CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 19, 2017

Britton Courts, located at 1250 Sunnydale Avenue in San Francisco, requested and is being recommended for a reservation of $1,875,277 in annual federal tax credits to finance the acquisition and rehabilitation of 91 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 is located in Senate District 11 and Assembly District 17.

Britton Courts is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Britton Courts (CA-1998-919). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

Project Number CA-17-771

Project Name Britton Courts
Site Address: 1250 Sunnydale Avenue
San Francisco, CA 94134 County: San Francisco
Census Tract: 264.01

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,875,277	$0
Recommended:	$1,875,277	$0

Applicant Information
Applicant: Mercy Housing California 74, L.P.
Contact: Jesse Ozanian
Address: 1360 Mission Street #300
San Francisco, CA 94103
Phone: 916-414-4425
Email: jozanian@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: Community Economics
Management Agent: Mercy Housing Management Group

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	6
Total # of Units:	92
No. & % of Tax Credit Units:	91 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HOME / CDBG
	HUD Section 8 Project-based Contract (46 units - 50%)
HCD MHP Funding:	No
55-Year Use/Affordability:	Yes
Number of Units @ or below 50% of area median income:	46
Number of Units @ or below 60% of area median income:	45

Bond Information

Issuer:	City and County of San Francisco
Expected Date of Issuance:	December 1, 2017
Credit Enhancement:	N/A

Information

Housing Type:	Non-Targeted
Geographic Area:	San Francisco County
TCAC Project Analyst:	Zhuo Chen

Unit Mix

63	2-Bedroom Units
21	3-Bedroom Units
8	4-Bedroom Units
92	Total Units

Unit Type & Number		2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
3	2 Bedrooms	60%	35%	$1,036
1	2 bedrooms	60%	36%	$1,058
5	2 Bedrooms	60%	38%	$1,138
1	2 Bedrooms	60%	41%	$1,217
1	2 Bedrooms	60%	43%	$1,270
1	2 Bedrooms	60%	46%	$1,352
1	2 Bedrooms	60%	46%	$1,370
1	2 Bedrooms	60%	40%	$1,175
1	2 Bedrooms	60%	41%	$1,203
1	2 Bedrooms	60%	44%	$1,293
1	2 Bedrooms	60%	46%	$1,373
1	2 Bedrooms	60%	50%	$1,475
3	2 Bedrooms	60%	44%	$1,297
2	2 Bedrooms	60%	47%	$1,405
5	2 Bedrooms	60%	48%	$1,436
1	2 Bedrooms	60%	49%	$1,439
1	2 Bedrooms	60%	49%	$1,447
1	2 Bedrooms	60%	49%	$1,449
4	3 Bedrooms	60%	45%	$1,554
1	3 Bedrooms	60%	46%	$1,560
1	3 Bedrooms	60%	47%	$1,597
1	3 Bedrooms	60%	47%	$1,615
1	3 Bedrooms	60%	49%	$1,663
1	3 Bedrooms	60%	36%	$1,220
1	3 Bedrooms	60%	41%	$1,417
1	4 Bedrooms	60%	46%	$1,751
1	4 Bedrooms	60%	42%	$1,609
1	4 Bedrooms	60%	42%	$1,617
1	4 Bedrooms	60%	45%	$1,709
31	2 Bedrooms	50%	47%	$1,383
11	3 Bedrooms	50%	47%	$1,599
4	4 Bedrooms	50%	47%	$1,783
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Projected Lifetime Rent Benefit: $81,822,180

Project Cost Summary at Application

Land and Acquisition	$22,350,000
Construction Costs	$0
Rehabilitation Costs	$18,500,000
Construction Contingency	$2,775,000
Relocation	$1,507,980
Architectural/Engineering	$1,320,019
Const. Interest, Perm. Financing	$3,222,247
Legal Fees, Appraisals	$70,000
Reserves	$1,211,500
Other Costs	$590,699
Developer Fee	$2,500,000
Commercial Costs	$0
Total	**$54,047,445**

Project Financing

Estimated Total Project Cost:	$54,047,445
Estimated Residential Project Cost:	$54,047,445
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$205
Per Unit Cost:	$587,472
True Cash Per Unit Cost*:	$547,649

Construction Financing

Source	Amount
Citibank - T.E. Bonds	$30,000,000
Column Financial - Subordinate Loan	$2,133,296
City of San Francisco - CDBG[1]	$3,714,702
City of San Francisco - HOME #1[2]	$7,431,241
City of San Francisco - HOME #2[2]	$1,051,189
City of San Francisco - HOME #3[2]	$385,981
City of San Francisco - HOME #4[2]	$503,161
Net Operating Income	$1,450,767
Existing Reserve	$305,555
Seller Carryback	$3,663,726
Tax Credit Equity	$2,447,882

Permanent Financing

Source	Amount
Citibank - T.E. Bonds Tranche A	$4,088,100
Citibank - T.E. Bonds Tranche B	$6,716,100
Column Financial	$2,133,296
City of San Francisco - CDBG[1]	$3,714,702
City of San Francisco - HOME #1[2]	$7,431,241
City of San Francisco - HOME #2[2]	$1,051,189
City of San Francisco - HOME #3[2]	$385,981
City of San Francisco - HOME #4[2]	$503,161
Existing Reserve	$305,555
Net Operating Income	$1,450,767
Seller Carryback	$3,663,726
Sponsor Loan	$5,000,000
GP Equity	$500,000
Tax Credit Equity	$17,103,627
TOTAL	**$54,047,445**

*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee
[1]CDBG: assumption of existing loan and accrued deferred interest
[2]HOME: assumption of existing loans and accrued deferred interests

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$28,600,635
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$20,520,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$37,180,825
Qualified Basis (Acquisition):	$20,520,000
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$1,208,377
Maximum Annual Federal Credit, Acquisition:	$666,900
Total Maximum Annual Federal Credit:	$1,875,277
Approved Developer Fee (in Project Cost & Eligible Basis):	$2,500,000
Investor/Consultant:	Community Economics
Federal Tax Credit Factor:	$0.91206

Per Regulation Section 10327(c)(6), 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:	$49,120,635
Actual Eligible Basis:	$49,120,635
Unadjusted Threshold Basis Limit:	$47,159,696
Total Adjusted Threshold Basis Limit:	$80,171,483

Adjustments to Basis Limit

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

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

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

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-1998-919). 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 01/01/2000 through 12/31/2014. The existing regulatory agreement expires 12/31/2029. The existing regulatory agreement income targeting is 91 units at or below 60% AMI. The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement and any deeper targeting levels in the new regulatory agreement for the duration of the new regulatory agreement.

This project is the resyndication of an existing tax credit project, CA-1998-919, which is under a 30-year TCAC extended use agreement. The new reservation of tax credits will result in moderately deeper rent/income targeting than the original award of tax credits by targeting 46 units that are currently restricted at 60% AMI to 50% AMI. The affordable housing restrictions will extend out to approximately year 2072.

The project is a resyndication occurring concurrently with a Transfer Event without distribution of Net Project Equity. The rehabilitation scope of work shall include all of the Short Term Work in the amount of $255,300. Since there is no distribution of Net Project Equity, the project is waived from the requirements of TCAC Regulation Section 10320(b)(4)(B), and thus allowed to receive eligible basis for the entire Short Term Work amount.

Local Reviewing Agency

The Local Reviewing Agency, the City of San Francisco, 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**
$1,875,277	**$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.