

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2020 Second Round**

**October 14, 2020**

Towne I, located at 713 E. 5th Street in Los Angeles, requested and is being recommended for a reservation of \$1,394,671 in annual federal tax credits to finance the new construction of 50 units of housing serving special needs tenants with rents affordable to households earning 30% of area median income (AMI). The project will be developed by The Skid Row Housing Trust and will be located in Senate District 22 and Assembly District 46.

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

**Project Number** CA-20-111  
**Project Name** Towne I  
**Site Address:** 713 E. 5th Street  
Los Angeles, CA 90013 County: Los Angeles  
**Census Tract:** 2062.000

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$1,394,671	\$0
Recommended:	\$1,394,671	\$0

**Applicant Information**

**Applicant:** 713 5th Street LP  
**Contact:** Greg Smith  
**Address:** 1317 E. 7th Street  
Los Angeles, CA 90021  
**Phone:** 949-929-0890  
**Email:** greg.smith@skidrow.org

**General Partner(s) / Principal Owner(s):** 713 5th Street GP LLC  
**General Partner Type:** Nonprofit  
**Parent Company(ies):** The Skid Row Housing Trust  
**Developer:** The Skid Row Housing Trust  
**Investor/Consultant:** California Housing Partnership Corporation  
**Management Agent(s):** SRHT Property Management Company

**Project Information**

**Construction Type:** New Construction  
**Total # Residential Buildings:** 1  
**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%) / HOME

**Information**

**Set-Aside:** N/A  
**Housing Type:** Special Needs  
**Average Targeted Affordability of Special Needs/SRO Project Units:** 30.00%  
**% of Special Need Units** 50 units 100%  
**Geographic Area:** City of Los Angeles  
**TCAC Project Analyst:** Ruben Barcelo

**55-Year Use / Affordability**

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI: 50	80%

**Unit Mix**

50 SRO/Studio Units
1 2-Bedroom Units
51 Total Units

<u>Unit Type &amp; 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>
50 SRO/Studio	30%	30%	\$591
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

**Project Cost Summary at Application**

Land and Acquisition	\$4,251,378
Construction Costs	\$15,313,840
Rehabilitation Costs	\$0
Construction Contingency	\$974,944
Relocation	\$0
Architectural/Engineering	\$1,522,552
Const. Interest, Perm. Financing	\$1,473,558
Legal Fees	\$125,000
Reserves	\$657,219
Other Costs	\$1,343,614
Developer Fee	\$2,200,000
Commercial Costs	\$0
<b>Total</b>	<b>\$27,862,105</b>

**Residential**

Construction Cost Per Square Foot:	\$464
Per Unit Cost:	\$546,316
True Cash Per Unit Cost*:	\$546,316

<b>Construction Financing</b>		<b>Permanent Financing</b>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citibank	\$13,794,076	Citibank	\$3,731,100
HCIDLA Recast Loan	\$1,224,459	HCIDLA Recast Loan	\$1,224,459
HCD CHRP Recast Loan	\$1,925,219	HCD CHRP Recast Loan	\$1,925,219
HCIDLA HOME Loan	\$1,530,000	HCIDLA HOME Loan	\$1,700,000
Los Angeles County NPLH Loan	\$6,300,000	Los Angeles County NPLH Loan	\$7,000,000
Deferred Costs	\$1,977,218	Tax Credit Equity	\$12,281,327
Tax Credit Equity	\$1,111,133	<b>TOTAL</b>	<b>\$27,862,105</b>

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

### Determination of Credit Amount(s)

Requested Eligible Basis:	\$11,920,262
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$15,496,341
Applicable Rate:	9.00%
Applicable Rate:	3.24%
Total Maximum Annual Federal Credit:	\$1,394,671
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,200,000
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$0.88059

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:	\$11,920,262
Actual Eligible Basis:	\$22,850,762
Unadjusted Threshold Basis Limit:	\$13,065,500
Total Adjusted Threshold Basis Limit:	\$18,694,226

### 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

100% of the Low Income Units for Special Needs Population

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

- Install bamboo, stained concrete, cork, salvaged or FSC-Certified wood, natural linoleum, natural rubber, or ceramic tile in all kitchens, living rooms, and bathrooms (where no VOC adhesives or backing is used).
- 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).

Local Development Impact Fees

95% of Upper Floor Units are Elevator-Serviced

### Tie-Breaker Information

First:	<b>Special Needs</b>
Final:	<b>71.654%</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 noted a transition reserve of \$491,950 required by the project's Los Angeles County NPLH funding source. 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**

Development cost is over \$546,000 per unit. A factor driving this cost is the high cost of real estate, labor and building materials in the Los Angeles region. Also affecting cost is the requirement for complete demolition of the existing building and a requirement to maintain an NPLH transition reserve.

Towne I a demolition and reconstruction of an existing tax credit project, Edward Hotel, located at 713 E. 5th Street (CA-94-042). The original 3-story project consisted of 47 units that will be demolished to develop an 8-level building with 50 low-income units (new construction) that includes ground-level parking, two levels of resident amenity areas, and a roof terrace.

At the time of the construction closing, due to the demolition of the building, there will be a termination of the existing TCAC regulatory agreement (CA-94-042). At that time, a regulatory agreement will be executed by the applicant and TCAC for 47 units at the same income levels and bedroom count as the units being demolished. TCAC will not enforce this regulatory agreement as long as construction proceeds to completion. When Towne I is placed in service, a TCAC regulatory agreement will be executed and the 47-unit regulatory agreement will be terminated. There will be no grandfathering of tenants from the Edward Hotel, as CA-20-111 is a separate new construction project. If tenants from the Edward Hotel return to the newly constructed Towne I, they must be income-qualified at the time of their return.

This project involves an existing tax credit project (CA-94-042) that is being demolished. This project is occurring concurrently with a Transfer Event without distribution of Net Project Equity, and thus is waived from setting aside a Short Term Work Capitalized Replacement Reserve that is otherwise required.

The proposed rent does not include a utility allowance. The owner will pay for all utilities.

**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 1/8 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1/2 mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Special Needs project within 1/2 mile of facility serving tenant population	3	3	3
Within 1/2 mile of medical clinic or hospital	3	3	3
#REF!	2	2	2
In-unit high speed internet service	2	2	2
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>SPECIAL NEEDS HOUSING TYPE</b>			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	5
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	5	5	5
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>NEW CONSTRUCTION/ADAPTIVE REUSE</b>			
Develop project in accordance w/ requirements: LEED	5	5	5
Energy efficiency beyond 2019 CA Building Code Title 24: 7%	3	3	3
<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>
Enhanced Accessibility and Visitability	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.**