CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 18, 2018

El Rancho Verde Apartments, located at 300 and 303 Checkers Drive in San Jose, requested and is being recommended for a reservation of $16,529,220 in annual federal tax credits to finance the acquisition and rehabilitation of 696 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Community Preservation Partners, LLC and is located in Senate District 15 and Assembly District 25.

El Rancho Verde Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, El Rancho Verde Apartments (CA-2001-872). 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 Vouchers.

Project Number CA-18-771

Project Name El Rancho Verde Apartments
Site Address: 300 and 303 Checkers Drive
San Jose, CA 95133 County: Santa Clara
Census Tract: 5037.09

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$16,529,220	$0
Recommended:	$16,529,220	$0

Applicant Information

Applicant:	ERV Community Partners, LP
Contact:	Anand Kannan
Address:	17782 Sky Park Circle Irvine, CA 92614
Phone:	949.236.8278
Email:	akannan@cpp-housing.com

General Partner(s) or Principal Owner(s):	ERV Partners, LLC FFAH V El Rancho Verde, LLC
General Partner Type:	Joint Venture
Parent Company(ies):	WNC Development Partners, LLC Foundation For Affordable Housing
Developer:	Community Preservation Partners, LLC
Investor/Consultant:	WNC & Associates, Inc.
Management Agent:	FPI Management Inc.

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	49
Total # of Units:	700
No. / % of Low Income Units:	696 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / Section 8 Project-based contract (557 units - 80%)

Bond Information

Issuer:	CalHFA
Expected Date of Issuance:	September 3, 2018

Information

Housing Type:	Non-Targeted
Geographic Area:	South and West Bay
TCAC Project Analyst:	Marlene McDonouigh

55-Year Use / Affordability

Aggregate Targeting	Number of Units	Percentage of Affordable Units
At or Below 50% AMI:	557	80%
At or Below 60% AMI:	139	20%

Unit Mix

556	2-Bedroom Units
144	3-Bedroom Units
700	Total Units

Unit Type & Number		2018 Rents Targeted % of Area Median Income	2018 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
174	2 Bedrooms	50%	50%	$1,496
243	2 Bedrooms	50%	50%	$1,496
25	2 Bedrooms	50%	50%	$1,496
65	3 Bedrooms	50%	50%	$1,729
50	3 Bedrooms	50%	50%	$1,729
62	2 Bedrooms	60%	60%	$1,795
43	2 Bedrooms	60%	60%	$1,795
7	2 Bedrooms	60%	60%	$1,795
12	3 Bedrooms	60%	60%	$2,075
15	3 Bedrooms	60%	60%	$2,075
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: $517,594,440

Project Cost Summary at Application

Land and Acquisition	$374,500,000
Construction Costs	$0
Rehabilitation Costs	$46,487,782
Construction Contingency	$4,695,206
Relocation	$700,000
Architectural/Engineering	$607,900
Const. Interest, Perm. Financing	$18,936,221
Legal Fees, Appraisals	$359,500
Reserves	$4,788,000
Other Costs	$1,408,199
Developer Fee	$60,789,036
Commercial Costs	$0
Total	**$513,271,844**

Residential

Construction Cost Per Square Foot:	$69
Per Unit Cost:	$733,245
True Cash Per Unit Cost*:	$652,852

Construction Financing

Source	Amount
Citibank, N.A.	$318,000,000
Citibank, N.A. - Taxable Bonds	$32,000,000
Net Operating Income	$19,515,911
Seller Credit	$4,500,000
Deferred Developer Fee	$41,902,933
Tax Credit Equity	$97,353,000

Permanent Financing

Source	Amount
Citibank, N.A. - Tax Exempt Bonds	$272,647,000
Net Operating Income	$19,515,911
Seller Credit	$4,500,000
Deferred Developer Fee	$56,275,499
Tax Credit Equity	$160,333,434
TOTAL	**$513,271,844**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$82,715,945
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$397,950,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$107,530,729
Qualified Basis (Acquisition):	$397,950,000
Applicable Rate:	3.27%
Maximum Annual Federal Credit, Rehabilitation:	$3,516,255
Maximum Annual Federal Credit, Acquisition:	$13,012,965
Approved Developer Fee (in Project Cost & Eligible Basis):	$60,789,036
Investor/Consultant:	WNC & Associates, Inc.
Federal Tax Credit Factor:	$0.97000

Except as allowed for projects basing cost on assumed third party debt, the "as if vacant" land value and the existing improvement value established at application for all projects, as well as the eligible basis amount derived from those values, shall not increase during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits. The sum of the third party debt encumbering the property may increase during subsequent reviews to reflect the actual amount.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	$480,665,945
Actual Eligible Basis:	$480,665,945
Unadjusted Threshold Basis Limit:	$284,282,880
Total Adjusted Threshold Basis Limit:	$511,709,184

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: 80%

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 **"Significant Information / Additional Conditions"** 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

The applicant's estimate for annual operating expenses per unit is below the $5,700 published per unit operating expense minimum required for this type of project. As allowed by TCAC Regulation Section 10327(g)(1), TCAC approves the annual per unit operating expense total of $4,847 in agreement with the permanent lender and equity investor.

The estimated cost of the project is $733,245 per unit. The high valuation of the project equated to a significant acquisition cost of more than $500,000 per unit. Additionally, to finance such a high acquisition cost, financing fees particularly the interest expense on this size of transaction is significant. Furthermore, due to the unit size and the large nature of the project, reserves and deferred developer fee were also quite high.

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-2001-872). 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-2001-872) is a qualified low-income household for the subsequent allocation (existing household eligibility is "grandfathered").

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 $4,650,250. The purchase price of $374,500,000 is less than the appraised value of $379,250,000. The $4,750,000 difference between the purchase price and the appraisal value is deemed a seller credit. Since the seller credit is greater than the short term work amount, the project is allowed to receive eligible basis for the entire Short Term Work amount of $4,650,250.

Local Reviewing Agency
The Local Reviewing Agency, City of San Jose, has completed a site review of this project and supports this project.

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.