

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2016 First Round
June 8, 2016

Desert Hot Springs Portfolio, located at 67200 Hacienda Avenue and 11190 Mesquite Avenue in Desert Hot Springs, requested and is being recommended for a reservation of \$1,537,088 in annual federal tax credits to finance the acquisition and rehabilitation of 97 units of housing serving tenants with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by DBR Development LLC and is located in Senate District 28 and Assembly District 56.

Desert Hot Springs Portfolio is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Linda Vista (CA-96-245) and Waldorf Manor (CA-96-007). See **Special Issues/Other Significant Information** below for additional resyndication information. The project financing includes state funding from the CHRP program of HCD.

Project Number CA-16-055

Project Name Desert Hot Springs Portfolio

Site Address:	<u>Linda Vista</u> 67200 Hacienda Avenue Desert Hot Springs, CA 92240	<u>Waldorf Manor</u> 11190 Mesquite Avenue Desert Hot Springs, CA 92240
County:	Riverside	Riverside
Census Tract:	445.100	445.09

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,537,088	\$0
Recommended:	\$1,537,088	\$0

Applicant Information

Applicant:	DBR Development LLC	
Contact:	David Billings	
Address:	990 Highland Drive, Suite 110J Solana Beach, CA 92075	
Phone:	(760) 579-3191	Fax: (760) 634-3224
Email:	dbrllc@sbcglobal.net	

General Partner(s) / Principal Owner(s):	DBR Development LLC AOF/Pacific Affordable Housing Corp.
General Partner Type:	Joint Venture
Parent Company(ies):	David Billings The American Opportunity Foundation, Inc.
Developer:	DBR Development LLC
Investor/Consultant:	RBC Tax Credit Equity, LLC
Management Agent(s):	Solari Enterprises Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 4
 Total # of Units: 99
 No. & % of Tax Credit Units: 97 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: N/A
 Average Targeted Affordability of Special Needs/SRO Project Units: 39.61%
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 10 10 %
 40% AMI: 77 75 %
 50% AMI (Rural): 10 10 %

Information

Set-Aside: Rural
 Housing Type: Single Room Occupancy
 Geographic Area: N/A
 TCAC Project Analyst: Connie Harina

Unit Mix

77 SRO/Studio Units
 21 1-Bedroom Units
 1 2-Bedroom Units

 99 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>
<u>Linda Vista</u>			
5 SRO/Studio	30%	30%	\$326
37 SRO/Studio	40%	40%	\$434
5 SRO/Studio	50%	50%	\$543
1 1 Bedroom	Manager's Unit	Manager's Unit	\$0
<u>Waldorf Manor</u>			
3 SRO/Studio	30%	30%	\$326
27 SRO/Studio	40%	40%	\$434
2 1 Bedroom	30%	30%	\$349
13 1 Bedroom	40%	40%	\$466
5 1 Bedroom	50%	50%	\$582
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$5,123,793
Construction Costs	\$0
Rehabilitation Costs	\$8,776,620
Construction Contingency	\$870,162
Relocation	\$198,500
Architectural/Engineering	\$120,000
Const. Interest, Perm Financing	\$1,391,839
Legal Fees, Appraisals	\$125,000
Reserves	\$1,726,349
Other Costs	\$621,953
Developer Fee	\$2,000,000
Commercial Costs	\$0
Total	\$20,954,216

Project Financing

Estimated Total Project Cost:	\$20,954,216
Estimated Residential Project Cost:	\$20,954,216
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$220
Per Unit Cost:	\$211,659
Effective Per Unit Cost*:	\$211,659

Construction Financing

Source	Amount
Citi Community Capital	\$10,000,000
HCD - CHRP (Assumed Principal)	\$3,316,000
HCD - CHRP (Assumed Interest)	\$1,807,793
Deferred Developer Fee	\$1,081,296
Tax Credit Equity	\$4,749,127

Permanent Financing

Source	Amount
HCD - CHRP (Assumed Principal)	\$3,316,000
HCD - CHRP (Assumed Interest)	\$1,807,793
Tax Credit Equity	\$15,830,423
TOTAL	\$20,954,216

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$12,262,302
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$3,190,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$15,940,993
Applicable Rate:	9.00%
Qualified Basis (Acquisition):	\$3,190,000
Applicable Rate:	3.21%
Maximum Annual Federal Credit, Rehabilitation:	\$1,434,689
Maximum Annual Federal Credit, Acquisition:	\$102,399
Total Maximum Annual Federal Credit:	\$1,537,088
Approved Developer Fee in Project Cost:	\$2,000,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	RBC Tax Credit Equity, LLC
Federal Tax Credit Factor:	\$1.02990

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:	\$15,452,302
Actual Eligible Basis:	\$15,800,302
Unadjusted Threshold Basis Limit:	\$15,138,034
Total Adjusted Threshold Basis Limit:	\$16,651,837

Adjustments to Basis Limit

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

- Project has onsite renewable generation estimated to produce 50% or more of annual 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:	Single Room Occupancy
Final:	24.024%

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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.21%. 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 proposed rent does not include a utility allowance. The owner will pay for all utilities.

This project involves the substantial rehabilitation of 2 scattered-site developments originally constructed in the 1960s in the City of Desert Hot Springs.

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 for Linda Vista expires 12/31/2054. The existing regulatory agreement income targeting is units must be occupied by tenants such that the average income of tenants is at or below 46% of AMI and such units shall be rent-restricted in accordance with such income level. The existing regulatory agreement for Waldrof Manor expires 12/31/2052. The existing regulatory agreement income targeting is units must be occupied by tenants such that the average income of tenants is at or below 46% of AMI and such units shall be rent-restricted in accordance with such income level.

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

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 Desert Hot Springs - Community Development 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
\$1,537,088	\$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 ten 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	5	5
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
<u>Linda Vista</u>			
Within ½ mile of transit (van or dial-a-ride service for rural set-aside)	4	4	4
Within 1 mile of public park or community center open to general public	3	3	3
Within 2 miles of public library	2	2	2
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Within 1 mile of medical clinic or hospital	3	3	3
Within 1 mile of a pharmacy	2	2	2
<u>Waldorf Manor</u>			
Within ½ mile of transit (van or dial-a-ride service for rural set-aside)	4	4	4
Within 1 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	3	3	3
Within 2 miles of a full-scale grocery/supermarket of at least 25,000 sf	4	4	4
Within 1 mile of medical clinic or hospital	3	3	3
Within 1 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
SPECIAL NEEDS AND SRO HOUSING TYPES			
Service Coordinator/Other Services Specialist, min. ratio 1 FTE to 360 bdrms	5	5	5
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	5	5	5
Sustainable Building Methods	5	5	5
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating): 20.0%	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.