

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
May 18, 2016**

Watts Athens, located in multiple address (see below) in the city of Los Angeles, requested and is being recommended for a reservation of \$726,158 in annual federal tax credits to finance the acquisition and rehabilitation of 98 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Value Housing II, LLC and is located in Senate District 30 and Assembly District 59.

Watts-Athens is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Watts Athens (CA-99-936). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of a HUD Section 8 Project-based Contract.

Project Number CA-16-885

Project Name Watts Athens

Site Address:	<u>Site A</u> 2010 Chariton Street Los Angeles, CA 90034	<u>Site B</u> 5270 South Avalon Blvd. Los Angeles, CA 90011
Census Tract:	2696.01	2294.20

Site C
10202, 10206, 10207, 10210, 10213, 10217, 10223, South Broadway
Los Angeles, CA 90003
2405.00

310 West 102nd Street
Los Angeles, CA 90003
2405.00

310 West 103rd Street
Los Angeles, CA 90003
2405.00

1371 West Vernon Blvd.
Los Angeles, CA 90037
2316.00

503 West 70th Street
Los Angeles, CA 90044
2376.00

538, 602, 717 West 81st Street
Los Angeles, CA 90044
2383.10

623 West 92nd Street
Los Angeles, CA 90044
2403.00

County: Los Angeles

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$726,158	\$0
Recommended:	\$726,158	\$0

Applicant Information

Applicant: Watts Athens Village, LP
Contact: Peter Barker
Address: 1101 E. Orangewood Ave.
Anaheim, CA 92815
Phone: 714-533-3450 Fax: 714-533-8608
Email: pbarker@barkermgt.com

General Partner(s) or Principal Owner(s): Community Advancement Development Corporation
VH Watts Athens GP, LLC
General Partner Type: Joint Venture
Parent Company(ies): Community Advancement Development Corporation
VH Watts Athens GP, LLC
Developer: Valued Housing II, LLC
Investor/Consultant: RBC Capital Markets
Management Agent: Barker Management, Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 17
Total # of Units: 100
No. & % of Tax Credit Units: 98 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Contract (67 units - 68%)
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 57
Number of Units @ or below 60% of area median income: 41

Bond Information

Issuer: California Municipal Finance Authority
Expected Date of Issuance: May 31, 2016
Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: City of Los Angeles
 TCAC Project Analyst: Marisol Parks

Unit Mix

2 1-Bedroom Units
 74 2-Bedroom Units
24 3-Bedroom Units
 100 Total Units

<u>Unit Type & Number</u>	<u>2015 Rents Targeted % of Area Median Income</u>	<u>2015 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
Site A			
1 1 Bedroom	50%	50%	\$778
1 1 Bedroom	60%	60%	\$933
2 2 Bedrooms	50%	50%	\$933
12 2 Bedrooms	60%	60%	\$1,120
1 3 Bedrooms	60%	60%	\$1,295
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0
Site B			
2 2 Bedrooms	50%	50%	\$933
6 2 Bedrooms	60%	60%	\$1,120
6 3 Bedrooms	60%	60%	\$1,295
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0
Site C			
3 2 Bedrooms	50%	50%	\$933
2 3 Bedrooms	50%	50%	\$1,079
3 2 Bedrooms	50%	50%	\$933
2 3 Bedrooms	50%	50%	\$1,079
3 2 Bedrooms	50%	50%	\$933
2 3 Bedrooms	50%	50%	\$1,079
6 2 Bedrooms	60%	60%	\$1,120
9 3 Bedrooms	60%	60%	\$1,295
20 2 Bedrooms	50%	50%	\$933
15 2 Bedrooms	50%	50%	\$933
2 3 Bedrooms	50%	50%	\$1,079
1 3 Bedrooms*	50%	50%	\$1,079

* Manager' Unit occupied by qualified low-income tenant

Project Cost Summary at Application

Land and Acquisition	\$11,300,000
Construction Costs	\$0
Rehabilitation Costs	\$7,103,910
Construction Contingency	\$25,000
Relocation	\$300,000
Architectural/Engineering	\$431,375
Construction Interest, Perm Financing	\$1,062,350
Legal Fees, Appraisals	\$160,000
Reserves	\$561,807
Other Costs	\$342,319
Developer Fee	\$2,537,853
Commercial Costs	\$0
Total	\$23,824,614

Project Financing

Estimated Total Project Cost:	\$23,824,614
Estimated Residential Project Cost:	\$23,824,614
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$76
Per Unit Cost:	\$238,246
Effective Per Unit Cost:	\$174,325

Construction Financing

Source	Amount
Citi Community Capital	\$14,000,000
Seller Carryback Loan	\$4,800,000
Deferred Developer Fee	\$504,125
Tax Credit Equity	\$4,520,489

Permanent Financing

Source	Amount
Citi Community Capital	\$9,090,000
Seller Carryback Loan	\$4,800,000
Project NOI During Construction	\$500,000
Deferred Developer Fee	\$1,592,108
Tax Credit Equity	\$7,842,506
TOTAL	\$23,824,614

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$9,621,501
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$9,835,375
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$12,507,951
Qualified Basis (Acquisition):	\$9,835,375
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$406,508
Maximum Annual Federal Credit, Acquisition:	\$319,650
Total Maximum Annual Federal Credit:	\$726,158
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,537,853
Investor/Consultant:	RBC Capital Markets
Federal Tax Credit Factor:	\$1.08000

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:	\$19,456,876
Actual Eligible Basis:	\$19,456,876
Unadjusted Threshold Basis Limit:	\$28,509,304
Total Adjusted Threshold Basis Limit:	\$45,044,700

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: 58%

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

This project involves a substantial rehabilitation of 3 scattered-site projects, currently under one regulatory agreement, originally constructed between 1962 and 1985 in the City of Los Angeles.

Site A and Site B are using the utility allowance from the Housing Authority of the City of Los Angeles and Site C is using the utility allowance from HUD.

Site A and Site B will each have an exempt on-site manager's unit and Site C will have a tax credit unit for the on-site manager and will be occupied by a qualified low-income tenant restricted at 50% AMI.

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 January 1 of the owner's elected first year of credit through December 31 of the 15th year. The existing regulatory agreement expires 12/31/2030. The existing regulatory agreement income targeting is 98 units at or below 60% AMI.

The project is a re-syndication occurring concurrently with a Transfer Event without distribution of Net Project Equity, and thus received a waiver from setting aside a Short Term Work Capitalized Replacement Reserve.

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 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
\$726,158	\$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