

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 20, 2016

Harmony Court Apartments, located at 5948 Victor Street in Bakersfield, requested and is being recommended for a reservation of \$257,500 in annual federal tax credits to finance the acquisition and rehabilitation of 95 units of housing serving seniors with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Highridge Costa Housing Partners, LLC and is located in Senate District 16 and Assembly District 34.

Harmony Court Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Harmony Court Apartments (CA-96-138). See **Special Issues/Other Significant Information** below for additional re-syndication information.

Project Number CA-16-898

Project Name Harmony Court Apartments
Site Address: 5948 Victor Street
 Bakersfield, CA 93308 County: Kern
Census Tract: 5.040

| Tax Credit Amounts | Federal/Annual | State/Total |
|---------------------------|-----------------------|--------------------|
| Requested: | \$257,500 | \$0 |
| Recommended: | \$257,500 | \$0 |

Applicant Information

Applicant: Harmony Bakersfield AR, L.P.
Contact: Thomas Erickson
Address: 330 W. Victoria Street
 Gardena, CA 90248
Phone: 424-258-2918 Fax: 424-258-2919
Email: thomas.erickson@housingpartners.com

General Partner(s) or Principal Owner(s): WCH Affordable XXI, LLC
 HCHP Affordable Multi-Family, LLC

General Partner Type: Joint Venture

Parent Company(ies): Western Community Housing
 Highridge Costa Housing Partners, LLC

Developer: Highridge Costa Housing Partners, LLC

Investor/Consultant: Victoria Captial, LLC

Management Agent: WinnResidential California L.P.

Project Information

Construction Type: Acquisition and Rehabilitation
 Total # Residential Buildings: 6
 Total # of Units: 96
 No. & % of Tax Credit Units: 95 100.00%
 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: 50
 Number of Units @ or below 60% of area median income: 45

Bond Information

Issuer: Golden State Finance Authority
 Expected Date of Issuance: July 20, 2016
 Credit Enhancement: N/A

Information

Housing Type: Seniors
 Geographic Area: Central Valley Region
 TCAC Project Analyst: Mayra Lozano

Unit Mix

80 1-Bedroom Units
 16 2-Bedroom Units

 96 Total Units

| Unit Type & Number | 2016 Rents Targeted % of Area Median Income | 2016 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|-------------------------------|--|--|--|
| 42 1 Bedroom | 50% | 50% | \$553 |
| 38 1 Bedroom | 60% | 60% | \$663 |
| 8 2 Bedrooms | 50% | 50% | \$663 |
| 7 2 Bedrooms | 60% | 60% | \$796 |
| 1 2 Bedrooms | Manager's Unit | Manager's Unit | \$796 |

Project Cost Summary at Application

| | |
|----------------------------------|--------------------|
| Land and Acquisition | \$5,400,000 |
| Construction Costs | \$0 |
| Rehabilitation Costs | \$1,784,609 |
| Construction Contingency | \$0 |
| Relocation | \$0 |
| Architectural/Engineering | \$49,450 |
| Const. Interest, Perm. Financing | \$452,649 |
| Legal Fees, Appraisals | \$144,000 |
| Reserves | \$139,713 |
| Other Costs | \$84,528 |
| Developer Fee | \$1,033,567 |
| Commercial Costs | \$0 |
| Total | \$9,088,516 |

Project Financing

| | |
|-------------------------------------|-------------|
| Estimated Total Project Cost: | \$9,088,516 |
| Estimated Residential Project Cost: | \$9,088,516 |
| Estimated Commercial Project Cost: | \$0 |

Residential

| | |
|------------------------------------|----------|
| Construction Cost Per Square Foot: | \$35 |
| Per Unit Cost: | \$94,672 |
| True Cash Per Unit Cost*: | \$74,578 |

Construction Financing

| Source | Amount |
|------------------------------------|-------------|
| America First T.E. Investors, L.P. | \$5,727,000 |
| Seller Carryback Loan | \$947,123 |
| Seller Equity | \$924,446 |
| Deferred Costs | \$1,183,280 |
| Tax Credit Equity | \$306,667 |

Permanent Financing

| Source | Amount |
|------------------------------------|--------------------|
| America First T.E. Investors, L.P. | \$3,702,946 |
| Seller Carryback Loan | \$947,123 |
| Seller Equity | \$924,446 |
| Net Operating Income | \$138,607 |
| Deferred Developer Fee | \$981,888 |
| Tax Credit Equity | \$2,393,506 |
| TOTAL | \$9,088,516 |

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

Determination of Credit Amount(s)

| | |
|--|-----------------------|
| Requested Eligible Basis (Rehabilitation): | \$2,254,512 |
| 130% High Cost Adjustment: | No |
| Requested Eligible Basis (Acquisition): | \$5,669,500 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | \$2,254,512 |
| Qualified Basis (Acquisition): | \$5,669,500 |
| Applicable Rate: | 3.25% |
| Maximum Annual Federal Credit, Rehabilitation: | \$73,241 |
| Maximum Annual Federal Credit, Acquisition: | \$184,259 |
| Total Maximum Annual Federal Credit: | \$257,500 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | \$1,033,567 |
| Investor/Consultant: | Victoria Captial, LLC |
| Federal Tax Credit Factor: | \$0.92952 |

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: | \$7,924,012 |
| Actual Eligible Basis: | \$7,924,012 |
| Unadjusted Threshold Basis Limit: | \$22,325,200 |
| Total Adjusted Threshold Basis Limit: | \$33,934,304 |

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: 52%

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 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 3.25% 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

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 01/01/1997 through 12/31/2011. The existing regulatory agreement expires 12/31/2051. The existing regulatory agreement targets 95 units such that the average income of tenants is at or below 55% of AMI, and such units shall be rent-restricted in accordance with such income level.

The project is a re-syndication occurring concurrently with a Transfer Event with distribution of Net Project Equity, which is otherwise required to set aside a Short Term Work Capitalized Replacement Reserve in the amount of \$880,771. In lieu of a Short Term Work Capitalized Reserve, there is a seller equity contribution of \$924,446, allowing the applicant to use Short Term Work Reserve Amount to fund rehabilitation expenses and to receive eligible basis for that amount.

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. The project shall provide 5% of units meeting the provisions of California Building Code Chapter 11(B) regarding accessibility to privately owned housing made available for public use, except for the requirements to relocate the toilet and sink in one-bedroom, to flip the bathtub and drain from one end to the other, and to widen an interior hallway from 36 inches to 42 inches.

Local Reviewing Agency

The Local Reviewing Agency, Housing Authority of the County of Kern, has completed a site review of this project and 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 |
| \$257,500 | \$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