

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**Tax-Exempt Bond Project**

**July 17, 2019**

Sunnydale HOPE SF Block 6, located at 242 Hahn Street in San Francisco, requested and is being recommended for a reservation of \$6,490,517 in annual federal tax credits to finance the new construction of 166 units of housing serving tenants with rents affordable to households earning 50-60% 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 Rental Assistance Demonstration (RAD) Section 8 Project-based Contract and HUD Section 8 Project Based Vouchers.

**Project Number** CA-19-509

**Project Name** Sunnydale HOPE SF Block 6  
**Site Address:** 242 Hahn Street  
San Francisco, CA 94134 County: San Francisco  
**Census Tract:** 605.00

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$6,490,517	\$0
Recommended:	\$6,490,517	\$0

**Applicant Information**

**Applicant:** Sunnydale Block 6 Housing Partnership LP  
**Contact:** Nabihah Azim  
**Address:** 1256 Market Street  
San Francisco, CA 94102  
**Phone:** (415) 805-9445  
**Email:** nazim@mercyhousing.org

**General Partner(s) or Principal Owner(s):** Mercy Housing Calwest  
Related/Sunnydale Block 6 Development Co. LLC  
**General Partner Type:** Joint Venture  
**Parent Company(ies):** Mercy Housing California  
The Related Companies of California, LLC  
**Developer:** Mercy Housing California  
**Investor/Consultant:** California Housing Partnership  
**Management Agent:** Mercy Housing Management Group

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 167  
 No. / % of Low Income Units: 166 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt - HUD RAD Section 8 Project Based Contract (18 units -10%)  
 HUD Section 8 Project Based Vouchers (107 units - 64%)

**Bond Information**

Issuer: City & County of San Francisco  
 Expected Date of Issuance: September 30, 2019

**Information**

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

**55-Year Use / Affordability**

<u>Aggregate Targeting</u> <u>Number of Units</u>	<u>Percentage of</u> <u>Affordable Units</u>
50% AMI: 34	20%
60% AMI: 132	80%

**Unit Mix**

21 1-Bedroom Units
96 2-Bedroom Units
39 3-Bedroom Units
11 4-Bedroom Units
<u>167 Total Units</u>

<u>Unit Type</u> <u>&amp; Number</u>	<u>2018 Rents</u> <u>Targeted % of Area</u> <u>Median Income</u>	<u>2018 Rents Actual %</u> <u>of Area Median</u> <u>Income</u>	<u>Proposed Rent</u> <u>(including</u> <u>utilities)</u>
18 1 Bedroom	50%	12%	\$318
10 2 Bedrooms	50%	40%	\$1,333
4 3 Bedrooms	50%	39%	\$1,480
2 4 Bedrooms	50%	38%	\$1,599
50 2 Bedrooms	60%	40%	\$1,333
32 3 Bedrooms	60%	39%	\$1,480
9 4 Bedrooms	60%	38%	\$1,599
3 1 Bedroom	60%	60%	\$1,650
35 2 Bedrooms	60%	60%	\$1,980
3 3 Bedrooms	60%	60%	\$2,287
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

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

Land and Acquisition	\$11,465,103
Construction Costs	\$101,630,068
Rehabilitation Costs	\$0
Construction Hard Cost Contingency	\$5,654,758
Soft Cost Contingency	\$857,208
Relocation	\$0
Architectural/Engineering	\$4,055,040
Const. Interest, Perm. Financing	\$10,760,222
Legal Fees	\$210,000
Reserves	\$1,205,503
Other Costs	\$3,584,410
Developer Fee	\$19,734,014
Commercial Costs	\$0
<b>Total</b>	<b>\$159,156,326</b>

### **Residential**

Construction Cost Per Square Foot:	\$477
Per Unit Cost:	\$953,032
True Cash Per Unit Cost*:	\$914,166

#### **Construction Financing**

<u>Source</u>	<u>Amount</u>
Bank of America TE Loan	\$76,680,000
Bank of America Loan	\$25,398,681
<sup>1</sup> MOHCD Gap Loan	\$18,892,995
<sup>1</sup> MOHCD Infrastructure Loan	\$11,000,000
<sup>1</sup> MOHCD Interest	\$1,283,145
Deferred Costs	\$2,738,974
Deferred Developer Fee	\$6,490,637
General Partner Equity	\$10,373,377
Tax Credit Equity	\$6,298,517

#### **Permanent Financing**

<u>Source</u>	<u>Amount</u>
Bank of America Tranche A	\$7,902,000
Bank of America Tranche B	\$38,501,000
<sup>1</sup> MOHCD Gap Loan	\$18,892,995
<sup>1</sup> MOHCD Infrastructure Loan	\$11,000,000
<sup>1</sup> MOHCD Interest	\$1,283,145
Deferred Developer Fee	\$6,490,637
General Partner Equity	\$10,373,377
Tax Credit Equity	\$64,713,172
<b>TOTAL</b>	<b>\$159,156,326</b>

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

<sup>1</sup> MOHCD - Mayors Office Housing and Community Development

### **Determination of Credit Amount(s)**

Requested Eligible Basis:	\$151,294,107
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$196,682,339
Applicable Rate:	3.30%
Total Maximum Annual Federal Credit:	\$6,490,517
Approved Developer Fee (in Project Cost & Eligible Basis):	\$19,734,014
Investor/Consultant:	California Housing Partnership
Federal Tax Credit Factor:	\$0.99704

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:	\$151,294,107
Actual Eligible Basis:	\$151,294,107
Unadjusted Threshold Basis Limit:	\$102,683,000
Total Adjusted Threshold Basis Limit:	\$161,509,180

**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

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate Units are

Income Targeted between 50% AMI & 36% AMI: 20%

**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 meet or 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 3.30% 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 \$953,032 per unit. This relatively high cost compared to most other areas of California is due in part to the high cost of construction in San Francisco, the partial subterranean parking, the slope of the site which adds to the complexity and cost of the construction, the project's rental subsidies that support a strong property value and cost. The project requires three new streets and utility infrastructure costs. The project funding sources invoke prevailing wage as well as HUD requirements, and the City and County of San Francisco and the Mayor's Office of Housing and Community Development contracting requirements.

**Resyndication and Resyndication Transfer Event: None**

**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.

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 comply with the CDLAC Resolution. At the time of the TCAC placed in service review, TCAC staff will verify that the project is in compliance with all applicable items of CDLAC Resolution Exhibit A.