

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

March 16, 2016

Casa Montego Apartments, located at 1485 Montego in Walnut Creek, requested and is being recommended for a reservation of \$1,215,949 in annual federal tax credits to finance the acquisition and rehabilitation of 79 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by SAHA and is located in Senate District 7 and Assembly District 16.

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

Project Number CA-16-812

Project Name Casa Montego Apartments
Site Address: 1485 Montego
Walnut Creek, CA 94560 County: Contra Costa
Census Tract: 3430.020

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,215,949	\$0
Recommended:	\$1,215,949	\$0

Applicant Information

Applicant: Casa Montego, L.P.
Contact: Eve Stewart
Address: 1835 Alcatraz Street
Berkeley, CA 94703
Phone: 510-809-2754 **Fax:** 510-649-0312
Email: estewart@sahahomes.org

General Partner(s) or Principal Owner(s): Satellite AHA Development, Inc.
General Partner Type: Nonprofit
Parent Company(ies): Satellite AHA Development, Inc.
Developer: SAHA
Investor/Consultant: California Housing Partnership Corporation
Management Agent: SAHA PM

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 1
 Total # of Units: 80
 No. & % of Tax Credit Units: 79 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Project-based Contract (89 units - 100%)
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 59
 Number of Units @ or below 60% of area median income: 20

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: August 1, 2016
 Credit Enhancement: No

Information

Housing Type: Non-Targeted
 Geographic Area: North and East Bay Region
 TCAC Project Analyst: Mayra Lozano

Unit Mix

20 SRO/Studio Units
 59 1-Bedroom Units
 1 2-Bedroom Units

 80 Total Units

<u>Unit Type & Number</u>	<u>2015 Rents Targeted % of Area Median Income</u>	<u>2015 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
15 SRO/Studio	50%	50%	\$813
44 1 Bedroom	50%	50%	\$871
5 SRO/Studio	60%	60%	\$976
15 1 Bedroom	60%	60%	\$1,045
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$18,258,000
Construction Costs	\$0
Rehabilitation Costs	\$8,195,614
Construction Contingency	\$1,827,265
Relocation	\$600,000
Architectural/Engineering	\$375,000
Construction Interest, Perm Financing	\$1,719,641
Legal Fees, Appraisals	\$112,000
Reserves	\$805,570
Other Costs	\$966,959
Developer Fee	\$4,249,003
Commercial Costs	\$0
Total	\$37,109,052

Project Financing

Estimated Total Project Cost:	\$37,109,052
Estimated Residential Project Cost:	\$37,109,052

Residential

Construction Cost Per Square Foot:	\$163
Per Unit Cost:	\$463,863

Construction Financing

Source	Amount
Citi Community Capital	\$22,480,000
City Ground Lease Loan	\$2,300,000
Seller Carryback	\$8,127,362
Accrued/Deferred Interest	\$429,015
Deferred Developer Fee	\$1,749,003
Tax Credit Equity	\$1,311,581

Permanent Financing

Source	Amount
Citi Community - Tranche A	\$1,073,000
Citi Community - Tranche B	\$8,478,000
Citi Ground Lease Loan	\$2,300,000
Seller Carryback	\$8,127,362
Accrued/Deferred Interest	\$429,015
Project Reserves	\$300,000
Income from Operations	\$591,865
Deferred Developer Fee	\$1,749,003
Tax Credit Equity	\$14,060,807
TOTAL	\$37,109,052

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$14,237,503
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$18,338,188
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$18,508,754
Qualified Basis (Acquisition):	\$18,338,188
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$610,789
Maximum Annual Federal Credit, Acquisition:	\$605,160
Total Maximum Annual Federal Credit:	\$1,215,949
Approved Developer Fee (in Project Cost & Eligible Basis):	\$4,249,003
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$1.15636

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:	\$32,575,691
Actual Eligible Basis:	\$32,575,691
Unadjusted Threshold Basis Limit:	\$17,898,646
Total Adjusted Threshold Basis Limit:	\$32,933,509

Adjustments to Basis Limit

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: 74%

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: None

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
\$1,215,949	\$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 provide the tenants with the following service amenities free of charge for a minimum of ten (10) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC:

- Instructor-led educational classes, health and wellness or skill-building classes off-site within 1/2 mile for a minimum of 84 hours per year
- Contract with a full time equivalent bona fide service coordinator for a period of 15 years after the project places in service. Responsibilities must include but are not limited to: (a) providing tenants with information about available services in the community, (b) assisting tenants to access services through referral and advocacy, and (c) organizing community-building and /or enrichment activities for tenants (such as holiday events, tenant council, etc.)

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 improve energy efficiency above the modeled energy consumption of the building(s) by a 15% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERSII) post rehabilitation.
- The project commits to having at least one (1) nonsmoking building. If the project only has one (1) Building, it will be subject to a policy developed by the Sponser that prohibits smoking in contiguous designated units. These restrictions will be incorporated into the lease agreements for the appropriate units.
- The project will commit to having a parking ratio equivalent to or less than 1 parking stall per single room occupancy or one bedroom restricted rental unit and 1.5 parking stalls per two-bedroom or larger restricted rental unit.