

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
November 16, 2016**

Harmony Terrace Apartments, located at 941 Sunset Garden Lane in Simi Valley, requested and is being recommended for a reservation of \$778,753 in annual federal tax credits to finance the acquisition and rehabilitation of 134 units of housing serving seniors with rents affordable to households earning 35-60% of area median income (AMI). The project will be developed by Highridge Costa Housing Partners, LLC, and is located in Senate District 27 and Assembly District 38.

Harmony Terrace Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Harmony Terrace (CA-97-506). See **Special Issues/Other Significant Information** below for additional re-syndication information.

Project Number CA-16-969

Project Name Harmony Terrace Apartments
Site Address: 941 Sunset Garden Lane
Simi Valley, CA 93065 County: Ventura
Census Tract: 75.140

| Tax Credit Amounts | Federal/Annual | State/Total |
|---------------------------|-----------------------|--------------------|
| Requested: | \$778,753 | \$0 |
| Recommended: | \$778,753 | \$0 |

Applicant Information

Applicant: Harmony Simi Valley 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): FFAH II Harmony Terrace, LLC
HCHP Affordable Multi-Family, LLC

General Partner Type: Joint Venture

Parent Company(ies): Foundation for Affordable Housing V, Inc.
Highridge Costa Housing Partners, LLC

Developer: Highridge Costa Housing Partners, LLC

Investor/Consultant: Victoria Capital, LLC

Management Agent: Western National Property Management

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 10
 Total # of Units: 136
 No. & % of Tax Credit Units: 134 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 35% of area median income: 53
 Number of Units @ or below 50% of area median income: 80
 Number of Units @ or below 60% of area median income: 1

Bond Information

Issuer: Golden State Finance Authority
 Expected Date of Issuance: November 19, 2016
 Credit Enhancement: N/A

Information

Housing Type: Seniors
 Geographic Area: Central Coast Region
 TCAC Project Analyst: Jack Waegell

Unit Mix

112 1-Bedroom Units
 24 2-Bedroom Units

 136 Total Units

| <u>Unit Type & Number</u> | <u>2016 Rents Targeted % of Area Median Income</u> | <u>2016 Rents Actual % of Area Median Income</u> | <u>Proposed Rent (including utilities)</u> |
|-------------------------------|--|--|--|
| 16 1 Bedroom | 35% | 29% | \$513 |
| 27 1 Bedroom | 35% | 35% | \$613 |
| 16 1 Bedroom | 40% | 34% | \$588 |
| 30 1 Bedroom | 40% | 40% | \$701 |
| 5 1 Bedroom | 50% | 42% | \$742 |
| 17 1 Bedroom | 50% | 50% | \$876 |
| 2 2 Bedrooms | 35% | 29% | \$616 |
| 8 2 Bedrooms | 35% | 35% | \$735 |
| 3 2 Bedrooms | 40% | 34% | \$709 |
| 7 2 Bedrooms | 40% | 40% | \$841 |
| 2 2 Bedrooms | 50% | 50% | \$1,051 |
| 1 2 Bedrooms | 60% | 60% | \$1,261 |
| 1 1 Bedroom | Manager's Unit | Manager's Unit | \$829 |
| 1 2 Bedrooms | Manager's Unit | Manager's Unit | \$1,261 |

Project Cost Summary at Application

| | |
|----------------------------------|---------------------|
| Land and Acquisition | \$19,000,000 |
| Construction Costs | \$0 |
| Rehabilitation Costs | \$2,646,484 |
| Construction Contingency | \$133,064 |
| Relocation | \$0 |
| Architectural/Engineering | \$54,500 |
| Const. Interest, Perm. Financing | \$945,432 |
| Legal Fees, Appraisals | \$137,500 |
| Reserves | \$249,514 |
| Other Costs | \$115,143 |
| Developer Fee | \$2,989,072 |
| Commercial Costs | \$0 |
| Total | \$26,270,709 |

Project Financing

| | |
|-------------------------------------|--------------|
| Estimated Total Project Cost: | \$26,270,709 |
| Estimated Residential Project Cost: | \$26,270,709 |
| Estimated Commercial Project Cost: | \$0 |

Residential

| | |
|------------------------------------|-----------|
| Construction Cost Per Square Foot: | \$34 |
| Per Unit Cost: | \$193,167 |
| True Cash Per Unit Cost*: | \$118,201 |

Construction Financing

| Source | Amount |
|---|--------------|
| America First Multifamily Investors, L.P. | \$14,300,000 |
| Golden State Finance Authority - Loan | \$300,000 |
| Seller Note | \$7,306,240 |
| Seller Equity | \$430,088 |
| Income from Operations | \$262,770 |
| Deferred Costs | \$3,198,586 |
| Tax Credit Equity | \$473,026 |

Permanent Financing

| Source | Amount |
|---|---------------------|
| America First Multifamily Investors, L.P. | \$7,888,809 |
| Golden State Finance Authority - Loan | \$300,000 |
| Seller Note | \$7,306,240 |
| Seller Equity | \$430,088 |
| Income from Operations | \$262,770 |
| Deferred Developer Fee | \$2,889,072 |
| Tax Credit Equity | \$7,193,730 |
| TOTAL | \$26,270,709 |

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

Determination of Credit Amount(s)

| | |
|--|-----------------------|
| Requested Eligible Basis (Rehabilitation): | \$3,492,721 |
| 130% High Cost Adjustment: | Yes |
| Requested Eligible Basis (Acquisition): | \$19,423,500 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | \$4,540,537 |
| Qualified Basis (Acquisition): | \$19,423,500 |
| Applicable Rate: | 3.25% |
| Maximum Annual Federal Credit, Rehabilitation: | \$147,489 |
| Maximum Annual Federal Credit, Acquisition: | \$631,264 |
| Total Maximum Annual Federal Credit: | \$778,753 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | \$2,989,072 |
| Investor/Consultant: | Victoria Capital, LLC |
| Federal Tax Credit Factor: | \$0.92375 |

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: | \$22,916,221 |
| Actual Eligible Basis: | \$22,916,221 |
| Unadjusted Threshold Basis Limit: | \$34,189,680 |
| Total Adjusted Threshold Basis Limit: | \$81,029,542 |

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: 59%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 78%

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 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% (7 units) due to excessive expensiveness. The project shall provide 5% of the units (7 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 switch the locations of the toilet and sink in both unit types, to rotate the position of the bathtub and its drain 180 degrees from its current location in both unit types, to move the bathroom doors in both unit types, and to widen an interior hallway from 36 inches to 42 inches in the two-bedroom units.

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 1/1/2000 through 12/31/2014. The existing regulatory agreement expires 12/31/2054. The existing regulatory agreement income targeting is an average affordability of 40% AMI. The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement and any deeper targeting levels in the new regulatory agreement for the duration of the new regulatory agreement.

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 \$430,088. In lieu of a Short Term Work Capitalized Reserve, there is a seller equity contribution of \$430,088 allowing the applicant to use Short Term Work Reserve Amount to fund rehabilitation expenses and to receive eligible basis for that amount.

Local Reviewing Agency

The Local Reviewing Agency, the City of Simi Valley, 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 |
| \$778,753 | \$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.