

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

July 20, 2016

REVISED

Las Palmas II Apartments, located at 51075 Frederick Street in Coachella, requested and is being recommended for a reservation of \$220,062 in annual federal tax credits to finance the acquisition and rehabilitation of 80 units of housing serving large families with rents affordable to households earning 40% of area median income (AMI). The project will be developed by Highridge Costa Housing Partners, LLC and is located in Senate District 28 and Assembly District 56.

Las Palmas II Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Las Palmas Apartments (CA-98-068). See **Special Issues/Other Significant Information** below for additional re-syndication information.

Project Number CA-16-889

Project Name Las Palmas II Apartments

Site Address: 51075 Frederick Street
Coachella, CA 92236 County: Riverside

Census Tract: 457.050

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$220,062	\$0
Recommended:	\$220,062	\$0

Applicant Information

Applicant: Las Palmas Coachella AR, L.P.

Contact: Thomas Erickson

Address: 330 W. Victoria Street
Gardena, CA 90248

Phone: 424-258-2918 Fax: 424-258-2919

Email: thomas.erickson@housingpartners.com

General Partner(s) or Principal Owner(s): WCH Affordable XI, LLC
HCHP Affordable Multi-Family, LLC

General Partner Type: Joint Venture

Parent Company(ies): Western Community Housing
Highridge Costa Housing Partners, LLC

Developer: Highridge Costa Housing Partners, LLC

Investor/Consultant: Victoria Capital, LLC

Management Agent: ConAm Property Management Group

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 10
 Total # of Units: 81
 No. & % of Tax Credit Units: 80 100.00%
 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: 80

Bond Information

Issuer: Golden State Finance Authority
 Expected Date of Issuance: July 20, 2016
 Credit Enhancement: N/A

Information

Housing Type: Large Family
 Geographic Area: Inland Empire Region
 TCAC Project Analyst: DC Navarrette

Unit Mix

16 2-Bedroom Units
 33 3-Bedroom Units
 32 4-Bedroom Units

 81 Total Units

<u>Unit Type & Number</u>	<u>2016 Rents Targeted % of Area Median Income</u>	<u>2016 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
16 2 Bedrooms	40%	40%	\$576
32 3 Bedrooms	40%	40%	\$665
32 4 Bedrooms	40%	40%	\$742
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$665

Project Cost Summary at Application

Land and Acquisition	\$4,080,000
Construction Costs	\$0
Rehabilitation Costs	\$1,385,100
Construction Contingency	\$74,395
Relocation	\$0
Architectural/Engineering	\$66,178
Const. Interest, Perm. Financing	\$309,185
Legal Fees, Appraisals	\$137,500
Reserves	\$120,111
Other Costs	\$84,619
Developer Fee	\$809,254
Commercial Costs	\$0
Total	\$7,066,342

Project Financing

Estimated Total Project Cost:	\$7,066,342
Estimated Residential Project Cost:	\$7,066,342
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$15
Per Unit Cost:	\$87,239
True Cash Per Unit Cost*:	\$59,298

Construction Financing

Source	Amount
America First T.E. Investors, L.P.	\$3,465,000
Seller Carryback Loan	\$1,494,377
Seller Equity	\$649,600
Golden State Finance Authority	\$350,000
Net Operating Income	\$63,271
Deferred Costs	\$919,134
Tax Credit Equity	\$124,961

Permanent Financing

Source	Amount
America First T.E. Investors, L.P.	\$1,694,833
Seller Carryback Loan	\$1,494,377
Seller Equity	\$649,600
Golden State Finance Authority	\$350,000
Net Operating Income	\$63,271
Deferred Developer Fee	\$768,791
Tax Credit Equity	\$2,045,470
TOTAL	\$7,066,342

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$1,891,781
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$4,312,500
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$2,459,315
Qualified Basis (Acquisition):	\$4,312,500
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$79,906
Maximum Annual Federal Credit, Acquisition:	\$140,156
Total Maximum Annual Federal Credit:	\$220,062
Approved Developer Fee (in Project Cost & Eligible Basis):	\$809,254
Investor/Consultant:	Victoria Capital, LLC
Federal Tax Credit Factor:	\$0.92950

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:	\$6,204,281
Actual Eligible Basis:	\$6,204,281
Unadjusted Threshold Basis Limit:	\$23,682,816
Total Adjusted Threshold Basis Limit:	\$47,365,632

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: 100%

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

The applicant requested and has been granted a partial waiver to reduce the 10% mobility feature requirement under TCAC Regulation Section 10325(f)(7)(K) down to 5% due to excessive expensiveness. The project shall provide 5% of units meeting the provisions of California Building Code Chapter 11(B) regarding accessibility to privately owned housing made available for public use, except for the requirements to relocate the toilet and sink in one-bedroom, to flip the bathtub and drain, and to widen an interior hallway from 36 inches to 42 inches.

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 01/01/2000 through 12/31/2014. The existing regulatory agreement expires 12/31/2054. The existing regulatory agreement income targeting is 100% of units at or below 40% AMI.

The project is a re-syndication occurring concurrently with a Transfer Event with distribution of Net Project Equity, which is otherwise required to set aside a Short Term Work Capitalized Replacement Reserve in the amount of \$615,789. In lieu of a Short Term Work Capitalized Reserve, there is a seller equity contribution of \$649,600 allowing the applicant to use Short Term Work Reserve Amount to fund rehabilitation expenses and to receive eligible basis for that amount.

Local Reviewing Agency

The Local Reviewing Agency, City of Coachella, has completed a site review of this project and strongly 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
\$220,062	\$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.