

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**2008 First Round Cycle**  
**June 20, 2008**

**Project Number** CA-2008-054

**Project Name** Westbrook Plaza  
**Site Address:** 227-255 7<sup>th</sup> Street  
San Francisco, CA 94103 County: San Francisco  
**Census Tract:** 178.00

**Applicant Information**

**Applicant:** Mercy Housing California XLI, a California Limited Partnership  
**Contact:** Barbara Gualco  
**Address:** 1360 Mission Street, Suite 300  
San Francisco, CA 94103  
**Phone:** (415) 355-7117 Fax: (415) 355-7122  
**Email:** [bgualco@mercyhousing.org](mailto:bgualco@mercyhousing.org)

General Partners(s) Type: Nonprofit

**Information**

**Set-Aside:** N/A  
**Housing Type:** Large Family  
**Geographic Area:** San Francisco County

**Eligible Basis**

**Requested:** \$18,193,913  
**Actual:** \$26,111,836  
**Maximum Permitted:** \$18,193,913

**Adjustments to Threshold Basis Limit:**

Required to Pay Prevailing Wages   
Parking Beneath Residential Units   
3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features   
Environmental Mitigation   
Utilizing New Energy Technologies   
Local Impact Fees   
95% of Upper Floor Units are Elevator-Serviced

| <b>Tax Credit Amounts</b> | <b>Federal/Annual</b> | <b>State/Total</b> |
|---------------------------|-----------------------|--------------------|
| Requested:                | \$1,963,123           | \$0                |
| Recommended:              | \$1,963,123           | \$0                |

**Project Information**

**Construction Type:** New Construction  
**Federal Subsidy:** N/A  
**Total # of Units:** 49  
**Total # Residential Buildings:** 2

**Income/Rent Targeting**

Federal Set-Aside Elected: 40%/60%  
 % & No. of Tax Credit Units: 100% - 48 units  
 Breakdown by %: 50% @45%, 50% @50%

| <b>Selection Criteria</b>   | <b>Max. Possible Points</b> | <b>Req. Points</b> | <b>Points Awarded</b> |
|---|-----------------------------|--------------------|-----------------------|
| <b>Cost Efficiency/Credit Reduction/Public Funds (Maximum of 20 points)</b>   | <b>20</b>                   | <b>18</b>          | <b>18</b>             |
| <input checked="" type="checkbox"/> Public Funds  | 18                          | 18                 | 18                    |
| <b>Owner / Management Characteristics (Maximum of 9 points)</b>   | <b>9</b>                    | <b>9</b>           | <b>9</b>              |
| <input checked="" type="checkbox"/> General Partner Experience  | 6                           | 6                  | 6                     |
| <input checked="" type="checkbox"/> Management Experience   | 3                           | 3                  | 3                     |
| <b>Housing Needs (Maximum of 10 points)</b>   | <b>10</b>                   | <b>10</b>          | <b>10</b>             |
| <b>Site Amenities (Maximum of 15 points)</b>  | <b>15</b>                   | <b>15</b>          | <b>15</b>             |
| <input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density | 7                           | 7                  | 7                     |
| <input checked="" type="checkbox"/> Within ¼ mile of public park or community center open to general public                 | 3                           | 3                  | 3                     |
| <input checked="" type="checkbox"/> Within ½ mile of public library   | 2                           | 2                  | 2                     |
| <input checked="" type="checkbox"/> Within ¼ mile of a full-scale grocery store with staples, fresh meat and fresh produce  | 4                           | 4                  | 4                     |
| <input checked="" type="checkbox"/> Large Family project within ¼ mile of public school that project children may attend    | 3                           | 3                  | 3                     |
| <input checked="" type="checkbox"/> Within ½ mile of medical clinic or hospital   | 3                           | 3                  | 3                     |
| <input checked="" type="checkbox"/> Within ¼ mile of a pharmacy   | 2                           | 2                  | 2                     |
| <b>Service Amenities (Maximum of 10 points)</b>   | <b>10</b>                   | <b>10</b>          | <b>10</b>             |
| <input checked="" type="checkbox"/> After school programs of an ongoing nature for school age children                      | 5                           | 5                  | 5                     |
| <input checked="" type="checkbox"/> Educational classes (e.g. ESL, Computer training, etc. and aren't same as After School) | 5                           | 5                  | 5                     |
| <b>Neighborhood Revitalization (Maximum of 9 points)</b>  | <b>9</b>                    | <b>9</b>           | <b>9</b>              |
| <b>Sustainable Building Methods (Maximum of 8 points)</b>   | <b>8</b>                    | <b>8</b>           | <b>8</b>              |
| <input checked="" type="checkbox"/> Flow restrictors for kitchen & bath faucets or water-saving fixtures                    | 1                           | 1                  | 1                     |
| <input checked="" type="checkbox"/> Minimum 1 High Efficiency Toilet (1.3 gpf) or dual flush                                | 2                           | 2                  | 2                     |
| <input checked="" type="checkbox"/> Formaldehyde free cabinets, countertops and shelving                                    | 1                           | 1                  | 1                     |
| <input checked="" type="checkbox"/> CRI Green-label, low-VOC carpet and pad   | 1                           | 1                  | 1                     |
| <input checked="" type="checkbox"/> Bathroom fans in all bathrooms w/humidistat, timer and outdoor exhaust                  | 2                           | 2                  | 2                     |
| <input checked="" type="checkbox"/> Formaldehyde-free insulation  | 1                           | 1                  | 1                     |
| <b>Lowest Income (Maximum of 52 points)</b>   | <b>52</b>                   | <b>50</b>          | <b>50</b>             |
| <input checked="" type="checkbox"/> Basic Targeting   | 50                          | 50                 | 50                    |
| <b>Readiness to Proceed (Maximum of 20 points)</b>  | <b>20</b>                   | <b>15</b>          | <b>15</b>             |
| <b>Total Points</b>   | <b>155</b>                  | <b>144</b>         | <b>144</b>            |

