

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

September 25, 2013

REVISED

Project Number CA-13-864

Project Name Peppertree Senior Apartments
Site Address: 8956 Harness Street
Spring Valley, CA 91977 County: San Diego
Census Tract: 139.070

| Tax Credit Amounts | Federal/Annual | State/Total |
|---------------------------|-----------------------|--------------------|
| Requested: | \$413,668 | \$0 |
| Recommended: | \$413,668 | \$0 |

Applicant Information

Applicant: Peppertree Apartment Holdings, LP
Contact: Tony Hladek
Address: 2644 La Alameda, Suite 370
Mission Viejo, CA 92697
Phone: (949) 367-1393 Fax: (949) 367-0244
Email: thladek@netwasatch.com

General Partner(s) or Principal Owner(s): Peppertree Holdings, LLC
CHBA Affordable II, LLC

General Partner Type: Joint Venture

Parent Company(ies): Wasatch Advantage Group
Western Community Housing

Developer: Wasatch Advantage Group

Investor/Consultant: Peppertree Investors, LLC

Management Agent: Wasatch Property Management

Project Information

Construction Type: Acquisition & Rehabilitation

Total # Residential Buildings: 13

Total # of Units: 104

No. & % of Tax Credit Units: 103 100.00%

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: 11

Number of Units @ or below 60% of area median income: 92

Bond Information

Issuer: CA Municipal Finance Authority
 Expected Date of Issuance: July 17, 2013
 Credit Enhancement: Prudential Mortgage Capital / Freddie Mac

Information

Housing Type: Seniors
 Geographic Area: San Diego County
 TCAC Project Analyst: DC Navarrette

Unit Mix

88 1-Bedroom Units
 16 2-Bedroom Units
 104 Total Units

| <u>Unit Type & Number</u> | <u>2013 Rents Targeted % of Area Median Income</u> | <u>2013 Rents Actual % of Area Median Income</u> | <u>Proposed Rent (including utilities)</u> |
|-------------------------------|--|--|--|
| 9 1 Bedroom | 50% | 50% | \$756 |
| 79 1 Bedroom | 60% | 52% | \$790 |
| 2 2 Bedrooms | 50% | 50% | \$907 |
| 13 2 Bedrooms | 60% | 51% | \$923 |
| 1 2 Bedrooms | Manager's Unit | Manager's Unit | \$882 |

Project Financing

Estimated Total Project Cost: \$14,195,591
 Estimated Residential Project Cost: \$14,195,591

Residential

Construction Cost Per Square Foot: \$57
 Per Unit Cost: \$136,496

Construction Financing

| <u>Source</u> | <u>Amount</u> |
|-----------------------------|---------------|
| Prudential Mortgage Capital | \$9,629,856 |
| Peppertree Investors, LLC | \$4,215,686 |
| Cost Paid at Perm Loan | \$275,889 |
| Energy Rebates | \$124,800 |

Permanent Financing

| <u>Source</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| Prudential Mortgage Capital | \$9,629,856 |
| Developer Note | \$225,249 |
| Energy Rebates | \$124,800 |
| Tax Credit Equity | \$4,215,686 |
| TOTAL | \$14,195,591 |

Determination of Credit Amount(s)

| | |
|--|---------------------------|
| Requested Eligible Basis (Rehabilitation): | \$3,605,701 |
| 130% High Cost Adjustment: | Yes |
| Requested Eligible Basis (Acquisition): | \$8,323,580 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | \$4,687,411 |
| Applicable Rate: | 3.20% |
| Qualified Basis (Acquisition): | \$8,323,580 |
| Applicable Rate: | 3.20% |
| Maximum Annual Federal Credit, Rehabilitation: | \$147,314 |
| Maximum Annual Federal Credit, Acquisition: | \$266,354 |
| Total Maximum Annual Federal Credit: | \$413,668 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | \$1,543,889 |
| Investor/Consultant: | Peppertree Investors, LLC |
| Federal Tax Credit Factor: | \$1.01910 |

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: | \$11,929,281 |
| Actual Eligible Basis: | \$11,929,281 |
| Unadjusted Threshold Basis Limit: | \$23,839,136 |
| Total Adjusted Threshold Basis Limit: | \$26,223,050 |

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), and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.20% 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: Annual operating expenses are below the minimum established in Regulation as allowed per section 10327(g). The applicant provided approval from the lender and investor as required per regulation.

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 |
| \$413,668 | \$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:

- Instructor-led educational classes, health and wellness or skill-building classes on-site
- Wellness services and programs providing individualized support for tenants on-site

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 improve energy efficiency above the modeled energy consumption of the building(s) by a 30% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERSII) post rehabilitation.