

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2019 Second Round**

**September 25, 2019**

Isackson's Multifamily Housing, located at 601 I Street in Arcata, requested a reservation of \$1,793,390 in annual federal tax credits, but is recommended for a reservation of \$1,791,423 in annual federal tax credits (see the "**Significant Information / Additional Conditions**" section) to finance the new construction of 43 units of housing serving large families with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by Danco Communities and will be located in Senate District 2 and Assembly District 2.

The project financing includes state funding from the AHSC program of HCD.

**Project Number** CA-19-112

**Project Name** Isackson's Multifamily Housing

Site Address: 601 I Street  
Arcata, CA 95521 County: Humboldt

Census Tract: 10.000

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$1,793,390	\$0
Recommended:	\$1,791,423	\$0

**Applicant Information**

Applicant: Danco Communities  
Contact: Chris Dart  
Address: 5251 Ericson Way  
Arcata, CA 95521  
Phone: 707-822-9000  
Email: cdart@danco-group.com

General Partner(s) / Principal Owner(s): Community Revitalization & Development Corporta  
Johnson & Johnson LLC

General Partner Type: Joint Venture

Parent Company(ies): Community Revitalization & Development Corporta  
Johnson & Johnson LLC

Developer: Danco Communities

Investor/Consultant: Raymond James

Management Agent(s): Danco Property Management

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 44  
 No. & % of Tax Credit Units: 43 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: HOME / CDBG  
 Utility Allowance: CUAC

**Information**

Set-Aside: Rural  
 Housing Type: Large Family  
 Geographic Area: None  
 TCAC Project Analyst: Jack Waegell

**55-Year Use / Affordability**

Aggregate Targeting Number of Units	Percentage of Affordable Units
At or Below 30% AMI: 5	10%
At or Below 40% AMI: 15	30%
At or Below 50% AMI: 23	40%

**Unit Mix**

16 1-Bedroom Units  
 17 2-Bedroom Units  
 11 3-Bedroom Units  


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 44 Total Units

Unit Type & Number	2019 Rents Targeted % of Area Median Income	2019 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
2 1 Bedroom	30%	30%	\$364
6 1 Bedroom	40%	40%	\$486
8 1 Bedroom	50%	50%	\$608
2 2 Bedrooms	30%	30%	\$438
2 2 Bedrooms	40%	40%	\$584
5 2 Bedrooms	40%	40%	\$584
7 2 Bedrooms	50%	50%	\$730
1 3 Bedrooms	30%	30%	\$505
2 3 Bedrooms	40%	40%	\$674
8 3 Bedrooms	50%	50%	\$842
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

**Project Cost Summary at Application**

Land and Acquisition	\$650,000
Construction Costs	\$15,569,193
Rehabilitation Costs	\$0
Construction Contingency	\$1,164,883
Relocation	\$0
Architectural/Engineering	\$700,000
Const. Interest, Perm. Financing	\$514,172
Legal Fees	\$100,000
Reserves	\$148,189
Other Costs	\$756,704
Developer Fee	\$2,135,767
Commercial Costs	\$0
<b>Total</b>	<b>\$21,738,908</b>

**Residential**

Construction Cost Per Square Foot:	\$294
Per Unit Cost:	\$494,066
True Cash Per Unit Cost*:	\$489,298

**Construction Financing**

Source	Amount
Pacific Western Bank	\$15,000,000
City of Arcata - HOME & CDGB	\$1,800,000
HCD - AHSC HRI	\$2,150,000
Tax Credit Equity	\$2,807,007

**Permanent Financing**

Source	Amount
Pacific Western Bank	\$900,000
City of Arcata - HOME & CDGE	\$1,800,000
Solar Tax Credit	\$198,000
HCD - AHSC HRI	\$2,150,000
Deferred Developer Fee	\$209,818
Tax Credit Equity	\$16,481,090
<b>TOTAL</b>	<b>\$21,738,908</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$15,328,123
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$19,926,560
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,791,423
Approved Developer Fee in Project Cost:	\$2,135,767
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	Raymond James
Federal Tax Credit Factor:	\$0.92000

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:	\$15,328,123
Actual Eligible Basis:	\$19,989,123
Unadjusted Threshold Basis Limit:	\$12,806,544
Total Adjusted Threshold Basis Limit:	\$19,518,253

**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 50% or more of annual tenant electricity use as indicated in TCAC Regulations.
- New construction: project buildings are at least 15% more energy efficient than 2016 Energy Efficiency Standards (California Code of Regulations, Title 24, Part 6) as indicated in TCAC Regulations.
- Irrigate only with reclaimed water, greywater, or rainwater (excepting water used for Community Gardens) or irrigate with reclaimed water, grey water, or rainwater in an amount that annually equals or exceeds 20,000 gallons or 300 gallons per unit, whichever is less.

Local Development Impact Fees  
 95% of Upper Floor Units are Elevator-Serviced  
 Highest or High Resource Opportunity Area

**Tie-Breaker Information**

First:	<b>Large Family</b>
Final:	<b>38.005%</b>

**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. 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 did not include the documents required for the threshold basis limit adjustment for the environmental remediation. Staff reduced the project's adjusted threshold basis limit accordingly which in turn reduced the maximum developer fee cost allowed for the project from \$2,153,858 to \$2,135,767. As a result of the effect of this on the gap analysis, the recommended annual federal credits was reduced to \$1,791,423, a \$1,967 reduction from the applicant's requested annual federal credits of \$1,793,390.

Staff noted that the preliminary architectural drawings lacks a detailed depiction or description of the play area for children ages 2-12. The applicant is cautioned that outdoor play/recreational space must be available and reasonable play equipment constructed for children ages 2-12 pursuant to 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, the City of Arcata, has completed a site review of this project and strongly supports this project.

### **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.

<b>Points System</b>	<b>Max. Possible Points</b>	<b>Requested Points</b>	<b>Points Awarded</b>
<b>Owner / Management Characteristics</b>	<b>9</b>	<b>9</b>	<b>9</b>
General Partner Experience	6	6	6
Management Experience	3	3	3
<b>Housing Needs</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Site Amenities</b>	<b>15</b>	<b>15</b>	<b>15</b>
Within ½ mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	3	3	3
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Within 1 mile of a public high school that project children may attend	3	3	3
Within 1 mile of medical clinic or hospital	3	3	3
Within 1 mile of a pharmacy	2	2	2
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
LARGE FAMILY HOUSING TYPE			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
Adult ed/health & wellness/skill bldg classes, min. 36 hrs/yr instruction	3	3	3
SPECIAL NEEDS HOUSING TYPE			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	0
Service Coordinator/Other Services Specialist, min. ratio 1 FTE to 360 bdms	5	5	0
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
NEW CONSTRUCTION			
Energy efficiency beyond CA Building Code Title 24 requirements: 12%	5	5	5
<b>Lowest Income</b>	<b>52</b>	<b>52</b>	<b>52</b>
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of Low Income Units @ 30% AMI or less	2	2	2
<b>Readiness to Proceed</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Miscellaneous Federal and State Policies</b>	<b>2</b>	<b>2</b>	<b>2</b>
Enhanced Accessibility and Visitability	2	2	2
<b>Total Points</b>	<b>113</b>	<b>113</b>	<b>113</b>

**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.**