CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 19, 2017
REVISED

Lake Merritt Apartments, located at 1417 1st Ave in Oakland, requested and is being recommended for a reservation of $1,125,602 in annual federal tax credits to finance the acquisition and rehabilitation of 54 units of housing serving seniors with rents affordable to households earning 35-50% of area median income (AMI). The project will be developed by Preservation Partners Management Group and is located in Senate District 9 and Assembly District 18.

Lake Merritt Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Lake Merritt Apartments (CA-2002-863). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

Project Number	CA-17-766	
Project Name	Lake Merritt Apartments	
Site Address:	1417 1st Ave	
	Oakland, CA 94606	County: Alameda
Census Tract:	4053.02	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,125,602	$0
Recommended:	$1,125,602	$0

Applicant Information

Applicant:	Lake Merritt II Preservation Limited Partnership	
Contact:	William Szymczak	
Address:	21515 Hawthorne Blvd, Suite 390	
	Torrance, CA 90503	
Phone:	310-802-6670	Fax: 310-802-6681
Email:	bill@preservationpartners.org	

General Partner(s) or Principal Owner(s):	Lake Merritt II Preservation Partners LLC
	JHC-Lake Merritt LLC
General Partner Type:	Joint Venture
Parent Company(ies):	Preservation Communities Inc.
	Jamboree Housing Corporation
Developer:	Preservation Partners Management Group
Investor/Consultant:	CREA
Management Agent:	Preservation Partners Management Group

Project Information

Construction Type:	Acquisition & Rehabilitation	
Total # Residential Buildings:	1	
Total # of Units:	55	
No. & % of Tax Credit Units:	54	100.00%
Federal Set-Aside Elected:	40%/60%	
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Contract (54 units - 100%)	
HCD MHP Funding:	No	
55-Year Use/Affordability:	Yes	

Number of Units @ or below 35% of area median income:	8
Number of Units @ or below 50% of area median income:	44
Number of Units @ or below 60% of area median income:	2

Bond Information

Issuer:	California Statewide Communities Development Authority
Expected Date of Issuance:	August 1, 2017
Credit Enhancement:	N/A

Information

Housing Type:	Seniors
Geographic Area:	North and East Bay Region
TCAC Project Analyst:	Zhuo Chen

Unit Mix

54	1-Bedroom Units
1	2-Bedroom Units
55	Total Units

Unit Type & Number		2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
8	1 Bedroom	35%	35%	$685
44	1 Bedroom	50%	50%	$978
2	1 Bedroom	60%	60%	$1,174
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Projected Lifetime Rent Benefit: $49,687,440

Project Cost Summary at Application

Land and Acquisition	$21,300,000
Construction Costs	$0
Rehabilitation Costs	$6,296,881
Construction Contingency	$0
Relocation	$165,000
Architectural/Engineering	$255,000
Const. Interest, Perm. Financing	$2,097,713
Legal Fees, Appraisals	$289,600
Reserves	$341,464
Other Costs	$632,555
Developer Fee	$4,133,706
Commercial Costs	$0
Total	**$35,511,919**

Project Financing

Estimated Total Project Cost:	$35,511,919
Estimated Residential Project Cost:	$35,511,919
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$112
Per Unit Cost:	$645,671
True Cash Per Unit Cost*:	$483,393

Construction Financing

Source	Amount
Citi - T.E. Bonds Tranche A	$15,246,000
Citi - T.E. Bonds Tranche B	$6,754,000
Seller Carryback	$9,500,000
GP Equity	$28,300
Deferred Developer Fee	$1,633,706
Tax Credit Equity	$2,349,913

Permanent Financing

Source	Amount
Citi Community Capital	$15,246,000
Seller Carryback	$7,291,612
GP Equity	$28,300
Deferred Developer Fee	$1,633,707
Tax Credit Equity	$11,312,300
TOTAL	**$35,511,919**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$9,818,749
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$21,873,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$12,764,374
Qualified Basis (Acquisition):	$21,873,000
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$414,729
Maximum Annual Federal Credit, Acquisition:	$710,873
Total Maximum Annual Federal Credit:	$1,125,602
Approved Developer Fee (in Project Cost & Eligible Basis):	$4,133,706
Investor/Consultant:	CREA
Federal Tax Credit Factor:	$1.00500

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:	$31,691,749
Actual Eligible Basis:	$31,691,749
Unadjusted Threshold Basis Limit:	$14,535,260
Total Adjusted Threshold Basis Limit:	$31,832,219

Adjustments to Basis Limit

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: 81%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 28%

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

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-2002-863). 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 01/01/2002 through 12/31/2016. The existing regulatory agreement expires 12/31/2031. The existing regulatory agreement income targeting is 11 units at or below 50% AMI and 43 units at or below 60% AMI. The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s).

The senior project is a resyndication, where the existing regulatory agreement requires service amenities of assistance with daily living activities and similar service activities (such as adult education classes and programs, and social services). The project shall provide a similar or greater level of services for a period of at least 15 years under the new regulatory agreement. The project is deemed to have met this requirement, as the project is committed to provide services such as a service coordinator (20 hours per week), household support services, adult/senior education, health and wellness or skill building classes, and assistance in living activities free of charge to tenants for a period of at least 15 years.

This project is the resyndication of an existing tax credit project, CA-2002-863, which is under a 30-year TCAC extended use agreement. The new reservation of tax credits will result in moderately deeper rent/income targeting than the original award of tax credits by increasing the number of units restricted at 50% AMI from 43 units to 44 units and by restricting an additional 8 units at 35% AMI. The affordable housing restrictions will extend out to approximately year 2072.

The project is a resyndication occurring concurrently with a Transfer Event with distribution of Net Project Equity. The rehabilitation scope of work shall include all of the Short Term Work in the amount of $28,100. There is a general partner equity contribution of at least $28,100, allowing the applicant to receive eligible basis for the entire Short Term Work amount.

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**
$1,125,602	**$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 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 rehabilitation project commits to improve energy efficiency above the modeled energy consumption of the building(s) by a 15% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERS II) post rehabilitation.