CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
October 18, 2017

Luther Tower, located at 1455 Second Avenue in San Diego, requested and is being recommended for a reservation of $876,256 in annual federal tax credits to finance the acquisition and rehabilitation of 198 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Tower Housing Management, LLC and is located in Senate District 39 and Assembly District 78.

Project Number	CA-17-791	
Project Name	Luther Tower	
Site Address:	1455 Second Avenue	
	San Diego, CA 92101	County: San Diego
Census Tract:	53.00	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$876,256	$0
Recommended:	$876,256	$0

Applicant Information

Applicant:	Tower Housing Partners, LP
Contact:	David Beacham
Address:	1927 Adams Ave, Suite 200 San Diego, CA 92116
Phone:	(760) 579-2093
Email:	dabdaldevelopment@gmail.com

General Partner(s) or Principal Owner(s):	Tower Housing Management, LLC Metro Hotel Community Association
General Partner Type:	Joint Venture
Parent Company(ies):	C&C Development Group, LLC DAL Development Group, LLC Alpha Project for Homeless
Developer:	Tower Housing Management, LLC
Investor/Consultant:	City Real Estate Advisors
Management Agent:	Royal Property Management Company, Inc

Project Information

Construction Type:	Acquisition & Rehabilitation	
Total # Residential Buildings:	1	
Total # of Units:	200	
No. & % of Tax Credit Units:	198	100.00%
Federal Set-Aside Elected:	40%/60%	
Federal Subsidy:	Tax-Exempt	
HCD MHP Funding:	No	
55-Year Use/Affordability:	Yes	

Number of Units @ or below 50% of area median income: 20
Number of Units @ or below 60% of area median income: 178

Bond Information

Issuer:	Housing Authority of the City of San Diego
Expected Date of Issuance:	October 1, 2017
Credit Enhancement:	N/A

Information

Housing Type:	Non-Targeted
Geographic Area:	San Diego County
TCAC Project Analyst:	Diane SooHoo

Unit Mix

108	SRO/Studio Units
91	1-Bedroom Units
1	2-Bedroom Units
200	Total Units

Unit Type & Number		2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
97	SRO/Studio	60%	60%	$955
11	SRO/Studio	50%	50%	$796
81	1 Bedroom	60%	60%	$1,023
9	1 Bedroom	50%	50%	$853
1	1 Bedroom	Manager’s Unit	Manager’s Unit	$0
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Projected Lifetime Rent Benefit: $98,528,760

Project Cost Summary at Application

Land and Acquisition	$9,000,000
Construction Costs	$0
Rehabilitation Costs	$9,931,541
Construction Contingency	$985,000
Relocation	$230,000
Architectural/Engineering	$250,000
Const. Interest, Perm. Financing	$784,037
Legal Fees, Appraisals	$267,500
Reserves	$4,011,000
Other Costs	$715,921
Developer Fee	$2,970,689
Commercial Costs	$0
Total	**$29,145,688**

Project Financing

Estimated Total Project Cost:	$29,145,688
Estimated Residential Project Cost:	$29,145,688
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$111
Per Unit Cost:	$145,728
True Cash Per Unit Cost*:	$140,308

Construction Financing

Source	Amount
Citibank	$20,000,000
General Partner Equity	$2,696,444
Tax Credit Equity	$6,449,244

Permanent Financing

Source	Amount
Citibank	$20,000,000
General Partner Equity	$1,084,133
Tax Credit Equity	$8,061,555
TOTAL	**$29,145,688**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$14,265,283
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$8,510,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$18,544,868
Qualified Basis (Acquisition):	$8,510,000
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$599,681
Maximum Annual Federal Credit, Acquisition:	$276,575
Total Maximum Annual Federal Credit:	$876,256
Approved Developer Fee (in Project Cost & Eligible Basis):	$2,970,689
Investor/Consultant:	City Real Estate Advisors
Federal Tax Credit Factor:	$0.92000

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.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	$22,775,283
Actual Eligible Basis:	$22,775,283
Unadjusted Threshold Basis Limit:	$43,515,378
Total Adjusted Threshold Basis Limit:	$47,866,916

Adjustments to Basis Limit

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).** The project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.25% 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

The applicant's estimate for annual operating expenses per unit is below the $5,000 published per unit operating expense minimum required for this type of project. As allowed by TCAC Regulation Section 10327(g)(1), TCAC approves the annual per unit operating expense total of $4,250 in agreement with the permanent lender and equity investor.

The applicant requested and has been granted a partial waiver to reduce the 10% mobility feature requirement under TCAC Regulation Section 10325(f)(7)(K), down to 5% due to excessive expensiveness and undue financial burden. The project shall provide 5% of units (10 units) meeting the provisions of California Building Code Chapter 11(B) regarding mobility accessibility features. The project must still provide 4% communications accessible units (8 units).

Currently the existing residential tenants of the proposed project are paying significantly less than TCAC's allowed rent maximums. To ensure long term affordability and protect existing tenants from displacement, increases in rent for those residents will not exceed 5% annually and they will not be required to move based on their inability to afford the future rent amounts established. Instead the project intends to achieve positive cash flow over the longer term by raising rents to the rent limits upon unit turnover. To cover operating expenses and debt service shortfalls for the existing residents, the project has a rent reserve of $3,500,000. TCAC will accept this higher than usual reserve on the condition that it not be distributed to partners during the term of the regulatory agreement.

The proposed rents do not include any utility allowance. The owner will pay for all utilities.

Local Reviewing Agency
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.

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**
$876,256	**$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 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 having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.