

# **CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

## **Project Staff Report Tax-Exempt Bond Project December 12, 2018**

Arrowhead Grove Phase 2 (aka Waterman Gardens Phase 2), located at the southwest corner of Baseline Avenue and Crestview Street in San Bernardino, requested and is being recommended for a reservation of \$2,251,187 in annual federal tax credits to finance the new construction of 147 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 National Community Renaissance of California and will be located in Senate District 23 and Assembly District 40.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers. The project financing includes state funding from the AHSC program of HCD.

**Project Number** CA-18-639

**Project Name** Arrowhead Grove Phase 2 (aka Waterman Gardens Phase 2)  
**Site Address:** Southwest corner of Baseline Avenue and Crestview Street  
San Bernardino, CA 92410 County: San Bernardino  
**Census Tract:** 63.01

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$2,251,187	\$0
Recommended:	\$2,251,187	\$0

### **Applicant Information**

**Applicant:** Waterman Gardens Partners 2, L.P.  
**Contact:** Ashley Wright  
**Address:** 9421 Haven Avenue  
Rancho Cucamonga, CA 91730  
**Phone:** (909) 483-2444  
**Email:** awright@nationalcore.org

<b>General Partner(s) or Principal Owner(s):</b>	WG Partners2 MGP, LLC
<b>General Partner Type:</b>	Nonprofit
<b>Parent Company(ies):</b>	National Community Renaissance of California
<b>Developer:</b>	National Community Renaissance of California
<b>Investor/Consultant:</b>	Bank of America
<b>Management Agent:</b>	National Community Renaissance of California

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 18  
 Total # of Units: 184  
 No. / % of Low Income Units: 147 80.33%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Vouchers  
 (116 Units - 78%)  
 Utility Allowance: CUAC

**Bond Information**

Issuer: Housing Authority of County of San Bernardino  
 Expected Date of Issuance: March 15, 2018

**Information**

Housing Type: Large Family  
 Geographic Area: Inland Empire Region  
 TCAC Project Analyst: Carmen Doonan

**55-Year Use / Affordability**

<b>Aggregate Targeting Number of Units</b>	<b>Percentage of Affordable Units</b>
At or Below 35% AMI: 39	27%
At or Below 50% AMI: 38	26%
At or Below 60% AMI: 70	48%

**Unit Mix**

28 1-Bedroom Units
102 2-Bedroom Units
42 3-Bedroom Units
10 4-Bedroom Units
2 5-Bedroom Units
<hr/> 182 Total Units

<b>Unit Type &amp; Number</b>		<b>2018 Rents Targeted % of Area Median Income</b>	<b>2018 Rents Actual % of Area Median Income</b>	<b>Proposed Rent (including utilities)</b>
6	1 Bedroom	30%	30%	\$379
6	1 Bedroom	50%	50%	\$632
10	1 Bedroom	60%	60%	\$759
21	2 Bedrooms	30%	30%	\$455
21	2 Bedrooms	50%	50%	\$758
39	2 Bedrooms	60%	60%	\$910
9	3 Bedrooms	30%	30%	\$525
9	3 Bedrooms	50%	50%	\$876
14	3 Bedrooms	60%	60%	\$1,051
1	4 Bedrooms	30%	30%	\$586
2	4 Bedrooms	50%	50%	\$977
7	4 Bedrooms	60%	60%	\$1,173
2	5 Bedrooms	30%	30%	\$647
2	3 Bedrooms	Manager's Unit	Manager's Unit	\$0
6	1 Bedroom	Market Rate Unit	Market Rate Unit	\$1,200
21	2 Bedrooms	Market Rate Unit	Market Rate Unit	\$1,550
8	3 Bedrooms	Market Rate Unit	Market Rate Unit	\$1,700

TCAC-confirmed Projected Lifetime Rent Benefit: \$29,055,180

#### **Project Cost Summary at Application**

Land and Acquisition	\$6,696,758
Construction Costs	\$44,600,545
Rehabilitation Costs	\$0
Construction Contingency	\$2,541,584
Relocation	\$0
Architectural/Engineering	\$3,250,000
Const. Interest, Perm. Financing	\$5,210,379
Legal Fees, Appraisals	\$435,000
Reserves	\$1,095,272
Other Costs	\$5,120,331
Developer Fee	\$8,817,381
Commercial Costs	\$0
<b>Total</b>	<b>\$77,767,250</b>

#### **Residential**

Construction Cost Per Square Foot:	\$232
Per Unit Cost:	\$422,648
True Cash Per Unit Cost*:	\$427,293

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
JP Morgan Chase	\$55,000,000	JP Morgan Chase	\$19,060,000
HCD - AHSC Grant <sup>1</sup>	\$2,577,286	SBHA - Land Loan <sup>2</sup>	\$17,422,714
San Bernardino Housing Authority	\$3,812,000	HCD - AHSC <sup>1</sup>	\$946,000
County of San Bernardino	\$2,900,000	HCD - AHSC Grant <sup>1</sup>	\$2,577,286
City of San Bernardino	\$1,500,000	San Bernardino Housing Authority	\$3,812,000
Dignity Health	\$1,200,000	County of San Bernardino	\$2,900,000
Deferred Costs	\$5,309,590	City of San Bernardino	\$1,500,000
Tax Credit Equity	\$4,502,374	Dignity Health Loan	\$1,200,000
		General Partner Equity	\$5,837,381
		Tax Credit Equity	\$22,511,869
		<b>TOTAL</b>	<b>\$77,767,250</b>

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

<sup>1</sup>Affordable Housing Sustainable Communities

<sup>2</sup>San Bernardino Housing Authority

#### Determination of Credit Amount(s)

Requested Eligible Basis:	\$67,599,921
130% High Cost Adjustment:	Yes
Applicable Fraction:	80.33%
Qualified Basis:	\$70,592,049
Applicable Rate:	3.27%
Total Maximum Annual Federal Credit:	\$2,251,187
Approved Developer Fee (in Project Cost & Eligible Basis):	\$8,817,381
Investor/Consultant:	Bank of America
Federal Tax Credit Factor:	\$1.00000

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:	\$67,599,921
Actual Eligible Basis:	\$67,599,921
Unadjusted Threshold Basis Limit:	\$60,707,600
Total Adjusted Threshold Basis Limit:	\$98,346,312

**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: 20%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 42%

**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 meet 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 184-unit new construction project consists of 147 low income units, 35 market rate units, and 2 manager units, and is the second phase being built adjacent to phase one Waterman Gardens 1 CA-15-153. Waterman Gardens 1 is a large family project.

**Resyndication and Resyndication Transfer Event:** None.

**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 complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project commits to becoming certified under Leadership in Energy & Environmental Design (LEED); Green Communities / Passive House Institute US (PHIUS) / Passive House / Living Building Challenge / GreenPoint Rated Multifamily Guidelines / WELL
- The project will exceed 2016 Title 24 Standards for New Construction by 7% of the California Building Code
- The project will provide energy efficiency with renewable energy that offsets 30% of project tenants' energy load
- The project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.