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

Scripps Mesa Apartments, located at 10380 Spring Canyon Road in San Diego, requested and is being recommended for a reservation of $986,580 in annual federal tax credits to finance the new construction of 53 units of housing serving tenants with rents affordable to households earning 50% AMI of area median income (AMI). The project will be developed by Monarch Essex Scripps, LLC and will be located in Senate District 38 and Assembly District 77.

**Project Number** CA-20-903

**Project Name** Scripps Mesa Apartments
Site Address: 10380 Spring Canyon Road
San Diego, CA 92131 County: San Diego
Census Tract: 170.44

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $986,580 | $0 |
| Recommended: | $986,580 | $0 |

**Applicant Information**
Applicant: Scripps Mesa Apartments, L.P.
Contact: Adam Berry
Address: 1100 Park Place, Suite 200
San Mateo, CA 94403
Phone: (650) 655-7921
Email: aberry@essex.com

General Partner(s) or Principal Owner(s): Monarch Essex Scripps GP, LLC
AOF/Pacific Affordable Housing Corp.
General Partner Type: Joint Venture
Parent Company(ies): Essex Property Trust, Inc.
Essex Property Trust, Inc.
The American Opportunity Foundation, Inc.
Developer: Monarch Essex Scripps, LLC
Investor/Consultant: RBC Tax Credit Equity, LLC
Management Agent: Essex Property Management

**Project Information**

| | |
|---|---|
| Construction Type: | New Construction |
| Total # Residential Buildings: | 1 |
| Total # of Units: | 53 |
| No. / % of Low Income Units: | 53 100.00% |
| Federal Set-Aside Elected: | 20%/50% |
| Federal Subsidy: | Tax-Exempt |

**Bond Information**

| | |
|---|---|
| Issuer: | Housing Authority of the City of San Diego |
| Expected Date of Issuance: | April 1, 2020 |

**Information**

| | |
|---|---|
| Housing Type: | Non-Targeted |
| Geographic Area: | San Diego County |
| TCAC Project Analyst: | Sara Dixon |

**55-Year Use / Affordability**

| Aggregate Targeting | Number of Units | Percentage of Affordable Units |
|---|---|---|
| 50% AMI: | 53 | 100% |

**Unit Mix**

| | |
|---|---|
| 18 | 1-Bedroom Units |
| 29 | 2-Bedroom Units |
| 6 | 3-Bedroom Units |
| 53 | Total Units |

| Unit Type & Number | | 2019 Rents Targeted % of Area Median Income | 2019 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|---|
| 18 | 1 Bedroom | 50% | 50% | $1,003 |
| 29 | 2 Bedrooms | 50% | 50% | $1,203 |
| 6 | 3 Bedrooms | 50% | 50% | $1,391 |

| **Project Cost Summary at Application** | |
|---|---|
| Land and Acquisition | $735,763 |
| Construction Costs | $14,847,670 |
| Rehabilitation Costs | $0 |
| Construction Hard Cost Contingency | $1,507,603 |
| Soft Cost Contingency | $100,000 |
| Relocation | $0 |
| Architectural/Engineering | $715,197 |
| Const. Interest, Perm. Financing | $1,915,789 |
| Legal Fees | $112,045 |
| Reserves | $200,000 |
| Other Costs | $1,423,729 |
| Developer Fee | $3,000,000 |
| Commercial Costs | $0 |
| **Total** | **$24,557,796** |

| **Residential** | |
|---|---|
| Construction Cost Per Square Foot: | $273 |
| Per Unit Cost: | $463,355 |
| True Cash Per Unit Cost*: | $453,921 |

**Construction Financing**

| Source | Amount |
|---|---|
| Bank of America, N.A. | $15,000,000 |
| GP Equity | $6,169,963 |
| Deferred Developer Fee | $2,500,000 |
| Tax Credit Equity | $887,833 |

**Permanent Financing**

| Source | Amount |
|---|---|
| Bank of America, N.A. | $3,400,000 |
| GP Equity | $11,779,468 |
| Deferred Developer Fee | $500,000 |
| Tax Credit Equity | $8,878,328 |
| **TOTAL** | **$24,557,796** |

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

| **Determination of Credit Amount(s)** | |
|---|---|
| Requested Eligible Basis: | $23,423,072 |
| 130% High Cost Adjustment: | Yes |
| Applicable Fraction: | 100.00% |
| Qualified Basis: | $30,449,994 |
| Applicable Rate: | 3.24% |
| Maximum Annual Federal Credit: | $986,580 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | $3,000,000 |
| Investor/Consultant: | RBC Tax Credit Equity, LLC |
| Federal Tax Credit Factor: | $0.89991 |

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: | $23,423,072 |
| Actual Eligible Basis: | $23,423,072 |
| Unadjusted Threshold Basis Limit: | $18,370,312 |
| Total Adjusted Threshold Basis Limit: | $35,419,620 |

**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: 93%

**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**

The 53 affordable units that comprise Scripps Mesa Apartments will be part of a larger development consisting of 264 total units. At placed in service the applicant must clearly delineate any costs that tenants incur to access any common areas, the ownership structure of these areas, the costs attributed to them, and if these costs were included in eligible basis. In addition, the affordable project must meet the managers unit regulatory requirement. The applicant states the project will be subdivided into various condominium air rights to allow for separate ownership of the market rate units and the affordable units.

**Resyndication and Resyndication Transfer Event:** None.

**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.