

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2018 First Round
June 13, 2018

Courtyard Inn, located at 3425 Orange Grove Avenue in North Highlands, requested and is being recommended for a reservation of \$2,325,231 in annual federal tax credits to finance the new construction and adaptive reuse of 92 units of housing serving special needs tenants with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by Mercy Housing California and will be located in Senate District 6 and Assembly District 8.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers. The project financing includes state funding from the SNHP program through CalHFA.

Project Number	CA-18-010		
Project Name	Courtyard Inn		
Site Address:	3425 Orange Grove Avenue		
	North Highlands, CA 95660	County:	Sacramento
Census Tract:	73.010		

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$2,325,231	\$0
Recommended:	\$2,325,231	\$0

Applicant Information

Applicant:	Mercy Housing California
Contact:	Stephan Daues
Address:	2512 River Plaza Drive, Suite 200 Sacramento, CA 95833
Phone:	(916) 414-4440
Email:	sdaues@mercyhousing.org

General Partner(s) / Principal Owner(s):	Florin Housing Corporation
General Partner Type:	Nonprofit
Parent Company(ies):	Mercy Housing Inc.
Developer:	Mercy Housing California
Investor/Consultant:	California Housing Partnership Corporation
Management Agent(s):	Mercy Housing Management Group

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 3
 Total # of Units: 92
 No. & % of Tax Credit Units: 92 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HOME / CDBG / HUD Section 8 Project-based Vouchers
 (92 units / 100%)

Information

Set-Aside: Nonprofit (homeless assistance)
 Housing Type: Special Needs
 Type of Special Needs: Homeless
 Average Targeted Affordability of Special Needs/SRO Project Units: 35.33%
 % of Special Need Units: 78 units: 85%
 Geographic Area: Capital Region: Sacramento County
 TCAC Project Analyst: Jack Waegell

55-Year Use / Affordability

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI: 55	55%
At or Below 40% AMI: 25	25%
At or Below 50% AMI: 12	10%

Unit Mix

20 SRO/Studio Units
60 1-Bedroom Units
12 2-Bedroom Units
<u>92 Total Units</u>

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
13 SRO/Studio	30%	30%	\$390
35 1 Bedroom	30%	30%	\$417
7 2 Bedrooms	30%	30%	\$501
5 SRO/Studio	40%	40%	\$520
15 1 Bedroom	40%	40%	\$557
3 2 Bedrooms	40%	40%	\$668
2 SRO/Studio	40%	40%	\$520
10 1 Bedroom	50%	50%	\$696
2 2 Bedrooms	50%	50%	\$835

Note: The project will have a 24-hour desk staff coverage in lieu of an on-site manager's unit.

TCAC-confirmed Projected Lifetime Rent Benefit: \$27,688,320

Project Cost Summary at Application

Land and Acquisition	\$8,372,971
Construction Costs	\$13,755,472
Rehabilitation Costs	\$0
Construction Contingency	\$1,392,460
Relocation	\$0
Architectural/Engineering	\$603,823
Const. Interest, Perm. Financing	\$1,466,466
Legal Fees, Appraisals	\$110,000
Reserves	\$1,325,099
Other Costs	\$2,707,751
Developer Fee	\$2,000,000
Commercial Costs	\$0
Total	\$31,734,042

Residential

Construction Cost Per Square Foot:	\$204
Per Unit Cost:	\$344,935
True Cash Per Unit Cost*:	\$344,935

Construction Financing

Source	Amount
US Bank Construction Loan	\$16,242,000
SHRA Perm Acquisition Loan	\$6,000,000
SHRA HOME/CDBG	\$2,500,000
CalHFA - SNHP	\$1,500,000
Sacramento County Fee Waivers	\$678,729
Sacramento Regional Sanitation**	\$198,827
Costs Deferred During Construction	\$2,632,310
Tax Credit Equity	\$1,982,176

Permanent Financing

Source	Amount
SHRA Perm Acquisition Loan	\$6,000,000
SHRA HOME/CDBG	\$2,500,000
CalHFA - SNHP	\$1,500,000
Sacramento County Fee Waivers	\$678,729
Sacramento Regional Sanitation**	\$198,827
Tax Credit Equity	\$20,856,486
TOTAL	\$31,734,042

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

** Sacramento Regional Sanitation - Fee Waiver

Determination of Credit Amount(s)

Requested Eligible Basis:	\$19,873,765
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$25,835,895
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$2,325,231
Approved Developer Fee in Project Cost:	\$2,000,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$0.89696

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, shall not increase during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits, unless a waiver has been granted for a purchase price not to exceed the sum of third party debt that will be assumed or paid off. The sum of the third party debt encumbering the property may increase during subsequent reviews to reflect the actual amount.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$19,873,765
Actual Eligible Basis:	\$19,873,765
Unadjusted Threshold Basis Limit:	\$20,826,400
Total Adjusted Threshold Basis Limit:	\$25,761,359

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
Local Development Impact Fees

Tie-Breaker Information

First:	Special Needs
Final:	67.035%

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 9.0% 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 owner will pay all of the utilities at this project.

This project is the adaptive reuse of an existing 144-unit motel into 80 units of affordable housing and the new construction of two additional buildings with 12 additional units for a total of 92 affordable units.

Under CalHFA's Special Needs Housing Program Funds (SNHP) 15 units will be for Mental Health Services Act (MHSA) qualified households and 11 units will be for persons/households with HIV/AIDs that qualify under the Housing Opportunities for Persons with AIDS (HOPWA) program.

Legal Status

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Local Reviewing Agency

The Local Reviewing Agency, the Sacramento Housing and Redevelopment Agency, has completed a site review of this project and strongly supports this project.

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of fifteen years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(5) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

Points System	Max. Possible Points	Requested Points	Points Awarded
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within 1/8 mile of transit, service every 30 minutes in rush hours	6	6	6
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1/4 mile of a neighborhood market of at least 5,000 sf	4	4	4
Special Needs project within 1/2 mile of facility serving tenant population	3	3	3
Within 1/2 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
SPECIAL NEEDS HOUSING TYPE			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	5
Service Coordinator/Other Services Specialist, min. ratio 1 FTE to 360 bdrms	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements: GreenPoint Rated Program	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of Low Income Units @ 30% AMI or less	2	2	2
Readiness to Proceed	10	10	10
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	113	113	113

Please Note: If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.