

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 16, 2015

Arbor Terraces, located at 2760 McKee Road in San Jose, requested and is being recommended for a reservation of \$580,045 in annual federal tax credits to finance the acquisition and rehabilitation of 85 units of housing serving seniors with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by JSM Enterprises, Inc. and is located in Senate District 15 and Assembly District 27.

Arbor Terraces is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, McKee Senior Apartments ("Arbor Terrace") (CA-1999-916). See **Special Issues/Other Significant Information** below for additional re-syndication information.

Project Number CA-15-929

Project Name Arbor Terraces
Site Address: 2760 McKee Road
San Jose, CA 95127 County: Santa Clara
Census Tract: 5039.030

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$580,045	\$0
Recommended:	\$580,045	\$0

Applicant Information

Applicant: JSM - Arbor Terraces Affordable, L.P., a California Limited Partnership
Contact: William Colin Gray
Address: 3190 S. Bascom Avenue, Suite 220
San Jose, CA 95124
Phone: 408-410-2430
Email: cgray@jsmenterprises.com

General Partner(s) or Principal Owner(s): Arbor Terraces Management LLC
AHA San Jose MGP, LLC, A California LLC

General Partner Type: Joint Venture

Parent Company(ies): JSM Enterprises, Inc.
Affordable Housing Access

Developer: JSM Enterprises, Inc.

Investor/Consultant: WNC & Associates

Management Agent: California Real Estate Management

Project Information

Construction Type: Acquisition and Rehabilitation
 Total # Residential Buildings: 2
 Total # of Units: 86
 No. & % of Tax Credit Units: 85 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 36
 Number of Units @ or below 60% of area median income: 49

Bond Information

Issuer: California Housing Finance Agency
 Expected Date of Issuance: January 15, 2016
 Credit Enhancement: N/A

Information

Housing Type: Seniors
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Marlene McDonough

Unit Mix

85 1-Bedroom Units
 1 2-Bedroom Units

 86 Total Units

Unit Type & Number	2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
35 1 Bedroom	50%	50%	\$997
44 1 Bedroom	60%	60%	\$1,196
1 1 Bedroom	50%	50%	\$997
5 1 Bedroom	60%	60%	\$1,196
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$13,500,000
Construction Costs	\$0
Rehabilitation Costs	\$2,767,213
Construction Contingency	\$100,000
Relocation	\$85,000
Architectural/Engineering	\$15,000
Construction Interest, Perm Financing	\$816,039
Legal Fees, Appraisals	\$109,000
Reserves	\$244,050
Other Costs	\$173,492
Developer Fee	\$2,145,523
Commercial Costs	\$0
Total	\$19,955,317

Project Financing

Estimated Total Project Cost:	\$19,955,317
Estimated Residential Project Cost:	\$19,955,317

Construction Financing

Source	Amount
Citi Group	\$10,551,259
Seller Carryback	\$3,800,000
Deferred Developer Fee	\$1,851,191
Tax Credit Equity	\$3,752,867

Residential

Construction Cost Per Square Foot:	\$47
Per Unit Cost:	\$232,039

Permanent Financing

Source	Amount
Citi Group	\$9,701,259
Seller Carryback	\$3,800,000
Income from Operations	\$507,101
Deferred Developer Fee	\$23,183
Tax Credit Equity	\$5,923,774
TOTAL	\$19,955,317

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$3,760,432
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$12,688,582
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$4,888,562
Qualified Basis (Acquisition):	\$12,688,582
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$161,322
Maximum Annual Federal Credit, Acquisition:	\$418,723
Total Maximum Annual Federal Credit:	\$580,045
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,145,523
Investor/Consultant:	WNC & Associates
Federal Tax Credit Factor:	\$1.02126

Per Regulation Section 10322(h)(9)(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:	\$16,449,014
Actual Eligible Basis:	\$16,449,014
Unadjusted Threshold Basis Limit:	\$21,782,515
Total Adjusted Threshold Basis Limit:	\$33,109,423

Adjustments to Basis Limit:

- 95% of Upper Floor Units are Elevator-Serviced
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 42%

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 meet 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 3.30% 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

To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period is from January 1 of the owner's elected first year of credit through December 31 of the 15th year. The existing regulatory agreement expires 12/31/2052. The existing regulatory agreement income targeting is 85 units at or below 60% AMI.

Local Reviewing Agency

The Local Reviewing Agency, City of San Jose Department of Housing, 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
\$580,045	\$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: None