

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 25, 2007

Project Number CA-2007-861

Project Name 125 Mason Street
Address: 125 Mason Street
San Francisco, CA 94102 County: San Francisco

Applicant Information

Applicant: Mason Street Affordable Housing Development, LLC
Contact Mr. Sean Jeffries
Address: 735 Market Street, 4th Floor
San Francisco, CA 94103
Phone: (415) 593-1100 **Fax:** (415) 593-3895
Sponsors Type: Joint Venture

Bond Information

Issuer: City and County of San Francisco
Expected Date of Issuance: September 2007
Credit Enhancement: N/A

Eligible Basis

Actual: \$46,593,455
Requested: \$36,657,219
Maximum Permitted: \$36,657,219

Extra Feature Adjustments:

Required to Pay Prevailing Wages: 20%
Parking Beneath Residential Units: 7%
55-Year Use/Rent Restriction Adjustment: 120%
Local Development Impact Fees:
3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features: 4%
Toxic or Other Environmental Mitigation: Up to 15%

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,658,746	\$0
Recommended:	\$1,715,558	\$0

Project Information

Construction Type: New Construction
Federal Subsidy: Tax-Exempt
HCD MHP Funding: No
Total # of Units: 81
Total # Residential Buildings: 1

Income/Rent Targeting

Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 81 units
55-Year Use/Affordability Restriction: Yes
Number of Units @ or below 50% of area median income: 22
Number of Units @ or below 60% of area median income: 59

<u>Unit Type & Number</u>	<u>2007 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
22 One-Bedrooms	60%	\$1,099
34 Two-Bedrooms	50%	\$1,233
20 Three-Bedrooms	50%	\$1,367
5 Four-Bedrooms	50%	\$1,476

The project developer is Mason Street Affordable Housing, LLC.

The management services will be provided by the John Stewart Company.

The market analysis was provided by M. E. Shay.

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.

Project Financing

Estimated Total Project Cost: \$49,552,122 Per Unit Cost: \$611,755 Construction Cost Per Sq. Ft.: \$310

<u>Construction Financing</u>		<u>Permanent Financing</u>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Wells Fargo Bank – Tax Ex. Bonds	\$28,000,000	Wells Fargo Bank – Tax Ex. Bonds	\$5,507,300
Millennium Partners–Def. Pymt. Loan	\$8,520,000	Millennium Partners–Def. Pymt. Loan	\$8,520,000
Millennium Partners–Def. Pymt. Loan	\$12,662,970	Millennium Partners–Def. Pymt. Loan	\$17,519,033
Millennium Partners–Accrued Interest	\$369,152	Millennium Partners - Accrued Int.	\$369,152
		Deferred Developer Fee	\$683,221
		General Partner Equity	\$1,650
		Investor Equity	\$16,951,766
		TOTAL	\$49,552,122

Determination of Credit Amount(s)

Requested Eligible Basis:	\$36,657,219
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis:	\$47,654,385
Applicable Rate:	3.60%
Total Maximum Annual Federal Credit:	\$1,715,558
Approved Developer Fee:	\$2,500,000
Tax Credit Factor:	\$0.9881

Applicant requests annual federal credits of \$1,658,746, based on a qualified basis of \$46,076,268 and a funding shortfall of \$16,390,393. Staff recommends annual federal credits of \$1,715,558, based on a qualified basis of \$47,654,385 and a funding shortfall of \$16,951,766. In determining the project’s adjusted threshold basis limit, the applicant used the 2006 figures instead of the 2007 figures. Staff adjusted accordingly.

Cost Analysis and Line Item Review

The requested eligible basis (\$36,657,219) is equal to TCAC's adjusted threshold basis limit (\$36,657,219). The basis limit includes the adjustment for extraordinary features for projects that are required to pay state or federal prevailing wages, projects that are required to provide parking beneath the residential units, the 120% adjustment for the 55-year use/affordability restriction for projects that have more than 50% tax-credit units, and local development impact fees, projects requiring toxic or other environmental mitigation as certified by the project architect, the adjustment for projects with 3 or more energy efficiency/resource conservation/indoor air quality items for using a Minimum Efficiency Report Value (MERV) 8 or higher air filter for HVAC systems that introduce outside air, for recycling at least 75% of the construction and demolition waste (measured by either weight or volume), and for using vent kitchen range hoods to the exterior of the building in at least 80% of the units. Staff analysis of project costs to determine reasonableness found most fees to be within TCAC's underwriting guidelines and TCAC limitation with the exception of the contractor profit, overhead and general requirement costs as explained in the Special Issues section of this report below.

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 3.60% of the qualified basis. Unless the applicant fixed the rate at bond issuance, the Federal Rate applicable to the month the project is placed-in-service will be used to determine the final allocation.

Special Issues/Other Significant Information: 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.

The applicant's estimate of contractor profit, overhead and general requirement costs exceeds TCAC limits. The applicant is cautioned that at final review, prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceeds the limits will not be allowed.

This project is a joint venture of Glide Economic Development Corporation and MP Mason Street LLC (an affiliate of Millennium Partners) as co-general partners. Millennium Partners is providing substantial deferred payment loans to the project as a result of the City and County of San Francisco's affordable housing requirement under Section 315.5 of the Planning Code, that requires the construction of affordable housing as part of the approval of Millennium's mixed-use project located at 301 Mission Street.

Recommendation: Staff recommends that the Committee make a reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

\$1,715,558 Federal/Annual

\$0 State/Total

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.

TCAC makes the 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 will be permitted without the express approval of TCAC.

The applicant must pay TCAC an 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 anticipated to be the final project costs, staff recommends that a reservation be made in the amount of federal credit shown above on condition that the final project costs be supported by itemized lender approved costs, and certified costs of the buildings as completed.

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 credits 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 high-speed Internet access, after school programs of an ongoing nature, and residents contracts for services free of charge to the tenants, and 20 hours or more per week of licensed child care. All services are required to be provided to the tenants either on-site or within ¼-mile of the project for a minimum of ten (10) 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.

Project Analyst: Jack Waegell