

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 10, 2014

Project Number CA-14-919

Project Name 700 Block
 Site Address: 700 K Street
 Sacramento, CA 95814 County: Sacramento
 Census Tract: 11.010

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$897,908	\$0
Recommended:	\$897,908	\$0

Applicant Information

Applicant: 700 Block Investors, L.P.
 Contact: Ali Youssefi
 Address: 1006 4th Street, Suite 701
 Sacramento, CA 95814 CA 95814
 Phone: (916) 446-4040 Fax: (916) 446-4044
 Email: ali.cfy@gmail.com

General Partner(s) or Principal Owner(s): Community Revitalization and Development Corp.
 700 Block, LLC

General Partner Type: Joint Venture

Parent Company(ies): Community Revitalization and Development Corp.
 CFY Development, Inc.

Developer: 700 Block Developers, LLC

Investor/Consultant: RBC Capital Markets

Management Agent: CFY Development, Inc.

Project Information

Construction Type: New Construction

Total # Residential Buildings: 1

Total # of Units: 137

No. & % of Tax Credit Units: 84 61.76%

Federal Set-Aside Elected: 40%/60%

Federal Subsidy: Tax-Exempt

Utility Allowance: CUAC

55-Year Use/Affordability: Yes

Number of Units @ or below 50% of area median income: 14

Number of Units @ or below 60% of area median income: 70

Bond Information

Issuer: Housing Authority of the City of Sacramento
 Expected Date of Issuance: December 15, 2014
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: Capital and Northern Region
 TCAC Project Analyst: Mayra Lozano

Unit Mix

42 SRO/Studio Units
 83 1-Bedroom Units
 12 2-Bedroom Units

 137 Total Units

<u>Unit Type & Number</u>	<u>2014 Rents Targeted % of Area Median Income</u>	<u>2014 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
4 SRO/Studio	50%	50%	\$601
21 SRO/Studio	60%	60%	\$721
8 1 Bedroom	50%	50%	\$644
46 1 Bedroom	60%	60%	\$773
2 2 Bedrooms	50%	50%	\$773
3 2 Bedrooms	60%	60%	\$928
1 1 Bedroom	Manager's Unit	Manager's Unit	\$0
17 SRO/Studio	Market Rate Unit	Market Rate Unit	\$1,185
28 1 Bedroom	Market Rate Unit	Market Rate Unit	\$1,536
7 2 Bedrooms	Market Rate Unit	Market Rate Unit	\$2,064

Project Financing

Estimated Total Project Cost:	\$37,748,616
Estimated Residential Project Cost:	\$37,748,616

Residential

Construction Cost Per Square Foot:	\$189
Per Unit Cost:	\$275,537

Construction Financing

Source	Amount
Chase Bank	\$22,186,052
SHRA	\$6,280,262
City of Sacramento - DSRC ¹	\$1,760,000
City Land Donation	\$1,372,801
Grant to General Partner	\$900,000
Deferred Reserves	\$369,551
General Partner Loan	\$1,500,000
Deferred Developer Fee	\$2,500,000
Tax Credit Equity	\$879,950

Permanent Financing

Source	Amount
Cornerstone Real Estate Advisors	\$12,726,317
SHRA	\$6,280,262
SHRA / DSRC	\$3,159,738
City of Sacramento - DSRC	\$1,760,000
City Land Donation	\$1,372,801
Grant to General Partner	\$900,000
General Partner Loan	\$1,500,000
Deferred Developer Fee	\$1,250,000
Tax Credit Equity	\$8,799,498
TOTAL	\$37,748,616

¹DSRC: Downtown Sacramento Revitalization Corporation

Determination of Credit Amount(s)

Requested Eligible Basis:	\$35,168,519
130% High Cost Adjustment:	Yes
Applicable Fraction:	61.76%
Qualified Basis:	\$28,236,842
Applicable Rate:	3.36%
Maximum Annual Federal Credit:	\$897,908
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,500,000
Investor/Consultant:	RBC Capital Markets
Federal Tax Credit Factor:	\$0.98000

Per Regulation Section 10322(i)(4)(A), 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:	\$35,168,519
Actual Eligible Basis:	\$35,168,519
Unadjusted Threshold Basis Limit:	\$25,220,361
Total Adjusted Threshold Basis Limit:	\$35,793,898

Adjustments to Basis Limit:

- Required to Pay Prevailing Wages
- Parking Beneath Residential Units
- Local Development Impact Fees
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 10%

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 are below the minimum operating expenses established in the Regulations (see "Special Issues/Other Significant Information" section), and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.36% 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: TCAC staff calculated the minimum operating expense to be \$4,500 per unit per year. This project’s operating expense minimum has been reduced to \$4,077 per unit per year as allowed by regulation on agreement of the permanent lender and equity investor.

The applicant’s estimate of contractor profit, overhead and general requirement costs slightly exceed 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.

The income from the parking/storage will be generated from the market rate units and the cost of the structures will be excluded from eligible basis. The cost to build the parking/storage structures for the affordable units will be included in eligible basis and therefore residents will not be charged for use. Applicant is instructed to provide a cost breakdown for the structures to ensure costs are allocated accurately in eligible basis.

Local Reviewing Agency:

The Local Reviewing Agency, Sacramento Housing and Redevelopment Agency, 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
\$897,908	\$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: The applicant/owner is required to provide the tenants with the following service amenities free of charge 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:

- After school program on-site for a minimum of 10 hours per week
- Instructor-led educational classes, health and wellness or skill-building classes on-site for a minimum of 84 hours per year

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project commits to becoming certified under any one of the following programs: Leadership in Energy & Environmental Design (LEED); Green Communities; or the GreenPoint Rated Multifamily Guidelines
- The project will be developed beyond the minimum requirements of the green building program by meeting the GreenPoint Rated 100/125 standard.