

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
April 14, 2020**

Block 7 Downtown Apartments, located on the east side of California Street between Butte Street and Yuba Street in Redding, requested and is being recommended for a reservation of \$2,390,544 in annual federal tax credits and \$5,335,022 in total state tax credits to finance the new construction of 77 units of housing serving tenants with rents affordable to households earning 30-80% of area median income (AMI). The project will be developed by ADK Properties LLC and will be located in Senate District 1 and Assembly District 1.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers. The project financing includes state funding from the AHSC program of HCD.

Project Number CA-20-579

Project Name Block 7 Downtown Apartments

Site Address: East side of California Street between Butte Street and Yuba Street
Redding, CA 96001 County: Shasta

Census Tract: 101.00

Tax Credit Amounts	Federal/Annual	State/Total *
Requested:	\$2,390,544	\$5,335,022
Recommended:	\$2,390,544	\$5,335,022

* The applicant made an election not to sell (Certificate) any portion of the state credits.

Applicant Information

Applicant: Block 7 Downtown Investors, LP

Contact: Daniel Knott

Address: 1011 Parkview Avenue, Suite A
Redding, CA 96001

Phone: (530) 244-0595

Email: dknott@k2dci.com

General Partner(s) or Principal Owner(s): Block 7 Downtown Investors, LLC
Community Revitalization and Development Corporation

General Partner Type: Joint Venture

Parent Company(ies): K2 Land & Investment, LLC
Community Revitalization and Development Corporation

Developer: ADK Properties LLC

Investor/Consultant: The Richman Group

Management Agent: FPI Management

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 78
 No. / % of Low Income Units: 77 100.00%
 Federal Set-Aside Elected: 40%/60% Average Income
 Federal Subsidy: Tax-Exempt / HUD Section 8 Project-based Vouchers (81% - 63 Units)

Bond Information

Issuer: California Statewide Communities Development Authority
 Expected Date of Issuance: June 1, 2020

Information

Housing Type: Non-Targeted
 Geographic Area: Northern Region
 TCAC Project Analyst: Jack Waegell

55-Year Use / Affordability

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
30% AMI: 32	42%
60% AMI: 31	40%
80% AMI: 14	18%

Unit Mix

15 1-Bedroom Units
63 2-Bedroom Units
<u>78 Total Units</u>

<u>Unit Type & Number</u>	<u>2019 Rents Targeted % of Area Median Income</u>	<u>2019 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
8 1 Bedroom	30%	28%	\$340
5 1 Bedroom	60%	60%	\$729
2 1 Bedroom	80%	68%	\$830
24 2 Bedrooms	30%	30%	\$438
26 2 Bedrooms	60%	60%	\$876
12 2 Bedrooms	80%	74%	\$1,080
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$1,956,000
Construction Costs	\$37,247,431
Rehabilitation Costs	\$0
Construction Hard Cost Contingency	\$1,856,526
Soft Cost Contingency	\$244,500
Relocation	\$0
Architectural/Engineering	\$2,445,000
Const. Interest, Perm. Financing	\$2,772,117
Legal Fees	\$223,041
Reserves	\$507,091
Other Costs	\$5,868,014
Developer Fee	\$6,659,701
Commercial Costs	\$1,207,847
Total	\$60,987,268

Residential

Construction Cost Per Square Foot:	\$324
Per Unit Cost:	\$766,403
True Cash Per Unit Cost*:	\$753,860

Construction Financing

Source	Amount
Citi Community Capital	\$33,999,652
City of Redding AHSC Loan	\$6,359,202
City of Redding Loan	\$7,862,000
Deferred Developer Fee	\$2,419,000
Developer Fee Contribution	\$3,309,511
Tax Credit Equity	\$7,037,903

Permanent Financing

Source	Amount
Citi Community Capital	\$6,813,590
Block 7 Retail Investors, LLC	\$1,207,847
HCD AHSC Loan	\$7,508,416
City of Redding AHSC Loan	\$6,359,202
City of Redding Loan	\$7,862,000
Deferred Developer Fee	\$978,374
Developer Fee Contribution	\$3,309,511
Solar Credit Equity	\$689,931
Tax Credit Equity	\$26,258,397
TOTAL	\$60,987,268

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$56,755,559
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$73,782,227
Applicable Rate:	3.24%
Total Maximum Annual Federal Credit:	\$2,390,544
Total State Credit:	\$5,335,022
Approved Developer Fee (in Project Cost & Eligible Basis):	\$6,659,701
Investor/Consultant:	The Richman Group
Federal Tax Credit Factor:	\$0.91991
State Tax Credit Factor:	\$0.79992

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:	\$56,755,559
Actual Eligible Basis:	\$56,755,559
Unadjusted Threshold Basis Limit:	\$29,570,520
Total Adjusted Threshold Basis Limit:	\$70,268,640

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
- Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels
- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced
- 55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income and Market Rate Units are Income Targeted at 35% AMI or Below: 82%

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 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 project's estimated per unit cost is \$766,403. This project is to be located on a site which requires the demolition of a parking structure. As the site is under the city's Downtown Specific Plan the project will be required to provide replacement parking. This demolition and construction of replacement parking will contribute an estimated \$5,960,000, or \$76,410 per unit, to the project's estimated cost. The project is also funded in part with AHSC program funds for incorporating infrastructure and transit related improvements with affordable housing. As part of transit related improvements this project will incur an estimated \$2,709,202, or \$34,293 per unit, for the creation of bike corridor connecting the project to local bike trails and neighboring transit station and bus shelter. The project will install Net Zero energy photovoltaic system at an estimated cost of \$3,000,000, or \$37,974 per unit. In addition, the project is required to pay prevailing wages and is located in a Federally Recognized Disaster Area with a high demand for labor and materials further contributing to the project's cost.

Within 180 days of the reservation the applicant must provide TCAC the commitment from the Housing Authority of the City of Redding for the project-based vouchers committed to this project. The commitment must verify the requirements of TCAC regulation section 10322(h)(22), which includes the number of units receiving vouchers by unit size and the monthly contract rent for each unit size.

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.