

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

May 17, 2017

REVISED

Luna at Pacific Highlands Ranch - Scattered-Site, located at 6041 Pacific Place and 13388 Highlands Place in San Diego, requested and is being recommended for a reservation of \$1,213,317 in annual federal tax credits to finance the new construction of 77 units of housing serving large families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Affirmed Housing Group, Inc. and will be located in Senate District 38 and Assembly District 77.

Project Number CA-17-745

Project Name Luna at Pacific Highlands Ranch

Site Address:	<u>Lot 16</u> 6041 Pacific Place San Diego, CA 92130	<u>Lot 20</u> 13388 Highlands Place San Diego, CA 92130
Census Tract:	0215.00	0215.00
County:	San Diego	

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,213,317	\$0
Recommended:	\$1,213,317	\$0

Applicant Information

Applicant: Affirmed Housing Group, Inc.
Contact: Sydney Connell
Address: 13520 Evening Creek Drive N Suite 160
San Diego, CA 92128
Phone: (858) 679-2464 Fax: (858) 679-9076
Email: sydney@affirmedhousing.com

General Partner(s) or Principal Owner(s): Affirmed Housing Group, Inc.
NEXUS For Affordable Housing, Inc.
General Partner Type: Joint Venture
Parent Company(ies): Affirmed Housing Group, Inc.
NEXUS For Affordable Housing, Inc.
Developer: Affirmed Housing Group, Inc.
Investor/Consultant: Red Stone Equity Partners
Management Agent: Solari Enterprises

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 2
 Total # of Units: 79
 No. & % of Tax Credit Units: 77 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 Utility Allowance: CUAC
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 8
 Number of Units @ or below 60% of area median income: 69

Bond Information

Issuer: San Diego Housing Commission
 Expected Date of Issuance: August 25, 2017
 Credit Enhancement: N/A

Information

Housing Type: Large Family
 Geographic Area: San Diego County
 TCAC Project Analyst: Diane SooHoo

Unit Mix

15 1-Bedroom Units
 40 2-Bedroom Units
 20 3-Bedroom Units
 4 4-Bedroom Units

 79 Total Units

Unit Type & Number	2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
1 1 Bedroom	50%	50%	\$796
13 1 Bedroom	60%	60%	\$956
1 2 Bedrooms	50%	50%	\$956
38 2 Bedrooms	60%	60%	\$1,147
5 3 Bedrooms	50%	48%	\$1,063
3 3 Bedrooms	60%	58%	\$1,275
12 3 Bedrooms	60%	60%	\$1,326
1 4 Bedrooms	50%	50%	\$1,232
3 4 Bedrooms	60%	60%	\$1,479
1 1 Bedroom	Manager's Unit	Manager's Unit	\$0
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$51,344,436

Project Cost Summary at Application

Land and Acquisition	\$3,100,000
Construction Costs	\$15,058,000
Rehabilitation Costs	\$0
Construction Contingency	\$753,000
Relocation	\$0
Architectural/Engineering	\$647,900
Const. Interest, Perm. Financing	\$1,217,000
Legal Fees, Appraisals	\$111,000
Reserves	\$227,190
Other Costs	\$4,792,219
Developer Fee	\$3,760,818
Commercial Costs	\$0
Total	\$29,667,127

Project Financing

Estimated Total Project Cost:	\$29,667,127
Estimated Residential Project Cost:	\$29,667,127
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$198
Per Unit Cost:	\$375,533
True Cash Per Unit Cost*:	\$303,901

Construction Financing

Source	Amount
US Bank	\$22,700,000
Series B Bond	\$1,300,000
NEXUS Seller Carry Back Loan	\$3,100,000
SDHC Loan	\$275,000
Deferred Developer Fee	\$558,956
Solar Tax Credit Equity	\$22,500
Tax Credit Equity	\$1,710,671

Permanent Financing

Source	Amount
US Bank - Series A Bond	\$8,450,000
US Bank - Series B Bond	\$1,300,000
Master Developer Cash Loan	\$800,000
NEXUS Seller Carry Back Loan	\$3,100,000
SDHC Loan	\$1,100,000
Deferred Developer Fee	\$2,558,956
Solar Tax Credit Equity	\$225,000
Tax Credit Equity	\$12,133,171
TOTAL	\$29,667,127

*Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

Determination of Credit Amount(s)

Requested Eligible Basis:	\$28,757,337
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$37,384,538
Applicable Rate:	3.25%
Maximum Annual Federal Credit:	\$1,213,317
Approved Developer Fee (in Project Cost & Eligible Basis):	\$3,760,818
Investor/Consultant:	Red Stone Equity Partners
Federal Tax Credit Factor:	\$1.00000

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:	\$28,757,337
Actual Eligible Basis:	\$28,757,337
Unadjusted Threshold Basis Limit:	\$23,647,898
Total Adjusted Threshold Basis Limit:	\$31,684,973

Adjustments to Basis Limit

- Local Development Impact Fees
- 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: 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. This project’s annual per unit operating expense total is below the TCAC published per unit operating expense minimums of \$5,000. As allowed by TCAC Regulation Section 10327(g)(1), TCAC approves an annual per unit operating expense total of \$4,624 in agreement with the permanent lender and equity investor, 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

Luna at Pacific Highlands Ranch is a scattered site project consisting of 2 sites.

Local Reviewing Agency

The Local Reviewing Agency, San Diego Housing Commison, 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
\$1,213,317	\$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.