CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
August 16, 2017
REVISED

Hollywood Palms II, located at 4372 Home Avenue in San Diego, requested and is being recommended for a reservation of $880,327 in annual federal tax credits to finance the acquisition and rehabilitation of 93 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 and is located in Senate District 40 and Assembly District 80.

Hollywood Palms II is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Hollywood Palms Apartments (CA-2003-810). 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 Vouchers.

Project Number	CA-17-774	
Project Name	Hollywood Palms II	
Site Address:	4372 Home Avenue	
	San Diego, CA 92105	County: San Diego
Census Tract:	25.02	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$880,327	$0
Recommended:	$880,327	$0

Applicant Information

Applicant:	San Diego/Fox Hollow II, L.P.	
Contact:	Sydney Connell	
Address:	13520 Evening Creek Drive N., Ste. 160	
	San Diego, CA 92128	
Phone:	858-679-2464	Fax: 858-679-9076
Email:	sydney@affirmedhousing.com	

General Partner(s) or Principal Owner(s):	AHG Hollywood Palms II, LLC
	City Heights Community Development Corporation
General Partner Type:	Joint Venture
Parent Company(ies):	Affirmed Housing Group, Inc.
	City Heights Community Development Corporation
Developer:	Affirmed Housing Group, Inc.
Investor/Consultant:	Boston Capital
Management Agent:	City Heights Community Development Corporation

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	11
Total # of Units:	94
No. & % of Tax Credit Units:	93 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Vouchers (23 units - 25%)
HCD MHP Funding:	No
Utility Allowance:	CUAC
55-Year Use/Affordability:	Yes
Number of Units @ or below 50% of area median income:	10
Number of Units @ or below 60% of area median income:	83

Bond Information

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

Information

Housing Type:	Large Family
Geographic Area:	San Diego County
TCAC Project Analyst:	Zhuo Chen

Unit Mix

44	2-Bedroom Units
28	3-Bedroom Units
22	4-Bedroom Units
94	Total Units

Unit Type & Number		2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
1	2 Bedrooms	50%	50%	$1,023
10	2 Bedrooms	60%	60%	$1,228
2	2 Bedrooms	50%	50%	$1,023
31	2 Bedrooms	60%	60%	$1,228
1	3 Bedrooms	50%	50%	$1,181
6	3 Bedrooms	60%	60%	$1,418
3	3 Bedrooms	50%	50%	$1,181
18	3 Bedrooms	60%	60%	$1,418
1	4 Bedrooms	50%	50%	$1,318
4	4 Bedrooms	60%	60%	$1,582
2	4 Bedrooms	50%	50%	$1,318
14	4 Bedrooms	60%	60%	$1,582
1	4 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Projected Lifetime Rent Benefit: $17,226,000

Project Cost Summary at Application

Land and Acquisition	$16,325,000
Construction Costs	$0
Rehabilitation Costs	$7,759,600
Construction Contingency	$582,000
Relocation	$94,000
Architectural/Engineering	$314,000
Const. Interest, Perm. Financing	$1,289,250
Legal Fees, Appraisals	$195,000
Reserves	$357,000
Other Costs	$1,113,000
Developer Fee	$3,563,265
Commercial Costs	$0
Total	**$31,592,115**

Project Financing

Estimated Total Project Cost:	$31,592,115
Estimated Residential Project Cost:	$31,592,115
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$82
Per Unit Cost:	$336,086
True Cash Per Unit Cost*:	$284,793

Construction Financing

Source	Amount
Chase Bank	$19,500,000
Seller Carryback Loan	$2,587,649
Sale Procees for Services	$1,000,000
Net Operating Income	$750,000
Deferred Developer Fee	$2,400,000
Tax Credit Equity	$5,354,466

Permanent Financing

Source	Amount
Walker Dunlop/Fannie Mae Loan	$15,950,000
Seller Carryback Loan	$2,421,614
MASH	$210,319
Sale Proceeds for Services	$750,000
Net Operating Income	$1,000,000
Deferred Developer Fee	$2,400,000
GP Equity	$113,600
Solar Tax Credit Equity	$379,859
Tax Credit Equity	$8,366,723
TOTAL	**$31,592,115**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$10,526,976
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	$16,560,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$10,526,976
Qualified Basis (Acquisition):	$16,560,000
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$342,127
Maximum Annual Federal Credit, Acquisition:	$538,200
Total Maximum Annual Federal Credit:	$880,327
Approved Developer Fee (in Project Cost & Eligible Basis):	$3,563,265
Investor/Consultant:	Boston Capital
Federal Tax Credit Factor:	$0.95041

Per Regulation Section 10322(c)(6), 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:	$27,086,976
Actual Eligible Basis:	$27,086,976
Unadjusted Threshold Basis Limit:	$31,406,260
Total Adjusted Threshold Basis Limit:	$34,546,886

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: 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. 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-2003-810). 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 10 units at or below 50% AMI and 83 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 project is a resyndication where the existing regulatory agreement requires service amenities of after school programs and assistance with daily living activities. 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 obtaining maximum CDLAC points for services.

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 $113,600. There is a general partner equity contribution of at least $113,600, allowing the applicant to receive eligible basis for the entire Short Term Work amount.

The applicant has requested the use of a CUAC utility allowance. Use of CUAC is limited to new construction projects and to existing tax credit projects with Multifamily Affordable Solar Housing (MASH) program awards that offset tenant area electrical load. TCAC staff is in the process of reviewing the CUAC documentation for this existing project. Until written approval is received from TCAC, this project is not eligible to use a utility allowance based on the CUAC.

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**
$880,327	**$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 provide the tenants with the following service amenities free of charge for a minimum of fifteen (15) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC:

- After school program on-site for a minimum of 10 hours per week
- Instructor-led educational classes, health and wellness or skill-building classes on-site for a minimum of 84 hours per year

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 project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.