

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

October 19, 2016

Wattss Arms I Apartments, located at 10130 South Beach Street in Los Angeles, requested and is being recommended for a reservation of \$1,149,439 in annual federal tax credits to finance the acquisition and rehabilitation of 103 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by NFAHS Development LLC (National Foundation for Affordable Housing Solutions) and is located in Senate District 35 and Assembly District 64.

The project will be receiving rental assistance in the form of a HUD Section 8 Project-based Contract.

Project Number CA-16-924

Project Name Watts Arms I Apartments
Site Address: 10130 South Beach Street
Los Angeles, CA 90002 County: Los Angeles
Census Tract: 2422.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,149,439	\$0
Recommended:	\$1,149,439	\$0

Applicant Information

Applicant: Watts Arms I Renewal L.P.
Contact: Wes Gassert
Address: 11810 Grand Park Avenue, Suite 600
North Bethesda, MD 20852
Phone: 301-998-0417 Fax: 301-998-0418
Email: wgassert@nfahs.com

General Partner(s) or Principal Owner(s): Watts Arms I MM LLC
Foundation Housing Capital III LLC
General Partner Type: Joint Venture
Parent Company(ies): Redwood Housing, Inc.
Foundation Housing Capital III LLC
Developer: NFAHS Development LLC
Investor/Consultant: Wells Fargo Community Lending and Investment
Management Agent: Barker Management

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 20
 Total # of Units: 104
 No. & % of Tax Credit Units: 103 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Contract (103 Units - 100%)
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 16
 Number of Units @ or below 60% of area median income: 87

Bond Information

Issuer: California Statewide Communities Development Authority
 Expected Date of Issuance: November 30, 2016
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: City of Los Angeles
 TCAC Project Analyst: Jack Waegell

Unit Mix

18 1-Bedroom Units
 50 2-Bedroom Units
 36 3-Bedroom Units

 104 Total Units

Unit Type & Number	2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
15 1 Bedroom	60%	60%	\$977
3 1 Bedroom	50%	50%	\$813
42 2 Bedrooms	60%	60%	\$1,173
7 2 Bedrooms	50%	50%	\$976
30 3 Bedrooms	60%	60%	\$1,354
6 3 Bedrooms	50%	50%	\$1,128
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$1,740

Project Cost Summary at Application

Land and Acquisition	\$24,925,000
Construction Costs	\$0
Rehabilitation Costs	\$5,294,684
Construction Contingency	\$517,015
Relocation	\$260,000
Architectural/Engineering	\$119,586
Const. Interest, Perm. Financing	\$788,149
Legal Fees, Appraisals	\$115,000
Reserves	\$581,107
Other Costs	\$661,793
Developer Fee	\$4,436,836
Commercial Costs	\$0
Total	\$37,699,171

Project Financing

Estimated Total Project Cost:	\$37,699,171
Estimated Residential Project Cost:	\$37,699,171
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$57
Per Unit Cost:	\$362,492
True Cash Per Unit Cost*:	\$316,863

Construction Financing

Source	Amount
Tax-Exempt Bonds	\$23,000,000
Wells Fargo Bridge Loan	\$4,000,000

Permanent Financing

Source	Amount
Wells Fargo Multifamily Capital	\$19,144,000
FHC III Seller Note	\$2,800,000
Interim Income	\$188,873
Deferred Developer Fee	\$1,945,448
Tax Credit Equity	\$13,620,851
TOTAL	\$37,699,171

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$7,112,574
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$26,903,169
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$9,246,347
Qualified Basis (Acquisition):	\$26,903,169
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$275,086
Maximum Annual Federal Credit, Acquisition:	\$874,353
Total Maximum Annual Federal Credit:	\$1,149,439
Approved Developer Fee (in Project Cost & Eligible Basis):	\$4,436,836
Investor/Consultant: Wells Fargo Community Lending and Investment	
Federal Tax Credit Factor:	\$1.18500

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:	\$34,015,744
Actual Eligible Basis:	\$34,015,744
Unadjusted Threshold Basis Limit:	\$29,748,536
Total Adjusted Threshold Basis Limit:	\$34,210,816

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: 15%

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

The applicant has requested and has been granted a waiver by TCAC to reduce the 10% mobility feature requirement under TCAC Regulation Section 10325(f)(7)(K) down to 0% (0 units) because it would be excessively expensive to meet any portion of this requirement since the project involves townhouses which have configurations that are not readily adaptable. The project is still required to meet the 4% (5 units) communication features requirement.

Local Reviewing Agency

The Local Reviewing Agency, the City of Los Angeles Housing and Community Development Department, 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
\$1,149,439	\$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.