

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
December 10, 2014

Project Number CA-14-911

Project Name Atmosphere II
 Site Address: 1453 Fourth Avenue
 San Diego, CA 92101 County: San Diego
 Census Tract: 56.000

| Tax Credit Amounts | Federal/Annual | State/Total |
|---------------------------|-----------------------|--------------------|
| Requested: | \$1,741,912 | \$0 |
| Recommended: | \$1,741,912 | \$0 |

Applicant Information

Applicant: Wakeland Housing and Development Corporation
 Contact: Kenneth L. Sauder
 Address: 1230 Columbia Street, Suite 950
 San Diego, CA 92101
 Phone: (619) 677-2320 Fax: (619)235-2386
 Email: ksauder@wakelandhdc.com

General Partner(s) or Principal Owner(s): Wakeland Atmosphere II, LLC
 General Partner Type: Nonprofit
 Parent Company(ies): Wakeland Housing and Development Corporation
 Developer: Wakeland Housing and Development Corporation
 Investor/Consultant: US Bank
 Management Agent: FPI Management, Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 105
 No. & % of Tax Credit Units: 103 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 11
 Number of Units @ or below 60% of area median income: 92

Bond Information

Issuer: San Diego Housing Authority
 Expected Date of Issuance: March 1, 2015
 Credit Enhancement: N/A

Information

Housing Type: Large Family
 Geographic Area: San Diego County
 TCAC Project Analyst: DC Navarrette

Unit Mix

30 1-Bedroom Units
 60 2-Bedroom Units
 15 3-Bedroom Units

 105 Total Units

| <u>Unit Type & Number</u> | <u>2014 Rents Targeted % of Area Median Income</u> | <u>2014 Rents Actual % of Area Median Income</u> | <u>Proposed Rent (including utilities)</u> |
|-------------------------------|--|--|--|
| 3 1 Bedroom | 50% | 50% | \$740 |
| 6 2 Bedrooms | 50% | 50% | \$888 |
| 2 3 Bedrooms | 50% | 48% | \$986 |
| 26 1 Bedroom | 60% | 60% | \$888 |
| 53 2 Bedrooms | 60% | 60% | \$1,066 |
| 13 3 Bedrooms | 60% | 58% | \$1,184 |
| 1 1 Bedroom | Manager's Unit | Manager's Unit | \$0 |
| 1 2 Bedrooms | Manager's Unit | Manager's Unit | \$0 |

Project Financing

Estimated Total Project Cost: \$45,493,752
 Estimated Residential Project Cost: \$45,268,551
 Estimated Commercial Project Cost \$225,201

Residential

Construction Cost Per Square Foot: \$243
 Per Unit Cost: \$431,129

Construction Financing

| <u>Source</u> | <u>Amount</u> |
|--------------------------------------|---------------|
| US Bank | \$25,687,989 |
| City of San Diego - Loan | \$11,600,000 |
| City of San Diego - Accrued Interest | \$466,600 |
| City of San Diego - Land Donation | \$3,867,073 |
| Deferred Costs | \$274,500 |
| Deferred Developer Fee | \$600,000 |
| General Partner Equity | \$900,000 |
| Tax Credit Equity | \$1,872,389 |

Permanent Financing

| <u>Source</u> | <u>Amount</u> |
|--------------------------------------|---------------------|
| US Bank | \$7,935,500 |
| City of San Diego - Loan | \$11,600,000 |
| City of San Diego - Accrued Interest | \$466,600 |
| City of San Diego - Land Donation | \$3,867,073 |
| Deferred Developer Fee | \$600,000 |
| General Partner Equity | \$900,000 |
| Tax Credit Equity | \$19,899,378 |
| TOTAL | \$45,268,551 |

Determination of Credit Amount(s)

| | |
|---|--------------|
| Requested Eligible Basis: | \$39,878,943 |
| 130% High Cost Adjustment: | Yes |
| Applicable Fraction: | 100.00% |
| Qualified Basis: | \$51,842,626 |
| Applicable Rate: | 3.36% |
| Maximum Annual Federal Credit: | \$1,741,912 |
| Approved Developer Fee in Project Cost: | \$2,500,000 |
| Approved Developer Fee in Eligible Basis: | \$2,484,452 |
| Investor/Consultant: | US Bank |
| Federal Tax Credit Factor: | \$1.14239 |

Per Regulation Section 10322(i)(4)(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: | \$39,878,943 |
| Actual Eligible Basis: | \$39,878,943 |
| Unadjusted Threshold Basis Limit: | \$29,306,100 |
| Total Adjusted Threshold Basis Limit: | \$43,870,564 |

Adjustments to Basis Limit:

- Required to Pay Prevailing Wages
- Parking Beneath Residential Units
- 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. 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 3.36% 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: This is the second phase of a previously awarded nine percent (9%) application named Atmosphere (CA-14-105).

Local Reviewing Agency:

The Local Reviewing Agency, the San Diego Housing Commission, has completed a site review of this project and strongly supports the 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 |
| \$1,741,912 | \$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 ten (10) 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:

- Instructor-led educational classes, health and wellness or skill-building classes on-site for a minimum of 84 hours per year
- Contract with a full time equivalent bona fide service coordinator / social worker for a minimum number of hours per year on-site

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 becoming certified under Leadership in Energy & Environmental Design (LEED)
- The project will be developed beyond the minimum requirements of the green building program by meeting the LEED for Homes SILVER standard.