**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**
**Project Staff Report**
**Tax-Exempt Bond Project**
**August 17, 2016**

Providence House Oakland, located at 540 23rd Street in Oakland, requested and is being recommended for a reservation of $453,985 in annual federal tax credits to finance the acquisition and rehabilitation of 40 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Providence Health & Services - Washington and is located in Senate District 9 and Assembly District 18.

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

**Project Number** CA-16-922

**Project Name** Providence House Oakland
Site Address: 540 23rd Street
Oakland, CA 94612 County: Alameda
Census Tract: 4013.00

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $453,985 | $0 |
| Recommended: | $453,985 | $0 |

**Applicant Information**

| | |
|---|---|
| Applicant: | Providence House Oakland LP |
| Contact: | Tim Zariczynyj |
| Address: | 1801 Lind Ave. SW, Suite 9016<br>Renton, WA 98057 |
| Phone: | 425-525-6639 |
| Email: | tim.zariczynyj@providence.org |

| | |
|---|---|
| General Partner(s) or Principal Owner(s): | Providence House Oakland GP LLC |
| General Partner Type: | For Profit |
| Parent Company(ies): | Providence Health & Services - Washington |
| Developer: | Providence Health & Services - Washington |
| Investor/Consultant: | US Bank CDC |
| Management Agent: | Providence Health & Services - Washington |

**Project Information**

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 1
Total # of Units: 41
No. & % of Tax Credit Units: 40 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / HUD 221(d)(4) / HUD Section 8 Project-based Contract (40 units - 100%)
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 4
Number of Units @ or below 60% of area median income: 36

**Bond Information**

Issuer: California Municipal Finance Authority
Expected Date of Issuance: December 1, 2016
Credit Enhancement: N/A

**Information**

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

**Unit Mix**

34 1-Bedroom Units
7 2-Bedroom Units
41 Total Units

| Unit Type & Number | | 2016 Rents Targeted % of Area Median Income | 2016 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|---|
| 3 | 1 Bedroom | 50% | 16% | $293 |
| 31 | 1 Bedroom | 60% | 16% | $293 |
| 1 | 2 Bedrooms | 50% | 17% | $380 |
| 5 | 2 Bedrooms | 60% | 17% | $380 |
| 1 | 2 Bedrooms | Manager’s Unit | Manager’s Unit | $0 |

**Project Cost Summary at Application**

| | |
|---|---|
| Land and Acquisition | $7,300,000 |
| Construction Costs | $0 |
| Rehabilitation Costs | $3,749,183 |
| Construction Contingency | $377,488 |
| Relocation | $70,000 |
| Architectural/Engineering | $378,245 |
| Const. Interest, Perm. Financing | $743,641 |
| Legal Fees, Appraisals | $243,500 |
| Reserves | $265,693 |
| Other Costs | $286,476 |
| Developer Fee | $1,204,732 |
| Commercial Costs | $0 |
| **Total** | **$14,618,958** |

**Project Financing**

| | |
|---|---|
| Estimated Total Project Cost: | $14,618,958 |
| Estimated Residential Project Cost: | $14,618,958 |
| Estimated Commercial Project Cost: | $0 |

**Residential**

| | |
|---|---|
| Construction Cost Per Square Foot: | $127 |
| Per Unit Cost: | $356,560 |
| True Cash Per Unit Cost*: | $261,619 |

**Construction Financing**

| Source | Amount |
|---|---|
| US Bancorp | $7,200,000 |
| U.S. Bank, N.A | $760,672 |
| City of Oakland | $941,124 |
| AHP | $400,000 |
| Seller Note | $3,513,258 |
| Sponsor Loan | $135,000 |
| Net Operating Income | $277,242 |
| Tax Credit Equity | $175,000 |

**Permanent Financing**

| Source | Amount |
|---|---|
| ACRE Capital LLC - FHA 221(d)(4) | $4,084,400 |
| City of Oakland | $941,124 |
| AHP | $400,000 |
| Seller Note | $3,513,258 |
| Sponsor Loan | $256,252 |
| Net Operating Income | $277,242 |
| Deferred Developer Fee | $379,333 |
| Solar Tax Credit Equity | $45,909 |
| Tax Credit Equity | $4,721,440 |
| **TOTAL** | **$14,618,958** |

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

**Determination of Credit Amount(s)**

| | |
|---|---|
| Requested Eligible Basis (Rehabilitation): | $5,824,723 |
| 130% High Cost Adjustment: | Yes |
| Requested Eligible Basis (Acquisition): | $6,705,532 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | $7,572,140 |
| Qualified Basis (Acquisition): | $6,705,532 |
| Applicable Rate: | 3.25% |
| Maximum Annual Federal Credit, Rehabilitation: | $236,055 |
| Maximum Annual Federal Credit, Acquisition: | $217,930 |
| Total Maximum Annual Federal Credit: | $453,985 |
| Approved Developer Fee in Project Cost: | $1,204,732 |
| Approved Developer Fee in Eligible Basis: | $1,155,208 |
| Investor/Consultant: | US Bank CDC |
| Federal Tax Credit Factor: | $1.04000 |

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: | $12,530,255 |
| Actual Eligible Basis: | $12,530,255 |
| Unadjusted Threshold Basis Limit: | $11,175,060 |
| Total Adjusted Threshold Basis Limit: | $15,868,585 |

**Adjustments to Basis Limit**

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at leaset state or federal prevailing wages

One or more Energy Efficiency/Resource Conservation/Indoor Air Quality Features:

● Project has onsite renewable generation estimated to produce 75% or more of annual common area electricity use as indicated in TCAC Regulations.

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:  10%

**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 3.25% 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**
Pursuant to TCAC Regulation Section 10326(g)(5), general partners and management companies lacking documented experience with Section 42 requirements using the minimum scoring standards at Section 10325(c)(2)(A) and (B) shall be required to complete training as prescribed by TCAC prior to a project's placing in service. Specifically, the general partner, Providence House Oakland GP LLC, and the management company, Providence Health & Services - Washington, shall complete training as prescribed by TCAC prior to the project's placing in service.

**Local Reviewing Agency**
The Local Reviewing Agency, the City of Oakland, 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 |
|---|---|
| **$453,985** | **$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 fifteen (15) 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:

- Contract with a full time equivalent bona fide service coordinator / social worker for a minimum number of hours per year on-site

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 rehabilitation project commits to including photovoltaic (PV) generation that offsets 50% of common area load (if the combined available roof area of the project structures, including carports, is insufficient for provision of 50% of annual common area electricity use then the project shall have onsite renewable generation based on at least 90% of the available solar accessible roof area).
- The project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.