

# **CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

## **Project Staff Report Tax-Exempt Bond Project December 12, 2018**

Mission Bay South Block 6 West, located at 691 China Basin Street in San Francisco, requested and is being recommended for a reservation of \$4,766,856 in annual federal tax credits to finance the new construction of 151 units of housing serving tenants with rents affordable to households earning 30-80% of area median income (AMI). The project will be developed by Mercy Housing California and will be located in Senate District 11 and Assembly District 17.

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 IIG program of HCD.

**Project Number** CA-18-662

**Project Name** Mission Bay South Block 6 West  
**Site Address:** 691 China Basin Street  
San Francisco, CA 94158 County: San Francisco  
**Census Tract:** 607.00

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$4,766,856	\$0
Recommended:	\$4,766,856	\$0

### **Applicant Information**

**Applicant:** Mercy Housing California 78, LP  
**Contact:** William Ho  
**Address:** 1256 Market Street  
San Francisco, CA 94102  
**Phone:** 415.355.7100  
**Email:** who@mercyhousing.org

<b>General Partner(s) or Principal Owner(s):</b>	Mercy Housing Calwest
<b>General Partner Type:</b>	Nonprofit
<b>Parent Company(ies):</b>	Mercy Housing California
<b>Developer:</b>	Mercy Housing California
<b>Investor/Consultant:</b>	Community Economics
<b>Management Agent:</b>	Mercy Housing Management Group

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 152  
 No. / % of Low Income Units: 151 100.00%  
 Federal Set-Aside Elected: 40%/60% Average Income  
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project Based Vouchers ( 38 units - 25%)

**Bond Information**

Issuer: City & County of San Francisco  
 Expected Date of Issuance: April 1, 2019

**Information**

Housing Type: Non-Targeted  
 Geographic Area: San Francisco County  
 TCAC Project Analyst: Marlene McDonough

**55-Year Use / Affordability**

Aggregate Targeting Number of Units	Percentage of Affordable Units
At or Below 30% AMI: 35	23%
At or Below 50% AMI: 55	36%
At or Below 60% AMI: 46	30%
At or Below 80% AMI: 15	10%

**Unit Mix**

10 SRO/Studio Units
34 1-Bedroom Units
76 2-Bedroom Units
29 3-Bedroom Units
1 4-Bedroom Units
1 5-Bedroom Units
<hr/> 151 Total Units

<b>Unit Type &amp; Number</b>		<b>2018 Rents Targeted % of Area Median Income</b>	<b>2018 Rents Actual % of Area Median Income</b>	<b>Proposed Rent (including utilities)</b>
3	SRO/Studio	30%	30%	\$770
2	SRO/Studio	40%	40%	\$1,027
2	SRO/Studio	50%	50%	\$1,283
3	SRO/Studio	60%	48%	\$1,244
12	1 Bedroom	30%	30%	\$825
7	1 Bedroom	40%	40%	\$1,100
4	1 Bedroom	50%	50%	\$1,375
7	1 Bedroom	60%	52%	\$1,420
4	1 Bedroom	80%	69%	\$1,894
15	2 Bedrooms	30%	30%	\$990
17	2 Bedrooms	40%	40%	\$1,320
11	2 Bedrooms	50%	50%	\$1,650
25	2 Bedrooms	60%	48%	\$1,599
8	2 Bedrooms	80%	65%	\$2,131
5	3 Bedrooms	30%	30%	\$1,143
5	3 Bedrooms	40%	40%	\$1,525
5	3 Bedrooms	50%	50%	\$1,906
11	3 Bedrooms	60%	47%	\$1,776
3	3 Bedrooms	80%	62%	\$2,368
1	4 Bedrooms	50%	38%	\$1,599
1	5 Bedrooms	50%	37%	\$1,718
1	2 Bedrooms	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$266,788,500

#### **Project Cost Summary at Application**

Land and Acquisition	\$24,558
Construction Costs	\$90,234,384
Rehabilitation Costs	\$0
Construction Contingency	\$4,511,719
Relocation	\$0
Architectural/Engineering	\$4,021,986
Const. Interest, Perm. Financing	\$7,551,035
Legal Fees, Appraisals	\$142,436
Reserves	\$1,043,978
Other Costs	\$3,067,388
Developer Fee	\$7,400,000
Commercial Costs	\$1,975,297
<b>Total</b>	<b>\$119,972,781</b>

**Residential**

Construction Cost Per Square Foot:	\$532
Per Unit Cost:	\$775,438
True Cash Per Unit Cost*:	\$759,163

**Construction Financing**

Source	Amount
Citibank	\$68,000,000
SF OCII Loan	\$33,959,369
SF OCII deferred Interest	\$498,077
HCD IIG	\$5,000,000
Tax Credit Equity	\$4,926,123

**Permanent Financing**

Source	Amount
Citibank Tranche A	\$5,840,000
Citibank Tranche B	\$8,601,000
SF OCII Loan	\$44,782,474
SF OCII Deferred Interest	\$498,077
HCD IIG	\$5,000,000
AHP	\$1,510,000
Deferred Developer Fee	\$1,180,000
General Partner Equity	\$3,400,000
Energy Tax Credit Equity	\$167,523
Tax Credit Equity	\$48,993,707
<b>TOTAL</b>	<b>\$119,972,781</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$112,134,923
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$145,775,400
Applicable Rate:	3.27%
Total Maximum Annual Federal Credit:	\$4,766,856
Approved Developer Fee in Project Cost:	\$7,400,000
Approved Developer Fee in Eligible Basis:	\$7,269,136
Investor/Consultant:	Community Economics
Federal Tax Credit Factor:	\$1.02780

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:	\$112,134,923
Actual Eligible Basis:	\$112,134,923
Unadjusted Threshold Basis Limit:	\$79,830,352
Total Adjusted Threshold Basis Limit:	\$161,257,311

**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

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate Units are Income Targeted between 50% AMI & 36% AMI: 36%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 46%

**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**

The estimated cost of the project is \$775,438 per unit. This is due in part to the high cost of construction, required prevailing wages, costs associated with the low quality of the soil, methane mitigation system, and extensive foundation work which includes piles driven down to the bedrock.

**Resyndication and Resyndication Transfer Event: None****Local Reviewing Agency**

The Local Reviewing Agency, San Francisco Mayor's Office of Housing and Community Development, has completed a site review of this project and strongly supports this project.

**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