

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2020 First Round

June 17, 2020

Capitol Park Hotel, located at 1125 9th Street in Sacramento, requested and is being recommended for a reservation of \$2,500,000 in annual federal tax credits and \$10,163,816 in total state tax credits to finance the new construction of 134 units of housing serving special needs tenants with rents affordable to households earning 20%-40% of area median income (AMI). The project will be developed by Mercy Housing California and is located in Senate District 6 and Assembly District 7.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers. The project financing includes state funding from the NPLH program of HCD.

Project Number CA-20-011

Project Name Capitol Park Hotel

Site Address: 1125 9th Street
Sacramento, CA 95814 County: Sacramento

Census Tract: 06-067-0011.01

Tax Credit Amounts	Federal/Annual	State/Total *
Requested:	\$2,500,000	\$10,163,816
Recommended:	\$2,500,000	\$10,163,816

* The applicant made an election to sell (Certificate) all or any portion of the state credits.

Applicant Information

Applicant: Mercy Housing California
Contact: Stephan Daues
Address: 2512 River Plaza Drive, Suite 200
Sacramento, CA 95833
Phone: 916-414-4440
Email: sdaues@mercyhousing.org

General Partner(s) / Principal Owner(s): 1121 9th Street, LLC
General Partner Type: Nonprofit
Parent Company(ies): Mercy Housing Inc.
Developer: Mercy Housing California
Investor/Consultant: California Housing Partnership
Management Agent(s): Mercy Housing Management Group

Project Information

Construction Type: New Construction and Adaptive Reuse
 Total # Residential Buildings: 1
 Total # of Units: 134
 No. & % of Tax Credit Units: 134 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Section 8 Project Based Vouchers (134 units - 100%) / CDBG / HOPWA

Information

Set-Aside: Nonprofit (homeless assistance)
 Housing Type: Special Needs
 Type of Special Needs: Homeless
 Average Targeted Affordability of Special Needs/SRO Project Units: 30.30%
 % of Special Need Units 134 units 100%
 Geographic Area: Capital Region
 TCAC Project Analyst: Carmen Doonan

55-Year Use / Affordability

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI: 65	45%
At or Below 45% AMI: 69	50%

Unit Mix

134 SRO/Studio Units
 134 Total Units

<u>Unit Type & Number</u>	<u>2019 Rents Targeted % of Area Median Income</u>	<u>2019 Rents Actual % of Area Median Income</u>	<u>Rent (including utilities)</u>
65 SRO/Studio	20%	20%	\$293
69 SRO/Studio	40%	40%	\$586

Please see "Significant Information / Special Conditions" below for manager unit description

Project Cost Summary at Application

Land and Acquisition	\$8,974,961
Construction Costs	\$28,900,228
Rehabilitation Costs	\$0
Construction Contingency	\$4,876,179
Relocation	\$3,986,000
Architectural/Engineering	\$2,167,017
Const. Interest, Perm. Financing	\$3,675,092
Legal Fees	\$93,140
Reserves	\$916,559
Other Costs	\$1,318,084
Developer Fee	\$2,000,000
Commercial Costs	\$2,728,141
Total	\$59,635,401

Residential

Construction Cost Per Square Foot:	\$563
Per Unit Cost:	\$424,389
True Cash Per Unit Cost*:	\$424,389

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
US Bank	\$44,646,268	HCD - No Place Like Home	\$9,690,825
SHRA - Loan	\$1,500,000	SHRA - Loan	\$1,500,000
SHRA**	\$6,840,000	SHRA**	\$7,600,000
AHP	\$1,340,000	AHP	\$1,340,000
Deferred Cost	\$2,094,100	Historic Tax Credit Equity	\$6,857,746
Tax Credit Equity	\$3,215,033	Tax Credit Equity	\$32,646,830
		TOTAL	\$59,635,401

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

**SHRA - CDBG, HOPWA, HTF, Mixed Income Housing Funds, and Housing Authority Successor Agency

Determination of Credit Amount(s)

Requested Eligible Basis:	\$33,879,390
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$44,043,207
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$2,500,000
Total State Credit:	\$10,163,816
Approved Developer Fee in Project Cost:	\$2,000,000
Approved Developer Fee in Eligible Basis:	\$1,960,842
Investor/Consultant:	California Housing Partnership
Federal Tax Credit Factor:	\$0.96030
State Tax Credit Factor:	\$0.85000

The “as if vacant” land value and the existing improvement value established at application, 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, unless a waiver has been granted for a purchase price not to exceed the sum of third party debt that will be assumed or paid off. 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:	\$33,879,390
Actual Eligible Basis:	\$40,373,790
Unadjusted Threshold Basis Limit:	\$30,907,770
Total Adjusted Threshold Basis Limit:	\$43,454,016

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
 100% of the Low Income Units for Special Needs Population
 Seismic Upgrading
 95% of Upper Floor Units are Elevator-Serviced

Tie-Breaker Information

First:	Special Needs
Final:	81.022%

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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.24%. 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

This project is a rehabilitation, historic preservation, and adaptive re-use of an existing 180 room SRO hotel constructed in 1912.

The proposed rent does not include a utility allowance. The owner will pay for all utilities.

Per TCAC Regulation Section 10325(f)(7)(j) In lieu of on site manager units, Capitol Park Hotel will commit to employ a full time property management staff and provide an equivalent number of desk or security staff capable of responding to emergencies for the hours when the property management staff is not working. All staff or contractors performing desk or security work shall be knowledgeable of how the property's fire system operates and be trained in, and have participated in, fire evacuation drills for tenants.

Resyndication and Resyndication Transfer Event: None.

Legal Status

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Local Reviewing Agency

The Local Reviewing Agency, Sacramento Housing and Redevelopment Agency, has completed a site review of this project and strongly supports this project.

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of fifteen years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(5) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

Points System	Max. Possible Points	Requested Points	Points Awarded
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within ¼ mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within ½ mile of public park or community center open to general public	3	3	3
Within ½ mile of public library	3	3	3
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	4	4	4
Special Needs project within 1 mile of facility serving tenant population	2	2	2
Within ½ mile of medical clinic or hospital	3	3	3
Within ½ mile of a pharmacy	2	2	2
Service Amenities	10	10	10
SPECIAL NEEDS HOUSING TYPE			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	5
Service Coordinator/Other Services Specialist, min. ratio 1 FTE to 360 bdrms	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements: GreenPoint Rated Program	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of Low Income Units @ 30% AMI or less	2	2	2
Readiness to Proceed	10	10	10
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	113	113	113

Please Note: If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.