

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2018 Second Round

September 19, 2018

2821 ECR, located at 2821 El Camino Real in Redwood City, requested \$2,500,000 in annual federal tax credits and \$1,512,168 in total state tax credits but is being recommended for a reservation of \$2,500,000 in annual federal tax credits and \$1,505,868 in total state tax credits (**See "Significant Information / Additional Conditions" section below**) to finance the new construction of 66 units of housing serving special needs tenants with rents affordable to households earning 30-70% of area median income (AMI). The project will be developed by Palo Alto Housing Corporation and will be located in Senate District 13 and Assembly District 24.

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

Project Number CA-18-064

Project Name 2821 ECR
Site Address: 2821 El Camino Real
Redwood City, CA 94061 County: San Mateo
Census Tract: 6106.01

Tax Credit Amounts	Federal/Annual	State/Total *
Requested:	\$2,500,000	\$1,512,168
Recommended:	\$2,500,000	\$1,505,868

* The applicant made an irrevocable election not to sell (Certificate) any portion of the state credits.

Applicant Information

Applicant: Palo Alto Housing Corporation
Contact: Georgina Mascarenhas
Address: 725 Alma Street
Palo Alto, CA 94301
Phone: 650-321-9709
Email: gmascarenhas@pah.community

General Partner(s) / Principal Owner(s): 2821 ECR LLC
General Partner Type: Nonprofit
Parent Company(ies): Palo Alto Housing Corporation
Developer: Palo Alto Housing Corporation
Investor/Consultant: California Housing Partnership Corporation
Management Agent(s): The John Stewart Company

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 67
 No. & % of Tax Credit Units: 66 100%
 Federal Set-Aside Elected: 40%/60% Average Income
 Federal Subsidy: HUD Section 8 Project-based Vouchers (32 units / 48%) / HUD-VASH Section 8 Project-based Vouchers (27 units / 41%)

Information

Set-Aside: N/A
 Housing Type: Special Needs
 Type of Special Needs: Homeless/formerly homeless and Persons with physical, mental, developmental disabilities
 Average Targeted Affordability of Special Needs/SRO Project Units: 37.40%
 % of Special Need Units: 33 units 50%
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Diane SooHoo

55-Year Use / Affordability

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI: 31	45%
At or Below 40% AMI: 16	20%
At or Below 60% AMI: 15	20%
At or Below 70% AMI: 4	5%

Unit Mix

61 SRO/Studio Units
 5 1-Bedroom Units
1 2-Bedroom Units
 67 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>
30 SRO/Studio	30%	30%	\$770
16 SRO/Studio	40%	40%	\$1,027
15 SRO/Studio	60%	60%	\$1,540
1 1 Bedroom	30%	30%	\$825
4 1 Bedroom	70%	70%	\$1,925
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$49,744,860

Project Cost Summary at Application

Land and Acquisition	\$6,297,387
Construction Costs	\$22,185,810
Rehabilitation Costs	\$0
Construction Contingency	\$2,131,027
Relocation	\$75,000
Architectural/Engineering	\$1,122,205
Const. Interest, Perm. Financing	\$2,408,048
Legal Fees, Appraisals	\$88,830
Reserves	\$1,031,610
Other Costs	\$2,691,444
Developer Fee	\$1,856,188
Commercial Costs	\$0
Total	\$39,887,549

Residential

Construction Cost Per Square Foot:	\$651
Per Unit Cost:	\$595,337
True Cash Per Unit Cost*:	\$591,298

Construction Financing

Source	Amount
Union Bank	\$27,399,714
County of San Mateo AHF**	\$5,800,000
County of San Mateo AHF	\$1,000,000
San Mateo County Fee Waiver	\$270,555
AHP	\$1,000,000
Deferred Costs	\$2,028,722
General Partner Equity	\$100
Tax Credit Equity	\$2,393,160

Permanent Financing

Source	Amount
Union Bank	\$6,810,000
County of San Mateo AHF**	\$5,800,000
County of San Mateo AHF	\$1,000,000
San Mateo County Fee Waiver	\$270,555
AHP	\$1,000,000
General Partner Equity	\$100
Tax Credit Equity	\$25,006,894
TOTAL	\$39,887,549

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

**\$4,880,254 Measure K Funds and \$919,746 MHSA funds

Determination of Credit Amount(s)

Requested Eligible Basis:	\$21,367,518
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$27,777,773
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$2,500,000
Total State Credit:	\$1,505,868
Approved Developer Fee in Project Cost:	\$1,856,188
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$0.95532
State Tax Credit Factor:	\$0.74634

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:	\$21,367,518
Actual Eligible Basis:	\$30,568,248
Unadjusted Threshold Basis Limit:	\$19,405,584
Total Adjusted Threshold Basis Limit:	\$26,748,105

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
- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced

Tie-Breaker Information

First:	Special Needs
Final:	49.189%

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, 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

In determining the adjusted threshold basis limit, the applicant incorrectly calculated school impact fees. Staff recalculated and adjusted accordingly which increased the high cost percentage. In consequence, the developer fee calculation was affected, resulting in a decrease to the maximum allowed developer fee and a corresponding reduction to the state tax credit amount.

Development costs for the project are roughly \$595,337 per unit. The per unit cost is attributed to high real estate costs for the area..

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, County of San Mateo, 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 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	2	2	2
Within 1/2 mile of a neighborhood market of at least 5,000 sf	3	3	3
Special Needs project within 1 mile of facility serving tenant population	2	2	2
Within 1/2 mile of medical clinic or hospital	3	3	3
Within 1/2 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Service Coordinator, minimum ratio of 1 FTE to 600 bedrooms	5	5	5
Other Services Specialist, minimum ratio of 1 FTE to 600 bedrooms	5	5	5
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 bdms	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements: LEED	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.