CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
April 14, 2020

Hermosa Village Phase II, located at 1515 S. Calle Del Mar in Anaheim, requested and is being recommended for a reservation of $991,468 in annual federal tax credits to finance the acquisition and rehabilitation of 111 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 Related Irvine Development Company, LLC and is located in Senate District 29 and Assembly District 65.

Hermosa Village Phase II is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Jeffrey-Lynne Perimeter Neighborhood Revitalization (CA-03-035). See **Resyndication and Resyndication Transfer Event** below for additional information. The project is being recommended for a reservation of tax credits that will be preserve affordability for an additional 55 years.

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

Project Number CA-20-558

Project Name Hermosa Village Phase II

Site Address: 1515 S. Calle Del Mar (project address for 23 buildings)
Anaheim, CA 92802 County: Orange

Census Tract: 875.05

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$991,468	$0
Recommended:	$991,468	$0

Applicant Information

Applicant:	Hermosa Village Phase II Housing Partners, L.P.
Contact:	Frank Cardone
Address:	18201 Von Karman Avenue, Suite 900 Irvine CA 92612
Phone:	(949) 660-7272
Email:	fcardone@related.com

General Partner(s) or Principal Owner(s):	Related/Hermosa Village Phase II Development Co., LLC National Community Renaissance of California
General Partner Type:	Joint Venture
Parent Company(ies):	The Related Companies of California, LLC The Related Companies of California, LLC National Community Renaissance Corporation
Developer:	Related Irvine Development Company, LLC
Investor/Consultant:	U.S. Bancorp Community Development Corporation
Management Agent:	Related Management Company

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	23
Total # of Units:	112
No. / % of Low Income Units:	111 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt

Bond Information

Issuer:	City of Anaheim
Expected Date of Issuance:	June 30, 2020

Information

Housing Type:	Large Family
Geographic Area:	Orange County
TCAC Project Analyst:	Jack Waegell

55-Year Use / Affordability

Aggregate Targeting Number of Units		Percentage of Affordable Units
30% AMI:	13	12%
40% AMI:	17	15%
50% AMI:	71	64%
60% AMI:	10	9%

Unit Mix

14	1-Bedroom Units
55	2-Bedroom Units
43	3-Bedroom Units
112	Total Units

Unit Type & Number		2019 Rents Targeted % of Area Median Income	2019 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
1	1 Bedroom	30%	30%	$667
1	1 Bedroom	30%	30%	$667
2	1 Bedroom	40%	40%	$890
5	1 Bedroom	50%	50%	$1,113
4	1 Bedroom	50%	50%	$1,113
1	1 Bedroom	60%	60%	$1,335
3	2 Bedrooms	30%	30%	$801
4	2 Bedrooms	30%	30%	$801
3	2 Bedrooms	40%	40%	$1,069
7	2 Bedrooms	40%	40%	$1,069
21	2 Bedrooms	50%	50%	$1,336
12	2 Bedrooms	50%	50%	$1,336
1	2 Bedrooms	60%	60%	$1,603
3	2 Bedrooms	60%	60%	$1,603
3	3 Bedrooms	30%	30%	$925
1	3 Bedrooms	30%	30%	$925
2	3 Bedrooms	40%	40%	$1,234
3	3 Bedrooms	40%	40%	$1,234
23	3 Bedrooms	50%	50%	$1,543
6	3 Bedrooms	50%	50%	$1,543
3	3 Bedrooms	60%	60%	$1,851
2	3 Bedrooms	60%	60%	$1,851
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application	
Land and Acquisition	$18,180,000
Construction Costs	$0
Rehabilitation Costs	$8,095,718
Construction Hard Cost Contingency	$809,572
Soft Cost Contingency	$100,000
Relocation	$695,000
Architectural/Engineering	$1,078,008
Const. Interest, Perm. Financing	$2,049,804
Legal Fees	$200,000
Reserves	$406,000
Other Costs	$517,465
Developer Fee	$3,000,000
Commercial Costs	$0
Total	**$35,131,567**

Residential

Construction Cost Per Square Foot:	$78
Per Unit Cost:	$313,675
True Cash Per Unit Cost*:	$283,689

Construction Financing

Source	Amount
Citibank, N.A. - Tax-Exempt Bonds	$20,310,000
Citibank, N.A. - Taxable Loan	$1,071,410
Seller Carryback Note	$2,860,000
City of Anaheim - Assumed	$5,730,000
Accrued Interest - Seller Carryback	$118,404
Accrued Interest - City of Anaheim	$458,400
Existing Replacement Reserves	$137,000
Operating Reserve	$406,000
Operating Income	$994,353
Deferred Fees	$46,000
Deferred Developer Fee	$1,690,000
Tax Credit Equity	$1,310,000

Permanent Financing

Source	Amount
Citibank, N.A. - Loan	$12,375,000
Citibank, N.A. - Tranche B	$2,363,000
Seller Carryback Note	$2,860,000
City of Anaheim - Assumed	$5,730,000
Accrued Interest - Seller Carryback	$118,404
Accrued Interest - City of Anaheim	$458,400
Existing Replacement Reserves	$137,000
Operating Income	$994,353
Deferred Developer Fee	$380,000
Tax Credit Equity	$9,715,410
TOTAL	**$35,131,567**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$12,838,849
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	$17,762,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$12,838,849
Qualified Basis (Acquisition):	$17,762,000
Applicable Rate:	3.24%
Maximum Annual Federal Credit, Rehabilitation:	$415,979
Maximum Annual Federal Credit, Acquisition:	$575,489
Total Maximum Annual Federal Credit:	$991,468
Approved Developer Fee (in Project Cost & Eligible Basis):	$3,000,000
Investor/Consultant:	U.S. Bancorp Community Development Corporation
Federal Tax Credit Factor:	$0.97990

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:	$30,600,849
Actual Eligible Basis:	$30,600,849
Unadjusted Threshold Basis Limit:	$44,181,830
Total Adjusted Threshold Basis Limit:	$88,805,478

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: 79%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 22%

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 3.24% 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-03-035). 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. 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-03-035) 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 occurring concurrently with a Transfer Event with distribution of Net Project Equity in the amount of $1,444,194. The rehabilitation scope of work must include all of the Short Term Work in the amount of $6,437,560. The applicant's Transfer Event obligation is modified to exclude $1,444,194 of the Short Term Work from eligible basis.

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.

State tax credit recipients are limited to cash distributions from project operations pursuant to California Revenue and Taxation Code Section 12206(d). By accepting the tax credit reservation, the applicant/owner is agreeing to comply with the statutory limitations and requirements.

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.