CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
May 16, 2018

Summercrest Apartments, located at 2601-2717 E Plaza Boulevard in National City, requested and is being recommended for a reservation of $3,632,212 in annual federal tax credits to finance the acquisition and rehabilitation of 368 units of housing serving tenants with rents affordable to households earning 50%-60% of area median income (AMI). The project will be developed by DeSola Development Associates, LLC and is located in Senate District 40 and Assembly District 79.

Summercrest is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Plaza Manor Apartments aka Summercrest CA-2001-873. See **Resyndication and Resyndication Transfer Event** below for additional information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

Project Number CA-18-753

Project Name Summercrest Apartments
Site Address: 2601-2717 E Plaza Blvd.
National City, CA 91950 County: San Diego
Census Tract: 120.02

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$3,632,212	$0
Recommended:	$3,632,212	$0

Applicant Information
Applicant: Summercrest Apartment Associates, L.P.
Contact: John McGee
Address: 18006 Sky Park Circle, #200
Irvine, CA 92614
Phone: (949) 440-2330
Email: jmcgee@desoladev.com

General Partner(s) or Principal Owner(s): Summercrest GP, LLC
AOF Summercrest LLC
General Partner Type: Joint Venture
Parent Company(ies): DeSola Capital Group, LLC
AOF/Pacific Affordable Housing Corp.
Developer: DeSola Development Associates, LLC
Investor/Consultant: WNC & Associates, Inc.
Management Agent: Sage Apartment Communities, Inc.

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	14
Total # of Units:	372
No. / % of Low Income Units:	368 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Contract (372 Units - 100%)

Bond Information

Issuer:	California Statewide Communities Development Authority
Expected Date of Issuance:	June 15, 2018

Information

Housing Type:	Non-Targeted
Geographic Area:	San Diego County
TCAC Project Analyst:	Carmen Doonan

55-Year Use / Affordability

Aggregate Targeting Number of Units		Percentage of Affordable Units
At or Below 50% AMI:	111	30%
At or Below 60% AMI:	257	70%

The project shall maintain the rents and income targeting levels in the existing regulatory agreement(s) for the duration of the new regulatory agreement(s).

Unit Mix

84	SRO/Studio Units
56	1-Bedroom Units
168	2-Bedroom Units
64	3-Bedroom Units
372	Total Units

Unit Type & Number		2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
25	SRO/Studio	50%	50%	$796
59	SRO/Studio	60%	56%	$895
17	1 Bedroom	50%	50%	$853
39	1 Bedroom	60%	60%	$1,023
41	2 Bedrooms	50%	50%	$1,023
95	2 Bedrooms	60%	60%	$1,228
9	2 Bedrooms	50%	50%	$1,023
21	2 Bedrooms	60%	60%	$1,228
19	3 Bedrooms	50%	50%	$1,181
43	3 Bedrooms	60%	60%	$1,418
2	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0
2	3 Bedrooms	Manager’s Unit	Manager’s Unit	$0

TCAC-confirmed Projected Lifetime Rent Benefit: $89,151,480

Project Cost Summary at Application	
Land and Acquisition	$76,000,000
Construction Costs	$0
Rehabilitation Costs	$12,045,307
Construction Contingency	$1,209,531
Relocation	$904,200
Architectural/Engineering	$200,000
Const. Interest, Perm. Financing	$5,918,550
Legal Fees, Appraisals	$195,000
Reserves	$1,359,625
Other Costs	$890,202
Developer Fee	$13,619,829
Commercial Costs	$0
Total	**$112,342,244**

Residential

Construction Cost Per Square Foot:	$43
Per Unit Cost:	$301,995
True Cash Per Unit Cost*:	$279,415

Construction Financing

Source	Amount
JLL Capital Markets	$67,450,000
Operating Income	$3,140,479
Deferred Costs	$1,359,625
Deferred Developer Fee	$13,151,547
Tax Credit Equity	$27,240,593

Permanent Financing

Source	Amount
JLL Capital Markets	$64,500,000
Deferred Costs	$3,140,479
Deferred Developer Fee	$8,399,829
General Partner Equity	$1,890,169
Tax Credit Equity	$34,411,767
TOTAL	**$112,342,244**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$22,193,692
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$82,225,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$28,851,800
Qualified Basis (Acquisition):	$82,225,000
Applicable Rate:	3.27%
Maximum Annual Federal Credit, Rehabilitation:	$943,454
Maximum Annual Federal Credit, Acquisition:	$2,688,758
Total Maximum Annual Federal Credit:	$3,632,212
Approved Developer Fee (in Project Cost & Eligible Basis):	$13,619,829
Investor/Consultant:	WNC & Associates, Inc.
Federal Tax Credit Factor:	$0.94741

Per Regulation Section 10327(c)(6), 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.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	$104,418,692
Actual Eligible Basis:	$104,418,692
Unadjusted Threshold Basis Limit:	$110,446,648
Total Adjusted Threshold Basis Limit:	$143,580,642

Adjustments to Basis Limit

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate 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 are below the minimum operating expenses established in the Regulations (See "Special Issues/Other Significant Information" Section below), and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.27% 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.

Significant Information / Additional Conditions:

This project's annual per unit operating expense total is below the TCAC published per unit operating expense minimums of $5,200. As allowed by TCAC Regulation Section 10327 (g)(1), TCAC approves an annual per unit operating expense total of $4,750 on agreement of the permanent lender and equity investor.

This project consists of three large family buildings and one senior-restricted building.

Resyndication and Resyndication Transfer Event

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-2001-873). 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 newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s). Existing households determined to be income-qualified for purposes of IRC §42 credit during the 15-year compliance period are concurrently income-qualified households for purposes of the extended use agreement. As a result, any household determined to be income qualified at the time of move-in under the existing regulatory agreement (CA-01-873) is a qualified low-income household for the subsequent allocation (existing household eligibility is "grandfathered").

The project is a resyndication where the existing regulatory agreement requires service amenities. The project shall provide a similar or greater level of services for a period of at least 15 years under the new regulatory agreement. The project is deemed to have met this requirement based on TCAC staff's review of the commitment in the application. The services documented in the placed in service package will be reviewed by TCAC staff for compliance with this requirement at the time of the placed in service submission.

The project is a resyndication occurring concurrently with a Transfer Event with distribution of Net Project Equity. The rehabilitation scope of work shall include all of the Short Term Work in the amount of $1,890,169. There is a general partner equity contribution of at least $1,890,169, allowing the applicant to receive eligible basis for the entire Short Term Work amount.

Local Reviewing Agency
The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

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.

CDLAC Additional Conditions
The applicant/owner is required to provide the tenants with the following service amenities free of charge for a minimum of fifteen (15) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC:

- Instructor-led educational classes, health and wellness or skill-building classes off-site within 1/2 mile for a minimum of 84 hours per year
- Wellness services and programs providing individualized support for tenants off-site within 1/2 mile