

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2017 Second Round

September 20, 2017

Medici Artist Lofts, located at 242 North Sutter Street in Stockton, requested \$965,385 in annual federal tax credits but is being recommended for a reservation of \$963,019 in annual federal tax credits (see "**Special Issues/Other Significant Information**" section) to finance the new construction and adaptive re-use of 27 units of housing serving large families with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by DFA Development and Riverside Charitable Corporation and will be located in Senate District 5 and Assembly District 13.

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

Project Number CA-17-128

Project Name Medici Artist Lofts
Site Address: 242 North Sutter Street
Stockton, CA 95202 County: San Joaquin
Census Tract: 1.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$965,385	\$0
Recommended:	\$963,019	\$0

Applicant Information

Applicant: DFA Medico Arts Associates LP
Contact: Daniel Fred
Address: 119 E Weber Avenue
Stockton, CA 95202
Phone: 415-595-4547 Fax: 209-939-1035
Email: dfred@dfadevelopment.com

General Partner(s) / Principal Owner(s): RCC MGP LLC
DFA Medico Arts LLC
General Partner Type: Joint Venture
Parent Company(ies): Riverside Charitable Corporation
DFA Development LLC
Developers: DFA Development LLC
Riverside Charitable Corporation
Investor/Consultant: PNC Real Estate
Management Agent(s): DKD Property Management Company

Project Information

Construction Type: New Construction and Adaptive Reuse
 Total # Residential Buildings: 1
 Total # of Units: 34
 No. & % of Tax Credit Units: 27 82%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HOME / HUD Section 8 Project-based Vouchers (27 units - 100%) / CDBG

Affordability Breakdown by Units and % (Lowest Income Points):

30% AMI: 3 10 %
 45% AMI: 7 25 %
 50% AMI: 11 40 %

Information

Set-Aside: N/A
 Housing Type: Large Family
 Geographic Area: Central Valley Region
 TCAC Project Analyst: Diane SooHoo

Unit Mix

10 1-Bedroom Units
 17 2-Bedroom Units
7 3-Bedroom Units
 34 Total Units

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
2 1 Bedroom	45%	45%	\$515
3 1 Bedroom	50%	50%	\$573
3 1 Bedroom	60%	60%	\$687
2 2 Bedrooms	30%	30%	\$412
3 2 Bedrooms	45%	45%	\$618
5 2 Bedrooms	50%	50%	\$687
2 2 Bedrooms	60%	60%	\$825
1 3 Bedrooms	30%	30%	\$476
2 3 Bedrooms	45%	45%	\$714
3 3 Bedrooms	50%	50%	\$794
1 3 Bedrooms	60%	60%	\$953
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0
2 1 Bedroom	Market Rate Unit	Market Rate Unit	\$733
4 2 Bedrooms	Market Rate Unit	Market Rate Unit	\$967

Projected Lifetime Rent Benefit: \$4,613,400

Project Cost Summary at Application

Land and Acquisition	\$2,450,000
Construction Costs	\$6,540,215
Rehabilitation Costs	\$1,250,000
Construction Contingency	\$819,022
Relocation	\$0
Architectural/Engineering	\$365,000
Const. Interest, Perm. Financing	\$442,500
Legal Fees, Appraisals	\$145,000
Reserves	\$173,000
Other Costs	\$1,358,288
Developer Fee	\$1,625,590
Commercial Costs	\$0
Total	\$15,168,615

Project Financing

Estimated Total Project Cost:	\$15,168,615
Estimated Residential Project Cost:	\$15,168,615
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$221
Per Unit Cost:	\$446,136
True Cash Per Unit Cost*:	\$416,824

Construction Financing

Source	Amount
PNC	\$8,000,000
City of Stockton - HOME	\$2,225,000
City of Stockton - CDBG	\$750,000
City of Stockton Fee Waiver	\$544,633
City of Stockton - IIIR Grant**	\$400,000
Deferred Costs	\$1,475,546
Tax Credit Equity	\$1,795,436

Permanent Financing

Source	Amount
PNC - Tranche A	\$925,022
PNC - Tranche B	\$874,978
City of Stockton - HOME	\$2,225,000
City of Stockton - CDBG	\$750,000
City of Stockton Fee Waiver	\$544,633
City of Stockton - IIIR Grant**	\$400,000
Deferred Developer Fee	\$451,951
Solar Tax Credit Equity	\$41,850
Tax Credit Equity	\$8,955,181
TOTAL	\$15,168,615

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

**IIIR = Infrastructure Infill Incentive Reimbursement

Determination of Credit Amount(s)

Requested Eligible Basis:	\$10,084,742
130% High Cost Adjustment:	Yes
Applicable Fraction:	81.82%
Qualified Basis:	\$10,727,177
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$963,019
Approved Developer Fee in Project Cost:	\$1,625,590
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	PNC Real Estate
Federal Tax Credit Factor:	\$0.92991

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, except that the adjustment factor related to costs described in Section 10327(c)(2)(A) shall be recalculated at placed in service where applicable.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$10,084,742
Actual Eligible Basis:	\$11,834,742
Unadjusted Threshold Basis Limit:	\$8,658,398
Total Adjusted Threshold Basis Limit:	\$12,309,598

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

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.
- Install bamboo, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all kitchens, living rooms, and bathrooms where no VOC adhesives or backing is used
- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, ceramic tile, or natural linoleum in all common areas

Seismic Upgrading

Local Development Impact Fees

Tie-Breaker Information

First: **Large Family**
Final: **45.972%**

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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.23%. 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

This project involves the adaptive re-use of an existing 12-story building known as the Medico Dental Tower constructed in 1927. Connected adjacently to the tower is a two-story structure which is included in the scope of this project.

Floors 2-9 of the tower and 2nd level of the adjacent two-story structure will be converted to provide the project's 27 LIHTC units, 6 market-rate units, and one manager's unit. Floors 10-12 along with a majority of the ground floor area will be updated for commercial use and residential amenities. The commercial space portion will be owned and operated by an unrelated third party to the applicant.

In the development budget, the applicant included \$22,000 in Legal Fees related to syndication expenses which are not allowed to be included as project costs. Staff excluded the \$22,000 in cost from the development budget, therefore reducing the amount of tax credit equity and resulting in a decrease of tax credits recommended.

Legal Status

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Local Reviewing Agency

The Local Reviewing Agency, City of Stockton, 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
\$963,019	\$0

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of fifteen years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(6) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

Additional Conditions: None.

Points System	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency / Credit Reduction / Public Funds	20	20	20
Public Funds	20	20	20
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within 1/8 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1/2 mile of public library	3	3	3
Within 1/2 mile of medical clinic or hospital	3	3	3
Within 1/2 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
Health & wellness services and programs, minimum 60 hrs per 100 bdrms	3	3	3
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements of: National Green Building	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed	15	15	15
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	138	138	138

Please Note: If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.