

# **CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

## **Project Staff Report Tax-Exempt Bond Project May 16, 2018**

Crossings on Monterey, located at 16800 Monterey Road in Morgan Hill, requested and is being recommended for a reservation of \$855,479 in annual federal tax credits to finance the new construction of 38 units of housing serving tenants with rents affordable to households earning 30%-60% of area median income (AMI). The project will be developed by UHC 00661 Morgan Hill Development LLC and will be located in Senate District 17 and Assembly District 30.

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

**Project Number** CA-18-738

**Project Name** Crossings on Monterey  
Site Address: 16800 Monterey Road  
Morgan Hill, CA 95037 County: Santa Clara  
Census Tract: 5123.13

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$855,479	\$0
Recommended:	\$855,479	\$0

### **Applicant Information**

Applicant: UHC 00661 Morgan Hill, L.P.  
Contact: John F. Bigley  
Address: 2000 E. 4th Street, Suite 205  
Santa Ana, CA 92705  
Phone: (714) 835-3955  
Email: JBigley@uhcllc.net

General Partner(s) or Principal Owner(s): UHC 00661 Morgan Hill Holdings LLC  
Central Valley Coalition for Affordable Housing  
General Partner Type: Joint Venture  
Parent Company(ies): Urban Housing Communities LLC  
Central Valley Coalition for Affordable Housing  
Developer: UHC 00661 Morgan Hill Development LLC  
Investor/Consultant: Hunt Capital Partners  
Management Agent: Hyder & Company

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 39  
 No. / % of Low Income Units: 38 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Vouchers (20 Units - 52%)  
 Utility Allowance: CUAC

**Bond Information**

Issuer: California Statewide Communities Development Authority  
 Expected Date of Issuance: August 15, 2018

**Information**

Housing Type: Non-Targeted  
 Geographic Area: South and West Bay Region  
 TCAC Project Analyst: Tiffani Negrete

**55-Year Use / Affordability**

<b>Aggregate Targeting Number of Units</b>	<b>Percentage of Affordable Units</b>
At or Below 35% AMI: 13	34%
At or Below 50% AMI: 18	47%
At or Below 60% AMI: 7	18%

**Unit Mix**

6 1-Bedroom Units
18 2-Bedroom Units
15 3-Bedroom Units
<b>39 Total Units</b>

<b>Unit Type &amp; Number</b>	<b>2017 Rents Targeted % of Area Median Income</b>	<b>2017 Rents Actual % of Area Median Income</b>	<b>Proposed Rent (including utilities)</b>
6 1 Bedroom	30%	30%	\$672
3 2 Bedrooms	30%	30%	\$806
3 2 Bedrooms	40%	40%	\$1,075
7 2 Bedrooms	50%	50%	\$1,343
4 2 Bedrooms	60%	60%	\$1,612
4 3 Bedrooms	30%	30%	\$931
4 3 Bedrooms	40%	40%	\$1,242
4 3 Bedrooms	50%	50%	\$1,552
3 3 Bedrooms	60%	60%	\$1,863
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$26,688,420

**Project Cost Summary at Application**

Land and Acquisition	\$2,665,000
Construction Costs	\$12,568,843
Rehabilitation Costs	\$0
Construction Contingency	\$1,296,153
Relocation	\$0
Architectural/Engineering	\$609,999
Const. Interest, Perm. Financing	\$1,930,925
Legal Fees, Appraisals	\$77,004
Reserves	\$222,000
Other Costs	\$2,446,932
Developer Fee	\$1,700,000
Commercial Costs	\$0
<b>Total</b>	<b>\$23,516,856</b>

**Residential**

Construction Cost Per Square Foot:	\$226
Per Unit Cost:	\$602,996
True Cash Per Unit Cost*:	\$595,157

**Construction Financing**

Source	Amount
Citibank, N.A. - T.E. Bonds	\$14,000,000
County of Santa Clara**	\$5,800,000
City of Morgan Hill	\$750,000
Deferred Developer Fee	\$1,341,856
Tax Credit Equity	\$1,625,000

**Permanent Financing**

Source	Amount
Citibank, N.A. - T.E. Bonds	\$8,534,000
County of Santa Clara**	\$5,800,000
City of Morgan Hill	\$750,000
Deferred Developer Fee	\$305,737
Tax Credit Equity	\$8,127,119
<b>TOTAL</b>	<b>\$23,516,856</b>

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

\*\*Measurer A Housing Bond

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$20,124,353
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$26,161,659
Applicable Rate:	3.27%
Total Maximum Annual Federal Credit:	\$855,479
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,700,000
Investor/Consultant:	Hunt Capital Partners
Federal Tax Credit Factor:	\$0.95001

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.

**Eligible Basis and Basis Limit**

Requested Unadjusted Eligible Basis:	\$20,124,353
Actual Eligible Basis:	\$20,124,353
Unadjusted Threshold Basis Limit:	\$16,194,816
Total Adjusted Threshold Basis Limit:	\$36,438,336

**Adjustments to Basis Limit**

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: 47%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 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**

TCAC is allowing CUAC utility allowances for all low-income units. TCAC will re-evaluate the project at placed in service if staff determines that subsidized units are not eligible for the CUAC.

**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.

**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