

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

Walnut Studios, located at 817 Walnut Street in San Carlos, requested and is being recommended for a reservation of \$621,386 in annual federal tax credits to finance the new construction of 23 units of housing serving tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Charities Housing Development Corporation of Santa Clara County and will be located in Senate District 13 and Assembly District 22.

Project Number CA-19-595

Project Name Walnut Studios
Site Address: 817 Walnut Street
 San Carlos, CA 94070 County: San Mateo
Census Tract: 6092.01

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$621,386	\$0
Recommended:	\$621,386	\$0

Applicant Information

Applicant: Walnut Street, L.P.
Contact: Kathy Robinson
Address: 1400 Parkmoor Avenue, Suite 190
 San Jose, CA 95126
Phone: 408-550-8311
Email: krobinson@charitieshousing.org

General Partner(s) or Principal Owner(s): Walnut Street Charities, LLC
General Partner Type: Nonprofit
Parent Company(ies): Charities Housing Development Corporation of Santa Clara County
Developer: Charities Housing Development Corporation of Santa Clara County
Investor/Consultant: California Housing Partnership Corporation
Management Agent: Charities Housing Development Corporation of Santa Clara County

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 24
 No. / % of Low Income Units: 23 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: May 1, 2020

Information

Housing Type: Non-Targeted
 Geographic Area: West Bay Region
 TCAC Project Analyst: Ruben Barcelo

55-Year Use / Affordability

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
30% AMI: 6	26%
40% AMI: 6	26%
50% AMI: 6	26%
60% AMI: 5	22%

Unit Mix

23 SRO/Studio Units
1 2-Bedroom Units
<u>24 Total Units</u>

<u>Unit Type & Number</u>	<u>2019 Rents Targeted % of Area Median Income</u>	<u>2019 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
6 SRO/Studio	30%	30%	\$843
6 SRO/Studio	40%	40%	\$1,128
6 SRO/Studio	50%	50%	\$1,408
5 SRO/Studio	60%	60%	\$1,688
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$422,721
Construction Costs	\$7,848,533
Rehabilitation Costs	\$0
Construction Hard Cost Contingency	\$954,468
Soft Cost Contingency	\$151,087
Relocation	\$160,000
Architectural/Engineering	\$639,061
Const. Interest, Perm. Financing	\$1,227,585
Legal Fees	\$230,000
Reserves	\$128,821
Other Costs	\$2,067,043
Developer Fee	\$1,889,286
Commercial Costs	\$0
Total	\$15,718,605

Residential

Construction Cost Per Square Foot:	\$654
Per Unit Cost:	\$654,942
True Cash Per Unit Cost*:	\$654,942

Construction Financing

<u>Source</u>	<u>Amount</u>
Union Bank	\$9,516,772
City of San Carlos AFH Loan	\$4,000,000
County of San Mateo AFH Loan	\$600,000
Deferred Costs	\$967,982
GP Equity	\$100
Tax Credit Equity	\$633,751

Permanent Financing

<u>Source</u>	<u>Amount</u>
Union Bank	\$1,481,000
City of San Carlos AFH Loan	\$7,300,000
County of San Mateo AFH Loan	\$600,000
GP Equity	\$100
Tax Credit Equity	\$6,337,505
TOTAL	\$15,718,605

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$14,484,526
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$18,829,884
Applicable Rate:	3.30%
Maximum Annual Federal Credit:	\$621,386
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,889,286
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$1.01990

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:	\$14,484,526
Actual Eligible Basis:	\$14,484,526
Unadjusted Threshold Basis Limit:	\$8,067,020
Total Adjusted Threshold Basis Limit:	\$19,683,529

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.

95% of Upper Floor Units are Elevator-Serviced.

Highest or High Resource Opportunity Area.

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%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 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 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 \$654,942 per unit. The applicant noted that the high per unit cost is attributed to prevailing wage requirements, labor and material cost inflation, hard and soft cost contingencies, and reserves.

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.