

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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

Morgan Tower, located at 1415 D Avenue in National City, requested and is being recommended for a reservation of \$2,257,934 in annual federal tax credits to finance the acquisition and rehabilitation of 151 units of housing serving seniors with rents affordable to households earning 50-80% of area median income (AMI). The project will be developed by Community HousingWorks and is located in Senate District 40 and Assembly District 80.

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

Project Number	CA-18-663
Project Name	Morgan Tower
Site Address:	1415 D Avenue
	National City, CA 91950
	County: San Diego
Census Tract:	117.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$2,257,934	\$0
Recommended:	\$2,257,934	\$0

Applicant Information

Applicant:	Morgan Tower Housing Associates, L.P.
Contact:	Anne B. Wilson
Address:	2815 Camino del Rio South, Suite 350
	San Diego, CA 92108
Phone:	(619) 282-6647
Email:	awilson@chworks.org
General Partner(s) or Principal Owner(s):	CHW Morgan Development LLC Mercy Morgan Development LLC
General Partner Type:	Nonprofit
Parent Company(ies):	Community HousingWorks Mercy Housing CalWest
Developer:	Community HousingWorks
Investor/Consultant:	US Bank
Management Agent:	Mercy Housing Management Group

Project Information

Construction Type: Acquisition & Rehabilitation
 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 Contract (151 units - 100%)

Bond Information

Issuer: California Statewide Communities Development Authority
 Expected Date of Issuance: March 1, 2019

Information

Housing Type: Seniors
 Geographic Area: San Diego County
 TCAC Project Analyst: Diane SooHoo

55-Year Use / Affordability

Aggregate Targeting Number of Units	Percentage of Affordable Units
At or Below 50% AMI: 80	53%
At or Below 60% AMI: 61	40%
At or Below 80% AMI: 10	7%

Unit Mix

<u>152 1-Bedroom Units</u>			
152 Total Units			
Unit Type & Number	2018 Rents Targeted % of Area Median Income	2018 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
80 1 Bedroom	50%	50%	\$913
61 1 Bedroom	60%	60%	\$1,095
10 1 Bedroom	80%	66%	\$1,214
1 1 Bedroom	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$30,135,600

Project Cost Summary at Application

Land and Acquisition	\$33,799,296
Construction Costs	\$0
Rehabilitation Costs	\$14,999,868
Construction Contingency	\$1,633,187
Relocation	\$604,000
Architectural/Engineering	\$660,942
Const. Interest, Perm. Financing	\$4,422,361
Legal Fees, Appraisals	\$208,969
Reserves	\$664,272
Other Costs	\$724,708
Developer Fee	\$8,096,100
Commercial Costs	\$233,085
Total	\$66,046,788

Residential

Construction Cost Per Square Foot:	\$135
Per Unit Cost:	\$432,449
True Cash Per Unit Cost*:	\$344,025

Construction Financing

Source	Amount
Union Bank	\$48,700,000
Seller Carryback - National City	\$13,504,773
Accrued Deferred Interest	\$596,500
Deferred Costs	\$1,187,631
Tax Credit Equity	\$2,057,884

Permanent Financing

Source	Amount
Union Bank	\$19,820,000
Seller Carryback - National City	\$13,504,773
Accrued Deferred Interest	\$596,500
AHP	\$1,500,000
Income from Operations	\$1,276,520
CDLAC Deposit Refund	\$100,000
General Partner Equity	\$6,096,100
Tax Credit Equity	\$23,152,895
TOTAL	\$66,046,788

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$23,264,173
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$38,806,549
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$30,243,425
Qualified Basis (Acquisition):	\$38,806,549
Applicable Rate:	3.27%
Maximum Annual Federal Credit, Rehabilitation:	\$988,960
Maximum Annual Federal Credit, Acquisition:	\$1,268,974
Total Maximum Annual Federal Credit:	\$2,257,934
Approved Developer Fee (in Project Cost & Eligible Basis):	\$8,096,100
Investor/Consultant:	US Bank
Federal Tax Credit Factor:	\$1.02540

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:	\$62,070,722
Actual Eligible Basis:	\$62,070,722
Unadjusted Threshold Basis Limit:	\$39,012,016
Total Adjusted Threshold Basis Limit:	\$63,199,466

Adjustments to Basis Limit

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: 52%

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 applicant has demonstrated the undue financial burden of full compliance to the requirements of Section 10325(f)(7)(K) and has been granted a partial waiver such that Morgan Tower shall provide 10% of units meeting the Chapter 11(B) mobility standards except for the need to extend current balconies to accommodate the full five-foot diameter turning radius. The project shall continue to provide 4% of units with communications accessible features in compliance with Chapter 11(B).

Resyndication and Resyndication Transfer Event: None**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

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

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

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

CDLAC Additional Conditions: None