

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2018 First Round

June 13, 2018

Eureka Homeless & Veterans Housing Project, located at 108 4th Street in Eureka, requested and is being recommended for a reservation of \$1,221,303 in annual federal tax credits to finance the new construction of 50 units of housing serving special needs tenants with rents affordable to households earning 30%-40% of area median income (AMI). The project will be developed by Danco Communities and will be located in Senate District 2 and Assembly District 2.

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 VHHP program of HCD.

Project Number CA-18-032

Project Name Eureka Homeless & Veterans Housing Project

Site Address: 108 4th Street
Eureka, CA 95501 County: Humboldt

Census Tract: 1.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,221,303	\$0
Recommended:	\$1,221,303	\$0

Applicant Information

Applicant: Eureka 4th Street LP
Contact: Chris Dart
Address: 5251 Ericson Way
Arcata, CA 95521
Phone: (707) 825-1531
Email: cdart@danco-group.com

General Partner(s) / Principal Owner(s): Johnson & Johnson Investments, LLC
Veteran Housing Development Corporation

General Partner Type: Joint Venture

Parent Company(ies): Danco Communities
Veteran Housing Development Corporation

Developer: Danco Communities

Investor/Consultant: Raymond James

Management Agent(s): FPI Management

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 51
 No. & % of Tax Credit Units: 50 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Project-based VASH Vouchers (25 Units - 50%)
 Utility Allowance: CUAC

Information

Set-Aside: Rural
 Housing Type: Special Needs
 Type of Special Needs: Homeless/Formerly Homeless
 Average Targeted Affordability of Special Needs/SRO Project Units: 32.40%
 % of Special Need Units: 50 units 100%
 Geographic Area: N/A
 TCAC Project Analyst: Carmen Doonan

55-Year Use / Affordability

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI: 38	75%
At or Below 40% AMI: 12	20%

Unit Mix

50 1-Bedroom Units
1 2-Bedroom Units
 51 Total Units

<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>
19 1 Bedroom	30%	30%	\$337
6 1 Bedroom	40%	40%	\$450
19 1 Bedroom	30%	30%	\$337
6 1 Bedroom	40%	40%	\$450
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$11,777,040

Project Cost Summary at Application

Land and Acquisition	\$1,248,000
Construction Costs	\$9,437,963
Rehabilitation Costs	\$0
Construction Contingency	\$471,898
Relocation	\$0
Architectural/Engineering	\$943,726
Const. Interest, Perm. Financing	\$514,172
Legal Fees, Appraisals	\$135,000
Reserves	\$468,679
Other Costs	\$587,528
Developer Fee	\$2,209,265
Commercial Costs	\$0
Total	\$16,016,231

Residential

Construction Cost Per Square Foot:	\$357
Per Unit Cost:	\$314,044
True Cash Per Unit Cost*:	\$304,792

Construction Financing

Source	Amount
Citibank	\$11,260,000
Tax Credit Equity	\$4,756,231

Permanent Financing

Source	Amount
Citibank - Tranche B	\$2,462,000
City of Eureka	\$250,000
HCD - VHHP	\$1,125,000
Deferred Developer Fee	\$471,856
Solar Tax Credits	\$105,000
Tax Credit Equity	\$11,602,375
TOTAL	\$16,016,231

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$10,438,484
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$13,570,029
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,221,303
Approved Developer Fee in Project Cost:	\$2,209,265
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	Raymond James
Federal Tax Credit Factor:	\$0.95000

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:	\$10,438,484
Actual Eligible Basis:	\$13,360,984
Unadjusted Threshold Basis Limit:	\$11,852,050
Total Adjusted Threshold Basis Limit:	\$17,329,911

Adjustments to Basis Limit

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing 100% of the Low Income Units for Special Needs Population

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.
- Use no irrigation at all, irrigate only with reclaimed water, greywater, or rainwater (excepting water used for Community Gardens) or irrigate with reclaimed water, grey water, or rainwater in an amount that annually equals or exceeds 20,000 gallons or 300 gallons per unit, whichever is less.
- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all common areas where no VOC adhesives or backing is also used
- For new construction projects, meet all requirements of US EPA Indoor Air Plus Program.

Environmental Mitigation

95% of Upper Floor Units are Elevator-Serviced

Tie-Breaker Information

First:	Special Needs
Final:	31.626%

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 minimum operating expenses established in the Regulations. See **Significant Information / Additional Conditions** below for additional information. 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, or, in the case of acquisition credit or credit combined with federal subsidies, 3.25%. 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 applicant's estimate for annual operating expenses per unit is below the \$5,100 published per unit operating expense minimum required for this type of project. As allowed by TCAC Regulation Section 10327(g)(1), TCAC approves the annual per unit operating expense total of \$4,335 in agreement with the permanent lender and equity investor.

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.

The project has project-based Section 8 VASH vouchers for 25 units from the Housing Authorities of the City of Eureka and County of Humboldt and a rental subsidy on 25 units from the Humboldt County Department of Health and Human Services (DHHS).

Resyndication and Resyndication Transfer Event: None.

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 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

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 ½ mile of transit (van or dial-a-ride service for rural set-aside)	4	4	4
Within 1 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	3	3	3
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Special Needs project within ½ mile of facility serving tenant population	3	3	3
Within 1.5 miles of medical clinic or hospital	2	2	2
Within 1 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
Enhanced Accessibility and Visitability	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.