CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 16, 2015

The Verandas, located at 1868 N. Capitol Avenue in San Jose, requested and is being recommended for a reservation of $700,159 in annual federal tax credits to finance the rehabilitation of 91 units of housing serving large families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by JSM Enterprises, Inc, and is located in Senate District 10 and Assembly District 25.

The Verandas is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Capitol Avenue Family Apts ("The Verandas") (CA-1999-917). See **Special Issues/Other Signficant Information** below for additional re-syndication information.

Project Number CA-15-928

Project Name	The Verandas	
Site Address:	1868 N. Capitol Avenue	
	San Jose, CA 95132	County: Santa Clara
Census Tract:	5043.230	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$700,159	$0
Recommended:	$700,159	$0

Applicant Information

Applicant:	JSM - The Verandas Affordable, L.P., a California Limited Partnership
Contact:	William Colin Gray
Address:	3190 S. Bascom Avenue, Suite 220 San Jose, CA 95124
Phone:	(408) 410-2430
Email:	cgray@jsmenterprises.com

General Partner(s) or Principal Owner(s):	The Verandas Management LLC AHA San Jose MGP, LLC, A California LLC
General Partner Type:	Joint Venture
Parent Company(ies):	JSM Enterprises, Inc. Affordable Houisng Access
Developer:	JSM Enterprises, Inc.
Investor/Consultant:	WNC & Associates
Management Agent:	California Real Estate Management

Project Information

Construction Type:	Acquisition and Rehabilitation
Total # Residential Buildings:	3
Total # of Units:	92
No. & % of Tax Credit Units:	91 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt
55-Year Use/Affordability:	Yes

Number of Units @ or below 50% of area median income: 19
Number of Units @ or below 60% of area median income: 72

Bond Information

Issuer:	California Housing Finance Agency
Expected Date of Issuance:	January 15, 2016
Credit Enhancement:	N/A

Information

Housing Type:	Large Family
Geographic Area:	South and West Bay Region
TCAC Project Analyst:	Marlene McDonough

Unit Mix

26	1-Bedroom Units
55	2-Bedroom Units
11	3-Bedroom Units
92	Total Units

Unit Type & Number		2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
5	1 Bedroom	50%	50%	$997
21	1 Bedroom	60%	60%	$1,196
10	2 Bedrooms	50%	50%	$1,196
38	2 Bedrooms	60%	60%	$1,435
1	2 Bedrooms	50%	50%	$1,196
5	2 Bedrooms	60%	60%	$1,435
3	3 Bedrooms	50%	50%	$1,382
8	3 Bedrooms	60%	60%	$1,658
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application

Land and Acquisition	$16,500,000
Construction Costs	$0
Rehabilitation Costs	$3,610,165
Construction Contingency	$125,000
Relocation	$91,000
Architectural/Engineering	$15,000
Construction Int., Perm Financing	$1,124,815
Legal Fees, Appraisals	$109,000
Reserves	$305,414
Other Costs	$197,121
Developer Fee	$2,500,000
Commercial Costs	$0
Total	**$24,577,515**

Project Financing

Estimated Total Project Cost:	$24,577,515
Estimated Residential Project Cost:	$24,577,515

Residential

Construction Cost Per Square Foot:	$43
Per Unit Cost:	$267,147

Construction Financing

Source	Amount
Citi Group	$13,430,000
Seller Carryback	$3,700,000
Deferred Developer Fee	$2,797,063
Tax Credit Equity	$4,650,452

Permanent Financing

Source	Amount
Citi Group	$12,930,000
Seller Carryback	$3,700,000
Income from Operations	$790,664
Deferred Developer Fee	$6,399
Tax Credit Equity	$7,150,452
TOTAL	**$24,577,515**

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$4,970,694
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	$16,246,249
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$4,970,694
Qualified Basis (Acquisition):	$16,246,249
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	$164,033
Maximum Annual Federal Credit, Acquisition:	$536,126
Total Maximum Annual Federal Credit:	$700,159
Approved Developer Fee (in Project Cost & Eligible Basis):	$2,500,000
Investor/Consultant:	WNC & Associates
Federal Tax Credit Factor:	$1.02126

Per Regulation Section 10322(h)(9)(A), 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, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), Once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	$21,216,943
Actual Eligible Basis:	$21,216,943
Unadjusted Threshold Basis Limit:	$27,625,238
Total Adjusted Threshold Basis Limit:	$33,150,286

Adjustments to Basis Limit:

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 20%

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 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.

Special Issues/Other Significant Information:

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. The initial 15 year compliance period is from January 1 of the owner's elected first year of credit through December 31 of the 15th year. The existing regulatory agreement expires 12/31/2052. The existing regulatory agreement income targeting is 91 units at or below 60% AMI.

Local Reviewing Agency

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

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 Tax Credits/Annual	**State Tax Credits/Total**
$700,159	**$0**

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.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

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.

Additional Conditions: None