CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
May 15, 2019

Emerson Apartments, located at 4760 and 4766 Melrose Avenue in Los Angeles, requested and is being recommended for a reservation of $798,431 in annual federal tax credits to finance the new construction of 38 low-income units of housing serving special needs tenants with rents affordable to households earning 30%-60% of area median income (AMI). The project will be developed by Affirmed Housing Group and is located in Senate District 24 and Assembly District 53.

The project will be receiving rental assistance in the form of HUD VASH Project-based Vouchers and DHS Flexible Housing Subsidy Pool (FHSP). The project financing includes state funding from the VHHP program of HCD.

Project Number	CA-19-457		
Project Name	Emerson Apartments		
Site Address:	4760 and 4766 Melrose Avenue		
	Los Angeles 90029	County:	Los Angeles
Census Tract:	1925.20		

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$798,431	$0
Recommended:	$798,431	$0

Applicant Information

Applicant:	Melrose PSH, LP
Contact:	Mellody Lock
Address:	13520 Evening Creek Drive N., Suite 160 San Diego, CA 92128
Phone:	(858) 679-2459
Email:	mellody@affirmedhousing.com

General Partner(s) or Principal Owner(s):	AHG Melrose, LLC Nexus for Affordable Housing
General Partner Type:	Joint Venture
Parent Company(ies):	Affirmed Housing Group, Inc. NEXUS for Affordable Housing
Developer:	Affirmed Housing Group, Inc.
Investor/Consultant:	WNC
Management Agent:	Solari Enterprises, Inc.

Project Information

Construction Type:	New Construction
Total # Residential Buildings:	1
Total # of Units:	39
No. / % of Low Income Units:	38 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD VASH Project-based Vouchers (21 units - 55%) / DHS FHSP (17 units - 45%)

Bond Information

Issuer:	City of Los Angeles
Expected Date of Issuance:	August 30, 2019

Information

Housing Type:	Special Needs
Geographic Area:	City of Los Angeles
TCAC Project Analyst:	Pavlos Mayakis

55-Year Use / Affordability

Aggregate Targeting	Number of Units	Percentage of Affordable Units
35% AMI:	10	26%
50% AMI:	6	16%
60% AMI:	22	58%

Unit Mix

38 SRO/Studio Units
1 2-Bedroom Units
39 Total Units

Unit Type & Number		2018 Rents Targeted % of Area Median Income	2018 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
5	SRO/Studio	30%	30%	$509
5	SRO/Studio	30%	30%	$509
3	SRO/Studio	50%	30%	$509
3	SRO/Studio	50%	30%	$509
9	SRO/Studio	60%	30%	$509
13	SRO/Studio	60%	30%	$509
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application

Land and Acquisition	$3,657,056
Construction Costs	$12,718,863
Construction Hard Cost Contingency	$890,320
Soft Cost Contingency	$251,879
Architectural/Engineering	$875,000
Const. Interest, Perm. Financing	$1,595,293
Legal Fees	$190,000
Reserves	$549,455
Other Costs	$937,983
Developer Fee	$2,449,850
Commercial Costs	$0
Total	**$24,115,699**

Residential

Construction Cost Per Square Foot:	$520
Per Unit Cost:	$618,351

Construction Financing

Source	Amount
Banner Bank	$12,500,000
HCIDLA-Proposition HHH Loan	$7,705,002
Tax Credit Equity	$3,910,697

Permanent Financing

Source	Amount
Banner Bank	$2,500,000
HCIDLA-Proposition HHH Loan	$8,360,000
HCD - VHHP Loan	$4,936,000
Deferred Developer Fee	$574,920
Tax Credit Equity	$7,744,779
TOTAL	**$24,115,699**

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

Determination of Credit Amount(s)

Requested Eligible Basis:	$18,782,188
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	$24,416,844
Applicable Rate:	3.30%
Total Maximum Annual Federal Credit:	$798,431
Approved Developer Fee (in Project Cost & Eligible Basis):	$2,449,850
Investor/Consultant:	WNC
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:	$18,782,188
Actual Eligible Basis:	$18,782,188
Unadjusted Threshold Basis Limit:	$9,765,418
Total Adjusted Threshold Basis Limit:	$19,547,432

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

100% of the Low Income Units for Special Needs Population

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate Units are Income Targeted between 50% AMI & 36% AMI: 15%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 52%

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 3.30% 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

Development costs are $618,351 per unit. Construction costs in Los Angeles have increased more than 20% in the last two years due to a labor shortage caused by high demand. This site required a setback resulting in a smaller building footprint and smaller unit sizes, increasing the cost per unit. The City of Los Angeles mandated an open space requirement that resulted in additional expenses associated with a roof top deck. Three existing structures needed to be demolished, adding to cost. This project is required to pay prevailing wages.

Resyndication and Resyndication Transfer Event: None

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 provide the tenants with the following service amenities free of charge for a minimum of fifteen (15) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC:

- Contract with a full time equivalent bona fide service coordinator / social worker for a minimum number of hours per year off-site within 1/2 mile