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

Mercado Apartments, located at 2001 Newton Avenue in San Diego, requested and is being recommended for a reservation of $1,473,984 in annual federal tax credits to finance the acquisition and rehabilitation of 142 units of housing serving large families with rents affordable to households earning 35-60% of area median income (AMI). The project will be developed by Metropolitan Area Advisory Committee on Aniti-Poverty of San Diego County, Inc (MAAC) and is located in Senate District 40 and Assembly District 80.

Mercado Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Mercado Apartments (CA-1992-132). See **Resyndication and Resyndication Transfer Event** below for additional information.

Project Number CA-20-561

Project Name Mercado Apartments
Site Address: 2001 Newton Avenue
San Diego, CA 92113 County: San Diego
Census Tract: 50.00

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,473,984	$0
Recommended:	$1,473,984	$0

Applicant Information

Applicant:	Mercado 2019 LP
Contact:	Christopher Ramirez
Address:	1355 Third Avenue Chula Vista, CA 91911
Phone:	619-426-3595
Email:	cramirez@maacproject.org

General Partner(s) or Principal Owner(s):	Mercado MGP 2019 LLC
General Partner Type:	Nonprofit
Parent Company(ies):	Metropolitan Area Advisory Committee on Aniti-Poverty of San Diego County, Inc (MAAC)
Developer:	MAAC
Investor/Consultant:	Hunt Capital Partners
Management Agent:	MAAC

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	24
Total # of Units:	144
No. / % of Low Income Units:	142 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt

Bond Information

Issuer:	San Diego Housing Commission
Expected Date of Issuance:	December 10, 2019

Information

Housing Type:	Large Family
Geographic Area:	San Diego County
TCAC Project Analyst:	Marlene McDonough

55-Year Use / Affordability

Aggregate Targeting Number of Units		Percentage of Affordable Units
35% AMI:	56	39%
50% AMI:	5	4%
60% AMI:	81	57%

Unit Mix

18	1-Bedroom Units
60	2-Bedroom Units
66	3-Bedroom Units
144	Total Units

Unit Type & Number		2019 Rents Targeted % of Area Median Income	2019 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
11	1 Bedroom	60%	60%	$1,203
7	1 Bedroom	35%	35%	$702
37	2 Bedrooms	60%	60%	$1,444
2	2 Bedrooms	50%	50%	$1,203
21	2 Bedrooms	35%	35%	$842
33	3 Bedrooms	60%	60%	$1,669
3	3 Bedrooms	50%	50%	$1,391
28	3 Bedrooms	35%	35%	$973
2	3 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application	
Land and Acquisition	$23,195,000
Construction Costs	$0
Rehabilitation Costs	$9,891,072
Construction Hard Cost Contingency	$989,107
Soft Cost Contingency	$334,168
Relocation	$1,100,000
Architectural/Engineering	$265,000
Const. Interest, Perm. Financing	$2,170,974
Legal Fees	$225,000
Reserves	$447,312
Other Costs	$1,737,231
Developer Fee	$5,261,002
Commercial Costs	$0
Total	**$45,615,866**

Residential	
Construction Cost Per Square Foot:	$63
Per Unit Cost:	$316,777
True Cash Per Unit Cost*:	$228,593

Construction Financing

Source	Amount
California Bank & Trust	$26,060,517
California Bank & Trust - Taxable	$1,837,060
Seller Carryback Loan	$10,181,081
Accrued Interest	$579,000
Income from Operations	$646,025
Deferred Costs	$1,003,430
Foregone Developer Fee	$546,000
Deferred Developer Fee	$2,517,440
Tax Credit Equity	$2,245,313

Permanent Financing

Source	Amount
California Bank & Trust	$16,708,647
Seller Carryback Loan	$10,181,081
Accrued Interest	$579,000
Income from Operations	$646,025
Foregone Developer Fee	$546,000
Deferred Developer Fee	$2,517,440
Tax Credit Equity	$14,437,673
TOTAL	**$45,615,866**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$16,541,788
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$23,989,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$21,504,325
Qualified Basis (Acquisition):	$23,989,000
Applicable Rate:	3.24%
Maximum Annual Federal Credit, Rehabilitation:	$696,740
Maximum Annual Federal Credit, Acquisition:	$777,244
Total Maximum Annual Federal Credit:	$1,473,984
Approved Developer Fee (in Project Cost & Eligible Basis):	$5,457,439
Investor/Consultant:	Hunt Capital Partners
Federal Tax Credit Factor:	$0.97950

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:	$40,530,788
Actual Eligible Basis:	$40,530,788
Unadjusted Threshold Basis Limit:	$56,747,112
Total Adjusted Threshold Basis Limit:	$102,712,273

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: 3%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 78%

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-1992-132). 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-92-132 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. The rehabilitation scope of work shall include all of the Short Term Work in the amount of $1,309,580. The Short Term Work amount of $1,309,580 is excluded 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.