**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**
**Project Staff Report**
**Tax-Exempt Bond Project**
**October 16, 2019**

Desert Villas Apartments, located at 1755 West Main Street in El Centro, requested and is being recommended for a reservation of $753,532 in annual federal tax credits to finance the acquisition and rehabilitation of 170 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Islas Development and is located in Senate District 40 and Assembly District 56.

Desert Villas Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Plaza Senior Apartments also known as Desert Villas (CA-2004-890). See **Resyndication and Resyndication Transfer Event** below for additional information.

**Project Number** CA-19-560

**Project Name** Desert Villas Apartments
Site Address: 1755 West Main Street
El Centro, CA 92243 County: Imperial
Census Tract: 118.02

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $753,532 | $0 |
| Recommended: | $753,532 | $0 |

**Applicant Information**

| | |
|---|---|
| Applicant: | El Centro Affordable Communities, L.P. |
| Contact: | Peter Lopez-Hodoyan |
| Address: | 1927 Adams Ave, Suite 200<br>San Diego, CA 92116 |
| Phone: | 480-899-3545 |
| Email: | peter@logancapitaladvisors.com |

| | |
|---|---|
| General Partner(s) or Principal Owner(s): | El Centro Communities, LLC<br>Pacific Housing, Inc. |
| General Partner Type: | Joint Venture |
| Parent Company(ies): | Islas Development, LLC<br>Pacific Housing, Inc. |
| Developer: | Islas Development |
| Investor/Consultant: | CREA, LLC |
| Management Agent: | Logan Property Management |

**Project Information**

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 11
Total # of Units: 172
No. / % of Low Income Units: 170 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt

**Bond Information**

Issuer: California Statewide Communities Development Authority
Expected Date of Issuance: January 31, 2020

**Information**

Housing Type: Non-Targeted
Geographic Area: Inland Empire Region
TCAC Project Analyst: Diane SooHoo

**55-Year Use / Affordability**

| Aggregate Targeting Number of Units | | Percentage of Affordable Units |
|---|---|---|
| 50% AMI: | 51 | 30% |
| 60% AMI: | 119 | 70% |

**Unit Mix**

172 1-Bedroom Units
172 Total Units

| Unit Type & Number | | 2019 Rents Targeted % of Area Median Income | 2019 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|---|
| 51 | 1 Bedroom | 50% | 50% | $608 |
| 119 | 1 Bedroom | 60% | 60% | $729 |
| 2 | 1 Bedroom | Manager’s Unit | Manager’s Unit | $1,380 |

**Project Cost Summary at Application**

| | |
|---|---|
| Land and Acquisition | $13,666,050 |
| Construction Costs | $0 |
| Rehabilitation Costs | $5,524,363 |
| Construction Hard Cost Contingency | $528,256 |
| Soft Cost Contingency | $280,000 |
| Relocation | $172,000 |
| Architectural/Engineering | $85,000 |
| Const. Interest, Perm. Financing | $603,882 |
| Legal Fees | $200,000 |
| Reserves | $345,366 |
| Other Costs | $594,925 |
| Developer Fee | $2,978,384 |
| Commercial Costs | $0 |
| **Total** | **$24,978,226** |

**Residential**

| | |
|---|---|
| Construction Cost Per Square Foot: | $80 |
| Per Unit Cost: | $145,222 |
| True Cash Per Unit Cost*: | $114,151 |

**Construction Financing**

| Source | Amount |
|---|---|
| Citibank - Tranche A | $12,400,000 |
| Citibank - Tranche B | $5,520,000 |
| Seller Carryback | $4,680,000 |
| Tax Credit Equity | $399,842 |
| Deferred Developer Fee | $1,978,384 |

**Permanent Financing**

| Source | Amount |
|---|---|
| Citibank - Tranche A | $12,400,000 |
| Seller Carryback | $4,680,000 |
| Deferred Developer Fee | $664,319 |
| Tax Credit Equity | $7,233,907 |
| **TOTAL** | **$24,978,226** |

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

**Determination of Credit Amount(s)**

| | |
|---|---|
| Requested Eligible Basis (Rehabilitation): | $8,419,746 |
| 130% High Cost Adjustment: | No |
| Requested Eligible Basis (Acquisition): | $14,414,537 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | $8,419,746 |
| Qualified Basis (Acquisition): | $14,414,537 |
| Applicable Rate: | 3.30% |
| Maximum Annual Federal Credit, Rehabilitation: | $277,852 |
| Maximum Annual Federal Credit, Acquisition: | $475,680 |
| Total Maximum Annual Federal Credit: | $753,532 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | $2,978,384 |
| Investor/Consultant: | CREA, LLC |
| Federal Tax Credit Factor: | $0.96000 |

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: | $22,834,283 |
| Actual Eligible Basis: | $22,834,283 |
| Unadjusted Threshold Basis Limit: | $47,111,144 |
| Total Adjusted Threshold Basis Limit: | $61,244,487 |

**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, as allowed under regulation section 10327(g)(1). See the **Significant Information** section of this report below. 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:**

On March 25, 2014 the project owner of Plaza Senior Apartments also known as Desert Villas (CA-2004-890) requested permission from TCAC to reduce the number of low income units by one to provide housing for an employee. CA-2004-890 had originally designated 171 low-income units and 1 exempt manager unit. TCAC approved this request April 1, 2014 thus CA-2004-890 currently has 170 low-income units and 2 exempt units occupied by an on-site manager, assistant manager, or maintenance employee who works at the this property on a full-time basis; rent and utilities cannot be charged to the employee.

The applicant's estimate of the project's operating expenses of $3,995 per unit per year is below the TCAC minimum operating expense requirement. As allowed under TCAC Regulation Section 10327(g)(1) the operating expenses may be up to 15% below the TCAC minimum if approved by the Executive Director and confirmed by the permanent lender and the tax credit equity investor. TCAC has approved the lower operating expense.

**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-2004-890). 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 (must be after December 31, 2019). For resyndications that were originally rehabilitation and acquisition, the resyndication acquisition date cannot occur before the last rehabilitation credit year of the original credit period.

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-2004-890) is a qualified low-income household for the subsequent allocation (existing household eligibility is "grandfathered").

The project is a resyndication where the existing regulatory agreement requires service amenities. The project shall provide a similar or greater level of services for a period of at least 15 years under the new regulatory agreement. The project is deemed to have met this requirement based on TCAC staff's review of the commitment in the application. The services documented in the placed in service package will be reviewed by TCAC staff for compliance with this requirement at the time of the placed in service submission.

The project is a resyndication concurrent 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 $933,950. In consideration of the Short Term Work requirement, the seller of the project will give a credit in the amount of at least $933,950. As a result of the seller credit, the project is allowed to receive eligible basis for the entire Short Term Work amount.

**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.

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 comply with the CDLAC Resolution. At the time of the TCAC placed in service review, TCAC staff will verify that the project is in compliance with all applicable items of CDLAC Resolution Exhibit A.