

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2016 Second Round

September 21, 2016

MacArthur Park Apartments Phase B, located at 678 S. Alvarado Street in Los Angeles, requested \$2,500,000 in annual federal credits, but is being recommended for a reservation of \$2,480,950 in annual federal tax credits (see "**Special Issues/Other Significant Information**" section) to finance the new construction 81 units of housing serving large families with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by McCormack Baron Salazar, Inc. and will be located in Senate District 24 and Assembly District 53.

The project financing includes state funding from the TOD and AHSC programs of HCD.

Project Number CA-16-142

Project Name MacArthur Park Apartments Phase B
Site Address: 678 S. Alvarado Street
Los Angeles, CA 90057 County: Los Angeles
Census Tract: 2089.030

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$2,500,000	\$0
Recommended:	\$2,480,950	\$0

Applicant Information

Applicant: MPM Apartments II, L.P.
Contact: Daniel Falcon
Address: 801 S. Grand Ave., Suite 780
Los Angeles, CA 90017
Phone: (213) 236-2680 Fax: (213) 236-0707
Email: daniel.falcon@mccormackbaron.com

General Partner(s) / Principal Owner(s): MacArthur Park B GP, Inc.
New Economics for Women
General Partner Type: Joint Venture
Parent Company(ies): McCormack Baron Salazar, Inc.
New Economics for Women
Developer: McCormack Baron Salazar, Inc.
Investor/Consultant: Bank of America Merrill Lynch
Management Agent(s): McCormack Baron Management

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 82
 No. & % of Tax Credit Units: 81 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HOME
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 9 10 %
 35% AMI: 9 10 %
 40% AMI: 9 10 %
 45% AMI: 9 10 %
 50% AMI: 9 10 %

Information

Set-Aside: N/A
 Housing Type: Large Family
 Geographic Area: City of Los Angeles
 TCAC Project Analyst: Jack Waegell

Unit Mix

24 1-Bedroom Units
 30 2-Bedroom Units
 28 3-Bedroom Units

 82 Total Units

Unit Type & Number	2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
3 1 Bedroom	30%	30%	\$488
3 1 Bedroom	35%	35%	\$570
3 1 Bedroom	40%	40%	\$651
3 1 Bedroom	45%	45%	\$732
3 1 Bedroom	50%	50%	\$814
9 1 Bedroom	60%	60%	\$977
3 2 Bedrooms	30%	30%	\$586
3 2 Bedrooms	35%	35%	\$684
3 2 Bedrooms	40%	40%	\$782
3 2 Bedrooms	45%	45%	\$879
3 2 Bedrooms	50%	50%	\$977
14 2 Bedrooms	60%	60%	\$1,173
3 3 Bedrooms	30%	30%	\$677
3 3 Bedrooms	35%	35%	\$790
3 3 Bedrooms	40%	40%	\$903
3 3 Bedrooms	45%	45%	\$1,015
3 3 Bedrooms	50%	50%	\$1,128
13 3 Bedrooms	60%	60%	\$1,354
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$2,015,580
Construction Costs	\$27,096,311
Rehabilitation Costs	\$0
Construction Contingency	\$1,800,000
Relocation	\$0
Architectural/Engineering	\$2,702,035
Const. Interest, Perm. Financing	\$1,811,030
Legal Fees, Appraisals	\$146,250
Reserves	\$459,762
Other Costs	\$2,317,528
Developer Fee	\$1,800,000
Commercial Costs	\$11,487,623
Total	\$51,636,119

Project Financing

Estimated Total Project Cost:	\$51,636,119
Estimated Residential Project Cost:	\$40,148,496
Estimated Commercial Project Cost:	\$11,487,623

Residential

Construction Cost Per Square Foot:	\$292
Per Unit Cost:	\$489,616
True Cash Per Unit Cost*:	\$483,927

Construction Financing

Source	Amount
Bank of America	\$31,702,662
HCID/LA - HOME	\$7,886,945
HCD - AHSC Grant	\$4,000,000
HCD - TOD Grant	\$332,559
Deferred Costs	\$752,203
Deferred Developer Fee	\$600,000
Tax Credit Equity	\$6,561,750

Permanent Financing

Source	Amount
Bank of America	\$2,050,000
HCID/LA - HOME	\$7,886,945
HCD - TOD Grant	\$7,705,055
HCD - TOD Grant	\$332,559
HCD - AHSC Loan	\$3,014,560
HCD - AHSC Grant	\$4,000,000
Deferred Developer Fee	\$600,000
Tax Credit Equity	\$26,047,000
TOTAL	\$51,636,119

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$27,949,272
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$36,334,054
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$2,480,950
Approved Developer Fee in Project Cost:	\$1,800,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	Bank of America Merrill Lynch
Federal Tax Credit Factor:	\$1.04988

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:	\$27,949,272
Actual Eligible Basis:	\$36,249,272
Unadjusted Threshold Basis Limit:	\$19,959,336
Total Adjusted Threshold Basis Limit:	\$28,161,887

Adjustments to Basis Limit

- Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages
- Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels
- One or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:
 - Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, ceramic tile, or natural linoleum in all common areas
- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced

Tie-Breaker Information

Initial:	Letter of Support
First:	Large Family
Final:	30.796%

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 9.0% 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

Staff noted the developer fee in cost was in excess of the \$1,200,000 limit required by HCD. The cost was reduced accordingly resulting in a reduction to the federal credit amount recommended.

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 Los Angeles Housing and Community Investment Department, 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
\$2,480,950	\$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

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 fifteen 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
Public Funds	20	20	20
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
Within ½ mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within ½ mile of public park or community center open to general public	3	3	3
Within ½ mile of public library	3	3	3
Within ½ mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Within 1/4 mile of a public elementary school project children may attend	3	3	0
Within ½ mile of a pharmacy	2	2	2
Service Amenities	10	10	10
LARGE FAMILY HOUSING TYPE			
Service Coordinator, minimum ratio of 1 FTE to 600 bedrooms	5	5	5
Adult ed/health & wellness/skill bldg classes, min. 60 hrs/yr instruction	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION			
Develop project in accordance w/ requirements of GreenPoint Rated Program	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.