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

Transbay Block 7, located at 222 Beale Street and 255 Fremont Street in San Francisco, requested and is being recommended for a reservation of $2,496,470 in annual federal tax credits to finance the new construction of 119 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Mercy Housing California and will be located in Senate District 11 and Assembly District 17.

Project Number CA-15-945

Project Name Transbay Block 7

Site Address: 222 Beale Street and 255 Fremont Street
San Francisco, CA 94105 County: San Francisco

Census Tract: 615.000

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$2,496,470	$0
Recommended:	$2,496,470	$0

Applicant Information

Applicant:	Mercy Housing California 64, L.P.
Contact:	William Ho
Address:	1360 Mission Street, #300 San Francisco, CA 94103
Phone:	415.355.7134 Fax: 415.355.7101
Email:	who@mercyhousing.org

General Partner(s) or Principal Owner(s):	Mercy Housing Calwest
General Partner Type:	Nonprofit
Parent Company(ies):	Mercy Housing California
Developer:	Mercy Housing California
Investor/Consultant:	California Housing Partnership Corporation
Management Agent:	Mercy Housing Management Group

Project Information

Construction Type:	New Construction
Total # Residential Buildings:	3
Total # of Units:	120
No. & % of Tax Credit Units:	119 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt
HCD MHP Funding:	No
55-Year Use/Affordability:	Yes

Number of Units @ or below 50% of area median income: 50
Number of Units @ or below 60% of area median income: 69

Bond Information

Issuer:	The City and County of San Francisco
Expected Date of Issuance:	March 16, 2016
Credit Enhancement:	N/A

Information

Housing Type:	Non-Targeted
Geographic Area:	San Francisco County
TCAC Project Analyst:	Connie Harina

Unit Mix

53	1-Bedroom Units
44	2-Bedroom Units
23	3-Bedroom Units
120	Total Units

Unit Type & Number		2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
22	1 Bedroom	50%	46%	$1,019
18	2 Bedrooms	50%	43%	$1,146
10	3 Bedrooms	50%	42%	$1,274
31	1 Bedroom	60%	56%	$1,223
25	2 Bedrooms	60%	52%	$1,375
13	3 Bedrooms	60%	50%	$1,529
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application

Land and Acquisition	$18,876,494
Construction Costs	$45,907,167
Rehabilitation Costs	$0
Construction Contingency	$4,235,447
Relocation	$0
Architectural/Engineering	$2,249,225
Construction Interest, Perm Financing	$3,733,528
Legal Fees, Appraisals	$46,942
Reserves	$386,880
Other Costs	$2,097,183
Developer Fee	$2,500,000
Commercial Costs	$1,461,106
Total	**$81,493,972**

Project Financing

Estimated Total Project Cost:	$81,493,972
Estimated Residential Project Cost:	$80,003,463
Estimated Commercial Project Cost:	$1,490,509

Residential

Construction Cost Per Square Foot:	$386
Per Unit Cost:	$666,696

Construction Financing

Source	Amount
Union Bank	$35,000,000
San Francisco OCII	$20,560,000
OCII Loan Deferred Interest	$857,628
Costs deferred until conversion	$2,308,170
Land Value/Donation	$18,750,000
Tax Credit Equity	$4,018,174

Permanent Financing

Source	Amount
Union Bank	$6,695,000
San Francisco OCII	$25,560,000
OCII Loan Deferred Interest	$857,628
Land Value/Donation	$18,750,000
GP Equity	$500,000
Tax Credit Equity	$29,131,344
TOTAL	**$81,493,972**

Determination of Credit Amount(s)

Requested Eligible Basis:	$58,192,782
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	$75,650,617
Applicable Rate:	3.30%
Total Maximum Annual Federal Credit:	$2,496,470
Approved Developer Fee in Project Cost:	$2,500,000
Approved Developer Fee in Eligible Basis:	$2,470,597
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	$1.16690

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:	$58,192,782
Actual Eligible Basis:	$58,192,782
Unadjusted Threshold Basis Limit:	$50,612,973
Total Adjusted Threshold Basis Limit:	$87,234,621

Adjustments to Basis Limit

Required to Pay Prevailing Wages
Local Development Impact Fees
95% of Upper Floor Units are Elevator-Serviced
55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 42%

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 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.

Special Issues/Other Significant Information

Staff noted a per unit development cost of $666,696. The primary factors affecting the cost include poor soil conditions requiring soil remediation and designing the foundation to resist lateral movement during an earthquake including supporting the foundation using cement columns.

Local Reviewing Agency

The Local Reviewing Agency, the San Francisco Mayor's Office of Housing and Community Development, has completed a site review of this project and strongly supports this project.

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
$2,496,470	**$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

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project commits to becoming certified under the following program:
  GreenPoint Rated Multifamily Guidelines
- The project will be developed beyond the minimum requirements of the green building program by meeting the GreenPoint Rated 125 standard.