

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2017 Second Round

September 20, 2017

Atherton Court, located at 3752, 3762-3770 Rolison Road in Redwood City, requested and is being recommended for a reservation of \$1,816,426 in annual federal tax credits and \$4,635,936 in total state tax credits to finance the rehabilitation of 54 units of housing serving special needs tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by MidPen Housing Corporation and is located in Senate District 13 and Assembly District 22.

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

Project Number CA-17-148

Project Name Atherton Court
Site Address: 3752, 3762-3770 Rolison Road
Redwood City, CA 94063 County: San Mateo
Census Tract: 6104.000

Tax Credit Amounts	Federal/Annual	State/Total *
Requested:	\$1,816,426	\$4,635,936
Recommended:	\$1,816,426	\$4,635,936

* The applicant made an irrevocable election to sell (Certificate) all or any portion of the state credits.

Applicant Information

Applicant: MP Atherton Court LLC
Contact: Jan M. Lindenthal
Address: 303 Vintage Park Drive, Suite 250
Foster City, CA 94404
Phone: 650-356-2919 Fax: 650-357-9766
Email: jlindenthal@midpen-housing.org

General Partner(s) / Principal Owner(s): MP Atherton Court LLC
General Partner Type: Nonprofit
Parent Company(ies): Mid-Peninsula Seven Trees, Inc.
Developer: MidPen Housing Corporation
Investor/Consultant: Community Economics
Management Agent(s): MidPen Property Management Corporation

Project Information

Construction Type: Rehabilitation
 Total # Residential Buildings: 3
 Total # of Units: 55
 No. & % of Tax Credit Units: 54 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Section 8 Project Based Vouchers: (31 units - 57%)
 Average Targeted Affordability of Special Needs/SRO Project Units: 34.84%
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 21 35 %
 40% AMI: 13 20 %
 50% AMI: 19 35 %

Information

Set-Aside: Nonprofit (homeless assistance)
 Housing Type: Special Needs
 Type of Special Needs: Homeless / Formally homeless
 % of Special Need Units: 31 57%
 Geographic Area: South and West Bay
 TCAC Project Analyst: Marlene McDonough

Unit Mix

53 SRO/Studio Units
 2 1-Bedroom Units

 55 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>
20 SRO/Studio	30%	30%	\$691
1 SRO/Studio	40%	14%	\$325
7 SRO/Studio	40%	40%	\$922
5 SRO/Studio	40%	40%	\$922
4 SRO/Studio	50%	14%	\$325
10 SRO/Studio	50%	50%	\$1,152
5 SRO/Studio	50%	50%	\$1,152
1 SRO/Studio	60%	60%	\$1,382
1 1 Bedroom	30%	30%	\$740
1 1 Bedroom	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$69,065,700

Project Cost Summary at Application

Land and Acquisition	\$17,890,648
Construction Costs	\$0
Rehabilitation Costs	\$9,399,665
Construction Contingency	\$1,674,649
Relocation	\$1,732,500
Architectural/Engineering	\$463,150
Const. Interest, Perm. Financing	\$1,468,013
Legal Fees, Appraisals	\$97,500
Reserves	\$428,733
Other Costs	\$519,949
Developer Fee	\$1,400,000
Commercial Costs	\$0
Total	\$35,074,806

Project Financing

Estimated Total Project Cost:	\$35,074,806
Estimated Residential Project Cost:	\$35,074,806
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$340
Per Unit Cost:	\$637,724
True Cash Per Unit Cost*:	\$637,724

Construction Financing

Source	Amount
Silicon Valley Bank	\$21,669,850
San Mateo County - ARAPP 1 **	\$5,883,211
San Mateo County - ARAPP 2 **	\$2,546,000
City of Redwood City - AHF	\$1,100,000
Project NOI During Construction	\$500,485
General Partner Equity	\$100
Tax Credit Equity	\$1,816,426

Permanent Financing

Source	Amount
CCRC Perm Loan - Tranche B	\$3,287,000
San Mateo County - ARAPP 1 **	\$5,883,211
San Mateo County - ARAPP 2 **	\$2,546,000
City of Redwood City - AHF	\$1,100,000
Net Operating Income	\$500,485
General Partner Equity	\$100
Tax Credit Equity	\$21,758,010
TOTAL	\$35,074,806

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

**Affordable Rental Acquisition and Preservation Program - ARAPP

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$15,525,010
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$20,182,512
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,816,426
Total State Credit:	\$4,635,936
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,400,000
Investor/Consultant:	Community Economics
Federal Tax Credit Factor:	\$0.99367
State Tax Credit Factor:	\$0.80000

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:	\$15,525,010
Actual Eligible Basis:	\$15,525,010
Unadjusted Threshold Basis Limit:	\$13,615,558
Total Adjusted Threshold Basis Limit:	\$16,338,670

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

Tie-Breaker Information

First:	Special Needs
Final:	59.609%

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

Staff noted a per unit development cost of \$637,000. The applicant noted that the high per unit cost is attributed to air quality mitigation, identified in the NEPA environmental review, and asbestos mitigation.

The applicant requested and has been granted a waiver in the 15 year cash flow projection to use a blended vacancy rate of 6% instead of the special needs housing type vacancy rate of 10% for pro forma purposes. Pursuant to Section 10325(g)(3)(I) of TCAC Regulations, the proposed rental assistance for 44 project based vouchers at 5% vacancy, and 11 units at 10% vacancy justifies the blended vacancy rate.

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 Redwood City, 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
\$1,816,426	\$4,635,936

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 ½ mile of transit, service every 30 minutes in rush hours	5	5	5
Residents provided free or discounted transit passes, 1 pass per unit	3	3	3
Within ½ mile of public park or community center open to general public	3	3	0
Within ¾ mile of public park or community center open to general public	2	0	2
Within ½ mile of a neighborhood market of at least 5,000 sf	3	3	3
In-unit high speed internet service	2	2	2
Service Amenities	10	10	10
SPECIAL NEEDS AND SRO HOUSING TYPES			
Service Coordinator/Other Services Specialist, min. ratio 1 FTE to 360 bdrms	5	5	5
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	5	5	5
Sustainable Building Methods	5	5	5
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating): 15%	3	3	3
Additional rehab measures: PV that offsets (50%) of common area load	2	2	2
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.