

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2018 Second Round**

**September 19, 2018**

El Verano located at 1248 E. Lincoln Avenue and 1239 E. Broadway in Anaheim, requested a reservation of \$1,499,477 in annual federal tax credits, but is being recommended for a reservation of \$1,499,221 in annual federal tax credits (see "**Significant Information / Additional Conditions**" section) to finance the new construction of 53 units of housing serving special needs and senior tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Innovative Housing Opportunities, Inc. and will be located in Senate District 34 and Assembly District 69.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers.

**Project Number** CA-18-099

**Project Name** El Verano  
Site Address: 1248 E. Lincoln Avenue & 1239 E. Broadway  
Anaheim, CA 92805 County: Orange  
Census Tract: 863.010

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$1,499,477	\$0
Recommended:	\$1,499,221	\$0

**Applicant Information**

Applicant: Innovative Housing Opportunitites, Inc.  
Contact: Denice Wint  
Address: 19772 MacArthur Blvd., Suite 110  
Irvine, CA 92612  
Phone: 949-863-9740  
Email: dwint@innovativehousing.com

General Partner(s) / Principal Owner(s): IHO-El Verano, LLC  
Kingdom AH I, LLC  
General Partner Type: Nonprofit  
Parent Company(ies): Innovative Housing Opportunities, Inc.  
Kingdom Development, Inc.  
Developer: Innovative Housing Opportunities, Inc.  
Investor/Consultant: Boston Financial  
Management Agent(s): Living Opportunities Management Company

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 54  
 No. & % of Tax Credit Units: 53 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: HUD Section 8 Project-based Vouchers (53 units / 100%) / HOME

**Information**

Set-Aside: Nonprofit (homeless assistance)  
 Housing Type: Special Needs / Senior  
 Type of Special Needs: Homeless / formerly homeless  
 Average Targeted Affordability of Special Needs/SRO Project Units: 40.00%  
 % of Special Need Units 27 units 50%  
 Geographic Area: Orange County  
 TCAC Project Analyst: Tiffani Negrete

**55-Year Use / Affordability**

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI: 6	10%
At or Below 35% AMI: 12	20%
At or Below 40% AMI: 7	10%
At or Below 45% AMI: 6	10%
At or Below 50% AMI: 18	30%
At or Below 60% AMI: 4	5%

**Unit Mix**

44 1-Bedroom Units
10 2-Bedroom Units
<u>54 Total Units</u>

<u>Unit Type &amp; Number</u>	<u>2018 Rents Targeted % of Area Median Income</u>	<u>2018 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
5 1 Bedroom	30%	30%	\$615
12 1 Bedroom	35%	35%	\$717
7 1 Bedroom	40%	40%	\$820
6 1 Bedroom	45%	45%	\$922
14 1 Bedroom	50%	50%	\$1,025
1 2 Bedrooms	30%	30%	\$738
4 2 Bedrooms	50%	50%	\$1,230
4 2 Bedrooms	60%	60%	\$1,476
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

TCAC-confirmed Projected Lifetime Rent Benefit: \$23,039,280

**Project Cost Summary at Application**

Land and Acquisition	\$3,478,619
Construction Costs	\$12,839,526
Rehabilitation Costs	\$0
Construction Contingency	\$570,000
Relocation	\$200,000
Architectural/Engineering	\$575,000
Const. Interest, Perm. Financing	\$1,132,050
Legal Fees, Appraisals	\$315,000
Reserves	\$222,259
Other Costs	\$1,625,239
Developer Fee	\$2,438,398
Commercial Costs	\$0
<b>Total</b>	<b>\$23,396,091</b>

**Residential**

Construction Cost Per Square Foot:	\$347
Per Unit Cost:	\$433,261
True Cash Per Unit Cost*:	\$428,522

**Construction Financing**

Source	Amount
US Bank	\$15,400,000
City of Anaheim <sup>1</sup>	\$4,081,963
City of Anaheim <sup>2</sup>	\$65,394
Deferred Costs	\$2,149,945
Tax Credit Equity	\$2,698,789

**Permanent Financing**

Source	Amount
US Bank	\$3,149,577
City of Anaheim - HOME	\$2,336,000
City of Anaheim <sup>1</sup>	\$4,081,963
City of Anaheim <sup>2</sup>	\$65,394
City of Anaheim <sup>3</sup>	\$81,000
Deferred Developer Fee	\$190,518
Tax Credit Equity	\$13,491,639
<b>TOTAL</b>	<b>\$23,396,091</b>