**Tie-Breaker Information**

Tie-Breaker Categories Apply to this Project: **No**

First: Housing Type **Large Family**

Second: Maximum Neighborhood Revitalization Points/Federal Designated Area **Yes**

Third: Calculated Ratio per Regulation 10325(c)(12) **72.170%**

| <b>Unit Type &amp; Number</b> | <b>2008 Rents<br/>% of Area Median Income</b> | <b>Proposed Rent<br/>(including utilities)</b> |
|-------------------------------|---|--|
| 8 One-Bedroom Units           | 45%   | \$779  |
| 9 Two-Bedroom Units           | 45%   | \$876  |
| 7 Three-Bedroom Units         | 45%   | \$973  |
| 6 One-Bedroom Units           | 50%   | \$865  |
| 10 Two-Bedroom Units          | 50%   | \$974  |
| 8 Three-Bedroom Units         | 50%   | \$1,081  |
| 1 Two-Bedroom Unit            | Manager's Unit                                | \$0  |

The general partner or principal owner is Mercy Housing West.

The project developer is Mercy Housing California.

The management agent is Mercy Services Corporation.

The market analyst is Mary Ellen Shay & Co.

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

**Project Financing**

Estimated Total Project Cost: \$31,559,290 Per Unit Cost: \$644,067 Construction Cost Per Sq. Foot: \$434

| Construction Financing               |              | Permanent Financing           |                     |
|--------------------------------------|--------------|-------------------------------|---------------------|
| Source                               | Amount       | Source                        | Amount              |
| Wells Fargo Construction Loan        | \$16,900,000 | Wells Fargo Construction Loan | \$320,850           |
| San Francisco RDA                    | \$12,952,232 | San Francisco RDA             | \$12,952,232        |
| SFRA Loan Accrued Interest           | \$463,099    | FHLB AHP                      | \$240,000           |
| Costs Deferred Until Perm Loan Close | \$1,067,788  | SFRA Loan Accrued Interest    | \$463,099           |
| Investor Equity                      | \$176,171    | Investor Equity               | \$17,583,109        |
|                                      |              | <b>TOTAL</b>                  | <b>\$31,559,290</b> |

