

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

October 21, 2015

Copper Square Apartments, located on the west side of 30th Street West, north of Avenue I West in Lancaster, CA, requested and is being recommended for a reservation of \$1,369,297 in annual federal tax credits to finance the new construction of 201 units of housing serving individuals and families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Copper Square GP LLC and will be located in Senate District 17 and Assembly District 36.

Project Number CA-15-891

Project Name Copper Square Apartments
Site Address: West Side of 30th Street West, North of Avenue I West
Lancaster, CA 93536 County: Los Angeles
Census Tract: 9009.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,369,297	\$0
Recommended:	\$1,369,297	\$0

Applicant Information

Applicant: Copper Square Apartments, LP, a California limited partnership
Contact: Keith James
Address: 1620 N. Mamer Road, Building B
Spokane, WA 99216
Phone: (509) 321-3218 Fax: (509) 922-2251
Email: keithj@inlandconstruction.com

General Partner(s) or Principal Owner(s): Copper Square GP, LLC
Hearthstone CA Properties I, LLC
General Partner Type: Joint Venture
Parent Company(ies): Copper Square GP, LLC
Hearthstone Housing Foundation
Developer: Copper Square GP, LLC
Investor/Consultant: Aegon USA Realty Advisors, LLC
Management Agent: FPI Management, Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 9
 Total # of Units: 204
 No. & % of Tax Credit Units: 201 100.00%
 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: 21
 Number of Units @ or below 60% of area median income: 180

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: December 15, 2015
 Credit Enhancement: Letter of Credit (East West Bank) & Freddie Mac

Information

Housing Type: Non-Targeted
 Geographic Area: Balance of Los Angeles County
 TCAC Project Analyst: Jack Waegell

Unit Mix

40 1-Bedroom Units
 144 2-Bedroom Units
 20 3-Bedroom Units

 204 Total Units

Unit Type & Number	2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
4 1 Bedroom	50%	50%	\$778
35 1 Bedroom	60%	52%	\$814
5 2 Bedrooms	50%	50%	\$933
44 2 Bedrooms	60%	52%	\$963
10 2 Bedrooms	50%	50%	\$933
83 2 Bedrooms	60%	55%	\$1,033
2 3 Bedrooms	50%	50%	\$1,079
18 3 Bedrooms	60%	54%	\$1,160
1 1 Bedroom	Manager's Unit	Manager's Unit	\$785
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$925
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$995

Project Cost Summary at Application

Land and Acquisition	\$1,000,000
Construction Costs	\$22,580,704
Rehabilitation Costs	\$0
Construction Contingency	\$1,080,000
Relocation	\$0
Architectural/Engineering	\$806,000
Construction Interest, Perm Financing	\$2,354,953
Legal Fees, Appraisals	\$87,500
Reserves	\$537,498
Other Costs	\$4,287,794
Developer Fee	\$2,500,000
Commercial Costs	\$0
Total	\$35,234,449

Project Financing

Estimated Total Project Cost:	\$35,234,449
Estimated Residential Project Cost:	\$35,234,449

Residential

Construction Cost Per Square Foot:	\$61
Per Unit Cost:	\$172,718

Construction Financing

Source	Amount
East West Bank	\$20,840,000
Income from Operations	\$574,865
Deferred Costs	\$5,677,741
Tax Credit Equity	\$8,141,843

Permanent Financing

Source	Amount
Freddie Mac - c/o Citibank	\$17,800,000
Citibank - Subordinate Loan	\$2,040,000
Income from Operations	\$574,865
Deferred Developer Fee	\$1,249,851
Tax Credit Equity	\$13,569,733
TOTAL	\$35,234,449

Determination of Credit Amount(s)

Requested Eligible Basis:	\$31,918,356
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$41,493,862
Applicable Rate:	3.30%
Total Maximum Annual Federal Credit:	\$1,369,297
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,500,000
Investor/Consultant:	Aegon USA Realty Advisors, LLC
Federal Tax Credit Factor:	\$0.99100

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:	\$31,918,356
Actual Eligible Basis:	\$31,918,356
Unadjusted Threshold Basis Limit:	\$56,935,000
Total Adjusted Threshold Basis Limit:	\$62,628,500

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 meet 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 3.30% 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: The project anticipates renting 88 (100%) of the garage parking spaces at \$50 per month and 100 of the carport parking spaces (100%) at \$20 per month. According to the project's tax professional, \$160,000 in project costs for income producing facilities have been excluded from eligible basis to account for these optional charges for project amenities. The project will also have 202 open parking spaces available to the tenants at no additional charge.

Local Reviewing Agency:

The Local Reviewing Agency, the City of Lancaster, has completed a site review of this project and has taken no position on 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
\$1,369,297	\$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.
- Wellness services and programs providing individualized support for tenants on-site for a minimum 100 hours per year.