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

<sup>1</sup>Anaheim Housing Authority Acquisition Loan

<sup>2</sup>Transportation Impact and Improvement Fee Waiver

<sup>3</sup>Energy Star Rebate

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$12,816,044
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$16,660,857
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,499,221
Approved Developer Fee in Project Cost:	\$2,438,398
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	Boston Financial
Federal Tax Credit Factor:	\$0.89991

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, shall not increase during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits, unless a waiver has been granted for a purchase price not to exceed the sum of third party debt that will be assumed or paid off. 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:	\$12,816,044
Actual Eligible Basis:	\$16,421,822
Unadjusted Threshold Basis Limit:	\$12,715,816
Total Adjusted Threshold Basis Limit:	\$18,432,742

**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

One or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:

- Project has onsite renewable generation estimated to produce 75% or more of annual common area electricity use as indicated in TCAC Regulations.
- 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
- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all kitchens, living rooms, and bathrooms where no VOC adhesives or
- 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 also used
- For new construction projects, meet all requirements of US EPA Indoor Air Plus Program.

Local Development Impact Fees

95% of Upper Floor Units are Elevator-Serviced

**Tie-Breaker Information**

First:	<b>Special Needs</b>
Final:	<b>56.792%</b>

### **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.

### **Significant Information / Additional Conditions**

This project will serve 100% senior tenants with 50% of the units reserved for seniors with special needs.

As a condition of the reservation, TCAC must approve the sale of the Parcel B remnant of an existing TCAC project (CA-06-045). Failure to receive TCAC approval by the readiness deadline shall result in a recession of tax credits and possible negative points.

In determining the total requested unadjusted eligible basis, the amount of parking costs attributable to ineligible basis related to excess parking was excluded from the development budget. Staff adjusted for both accordingly which increased the percentage of the adjusted threshold basis limit (high cost percentage). In consequence the high cost percentage increased and the developer fee maximum was affected. Staff recalculated and adjusted accordingly which resulted in a decrease to the maximum allowed developer fee and a corresponding reduction to the annual federal tax credit amount.

The developer fee cost in the application's sources and uses budget of \$2,440,702 exceeds the maximum allowed developer fee of \$2,438,398 by \$2,304. Staff adjusted accordingly, which results in a reduction to the requested tax credits from \$1,499,477 to the recommended reservation of annual federal tax credits of \$1,499,221, or a reduction of \$256 in annual federal tax credits.

### **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, City of Anaheim Housing Authority, has completed a site review of this project and strongly supports this project.

### **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 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.

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)(5) 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.

<b>Points System</b>	<b>Max. Possible</b>	<b>Requested Points</b>	<b>Points Awarded</b>
<b>Owner / Management Characteristics</b>	<b>9</b>	<b>9</b>	<b>9</b>
General Partner Experience	6	6	6
Management Experience	3	3	3
<b>Housing Needs</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Site Amenities</b>	<b>15</b>	<b>15</b>	<b>15</b>
Within ½ mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within ¾ mile of public park or community center open to general public	2	2	2
Within 1 mile of public library	2	2	2
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	4	4	4
Senior project within ¾ mile of daily operated senior center/facility	2	2	2
Within ½ mile of medical clinic or hospital	3	3	3
Within 1 mile of a pharmacy	1	1	1
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES</b>			
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
Health & wellness services and programs, minimum 100 hrs per 100 bdrms	5	5	5
<b>SPECIAL NEEDS HOUSING TYPE</b>			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	5
Health/behavioral services provided by licensed org. or individual	5	5	5
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>NEW CONSTRUCTION/ADAPTIVE REUSE</b>			
Develop project in accordance w/ requirements: GreenPoint Rated Program	5	5	5
<b>Lowest Income</b>	<b>52</b>	<b>52</b>	<b>52</b>
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of Low Income Units @ 30% AMI or less	2	2	2
<b>Readiness to Proceed</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Miscellaneous Federal and State Policies</b>	<b>2</b>	<b>2</b>	<b>2</b>
State Credit Substitution	2	2	2
<b>Total Points</b>	<b>113</b>	<b>113</b>	<b>113</b>

**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.**