CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 11, 2019

Hayes Valley South, located at 401 Rose Street in San Francisco, requested and is being recommended for a reservation of $2,915,443 in annual federal tax credits to finance the acquisition and rehabilitation of 109 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by McCormack Baron Salazar, Inc. and is located in Senate District 11 and Assembly District 17.

Hayes Valley South is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Hayes Valley Apartments Phase II (CA-95-069). See **Resyndication and Resyndication Transfer Event** below for additional information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers and HUD RAD Project-based Vouchers.

Project Number CA-19-592

Project Name Hayes Valley South
Site Address: 401 Rose Street
San Francisco, CA 94102 County: San Francisco
Census Tract: 16300.00

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$2,915,443	$0
Recommended:	$2,915,443	$0

Applicant Information

Applicant:	Hayes Valley IV, L.P.
Contact:	Lauren Levrant
Address:	720 Olive Street, Suite 2500 St. Louis, MO 63101
Phone:	(628) 242-1896
Email:	lauren.levrant@mccormackbaron.com

General Partner(s) or Principal Owner(s):	Hayes Valley IV MBS GP, Inc. San Francisco Housing Development Corporation
General Partner Type:	Joint Venture
Parent Company(ies):	MBA Properties, Inc. San Francisco Housing Development Corporation
Developer:	McCormack Baron Salazar, Inc.
Investor/Consultant:	Bank of America, NA
Management Agent:	McCormack Baron Management, Inc

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	8
Total # of Units:	110
No. / % of Low Income Units:	109 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Vouchers (53 Units / 48%) & HUD RAD Project-based Vouchers (13 Units / 12%)

Bond Information

Issuer:	CalHFA
Expected Date of Issuance:	March 1, 2020

Information

Housing Type:	Non-Targeted
Geographic Area:	San Francisco County
TCAC Project Analyst:	Jack Waegell

55-Year Use / Affordability

Aggregate Targeting Number of Units		Percentage of Affordable Units
50% AMI:	44	40%
60% AMI:	65	60%

Unit Mix

16	1-Bedroom Units
69	2-Bedroom Units
18	3-Bedroom Units
7	4-Bedroom Units
110	Total Units

	Unit Type & Number	2019 Rents Targeted % of Area Median Income	2019 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
11	1 Bedroom	50%	36%	$1,095
1	1 Bedroom	60%	53%	$1,615
1	1 Bedroom	60%	36%	$1,095
3	1 Bedroom	60%	60%	$1,814
28	2 Bedrooms	50%	50%	$1,813
12	2 Bedrooms	60%	49%	$1,774
1	2 Bedrooms	60%	38%	$1,379
14	2 Bedrooms	60%	60%	$2,176
14	2 Bedrooms	60%	60%	$2,176
3	3 Bedrooms	50%	50%	$2,095
5	3 Bedrooms	60%	44%	$1,849
4	3 Bedrooms	60%	60%	$2,514
5	3 Bedrooms	60%	60%	$2,514
2	4 Bedrooms	50%	50%	$2,337
1	4 Bedrooms	60%	44%	$2,056
2	4 Bedrooms	60%	60%	$2,805
2	4 Bedrooms	60%	60%	$2,805
1	3 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application	
Land and Acquisition	$32,992,796
Construction Costs	$0
Rehabilitation Costs	$35,056,173
Construction Hard Cost Contingency	$5,201,332
Soft Cost Contingency	$840,628
Relocation	$2,655,317
Architectural/Engineering	$1,518,612
Const. Interest, Perm. Financing	$4,231,388
Legal Fees	$180,000
Reserves	$2,036,728
Other Costs	$4,122,781
Developer Fee	$11,412,869
Commercial Costs	$682,810
Total	**$100,931,434**

Residential

Construction Cost Per Square Foot:	$271
Per Unit Cost:	$911,351
True Cash Per Unit Cost*:	$604,040

Construction Financing

Source	Amount
Bank of America	$50,085,000
San Francisco MOHCD - Loan	$917,878
Seller Note	$32,104,246
Contributed Existing Reserves	$1,914,978
General Partner Contributions	$220
General Partner Equity	$7,476,578
Tax Credit Equity	$4,010,806

Permanent Financing

Source	Amount
Bank of America	$20,100,000
CalHFA Gap Loan	$3,500,000
San Francisco MOHCD - Loan	$6,804,708
Seller Note	$32,104,246
Contributed Existing Reserves	$1,914,978
Deferred Developer Fee	$1,700,000
General Partner Contributions	$220
General Partner Equity	$7,473,578
Tax Credit Equity	$27,333,704
TOTAL	**$100,931,434**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$54,474,279
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	$33,872,470
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$54,474,279
Qualified Basis (Acquisition):	$33,872,470
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	$1,797,651
Maximum Annual Federal Credit, Acquisition:	$1,117,792
Total Maximum Annual Federal Credit:	$2,915,443
Approved Developer Fee in Project Cost:	$11,412,869
Approved Developer Fee in Eligible Basis:	$11,389,781
Investor/Consultant:	Bank of America, NA
Federal Tax Credit Factor:	$0.93755

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:	$88,346,749
Actual Eligible Basis:	$88,346,749
Unadjusted Threshold Basis Limit:	$66,128,046
Total Adjusted Threshold Basis Limit:	$105,804,873

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: 40%

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 project's cost is estimated at $911,351 per unit. This cost is attributable to its location in the City and County of San Francisco and the value and cost of land and improvements that result in an acquisition cost of $299,934. In addition, this project will require the temporary relocation of its existing low-income tenants, and although of relatively short duration, it is still costly to temporarily relocate tenants within the city. Also, the project's construction costs include prevailing wage requirements.

The San Francisco Housing Authority is providing this project with 53 HUD Section 8 project-based vouchers and 13 public housing ACC units converted under to RAD program to project-based vouchers.

Resyndication and Resyndication Transfer Event

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-95-069). To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. For resyndications that were originally rehabilitation and acquisition, the resyndication acquisition date cannot occur before the last rehabilitation credit year of the original credit period.

As required by the IRS, the newly resyndicated project will continue to use the originally assigned Building Identification Numbers (BINs).

The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s). Existing households determined to be income-qualified for purposes of IRC §42 credit during the 15-year compliance period are concurrently income-qualified households for purposes of the extended use agreement. As a result, any household determined to be income qualified at the time of move-in under the existing regulatory agreement (CA-95-069) is a qualified low-income household for the subsequent allocation (existing household eligibility is "grandfathered").

The project is a resyndication where the existing regulatory agreement requires service amenities. The project shall provide a similar or greater level of services for a period of at least 15 years under the new regulatory agreement. The project is deemed to have met this requirement based on TCAC staff's review of the commitment in the application. The services documented in the placed in service package will be reviewed by TCAC staff for compliance with this requirement at the time of the placed in service submission.

The project is a resyndication occurring concurrently with a Transfer Event without the distribution of Net Project Equity, and thus is waived form the requirements under TCAC Regulation Section 10320(b)(4)(B).

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.