

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
March 16, 2016

Esencia Norte, located at the east side of Esencia Drive between Cow Camp Road and Andaza Street in the unincorporated community of Ranch Mission Viejo, requested and is being recommended for a reservation of \$1,204,072 in annual federal tax credits to finance the new construction of 111 units serving large families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Western National Properties and will be located in Senate District 36 and Assembly District 73.

Project Number CA-16-824

Project Name Esencia Norte
Site Address: East side of Esencia Drive, between Cow Camp Road and Andaza Street
Rancho Mission Viejo, CA 92694 County: Orange
Census Tract: 320.560

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,204,072	\$0
Recommended:	\$1,204,072	\$0

Applicant Information

Applicant: Esencia Norte Affordable Apartments, L.P.
Contact: Jeff Scott
Address: 8 Executive Circle
Irvine, CA 92614
Phone: 949-862-6208 **Fax:** 949-862-6491
Email: jscott@wng.com

General Partner(s) or Principal Owner(s): Ranch Plan Apartments IV, LLC
Hearthstone CA Properties I, LLC
General Partner Type: Joint Venture
Parent Company(ies): Western National Investments, Inc.
Hearthstone Housing Foundation
Developer: Western National Properties
Investor/Consultant: Raymond James
Management Agent: Western National Property Management

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 7
 Total # of Units: 112
 No. & % of Tax Credit Units: 111 100.00%
 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: 34
 Number of Units @ or below 60% of area median income: 77

Bond Information

Issuer: CSCDA
 Expected Date of Issuance: June 15, 2016
 Credit Enhancement: N/A

Information

Housing Type: Large Family
 Geographic Area: Orange County
 TCAC Project Analyst: Jack Waegell

Unit Mix

20 1-Bedroom Units
 58 2-Bedroom Units
 34 3-Bedroom Units

 112 Total Units

Unit Type & Number	2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
6 1 Bedroom	50%	50%	\$878
14 1 Bedroom	60%	60%	\$1,054
17 2 Bedrooms	50%	50%	\$1,055
40 2 Bedrooms	60%	60%	\$1,266
11 3 Bedrooms	50%	50%	\$1,218
23 3 Bedrooms	60%	60%	\$1,461
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$1,220,000
Construction Costs	\$16,048,057
Rehabilitation Costs	\$0
Construction Contingency	\$1,372,091
Relocation	\$0
Architectural/Engineering	\$1,033,685
Construction Interest, Perm Financing	\$1,607,625
Legal Fees, Appraisals	\$126,000
Reserves	\$339,617
Other Costs	\$5,017,080
Developer Fee	\$3,655,167
Commercial Costs	\$0
Total	\$30,419,322

Project Financing

Estimated Total Project Cost:	\$30,419,322
Estimated Residential Project Cost:	\$30,419,322

Residential

Construction Cost Per Square Foot:	\$150
Per Unit Cost:	\$271,601

Construction Financing

Source	Amount
Citibank - Tax Exempt Loan	\$22,000,000
Land-Lease Donation Value	\$1,220,000
Deferred Costs	\$5,302,908
Tax Credit Equity	\$1,896,414

Permanent Financing

Source	Amount
Citibank - Tax Exempt Loan	\$14,450,000
Citibank - Taxable Subordinate Loan	\$540,000
Land-Lease Donation Value	\$1,220,000
Deferred Developer Fee	\$1,566,566
Tax Credit Equity	\$12,642,756
TOTAL	\$30,419,322

Determination of Credit Amount(s)

Requested Eligible Basis:	\$28,066,946
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$36,487,030
Applicable Rate:	3.30%
Total Maximum Annual Federal Credit:	\$1,204,072
Approved Developer Fee (in Project Cost & Eligible Basis):	\$3,655,167
Investor/Consultant:	Raymond James
Federal Tax Credit Factor:	\$1.05000

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:	\$28,066,946
Actual Eligible Basis:	\$28,066,946
Unadjusted Threshold Basis Limit:	\$26,926,800
Total Adjusted Threshold Basis Limit:	\$35,004,840

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: 30%

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 land is being donated to the applicant under a \$1 per year land lease in order for the lessor to meet its affordable housing requirements under the Ranch Plan Development Agreement approved by the County of Orange Board of Supervisors for the Rancho Mission Viejo Planned Community.

Local Reviewing Agency

The Local Reviewing Agency, the Orange County Community Service Department, has completed a site review of this project and 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
\$1,204,072	\$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: None.