

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
April 14, 2020**

West San Carlos Residential, located at 750 W. San Carlos in San Jose, requested and is being recommended for a reservation of \$2,240,537 in annual federal tax credits and \$3,016,443 in total state tax credits to finance the new construction of 34 tenants and 40 units of housing serving special needs tenants with rents affordable to households earning 30%-60% AMI of area median income (AMI). The project will be developed by Danco Communities and will be located in Senate District 19 and Assembly District 19.

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

Project Number CA-20-564

Project Name West San Carlos Residential
Site Address: 750 W. San Carlos
San Jose, CA 95020 County: Santa Clara
Census Tract: 5019.00

Tax Credit Amounts	Federal/Annual	State/Total *
Requested:	\$2,240,537	\$3,016,443
Recommended:	\$2,240,537	\$3,016,443

* The applicant made an election not to sell (Certificate) any portion of the state credits.

Applicant Information

Applicant: San Jose W San Carlos LP
Contact: Chris Dart
Address: 5251 Ericson Way
Arcata, CA 95521
Phone: 707-822-9000
Email: cdart@danco-group.com

General Partner(s) or Principal Owner(s): Community Revitalization and Development Corp.
Johnson & Johnson Investments, LLC

General Partner Type: Joint Venture

Parent Company(ies): Community Revitalization and Development Corp.
Danco Communities

Developer: Danco Communities

Investor/Consultant: Raymond James

Management Agent: Danco Property Management

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 80
 No. / % of Low Income Units: 79 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project Based Vouchers (40 units - 50%)
 Utility Allowance: CUAC

Bond Information

Issuer: City of San Jose
 Expected Date of Issuance: June 1, 2020

Information

Housing Type: Special Needs
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Sara Dixon

55-Year Use / Affordability

<u>Aggregate Targeting</u> <u>Number of Units</u>	<u>Percentage of</u> <u>Affordable Units</u>
30% AMI: 40	51%
50% AMI: 20	25%
60% AMI: 19	24%

Unit Mix

57 1-Bedroom Units
23 2-Bedroom Units
<u>80 Total Units</u>

<u>Unit Type</u> <u>& Number</u>	<u>2019 Rents</u> <u>Targeted % of</u> <u>Area Median</u> <u>Income</u>	<u>2019 Rents Actual</u> <u>% of Area Median</u> <u>Income</u>	<u>Proposed Rent</u> <u>(including</u> <u>utilities)</u>
28 1 Bedroom	25%	25%	\$686
15 1 Bedroom	50%	50%	\$1,372
14 1 Bedroom	60%	60%	\$1,647
12 2 Bedrooms	25%	25%	\$823
5 2 Bedrooms	50%	50%	\$1,646
5 2 Bedrooms	60%	60%	\$1,975
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$5,912,500
Construction Costs	\$38,827,639
Rehabilitation Costs	\$0
Construction Hard Cost Contingency	\$1,941,382
Soft Cost Contingency	\$338,738
Relocation	\$0
Architectural/Engineering	\$1,350,000
Const. Interest, Perm. Financing	\$2,949,896
Legal Fees	\$120,000
Reserves	\$451,157
Other Costs	\$5,051,800
Developer Fee	\$3,849,618
Commercial Costs	\$0
Total	\$60,792,730

Residential

Construction Cost Per Square Foot:	\$615
Per Unit Cost:	\$759,909
True Cash Per Unit Cost*:	\$743,039

Construction Financing

Source	Amount
Pacific Western Bank	\$34,200,000
City of San Jose	\$9,875,000
County of Santa Clara - Acquisition	\$5,912,500
County of Santa - Clara Measure A	\$3,350,000
Deferred Developer Fee	\$2,775,908
Tax Credit Equity	\$4,679,322

Permanent Financing

Source	Amount
Pacific Western Bank	\$16,909,000
City of San Jose	\$9,875,000
County of Santa Clara - Acquisition	\$5,912,500
County of Santa - Clara Measure A	\$3,350,000
Deferred Developer Fee	\$1,349,618
Tax Credit Equity	\$23,396,612
TOTAL	\$60,792,730

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$53,194,144
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$69,152,387
Applicable Rate:	3.24%
Maximum Annual Federal Credit:	\$2,240,537
Total State Credit:	\$3,016,443
Approved Developer Fee (in Project Cost & Eligible Basis):	\$3,849,618
Investor/Consultant:	Raymond James
Federal Tax Credit Factor:	\$0.95000
State Tax Credit Factor:	\$0.70000

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:	\$53,194,144
Actual Eligible Basis:	\$53,194,144
Unadjusted Threshold Basis Limit:	\$31,248,523
Total Adjusted Threshold Basis Limit:	\$85,776,173

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: 25%
- 55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 100%

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 3.24% 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

Development costs are roughly \$743,039 per unit. According to the applicant, the factors affecting this cost include real estate costs, construction costs, and density for the project due to the project's location.

The applicant has requested the use of a CUAC utility allowance. TCAC staff is in the process of reviewing the CUAC documentation for this existing project. Until written approval is received from TCAC, this project is not eligible to use a utility allowance based on the CUAC.

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.

State tax credit recipients are limited to cash distributions from project operations pursuant to California Revenue and Taxation Code Section 12206(d). By accepting the tax credit reservation, the applicant/owner is agreeing to comply with the statutory limitations and requirements.

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.