**Determination of Credit Amount(s)**

|  |              |
|--|--------------|
| Requested Eligible Basis:                        | \$18,193,913 |
| 130% High Cost Adjustment:                       | Yes          |
| Applicable Fraction:                             | 100%         |
| Qualified Basis:                                 | \$23,652,087 |
| Applicable Rate:                                 | 8.30%        |
| Maximum Annual Federal Credit:                   | \$1,963,123  |
| Approved Developer Fee in Project Cost           | \$2,000,000  |
| Approved Developer Fee in Eligible Basis:        | \$1,400,000  |
| Tax Credit Factor: <i>CA Housing Partnership</i> | \$0.8957     |

Applicant requests and staff recommends annual federal credits of \$1,963,123, based on a qualified basis of \$23,652,087 and a funding shortfall of \$17,583,109.

**Cost Analysis and Line Item Review**

The requested eligible basis \$18,193,913 is at the TCAC’s threshold basis limit \$18,193,913. The basis limit was increased by the following extraordinary features: projects where 95% of upper floor units are elevator-serviced, projects that are required to pay state or federal prevailing wages, projects that are required to provide parking beneath the residential units, projects requiring toxic or other environmental mitigation as certified by the project architect, projects that include distributive energy technologies such as micro turbines and/or renewable energy sources such as solar, local development impact fees, the adjustment for projects with 3 or more energy efficiency/resource conservation/indoor air quality items, recycling at least 75% of the construction and demolition waste (measured by either weight or volume), using CRI Green Label Plus Carpet or no carpet in all bedrooms, and using vent kitchen range hoods to the exterior of the building in at least 80% of the units. Staff analysis of project costs to determine reasonableness found all fees to be within TCAC’s underwriting guidelines and TCAC limitations.

Annual operating expenses 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 8.30% 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.

**Special Issues/Other Significant Information:** Staff noted a high residential cost per unit, which ultimately was due to the land value, and the inclusion of a high-rise building, environmental mitigation, subterranean parking and a photovoltaic system.

**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.

**Recommendation:** Staff recommends that the Committee make a preliminary reservation of tax credits, in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

|                    |             |
|--------------------|-------------|
| Federal/Annual     | State/Total |
| <b>\$1,963,123</b> | <b>\$0</b>  |

### **Standard Conditions**

An application for a carryover allocation must be submitted by October 31, 2008, as required by regulation section 10328(d), together with the applicable allocation fee and all required documentation. The time for meeting the "10%" test and submitting related documentation will be no later than six (6) months after the date of the executed carryover allocation (as defined by IRC Section 42 and IRS Notices). The applicant must ensure the project meets all Additional Threshold Requirements for the housing type of the proposed project.

The applicant must submit all documentation required for a Final Reservation no later than February 1 of the year that the building(s) must be placed in service pursuant to Section 42(h)(E)(i) of the Internal Revenue Code of 1986, as amended. The applicant shall provide the Committee a Final Reservation application providing the documentation for the project set forth in Section 10322(i)(1) of these regulations. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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. The performance deposit must be paid by cashier's check within 20 calendar days of any preliminary reservation. The allocation fee must be paid within a time period specified in the preliminary reservation letter. The allocation fee will be due prior to execution of a carryover allocation or issuance of tax forms, whichever comes first. 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 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.

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 ten 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)(8) 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)(P) at project completion.

**Additional Conditions:**

Applicants that received 20 points for readiness to proceed must meet ALL of the following requirements. The applicant must be ready to begin construction within 150 days of the Credit Reservation which is November 17, 2008, as evidenced by submission, within that time of, recorded deeds of trust for all construction financing, payment of all construction lender fees, issuance of building permits and notice to proceed delivered to the contractor. Failure to meet this timeline will result in rescission of the Credit Reservation.

**Project Analyst:** Anthony Zeto