7th Street | 647 South San Pedro Street |
| | Los Angeles , CA 90014 | Los Angeles, CA 90014 |
| Census Tract: | 2063.00 | 2063.00 |
| County: | Los Angeles | |

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $1,752,826 | $0 |
| Recommended: | $1,752,826 | $0 |

**Applicant Information**

| | |
|---|---|
| Applicant: | SP7 Apartments LP |
| Contact: | Ben Rosen |
| Address: | 1317 East 7th Street<br>Los Angeles, CA 90021 |
| Phone: | 213-683-0522 |
| Email: | ben.rosen@skidrow.org |

| | |
|---|---|
| General Partner(s) or Principal Owner(s): | SP7 Apartments GP LLC |
| General Partner Type: | Nonprofit |
| Parent Company(ies): | The Skid Row Housing Trust<br>The Skid Row Housing Trust |
| Developer: | The Skid Row Housing Trust |
| Investor/Consultant: | California Housing Partnership Corporation |
| Management Agent: | SRHT Property Management Co. |

**Project Information**

| | |
|---|---|
| Construction Type: | New Construction and Acquisition & Rehabilitation |
| Total # Residential Buildings: | 2 |
| Total # of Units: | 100 |
| No. / % of Low Income Units: | 99 100.00% |
| Federal Set-Aside Elected: | 40%/60% |
| Federal Subsidy: | Tax-Exempt / HUD Section 8 Project-Based Vouchers (82% - 81 units)<br>HOPWA |

**Bond Information**

| | |
|---|---|
| Issuer: | City of Los Angeles |
| Expected Date of Issuance: | July 1, 2018 |

**Information**

| | |
|---|---|
| Housing Type: | Special Needs |
| Geographic Area: | City of Los Angeles |
| TCAC Project Analyst: | Marlene McDonough |

**55-Year Use / Affordability**

| Aggregate Targeting Number of Units | | Percentage of Affordable Units |
|---|---|---|
| 50% AMI: | 68 | 69% |
| 60% AMI: | 31 | 31% |

**Unit Mix**

99 SRO/Studio Units
1 2-Bedroom Units
100 Total Units

| Unit Type & Number | | 2017 Rents Targeted % of Area Median Income | 2017 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|---|
| Site 1 | | | | |
| 49 | SRO/Studio | 50% | 50% | $788 |
| 1 | SRO/Studio | 50% | 50% | $788 |
| 9 | SRO/Studio | 60% | 60% | $946 |
| 22 | SRO/Studio | 60% | 60% | $946 |
| 1 | 2 Bedrooms | Manager’s Unit | Manager’s Unit | $0 |
| Site 2 | | | | |
| 18 | SRO/Studio | 50% | 39% | $614 |

TCAC-confirmed Projected Lifetime Rent Benefit: $61,257,900

**Project Cost Summary at Application**

| | |
|---|---|
| Land and Acquisition | $3,960,025 |
| Construction Costs | $22,927,321 |
| Rehabilitation Costs | $2,154,379 |
| Construction Contingency | $3,477,841 |
| Relocation | $91,800 |
| Architectural/Engineering | $1,870,174 |
| Const. Interest, Perm. Financing | $4,621,366 |
| Legal Fees, Appraisals | $226,000 |
| Reserves | $286,904 |
| Other Costs | $3,361,242 |
| Developer Fee | $5,389,759 |
| Commercial Costs | $0 |
| **Total** | **$48,366,811** |

**Residential**

| | |
|---|---|
| Construction Cost Per Square Foot: | $443 |
| Per Unit Cost: | $483,668 |
| True Cash Per Unit Cost*: | $483,668 |

**Construction Financing**

| Source | Amount |
|---|---|
| Tax-Exempt Construction Loan | $32,007,814 |
| HCIDLA HHH | $4,200,000 |
| HCIDLA HOPWA | $3,000,000 |
| HCIDLA HOPWA Deferred | $160,301 |
| HCIDLA Residual Receipt | $950,000 |
| DMH MHSA | $2,000,000 |
| MHSA Deferred Interest | $89,500 |
| Deferred Costs | $1,596,419 |
| General Partner Equity | $2,889,759 |
| Tax Credit Equity | $1,473,018 |

**Permanent Financing**

| Source | Amount |
|---|---|
| Permanent Loan | $3,161,400 |
| HCIDLA Residual Receipt | $950,000 |
| HCIDLA HHH | $12,000,000 |
| HCIDLA HOPWA | $3,000,000 |
| HCIDLA HOPWA Deferred | $160,301 |
| LACDC | $1,500,000 |
| DMH MHSA | $2,000,000 |
| MHSA Deferred Interest | $89,500 |
| HCD VHHP | $4,657,670 |
| AHP | $1,500,000 |
| General Partner Equity | $2,889,759 |
| Tax Credit Equity | $16,458,181 |
| **TOTAL** | **$48,366,811** |

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

**Determination of Credit Amount(s)**

| | |
|---|---|
| Requested Eligible Basis (Rehabilitation): | $40,939,181 |
| 130% High Cost Adjustment: | Yes |
| Requested Eligible Basis (Acquisition): | $382,305 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | $53,220,935 |
| Qualified Basis (Acquisition): | $382,305 |
| Applicable Rate: | 3.27% |
| Maximum Annual Federal Credit, Rehabilitation: | $1,740,325 |
| Maximum Annual Federal Credit, Acquisition: | $12,501 |
| Total Maximum Annual Federal Credit: | $1,752,826 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | $5,389,759 |
| Investor/Consultant: | California Housing Partnership Corporation |
| Federal Tax Credit Factor: | $0.93895 |

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: | $41,321,486 |
| Actual Eligible Basis: | $41,321,486 |
| Unadjusted Threshold Basis Limit: | $22,347,198 |
| Total Adjusted Threshold Basis Limit: | $44,247,453 |

**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

95% of Upper Floor Units are Elevator-Serviced

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate Units are Income Targeted between 50% AMI & 36% AMI: 68%

**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 3.27% 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.

**Significant Information / Additional Conditions**
The proposed rent for the SP7 Apartments site does not include any utility allowance. The owner will pay for all utilities.

This project is 2 scatteredd-sites and involves the demolition and new construction of Site 1 located at 517 East 7th Street and substaintial rehabilitation of Site 2 located at 647 South San Pedro Street originally constructed in the 1998 in the city of Los Angeles.

Site 1 will be 7 story new construction which will include common area amenities including ground floor service spaces for on-site case management and property management. Site 2 which is 300 feet away will have access to all of the amenities offered at site 1 including property managment.

**Resyndication and Resyndication Transfer Event:** None.

**Local Reviewing Agency**
The Local Reviewing Agency, Los Angeles Housing & Community Investment Department, has completed a site review of this project and Strongly supports this project.

**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.

**CDLAC Additional Conditions:** None.