

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2020 First Round**

**July 15, 2020**

Kernwood Terrace Apartments, located at 337 North Mednik Avenue in East Los Angeles, requested and is being recommended for a reservation of \$807,132 in annual federal tax credits to finance the acquisition and rehabilitation of 50 units of housing with rents affordable to households earning 30%-50% of area median income (AMI). The project will be developed by Community Preservation Partner, LLC and is located in Senate District 24 and Assembly District 51.

The project is currently at-risk, but 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-20-060

**Project Name** Kernwood Terrace Apartments  
**Site Address:** 337 North Mednik Avenue  
East Los Angeles, CA 90022 County: Los Angeles  
**Census Tract:** 5305.000

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$807,132	\$0
Recommended:	\$807,132	\$0

**Applicant Information**

**Applicant:** Kernwood Terrace Community Partners, LP  
**Contact:** Lyna Wang  
**Address:** 17782 Sky Park Circle  
Irvine, CA 92614  
**Phone:** (949) 236-8169  
**Email:** Lwang@cpp-housing.com

**General Partner(s) / Principal Owner(s):** WNC - Kernwood Terrace GP, LLC  
FFAH II Kernwood Terrace LLC  
**General Partner Type:** Joint Venture  
**Parent Company(ies):** WNC Development Partners, LLC  
Foundation for Affordable Housing II, Inc.  
**Developer:** Community Preservation Partner, LLC  
**Investor/Consultant:** Berkadia Affordable Tax Credit Solutions  
**Management Agent(s):** FPI Management Inc.

**Project Information**

**Construction Type:** Acquisition & Rehabilitation  
**Total # Residential Buildings:** 3  
**Total # of Units:** 51  
**No. & % of Tax Credit Units:** 50 100%  
**Federal Set-Aside Elected:** 40%/60%  
**Federal Subsidy:** HUD Section 8 Project-based Vouchers (50 units - 100%)

**Information**

Set-Aside: At-Risk  
Housing Type: At-Risk  
Geographic Area: Balance of Los Angeles County  
TCAC Project Analyst: Ruben Barcelo

**55-Year Use / Affordability**

<u>Aggregate Targeting</u>	<u>Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI:	6	10%
At or Below 45% AMI:	10	20%
At or Below 50% AMI:	34	40%

**Unit Mix**

14 SRO/Studio Units
36 1-Bedroom Units
1 2-Bedroom Units
<u>51 Total Units</u>

<u>Unit Type &amp; 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>
2 SRO/Studio	30%	30%	\$548
4 1 Bedroom	30%	30%	\$587
5 SRO/Studio	45%	45%	\$822
5 1 Bedroom	45%	45%	\$881
7 SRO/Studio	50%	50%	\$913
22 1 Bedroom	50%	50%	\$979
5 1 Bedroom	50%	50%	\$979
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$1,124

**Project Cost Summary at Application**

Land and Acquisition	\$11,100,000
Construction Costs	\$0
Rehabilitation Costs	\$3,865,291
Construction Contingency	\$386,529
Relocation	\$38,250
Architectural/Engineering	\$222,000
Const. Interest, Perm. Financing	\$1,104,978
Legal Fees	\$215,000
Reserves	\$228,000
Other Costs	\$308,223
Developer Fee	\$1,424,221
Commercial Costs	\$0
<b>Total</b>	<b>\$18,892,492</b>

**Residential**

Construction Cost Per Square Foot:	\$125
Per Unit Cost:	\$370,441
True Cash Per Unit Cost*:	\$364,150

<b>Construction Financing</b>		<b>Permanent Financing</b>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Pacific Western Bank	\$12,090,800	Berkadia Commercial Mortgage LLC	\$10,140,000
NOI/Capitalized Interest	\$763,871	NOI/Capitalized Interest	\$763,871
Developer Equity	\$401,481	Deferred Developer Fee	\$320,867
Tax Credit Equity	\$5,636,340	Tax Credit Equity	\$7,667,754
		<b>TOTAL</b>	<b>\$18,892,492</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation):	\$6,898,566
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$8,968,136
Applicable Rate:	9.00%
Applicable Rate:	3.24%
Total Maximum Annual Federal Credit:	\$807,132
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,424,221
Investor/Consultant:	Berkadia Affordable Tax Credit Solutions
Federal Tax Credit Factor:	\$0.95000

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:	\$6,898,566
Actual Eligible Basis:	\$17,911,125
Unadjusted Threshold Basis Limit:	\$14,465,756
Total Adjusted Threshold Basis Limit:	\$15,912,332

**Adjustments to Basis Limit**

95% of Upper Floor Units are Elevator-Serviced.

**Tie-Breaker Information**

First:	<b>At-Risk</b>
Final:	<b>29.180%</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, or, in the case of acquisition credit or credit combined with federal subsidies, 3.24%. 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:** 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 has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

**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.

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 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 minutes in rush hours	6	6	6
Within ½ mile of public park or community center open to general public	3	3	3
Within ½ mile of public library	3	3	3
Within ½ mile of a weekly farmers' market operating at least 5 months/year	2	2	2
Within 1 mile of a pharmacy	1	1	1
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
Health & wellness services and programs, minimum 60 hrs per 100 bdrms	3	3	3
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating): 20.0%	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>
Smoke Free Residence	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.**