**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**
**Project Staff Report**
**Tax-Exempt Bond Project**
**March 20, 2019**

Walnut Windmere Apartments, located at 3101, 3030, and 3100 Fifth Street in Davis, requested and is being recommended for a reservation of $886,783 in annual federal tax credits to finance the acquisition and rehabilitation of 134 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 Housing Opportunities Corporation and is located in Senate District 3 and Assembly District 4.

Walnut Windmere Apartments is a re-syndication of two existing Low Income Housing Tax Credit (LIHTC) projects, Windmere (CA-92-188) and Windmere II (CA-98-954). See **Resyndication and Resyndication Transfer Event** below for additional information.

| | | |
|---|---|---|
| **Project Number** | CA-19-449 | |
| **Project Name** | Walnut Windmere Apartments | |
| Site Address: | 3101, 3030 and 3100 Fifth Street | |
| | Davis, CA 95618 | County: Yolo |
| Census Tract: | 106.05 | |

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $886,783 | $0 |
| Recommended: | $886,783 | $0 |

**Applicant Information**

| | |
|---|---|
| Applicant: | Walnut Windmere LP |
| Contact: | Manuela Silva |
| Address: | 5030 Business Center Drive, Suite 260<br>Fairfield, CA 94534 |
| Phone: | (707) 759-6043 |
| Email: | msilva@chochousing.org |

| | |
|---|---|
| General Partner(s) or Principal Owner(s): | Walnut Windmere LLC |
| General Partner Type: | Nonprofit |
| Parent Company(ies): | Community Housing Opportunities Corporation |
| Developer: | Community Housing Opportunities Corporation |
| Investor/Consultant: | Alliant Asset Management Co., LLC |
| Management Agent: | Sterling Asset Management Company |

**Project Information**

| | |
|---|---|
| Construction Type: | Acquisition & Rehabilitation |
| Total # Residential Buildings: | 21 |
| Total # of Units: | 136 |
| No. / % of Low Income Units: | 134 100.00% |
| Federal Set-Aside Elected: | 40%/60% |
| Federal Subsidy: | Tax-Exempt |

**Bond Information**

| | |
|---|---|
| Issuer: | CalHFA |
| Expected Date of Issuance: | June 25, 2019 |

**Information**

| | |
|---|---|
| Housing Type: | Large Family |
| Geographic Area: | Capital Region |
| TCAC Project Analyst: | Tiffani Negrete |

**55-Year Use / Affordability**

| Aggregate Targeting Number of Units | | Percentage of Affordable Units |
|---|---|---|
| 50% AMI: | 41 | 31% |
| 60% AMI: | 93 | 69% |

**Unit Mix**

| | |
|---|---|
| 24 | 1-Bedroom Units |
| 97 | 2-Bedroom Units |
| 15 | 3-Bedroom Units |
| 136 | Total Units |

| Unit Type & Number | | 2019 Rents Targeted % of Area Median Income | 2019 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|---|
| 12 | 1 Bedroom | 50% | 50% | $780 |
| 12 | 1 Bedroom | 60% | 60% | $936 |
| 10 | 2 Bedrooms | 50% | 50% | $936 |
| 12 | 2 Bedrooms | 50% | 50% | $936 |
| 3 | 2 Bedrooms | 50% | 50% | $936 |
| 23 | 2 Bedrooms | 60% | 60% | $1,123 |
| 45 | 2 Bedrooms | 60% | 60% | $1,123 |
| 3 | 2 Bedrooms | 60% | 60% | $1,123 |
| 4 | 3 Bedrooms | 50% | 50% | $1,081 |
| 10 | 3 Bedrooms | 60% | 60% | $1,298 |
| 1 | 2 Bedrooms | Manager’s Unit | Manager’s Unit | $1,872 |
| 1 | 3 Bedrooms | Manager’s Unit | Manager’s Unit | $2,162 |

