

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2020 Second Round

October 14, 2020

Kennett Court Apartments Phase II, located at 1155 Lake Boulevard in Redding, requested and is being recommended for a reservation of \$1,490,355 in annual federal tax credits to finance the new construction of 47 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 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.

Project Number CA-20-105

Project Name Kennett Court Apartments Phase II

Site Address: 1155 Lake Boulevard
Redding, CA 96003 County: Shasta

Census Tract: 107.040

Tax Credit Amounts	Federal/Annual *	State/Total
Requested:	\$1,490,355	\$0
Recommended:	\$1,490,355	\$0

* Further Consolidated Appropriations Act, 2020 (FCAA) Credits

Applicant Information

Applicant: Kennett Investors II LP

Contact: Daniel Knott

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

Phone: (530) 244-0595

Email: dknott@k2dci.com

General Partner(s) / Principal Owner(s): Community Revitalization and Development Corporaiton
Kennett Investors II, LLC

General Partner Type: Joint Venture

Parent Company(ies): Kennett Investors II, LLC
ADK Properties, LLC

Developer: ADK Properties LLC

Investor/Consultant: Raymond James

Management Agent(s): MBS Property Management, Inc.

Project Information

Construction Type: New Construction

Total # Residential Buildings: 2

Total # of Units: 48

Total # of Tax Credit Units: 48

No. & % of Low Income Units: 47 100%

Federal Set-Aside Elected: 40%/60%

Federal Subsidy: HUD Section 8 Project Based Vouchers (31 units - 66%)

Information

County Allocation: Shasta
 Housing Type: Large Family
 TCAC Project Analyst: Jonghyun(Tommy) Shim

55-Year Use / Affordability

<u>Aggregate Targeting</u>	<u>Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI:	8	15%
At or Below 40% AMI:	5	10%
At or Below 50% AMI:	18	35%
At or Below 60% AMI:	16	30%

Unit Mix

12 1-Bedroom Units
24 2-Bedroom Units
12 3-Bedroom Units
48 Total Units

<u>Unit Type & Number</u>	<u>2020 Rents Targeted % of Area Median Income</u>	<u>2020 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
2 1 Bedroom	30%	30%	\$393
1 1 Bedroom	40%	40%	\$525
6 1 Bedroom	50%	50%	\$656
3 1 Bedroom	60%	60%	\$787
3 2 Bedrooms	30%	30%	\$472
2 2 Bedrooms	40%	40%	\$630
8 2 Bedrooms	50%	50%	\$787
10 2 Bedrooms	60%	60%	\$945
3 3 Bedrooms	60%	30%	\$545
2 3 Bedrooms	30%	40%	\$727
4 3 Bedrooms	40%	50%	\$908
3 3 Bedrooms	50%	60%	\$1,090
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$960,000
Construction Costs	\$11,610,856
Rehabilitation Costs	\$0
Construction Contingency	\$630,793
Relocation	\$0
Architectural/Engineering	\$530,000
Const. Interest, Perm. Financing	\$1,190,748
Legal Fees	\$172,500
Reserves	\$120,505
Other Costs	\$1,264,083
Developer Fee	\$2,200,000
Commercial Costs	\$0
Total	\$18,679,485

Residential

Construction Cost Per Square Foot:	\$239
Per Unit Cost:	\$389,156
True Cash Per Unit Cost*:	\$370,878

Construction Financing		Permanent Financing	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citi Community Capital	\$15,493,358	Citi Community Capital	\$4,090,892
Deferred Developer Fee	\$1,815,000	Deferred Developer Fee	\$877,326
Tax Credit Equity	\$1,371,127	Tax Credit Equity	\$13,711,267
		TOTAL	\$18,679,485

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$12,738,078
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$16,559,501
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,490,355
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,200,000
Investor/Consultant:	Raymond James
Federal Tax Credit Factor:	\$0.92000

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:	\$12,738,078
Actual Eligible Basis:	\$16,988,078
Unadjusted Threshold Basis Limit:	\$16,370,256
Total Adjusted Threshold Basis Limit:	\$21,543,456

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

One or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:

- Project has onsite renewable generation estimated to produce 50% or more of annual tenant electricity use as indicated in TCAC Regulations.
 - Project has onsite renewable generation estimated to produce 75% or more of annual common area electricity use as indicated in TCAC Regulations.
 - Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all interior floor space other than units (where no VOC adhesives or backing is also used)
 - For new construction projects, meet all requirements of US EPA Indoor Air Plus Program.
- Local Development Impact Fees

Tie-Breaker Information

First: **Letter of Support**
Second: **\$31,049.06**

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

The applicant's estimate of contractor profit, overhead and general requirement costs exceeds TCAC limit of 14%. The applicant is cautioned that at final review, prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceeds the limits will not be allowed.

This project is the first phase of a concurrent 9% application, Kennett Court Senior Apartments (CA-20-107). Both projects are located on a 4.91-acre lot using the same credit type. Phase I and Phase II are adjacent and have the same team members, including the developer, applicant, general partners, and management company. Construction start and completion are planned to be greater than six months apart and so are not required to comply with the simultaneous developer fee limit of TCAC regulation section 10327(c)(2)(C). However, if the actual construction periods of the phases as evidenced in the placed in service application are within six months, the simultaneous phase developer fee limit of TCAC regulation section 10327(c)(2)(C) will apply to both Phase I and Phase II and the developer fees shall be reduced to comply with the maximum developer fee for simultaneous phases. Construction start date evidence will be provided by the general contractor and construction completion date evidence will be all certificates of occupancy, including any temporary certificates of occupancy.

The current legal description is part of a larger site and the project site's parcel (legal description and APN) have not yet been finalized. The legal description and APN for the project must be completed as part of the placed in service package.

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, City of Redding Housing Division, has completed a site review of this project and strongly supports this project.

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 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 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.

Points System	Max. Possible Points	Requested Points	Points Awarded
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Service Amenities	10	10	10
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
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of Low Income Units @ 30% AMI or less	2	2	2
Total Points	81	81	81

DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL REAPPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.