

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2020 Second Round**

**October 14, 2020**

Hovley Gardens 1R Apartments, located at 74501 42nd Avenue in Palm Desert, requested for a reservation of \$922,657 in annual federal tax credits, but is being recommended for a reservation of \$921,884 in annual federal tax credits to finance the rehabilitation of 162 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 D.L. Horn & Associates and will be located in Senate District 28 and Assembly District 42.

Hovley Gardens 1R Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Hovley Gardens (CA-01-103). See Resyndication and Resyndication Transfer Event below for additional information.

**Project Number** CA-20-148

**Project Name** Hovley Gardens 1R Apartments  
**Site Address:** 74501 42nd Avenue  
Palm Desert, CA 92260 County: Riverside  
**Census Tract:** 449.300

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$922,657	\$0
Recommended:	\$921,884	\$0

**Applicant Information**

**Applicant:** PD Hovley 1R Limited Partnership  
**Contact:** Erik Halter  
**Address:** 100 Pacifica, Suite 203  
Irvine, CA 92618  
**Phone:** (949) 625-6419  
**Email:** ehalter@palmcommunities.com

**General Partner(s) / Principal Owner(s):** Palm Communities  
Housing Corporation of America  
**General Partner Type:** Joint Venture  
**Parent Company(ies):** Palm Communities  
**Developer:** D.L. Horn & Associates  
**Investor/Consultant:** Boston Capital  
**Management Agent(s):** ConAm Management Corp.

**Project Information**

**Construction Type:** Rehabilitation Only  
**Total # Residential Buildings:** 16  
**Total # of Units:** 163  
**No. & % of Tax Credit Units:** 162 100%  
**Federal Set-Aside Elected:** 40%/60%

**Information**

Set-Aside: N/A  
 Housing Type: Large Family  
 Geographic Area: Inland Empire Region  
 TCAC Project Analyst: Jonghyun(Tommy), Shim

**55-Year Use / Affordability**

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
At or Below 30% AMI:	18 10%
At or Below 45% AMI:	55 30%
At or Below 50% AMI:	82 40%
At or Below 60% AMI:	7 5%

**Unit Mix**

72 2-Bedroom Units  
 73 3-Bedroom Units  
 18 4-Bedroom Units  


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 163 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>
8 2 Bedrooms	30%	25%	\$424
25 2 Bedrooms	45%	37%	\$635
37 2 Bedrooms	50%	42%	\$706
2 2 Bedrooms	60%	50%	\$847
8 3 Bedrooms	30%	25%	\$490
25 3 Bedrooms	45%	37%	\$734
36 3 Bedrooms	50%	42%	\$816
3 3 Bedrooms	60%	50%	\$979
2 4 Bedrooms	30%	25%	\$546
5 4 Bedrooms	45%	38%	\$819
9 4 Bedrooms	50%	42%	\$910
2 4 Bedrooms	60%	50%	\$1,092
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$861

**Project Cost Summary at Application**

Land and Acquisition	\$7,918,516
Construction Costs	\$0
Rehabilitation Costs	\$7,453,428
Construction Contingency	\$350,000
Relocation	\$163,000
Architectural/Engineering	\$187,000
Const. Interest, Perm. Financing	\$863,873
Legal Fees	\$120,000
Reserves	\$300,071
Other Costs	\$848,326
Developer Fee	\$1,374,174
Commercial Costs	\$0
<b>Total</b>	<b>\$19,578,388</b>

**Residential**

Construction Cost Per Square Foot:	\$43
Per Unit Cost:	\$120,113
True Cash Per Unit Cost*:	\$118,693

<b>Construction Financing</b>		<b>Permanent Financing</b>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Banner Bank	\$10,788,683	Banner Bank	\$5,344,235
Palm Desert Housing Authority	\$5,148,813	Palm Desert Housing Authority	\$5,148,813
Existing Reserves	\$123,866	Existing Reserves	\$123,866
Operating Income	\$497,212	Operating Income	\$710,303
Deferred Developer Fee	\$2,223,787	Deferred Developer Fee	\$231,470
Tax Credit Equity	\$802,630	Tax Credit Equity	\$8,019,701
		<b>TOTAL</b>	<b>\$19,578,388</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$7,879,351
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$10,243,156
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$921,884
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,374,174
Investor/Consultant:	Boston Capital
Federal Tax Credit Factor:	\$0.86993

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:	\$7,879,351
Actual Eligible Basis:	\$10,535,335
Unadjusted Threshold Basis Limit:	\$61,307,450
Total Adjusted Threshold Basis Limit:	\$61,307,450

**Adjustments to Basis Limit:** None.

**Tie-Breaker Information**

First:	<b>Large Family</b>
Final:	<b>46.201%</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**

The project has designated one onsite manager unit for 162 tenant units in the existing regulatory agreement and this application. The applicant has successfully managed this property with one onsite manager unit therefore a waiver to the manager unit requirement has been granted. TCAC reserves the right to require that one or more on-site managers' units be provided and occupied by property management staff if, in its sole discretion, it determines as part of any on-site inspection that the project has not been adequately operated and/or maintained.

### **Resyndication and Resyndication Transfer Event**

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing

As required by the IRS, the newly resyndicated project will continue to use the originally assigned Building Identification Numbers (BINs).

The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s). Existing households determined to be income-qualified for purposes of IRC §42 credit during the 15-year compliance period are concurrently income-qualified households for purposes of the extended use agreement. As a result, any household determined to be income qualified at the time of move-in under the existing regulatory agreement (CA-01-013) is a qualified low-income household for the subsequent allocation (existing household eligibility is "grandfathered").

The project is a resyndication where the existing regulatory agreement requires service amenities. The project shall provide a similar or greater level of services for a period of at least 15 years under the new regulatory agreement. The project is deemed to have met this requirement based on TCAC staff's review of the commitment in the application. The services documented in the placed in service package will be reviewed by TCAC staff for compliance with this requirement at the time of the placed in service submission.

The project is a re-syndication occurring concurrently with a Transfer Event with distribution of Net Project Equity, which is otherwise required to set aside a Short Term Work Capitalized Replacement Reserve in the amount of \$981,484. In lieu of a Short Term Work Capitalized Reserve, the seller of the project will give a credit in the amount of \$981,484, allowing the applicant to use Short Term Work Reserve Amount to fund rehabilitation expenses and to receive eligible basis for that amount.

### **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 ¼ mile of transit (van or dial-a-ride service for rural set-aside)	4	4	4
Within ½ mile of public park or community center open to general public	3	3	3
Within 1½ miles of a full-scale grocery/supermarket of at least 25,000 sf	3	3	3
Within 1 mile of a public High School	3	3	3
In-unit high speed internet service	2	2	2
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES</b>			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
After school program for school age children, minimum of 6 hours/week	3	3	3
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>REHABILITATION</b>			
Rehabilitate to improve energy efficiency (change in HERS II rating 15.0%)	3	3	3
PV that offsets either 50% of common area load or 90% of solar accessible roof area	2	2	2
<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>
State Credit Substitution	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.**