**Project Cost Summary at Application**

| | |
|---|---|
| Land and Acquisition | $15,130,000 |
| Construction Costs | $0 |
| Rehabilitation Costs | $6,915,322 |
| Construction Hard Cost Contingency | $900,276 |
| Soft Cost Contingency | $337,122 |
| Relocation | $121,560 |
| Architectural/Engineering | $719,825 |
| Const. Interest, Perm. Financing | $2,061,810 |
| Legal Fees | $62,000 |
| Reserves | $2,292,800 |
| Other Costs | $529,525 |
| Developer Fee | $3,505,071 |
| Commercial Costs | $0 |
| **Total** | **$32,575,311** |

**Residential**

| | |
|---|---|
| Construction Cost Per Square Foot: | $51 |
| Per Unit Cost: | $239,524 |
| True Cash Per Unit Cost*: | $194,327 |

**Construction Financing**

| Source | Amount |
|---|---|
| Citibank - T.E. Bonds | $17,750,000 |
| Citibank Loan | $5,204,400 |
| Seller Carryback Loan | $4,379,654 |
| City of Davis - Assumed | $3,474,056 |
| Deferred Developer Fee | $1,767,201 |

**Permanent Financing**

| Source | Amount |
|---|---|
| Citibank - T.E. Bonds | $12,512,605 |
| Seller Carryback Loan | $4,379,654 |
| City of Davis - Assumed | $3,474,056 |
| AHP | $1,140,000 |
| Operating Income | $700,000 |
| Deferred Developer Fee | $1,767,201 |
| Tax Credit Equity | $8,601,795 |
| **TOTAL** | **$32,575,311** |

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

**Determination of Credit Amount(s)**

| | |
|---|---|
| Requested Eligible Basis (Rehabilitation): | $10,174,216 |
| 130% High Cost Adjustment: | No |
| Requested Eligible Basis (Acquisition): | $16,698,000 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | $10,174,216 |
| Qualified Basis (Acquisition): | $16,698,000 |
| Applicable Rate: | 3.30% |
| Maximum Annual Federal Credit, Rehabilitation: | $335,749 |
| Maximum Annual Federal Credit, Acquisition: | $551,034 |
| Total Maximum Annual Federal Credit: | $886,783 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | $3,505,071 |
| Investor/Consultant: | Alliant Asset Management Co., LLC |
| 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: | $26,872,216 |
| Actual Eligible Basis: | $26,872,216 |
| Unadjusted Threshold Basis Limit: | $44,966,128 |
| Total Adjusted Threshold Basis Limit: | $58,455,966 |

**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 **"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 3.30% 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 $4,646 calculated by TCAC using the published per unit operating expense minimums required for this type of project. As allowed by TCAC Regulation Section 10327(g)(1), TCAC approves an annual per unit operating expense total of $4,032, which is no more than 15% below the TCAC minimum, with agreement from the permanent lender and equity investor. For the placed in service review the applicant must calculate the 15% reduction using the 2019 Operating Cost per Unit minimums.

This project involves the rehabilitation of a senior project (Walnut Terrace) and two existing tax credit projects with different housing types, large family (Windmere) and non-targeted (Windmere II). Walnut Terrace is separated from Windmere and Windmere II by a street. The applicant provided an attorney's opinion that the project as proposed is in compliance with fair housing law.

This project consists of three parcels of land which are contiguous except for the interposition of a street. The project is not considered a Scattered Site Project according to the TCAC definition in Regulation Section 10302(ll).

Windmere II is an existing tax credit project (CA-98-954) with 58 low income units and no manager unit. This reservation of credit permits the applicant to convert one of the low income units at this site to a manager unit.

**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 Agreements (CA-92-188 for Windmere and CA-98-954 for Windmere II). 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.

As required by the IRS, the newly resyndicated projects will continue to use the originally assigned Building Identification Numbers (BINs).

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 agreements (CA-92-188 and CA-98-954) are 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 $2,717,238. The Short Term Work up to the amount of Net Project Equity is excluded from eligible basis.

**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