

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report  
Tax-Exempt Bond Project  
May 16, 2018  
REVISED**

The Pearl, located on the east side of the 500 block of South Sierra Avenue, in Solana Beach, requested and is being recommended for a reservation of \$352,846 in annual federal tax credits and \$2,570,475 in total state farmworker credit to finance the new construction of 10 units of housing serving large families with rents affordable to households earning 50% of area median income (AMI). The project will be developed by Hitzke Development Corporation and will be located in Senate District 39 and Assembly District 78.

**Project Number** CA-18-729

**Project Name** The Pearl

Site Address: East Side of the 500 Block of South Sierra Avenue  
Solana Beach, CA 92075 County: San Diego  
Census Tract: 173.04

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State Farmworker/Total *</b>
Requested:	\$352,846	\$2,570,475
Recommended:	\$352,846	\$2,570,475

\* The applicant made an irrevocable election not to sell (Certificate) any portion of the state credits.

**Applicant Information**

Applicant: The Pearl Solana Beach, L.P.  
Contact: Ginger Hitzke  
Address: 44036 Sheldon Court  
Temecula, CA 92592  
Phone: 760-798-9809  
Email: ginger@hitzkedevlopment.com

General Partner(s) or Principal Owner(s): Hitzke Development Corporation  
Cascade Housing Association  
General Partner Type: Joint Venture  
Parent Company(ies): Hitzke Development Corporation  
Cascade Housing Association  
Developer: Hitzke Development Corporation  
Investor/Consultant: Boston Capital  
Management Agent: Cambridge Real Estate Services, Inc.

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 10  
 No. / % of Low Income Units: 10 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt

**Bond Information**

Issuer: California Municipal Finance Authority  
 Expected Date of Issuance: August 2018

**Information**

Housing Type: Large Family  
 Geographic Area: San Diego County  
 TCAC Project Analyst: Jack Waegell

**55-Year Use / Affordability**

<b>Aggregate Targeting Number of Units</b>	<b>Percentage of Affordable Units</b>
At or Below 50% AMI: 10	100%

**Unit Mix**

3 1-Bedroom Units
3 2-Bedroom Units
3 3-Bedroom Units
1 4-Bedroom Units
<b>10 Total Units</b>

<b>Unit Type &amp; Number</b>	<b>2017 Rents Targeted % of Area Median Income</b>	<b>2017 Rents Actual % of Area Median Income</b>	<b>Proposed Rent (including utilities)</b>
3 1 Bedroom	50%	50%	\$853
3 2 Bedrooms	50%	50%	\$1,023
3 3 Bedrooms	50%	50%	\$1,181
1 4 Bedrooms	50%	50%	\$1,318

TCAC-confirmed Projected Lifetime Rent Benefit: \$9,705,300

**Project Cost Summary at Application**

Land and Acquisition	\$225,000
Construction Costs	\$4,989,640
Rehabilitation Costs	\$0
Construction Contingency	\$428,000
Relocation	\$0
Architectural/Engineering	\$696,800
Const. Interest, Perm. Financing	\$592,750
Legal Fees, Appraisals	\$350,000
Reserves	\$50,000
Other Costs	\$569,877
Developer Fee	\$1,000,000
Commercial Costs	\$225,000
<b>Total</b>	<b>\$9,127,067</b>

**Residential**

Construction Cost Per Square Foot:	\$580
Per Unit Cost:	\$890,207
True Cash Per Unit Cost*:	\$828,199

**Construction Financing**

Source	Amount
Citibank	\$6,750,000
City of Solana Beach	\$700,000
Tax Credit Equity	\$605,067

**Permanent Financing**

Source	Amount
Citibank	\$860,000
City of Solana Beach	\$2,057,000
Deferred Developer Fee-Hitzke	\$590,100
Deferred Developer Fee-Cascade	\$252,900
Tax Credit Equity	\$5,367,067
<b>TOTAL</b>	<b>\$9,127,067</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$8,300,317
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$10,790,412
Applicable Rate:	3.27%
Total Maximum Annual Federal Credit:	\$352,846
Total State Farmworker Credit:	\$2,570,480
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,000,000
Investor/Consultant:	Boston Capital
Federal Tax Credit Factor:	\$0.88000
State Tax Credit Factor:	\$0.88000

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:	\$8,300,317
Actual Eligible Basis:	\$8,300,317
Unadjusted Threshold Basis Limit:	\$3,329,128
Total Adjusted Threshold Basis Limit:	\$8,381,842

**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:

- New construction: project buildings are at least 15% more energy efficient than 2016 Energy Efficiency Standards (California Code of Regulations, Title 24, Part 6) as indicated in TCAC Regulations.

- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all common areas where no VOC adhesives or backing is used

Local Development Impact Fees

Highest or High Resource Opportunity Area

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate 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 3.27% 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 is estimated to be over \$828,199 per unit. It is a small 10-unit family project with large units, parking beneath the units, an elevator, and energy efficient construction that contribute to the project's relatively high cost.

The proposed rents do not include any utility allowance. The owner will pay for all utilities.

The project is only 10 units and does not have an on-site manager's unit.

**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:** None.