**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**
**Project Staff Report**
**Tax-Exempt Bond Project**
**November 16, 2016**
**REVISED**

St. Marks Apartments, located at 392-394 12th Street in Oakland, requested and is being recommended for a reservation of $1,606,306 in annual federal tax credits to finance the acquisition and rehabilitation of 100 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Fairstead Affordable LLC and is located in Senate District 9 and Assembly District 18.

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

| | | |
|---|---|---|
| **Project Number** | CA-16-976 | |
| | | |
| **Project Name** | St. Marks Apartments | |
| Site Address: | 392-394 12th Street | |
| | Oakland, CA 94607 | County: Alameda |
| Census Tract: | 4030.000 | |

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $1,606,306 | $0 |
| Recommended: | $1,606,306 | $0 |

**Applicant Information**

| | |
|---|---|
| Applicant: | St. Marks Preservation, LP |
| Contact: | John Tatum |
| Address: | 152 West 57th Street, 36th Floor<br>New York, NY 10019 |
| Phone: | (646) 839-8502 |
| Email: | jtatum@fairsteadcapital.com |

| | |
|---|---|
| General Partner(s) or Principal Owner(s): | AOF St. Marks LLC<br>St. Marks Preservation GP, LLC |
| General Partner Type: | Joint Venture |
| Parent Company(ies): | AOF Pacific Affordable Housing Corp.<br>Fairstead Affordable LLC |
| Developer: | Fairstead Affordable LLC |
| Investor/Consultant: | WNC & Associates, Inc. |
| Management Agent: | FPI Management |

**Project Information**

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 1
Total # of Units: 102
No. & % of Tax Credit Units: 100 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Contract (100 units - 100%)
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 40
Number of Units @ or below 60% of area median income: 60

**Bond Information**

Issuer: CalHFA
Expected Date of Issuance: December 7, 2016
Credit Enhancement: N/A

**Information**

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

**Unit Mix**

102 1-Bedroom Units
102 Total Units

| Unit Type & Number | | 2016 Rents Targeted % of Area Median Income | 2016 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|---|
| 40 | 1 Bedroom | 50% | 50% | $914 |
| 45 | 1 Bedroom | 60% | 60% | $1,096 |
| 14 | 1 Bedroom | 60% | 60% | $1,096 |
| 1 | 1 Bedroom | 60% | 60% | $1,096 |
| 2 | 1 Bedroom | Manager’s Unit | Manager’s Unit | $0 |

**Project Cost Summary at Application**

| | |
|---|---|
| Land and Acquisition | $29,973,125 |
| Construction Costs | $0 |
| Rehabilitation Costs | $9,000,000 |
| Construction Contingency | $789,474 |
| Relocation | $0 |
| Architectural/Engineering | $947,625 |
| Const. Interest, Perm. Financing | $1,277,067 |
| Legal Fees, Appraisals | $205,000 |
| Reserves | $846,377 |
| Other Costs | $1,289,120 |
| Developer Fee | $5,907,503 |
| Commercial Costs | $0 |
| **Total** | **$50,235,290** |

**Project Financing**

| | |
|---|---|
| Estimated Total Project Cost: | $50,235,290 |
| Estimated Residential Project Cost: | $50,235,290 |
| Estimated Commercial Project Cost: | $0 |

**Residential**

| | |
|---|---|
| Construction Cost Per Square Foot: | $104 |
| Per Unit Cost: | $492,503 |
| True Cash Per Unit Cost*: | $443,204 |

**Construction Financing**

| Source | Amount |
|---|---|
| Citibank | $8,000,000 |
| Citibank | $28,000,000 |
| Existing Replacement Reserves | $180,000 |
| Deferred Developer Fee | $5,852,503 |
| Tax Credit Equity | $6,871,577 |

**Permanent Financing**

| Source | Amount |
|---|---|
| Citibank | $28,000,000 |
| Existing Replacement Reserves | $180,000 |
| Deferred Developer Fee | $5,028,446 |
| Tax Credit Equity | $17,026,844 |
| **TOTAL** | **$50,235,290** |

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

**Determination of Credit Amount(s)**

| | |
|---|---|
| Requested Eligible Basis (Rehabilitation): | $13,963,132 |
| 130% High Cost Adjustment: | Yes |
| Requested Eligible Basis (Acquisition): | $31,272,725 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | $18,152,071 |
| Qualified Basis (Acquisition): | $31,272,725 |
| Applicable Rate: | 3.25% |
| Maximum Annual Federal Credit, Rehabilitation: | $589,942 |
| Maximum Annual Federal Credit, Acquisition: | $1,016,364 |
| Total Maximum Annual Federal Credit: | $1,606,306 |
| Approved Developer Fee in Project Cost: | $5,907,503 |
| Approved Developer Fee in Eligible Basis: | $5,852,503 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | $11,760,006 |
| Investor/Consultant: | WNC & Associates, Inc. |
| Federal Tax Credit Factor: | $1.06000 |

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: | $45,235,857 |
| Actual Eligible Basis: | $45,235,857 |
| Unadjusted Threshold Basis Limit: | $26,855,580 |
| Total Adjusted Threshold Basis Limit: | $45,654,486 |

**Adjustments to Basis Limit**

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

● Project has onsite renewable generation estimated to produce 50% or more of annual electricity use as indicated in TCAC Regulations.

Seismic Upgrading

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: 40%

**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**

The proposed rent do not include any utility allowance. The project is master metered and owner will pay for all utilities.

**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 |
|---|---|
| **$1,606,306** | **$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 rehabilitation project commits to improve energy efficiency above the modeled energy consumption of the building by a 15% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERS II) post rehabilitation.