

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

July 18, 2018

Leigh Avenue Senior Apartments, located at 1030 Leigh Avenue in San Jose, requested and is being recommended for a reservation of \$1,849,607 in annual federal tax credits to finance the new construction of 63 units of housing serving seniors with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by First Community Housing and will be located in Senate District 15 and Assembly District 28.

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

Project Number CA-18-605

Project Name Leigh Avenue Senior Apartments
Site Address: 1030 Leigh Avenue
San Jose, CA 95126 County: Santa Clara
Census Tract: 5022.01

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,849,607	\$0
Recommended:	\$1,849,607	\$0

Applicant Information

Applicant: Leigh Avenue Apartments, LP
Contact: Ava Kuo
Address: 75 East Santa Clara Street, Suite 1300
San Jose, CA 95113
Phone: 408-291-8650
Email: avak@firsthousing.org

General Partner(s) or Principal Owner(s): Leigh Avenue Apartments, LLC
General Partner Type: Nonprofit
Parent Company(ies): First Community Housing
Developer: First Community Housing
Investor/Consultant: California Housing Partnership Corporation
Management Agent: The John Stewart Company

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 64
 No. / % of Low Income Units: 63 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt/HUD Section 8 Project-based Vouchers (63 units / 100%)

Bond Information

Issuer: California Housing Finance Agency
 Expected Date of Issuance: September 1, 2018

Information

Housing Type: Seniors
 Geographic Area: South and West Bay Region: San Mateo and Santa Clara Counties
 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 35% AMI: 20	32%
At or Below 50% AMI: 43	68%

Unit Mix

63 1-Bedroom Units
<u>1 2-Bedroom Units</u>
64 Total Units

<u>Unit Type & Number</u>	<u>2018 Rents Targeted % of Area Median Income</u>	<u>2018 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
20 1 Bedroom	30%	30%	\$748
23 1 Bedroom	40%	40%	\$997
20 1 Bedroom	50%	50%	\$1,246
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$1,800

TCAC-confirmed Projected Lifetime Rent Benefit: \$38,669,400

Project Cost Summary at Application

Land and Acquisition	\$4,368,990
Construction Costs	\$29,227,131
Rehabilitation Costs	\$0
Construction Contingency	\$2,037,483
Relocation	\$0
Architectural/Engineering	\$2,104,250
Const. Interest, Perm. Financing	\$2,836,531
Legal Fees, Appraisals	\$69,675
Reserves	\$714,659
Other Costs	\$5,967,038
Developer Fee	\$4,250,000
Commercial Costs	\$2,177,627
Total	\$53,753,384

Residential

Construction Cost Per Square Foot:	\$536
Per Unit Cost:	\$802,551
True Cash Per Unit Cost*:	\$752,607

Construction Financing

<u>Source</u>	<u>Amount</u>
Citibank, N.A. - Tax-Exempt Loan	\$26,907,500
Taxable Tail Construction Loan	\$700,000
Santa Clara County	\$9,750,000
SCC - Accrued/Deferred Interest	\$682,500
City of San Jose	\$6,056,200
City of SJ - Parkland Fee Waiver	\$1,446,400
FHLB AHP	\$750,000
Costs Deferred Until Conversion	\$4,249,363
Tax Credit Equity	\$3,211,421

Permanent Financing

<u>Source</u>	<u>Amount</u>
CalHFA	\$8,967,000
Santa Clara County	\$13,486,365
SCC - Accrued/Deferred Interest	\$682,500
City of San Jose	\$9,000,000
City of SJ - Parkland Fee Waiver	\$1,446,400
FHLB AHP	\$750,000
Commercial Space Sales Proceeds	\$700,000
Deferred Developer Fee	\$1,750,000
Tax Credit Equity	\$16,971,119
TOTAL	\$53,753,384

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$43,509,923
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$56,562,900
Applicable Rate:	3.27%
Total Maximum Annual Federal Credit:	\$1,849,607
Approved Developer Fee in Project Cost:	\$4,250,000
Approved Developer Fee in Eligible Basis:	\$4,037,500
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$0.91755

Except as allowed for projects basing cost on assumed third party debt, the “as if vacant” land value and the existing improvement value established at application for all projects, 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. 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:	\$43,509,923
Actual Eligible Basis:	\$43,509,923
Unadjusted Threshold Basis Limit:	\$20,439,168
Total Adjusted Threshold Basis Limit:	\$58,660,413

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

Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels

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%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 62%

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

This project’s projected residential costs are \$802,551 per unit this cost is due in part to the high cost of skilled labor and material costs in the Bay Area, the unusual shape of the lot and the resulting shape of the building, and holding costs and design updates resulting from project delays since the project was first envisioned in 2006.

The project will serve chronically homeless seniors and special needs population that are referred through the Santa Clara Office of Supportive Housing’s chronically homeless and special needs waiting list.

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

The applicant/owner is required to provide the tenants with the following service amenities free of charge for a minimum of fifteen (15) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC:

- Instructor-led educational classes, health and wellness or skill-building classes on-site for a minimum of 84 hours per year
- Contract with a full time equivalent bona fide service coordinator / social worker for a minimum number of hours per year on-site

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); Green Communities / Passive House Institute US (PHIUS) / Passive House / Living Building Challenge / GreenPoint Rated Multifamily Guidelines / WELL
- 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.