

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2017 Second Round

September 20, 2017

Casa Paredes, located at 501 & 503 N. Soto Street and 2349 & 2353 E. Folsom Street in Los Angeles, requested and is being recommended for a reservation of \$258,127 in annual federal tax credits to finance the acquisition and rehabilitation of 10 units of housing serving tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Horizon Development Consulting, LLC and is located in Senate District 24 and Assembly District 53.

The project is currently at-risk, but is being recommended for a reservation of tax credits that will be preserve affordability for an additional 55 years. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

Project Number CA-17-120

Project Name Casa Paredes

Site Address: 501 & 503 N. Soto Street and 2349 & 2353 E. Folsom Street
Los Angeles, CA 90033 County: Los Angeles

Census Tract: 2036.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$258,127	\$0
Recommended:	\$258,127	\$0

Applicant Information

Applicant: Horizon Development Consulting, LLC

Contact: Keith Stanley

Address: 2030 Main Street, Suite 1300
Irvine, CA 92614

Phone: (949) 260-4998 Fax: (949) 260-4994

Email: Keith.Stanley@horizondev.com

General Partner(s) / Principal Owner(s): Horizon Development Consulting, LLC
AOF/Pacific Affordable Housing Corp.

General Partner Type: Joint Venture

Parent Company(ies): Horizon Development Consulting, LLC
The American Opportunity Foundation, Inc.

Developer: Horizon Development Consulting, LLC

Investor/Consultant: RBC Tax Credit Equity, LLC

Management Agent(s): Solari Enterprises, Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 2
 Total # of Units: 10
 No. & % of Tax Credit Units: 10 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Section 8 Project-based Contract (10 units / 100%)
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 1 10 %
 35% AMI: 1 10 %
 40% AMI: 1 10 %
 50% AMI: 3 30 %

Information

Set-Aside: At-Risk
 Housing Type: At-Risk
 Geographic Area: #N/A
 TCAC Project Analyst: Jack Waegell

Unit Mix

10 2-Bedroom Units
 10 Total Units

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
1 2 Bedrooms	30%	30%	\$608
1 2 Bedrooms	35%	35%	\$709
1 2 Bedrooms	40%	40%	\$811
3 2 Bedrooms	50%	50%	\$1,013
4 2 Bedrooms	60%	60%	\$1,216

Projected Lifetime Rent Benefit: \$4,435,200

Project Cost Summary at Application

Land and Acquisition	\$3,630,000
Construction Costs	\$0
Rehabilitation Costs	\$1,100,800
Construction Contingency	\$110,580
Relocation	\$35,000
Architectural/Engineering	\$50,000
Const. Interest, Perm. Financing	\$208,292
Legal Fees, Appraisals	\$99,000
Reserves	\$100,255
Other Costs	\$214,095
Developer Fee	\$439,965
Commercial Costs	\$0
Total	\$5,987,987

Project Financing

Estimated Total Project Cost:	\$5,987,987
Estimated Residential Project Cost:	\$5,987,987
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$140
Per Unit Cost:	\$598,799
True Cash Per Unit Cost*:	\$410,245

Construction Financing

Source	Amount
Citi Community Capital	\$3,500,000
Seller - Property Donation Value	\$1,830,000
Deferred Developer Fee	\$183,081
Tax Credit Equity	\$474,906

Permanent Financing

Source	Amount
Citi Community Capital - Tranche A	\$225,000
Citi Community Capital - Tranche B	\$1,250,000
Seller - Property Donation Value	\$1,830,000
Transferred Replacement Reserves	\$252,922
Deferred Developer Fee	\$55,534
Tax Credit Equity	\$2,374,531
TOTAL	\$5,987,987

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$1,945,996
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$1,275,588
Applicable Fraction:	100.00%
Qualified Basis Credit Reduction (4%)	\$152,216
Qualified Basis (Rehabilitation):	\$2,428,603
Applicable Rate:	9.00%
Qualified Basis (Acquisition):	\$1,224,564
Applicable Rate:	3.23%
Maximum Annual Federal Credit, Rehabilitation:	\$218,574
Maximum Annual Federal Credit, Acquisition:	\$39,553
Total Maximum Annual Federal Credit:	\$258,127
Approved Developer Fee in Project Cost:	\$439,965
Approved Developer Fee in Eligible Basis:	\$318,480
Investor/Consultant:	RBC Tax Credit Equity, LLC
Federal Tax Credit Factor:	\$0.91991

Per Regulation Section 10327(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, except that the adjustment factor related to costs described in Section 10327(c)(2)(A) shall be recalculated at placed in service where applicable.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$3,221,584
Actual Eligible Basis:	\$3,221,584
Unadjusted Threshold Basis Limit:	\$2,528,000
Total Adjusted Threshold Basis Limit:	\$3,286,400

Adjustments to Basis Limit

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages

One or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:

- Project has onsite renewable generation estimated to produce 50% or more of annual tenant electricity use as indicated in TCAC Regulations.
- Project has onsite renewable generation estimated to produce 75% or more of annual common area electricity use as indicated in TCAC Regulations.
- Install bamboo, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all kitchens, living rooms, and bathrooms where no VOC adhesives or backing is used
- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, ceramic tile, or natural linoleum in all common areas

Tie-Breaker Information

First: **At-Risk**
Final: **72.361%**

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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.23%. 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

This project is a small 10-unit at-risk project consisting entirely of 2-bedroom units with a sales price substantially below the appraised value. At the appraised value the project's total per unit cost for a city of Los Angeles project appears fairly high at \$598,799, but at the actual purchase price the project's total per unit cost is at a more moderate amount of \$410,245.

TCAC corrected the proration between land and improvements in project cost, the improvements basis was correct. Per TCAC regulation section 10327(g)(6)(B) if the purchase price is less than the appraised value, the savings shall be prorated between the land and improvements based on the ratio in the appraisal. In addition, the applicant incorrectly included a "Brokers Commission" in eligible basis which TCAC removed.

The proposed rent does not include a utility allowance. The owner will pay for all utilities.

This project is an at-risk project currently serving a senior tenant population consistent with the requirement under the HUD 202 program loan that will be paid off by the new financing structure for this tax credit rehabilitation project. The applicant anticipates continuing to serve a senior tenant population.

Legal Status

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Local Reviewing Agency

The Local Reviewing Agency, the City of Los Angeles Housing and Community Investment 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
\$258,127	\$0

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of fifteen years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(6) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

Additional Conditions: None.

Points System	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency / Credit Reduction / Public Funds	20	20	20
Cost Efficiency	20	1	1
Credit Reduction	20	4	4
Public Funds	20	15	15
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within ¼ mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within ½ mile of public park or community center open to general public	3	3	3
Within ½ mile of public library	3	3	3
Within ½ mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Within ½ mile of medical clinic or hospital	3	3	3
Within ½ mile of a pharmacy	2	2	2
Service Amenities	10	10	10
AT-RISK HOUSING TYPE			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
Health & wellness services and programs, minimum 60 hrs per 100 bdrms	3	3	3
Sustainable Building Methods	5	5	5
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating): 20%	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed	15	15	15
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	138	138	138

Please Note: If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.