

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
May 15, 2019**

Lenzen Square, located at 790 Lenzen Avenue in San Jose, requested and is being recommended for a reservation of \$1,033,849 in annual federal tax credits to finance the acquisition and rehabilitation of 87 units of housing serving large families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Community Preservation Partners and is located in Senate District 15 and Assembly District 28.

Lenzen Square is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Lenzen Housing (CA-2001-813). See **Resyndication and Resyndication Transfer Event** below for additional information.

Project Number CA-19-462

Project Name Lenzen Square
Site Address: 790 Lenzen Avenue
San Jose, CA 95113 County: Santa Clara
Census Tract: 5006.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,033,849	\$0
Recommended:	\$1,033,849	\$0

Applicant Information

Applicant: Lenzen Square Community Partners, L.P.
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): WNC - Lenzen Square Community Partners GP, LLC
FFAH V Lenzen Square, LLC

General Partner Type: Joint Venture

Parent Company(ies): WNC Development Partners, LLC
Foundation for Affordable Housing

Developer: Community Preservation Partners

Investor/Consultant: WNC & Associates, Inc.

Management Agent: FPI Management Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 2
 Total # of Units: 88
 No. / % of Low Income Units: 87 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt

Bond Information

Issuer: City of San Jose
 Expected Date of Issuance: June 1, 2019

Information

Housing Type: Large Family
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Jack Waegell

55-Year Use / Affordability

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
50% AMI: 23	26%
60% AMI: 64	74%

Unit Mix

38 SRO/Studio Units
38 1-Bedroom Units
12 2-Bedroom Units
<u>88 Total Units</u>

<u>Unit Type & 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>
12 SRO/Studio	50%	50%	\$1,163
9 1 Bedroom	50%	50%	\$1,246
2 2 Bedrooms	50%	50%	\$1,496
26 SRO/Studio	60%	60%	\$1,396
29 1 Bedroom	60%	60%	\$1,496
9 2 Bedrooms	60%	60%	\$1,795
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$21,000,000
Rehabilitation Costs	\$3,126,467
Construction Hard Cost Contingency	\$312,647
Soft Cost Contingency	\$75,000
Relocation	\$75,000
Architectural/Engineering	\$131,050
Const. Interest, Perm. Financing	\$2,520,620
Legal Fees	\$160,000
Reserves	\$324,000
Other Costs	\$895,203
Developer Fee	\$3,811,597
Commercial Costs	\$0
Total	\$32,431,584

Residential

Construction Cost Per Square Foot:	\$44
Per Unit Cost:	\$368,541
True Cash Per Unit Cost*:	\$332,776

Construction Financing

Source	Amount
RedStone Construction Loan (A Bond)	\$20,000,000
RedStone Mezzanine Loan (B Bond)	\$3,000,000
Income from Operations	\$2,768,048
Short Term Work Reserves Account	\$460,755
Deferred Developer Fee	\$3,350,842
Tax Credit Equity	\$2,851,940

Permanent Financing

Source	Amount
RedStone Perm Loan (A Bond)	\$13,219,000
RedStone Mezzanine Loan (B Bond)	\$3,000,000
Income from Operations	\$2,768,048
Short Term Work Reserves Account	\$460,755
Deferred Developer Fee	\$3,162,215
Tax Credit Equity	\$9,821,566
TOTAL	\$32,431,584

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$7,096,246
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$22,126,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$9,225,120
Qualified Basis (Acquisition):	\$22,126,000
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$330,691
Maximum Annual Federal Credit, Acquisition:	\$730,158
Total Maximum Annual Federal Credit:	\$1,033,849
Approved Developer Fee (in Project Cost & Eligible Basis):	\$3,811,597
Investor/Consultant:	WNC & Associates, Inc.
Federal Tax Credit Factor:	\$0.95000

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:	\$29,222,246
Actual Eligible Basis:	\$29,222,246
Unadjusted Threshold Basis Limit:	\$27,819,652
Total Adjusted Threshold Basis Limit:	\$37,834,727

Adjustments to Basis Limit

- 95% of Upper Floor Units are Elevator-Serviced
- Highest or High Resource Opportunity Area
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate Units are Income Targeted between 50% AMI & 36% AMI: 26%

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 or 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 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: None

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-2001-813). 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 project 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 agreement (CA-2001-813) is a qualified low-income household for the subsequent allocation (existing household eligibility is “grandfathered”).

TCAC approved the transfer of the project (CA-2001-813) in February 2019 prior to the submission of the 4% tax credit application for resyndication. A Capital Needs Covenant (Existing Tax Credits - Transfer) was recorded on February 14, 2019. The Capital Needs Covenant has a Short Term Work Reserve requirement of \$460,755. These funds are included in the CA-19-462 application as a source, the Short Term Work is being done concurrent with the rehabilitation, and is included in the budget as part of the Structures cost. The Short Term Work costs are excluded from eligible basis as required.

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