

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
September 23, 2009

Project Number CA-2009-848

Project Name Arlington Hotel
Address: 480 Ellis Street
San Francisco, CA 94102 County: San Francisco

Applicant Information

Applicant: Mercy Housing California XL, a California LP
Contact Valerie Agostino
Address: 1360 Mission Street, Suite 300
San Francisco, CA 94103
Phone: (415) 355-7150 **Fax:** (415) 355-7101
Email: vagostino@mercyhousing.org
Sponsors Type: Nonprofit

Information

Housing Type: Single Room Occupancy (SRO)

Bond Information

Issuer: City and County of San Francisco
Expected Date of Issuance: December 2009
Credit Enhancement: N/A

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,537,927	\$0
Recommended:	\$1,537,927	\$0

Project Information

Construction Type: Acquisition and Rehabilitation
Federal Subsidy: Tax-Exempt
HCD MHP Funding: Yes
Total # of Units: 154
Total # Residential Buildings: 1
Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 153 units
55-Year Use/Affordability Restriction: Yes

Eligible Basis

Actual: \$35,071,691
Requested: \$35,071,691
Maximum Permitted: \$79,205,040

Adjustments to Threshold Basis Limit:

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units that are Income Targeted
 Between 50% AMI & 36% AMI: 100%

<u>Unit Type & Number</u>	<u>2009 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
83 SRO Units	11%	\$200
70 SRO Units	38%	\$740
1 SRO Unit	Manager's Unit	\$0

The general partner or principal owner is Mercy Housing Calwest.

The project developer is Mercy Housing California.

The management services will be provided by Mercy Services Corporation

The market analysis was provided by Newport Realty Advisors.

The Local Reviewing Agency, the San Francisco Mayor's Office of Housing, has completed a site review of this project and strongly supports this project.

Project Financing

Estimated Total Project Cost: \$45,307,613

Estimated Commercial Cost: \$3,690,202

Estimated Residential Cost: \$41,617,411 Per Unit Cost: \$270,243 Construction Cost Per Sq. Foot: \$592

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
Wells Fargo	\$21,550,060	HCD/MHP	\$10,000,000
HCD/Special User Rehab Program	\$1,720,000	HCD/Special User Rehab Program	\$1,720,000
HCD/CHRP-R	\$2,914,238	HCD/CHRP-R	\$2,914,238
City of San Francisco (existing)	\$2,014,588	City of San Francisco (existing)	\$2,014,588
City of San Francisco, SSLP	\$10,524,194	City of San Francisco, SSLP	\$10,524,194
City of San Francisco (new)	\$5,831,178	City of San Francisco (new)	\$5,831,178
		Investor Equity	\$12,303,415
		TOTAL	\$45,307,613

Determination of Credit Amount(s)

Requested Rehabilitation Eligible Basis:	\$29,563,585
Requested Acquisition Eligible Basis:	\$5,508,106
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	\$38,432,660
Qualified Acquisition Basis:	\$5,508,106

Applicable Rate:	3.50%
Maximum Annual Federal Rehabilitation Credit:	\$1,345,143
Maximum Annual Federal Acquisition Credit:	\$192,784
Total Maximum Annual Federal Credit:	\$1,537,927
Approved Developer Fee in Project Cost	\$1,200,000
Approved Developer Fee in Eligible Basis:	\$1,098,600
Investor Consultant:	Community Economics
Federal Tax Credit Factor:	\$0.8000

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 limitation. 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 3.50% 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 must submit to TCAC, at the time the placed in service documentation is submitted, 3rd party lender verification of the assumed debt at the time of closing on the purchase of the property. The total assumed debt figure represents the purchase price of the property. Should the assumed debt figure be less than the acquisition basis of the existing improvements figure presented in the preliminary application, TCAC may re-evaluate the acquisition basis of the existing improvements, which ultimately may affect the final tax credit award.

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:

Federal Tax Credits/Annual	State Tax Credits/Total
\$1,537,927	\$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 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: None.

Project Analyst: Velia Martinez