

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2019 First Round
June 12, 2019

Kennett Court Apartments, located at 1081 Lake Boulevard in Redding, requested \$1,482,931 in annual federal tax credits, but is being recommended for a reservation of \$1,482,917 in annual federal credits (See "Significant Information / Additional Conditions" section below) to finance the new construction of 46 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 ADK Properties LLC and will be located in Senate District 1 and Assembly District 1.

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

Project Number CA-19-016

Project Name Kennett Court Apartments
 Site Address: 1081 Lake Boulevard
 Redding, CA 96003 County: Shasta
 Census Tract: 107.040

Tax Credit Amounts	Federal/Annual	State/Total *
Requested:	\$1,482,931	\$0
Recommended:	\$1,482,917	\$0

Applicant Information

Applicant: ADK Properties LLC
 Contact: Daniel Knott
 Address: 1011 Parkview Avenue, Ste. A
 Redding, CA 96001
 Phone: (530) 244-0595
 Email: dknott@k2dci.com

General Partner(s) / Principal Owner(s): ADK Properties LLC
 Community Revitalization and Development Corporation
 General Partner Type: Joint Venture
 Parent Company(ies): ADK Properties LLC
 Community Revitalization and Development Corporation
 Developer: ADK Properties LLC
 Investor/Consultant: Red Stone Equity Partners, LLC
 Management Agent(s): MBS Property Management, Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 2
 Total # of Units: 47
 No. & % of Tax Credit Units: 46 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Section 8 Project-based Vouchers (46 Units / 100%)

Information

Set-Aside: N/A
 Housing Type: Large Family
 Geographic Area: Northern Region
 TCAC Project Analyst: Tiffani Negrete

55-Year Use / Affordability

<u>Aggregate Targeting</u> <u>Units</u>	<u>Number of</u>	<u>Percentage of</u> <u>Affordable Units</u>
At or Below 30% AMI:	5	10%
At or Below 40% AMI:	7	15%
At or Below 50% AMI:	19	40%
At or Below 60% AMI:	15	30%

Unit Mix

12 1-Bedroom Units
23 2-Bedroom Units
12 3-BedroomUnits
<u>47 Total Units</u>

<u>Unit Type & Number</u>	<u>2018 Rents Targeted</u> <u>% of Area Median</u> <u>Income</u>	<u>2018 Rents Actual %</u> <u>of Area Median</u> <u>Income</u>	<u>Proposed Rent</u> <u>(including utilities)</u>
1 1 Bedroom	30%	30%	\$345
2 1 Bedroom	40%	40%	\$461
6 1 Bedroom	50%	50%	\$576
3 1 Bedroom	60%	60%	\$691
2 2 Bedrooms	30%	30%	\$414
3 2 Bedrooms	40%	40%	\$553
8 2 Bedrooms	50%	50%	\$691
9 2 Bedrooms	60%	60%	\$829
2 3 Bedrooms	30%	30%	\$479
2 3 Bedrooms	40%	40%	\$639
5 3 Bedrooms	50%	50%	\$798
3 3 Bedrooms	60%	60%	\$958
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$750,000
Construction Costs	\$12,636,146
Rehabilitation Costs	\$0
Construction Contingency	\$731,807
Relocation	\$0
Architectural/Engineering	\$900,000
Const. Interest, Perm. Financing	\$1,416,090
Legal Fees	\$190,000
Reserves	\$119,924
Other Costs	\$1,024,052
Developer Fee	\$2,240,560
Commercial Costs	\$0
Total	\$20,008,579

Residential

Construction Cost Per Square Foot:	\$286
Per Unit Cost:	\$425,714
True Cash Per Unit Cost*:	\$409,377

Construction Financing		Permanent Financing	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citibank, N.A.	\$13,350,867	Citibank, N.A.	\$3,554,700
City of Redding	\$700,000	City of Redding	\$700,000
City of Redding - Land Loan	\$750,000	City of Redding - Land Loan	\$750,000
Deferred Reserves	\$119,924	Deferred Developer Fee	\$767,879
Deferred Developer Fee	\$2,240,560	Tax Credit Equity	\$14,236,000
Tax Credit Equity	\$2,847,228	TOTAL	\$20,008,579

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$12,808,043
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$16,650,456
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,482,903
Approved Developer Fee in Project Cost:	\$2,240,560
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	Red Stone Equity Partners, LLC
Federal Tax Credit Factor:	\$0.96000

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:	\$12,808,043
Actual Eligible Basis:	\$17,858,043
Unadjusted Threshold Basis Limit:	\$13,951,348
Total Adjusted Threshold Basis Limit:	\$18,193,464

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.
- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all interior floor space other than units (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

Tie-Breaker Information

First: **Large Family**
Final: **32.473%**

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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.30%. 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

Staff noted the developer fee in cost was in excess of the \$2,240,560 limit required by TCAC Regulation Section 10327(c)(2)(A). The cost was reduced accordingly resulting in a reduction to the federal credit amount recommended for this project.

Staff noted that the preliminary architectural drawings lacks detailed description of the play area. The applicant is cautioned that outdoor play/recreational space must be equipped with reasonable play equipment for the size of the project, and the surface must be natural or synthetic protective material pursuant to TCAC Regulation Section 10325(g)(1)(D).

Resyndication and Resyndication Transfer Event: None.

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 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

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.

Points System	Max. Possible Points	Requested Points	Points Awarded
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within ½ mile of transit (van or dial-a-ride service for rural set-aside)	4	4	4
Residents provided free or discounted transit passes, 1 pass per unit	3	3	3
Within ½ mile of public park or community center open to general public	3	3	3
Within 1½ miles of a full-scale grocery/supermarket of at least 25,000 sf	3	3	3
Within ½ mile of a public middle school that project children may attend	3	3	3
Service Amenities	10	10	10
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
Health & wellness services and programs, minimum 60 hrs per 100 bdrms	3	3	3
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements: GreenPoint Rated Program	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of Low Income Units @ 30% AMI or less	2	2	2
Readiness to Proceed	10	10	10
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	113	113	113

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.