**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**
**Project Staff Report**
**Tax-Exempt Bond Project**
**August 11, 2021**

Valley Terrace Apartments, located at 982 Toomes Street in Corning, requested and is being recommended for a reservation of $299,730 in annual federal tax credits to finance the acquisition and rehabilitation of 47 units of housing serving tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Highland Property Development and is located in Senate District 4 and Assembly District 3.

Valley Terrace Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Valley Terrace Apartments (CA-05-806). See **Resyndication and Resyndication Transfer Event** below for additional information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

**Project Number** CA-21-600

**Project Name** Valley Terrace Apartments
Site Address: 982 Toomes Street
Corning, CA 96021 County: Tehama
Census Tract: 11.00

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $299,730 | $0 |
| Recommended: | $299,730 | $0 |

**Applicant Information**

| | |
|---|---|
| Applicant: | Highland Property Development |
| Contact: | Kristoffer J. Kaufmann |
| Address: | 701 S. Myrtle Avenue<br>Monrovia, CA 96021 |
| Phone: | (626) 698-6361 |
| Email: | k.kaufmann@highlandcompanies.com |

| | |
|---|---|
| General Partner(s) or Principal Owner(s): | Highland Property Development, LLC<br>Hearthstone CA Properties II, LLC |
| General Partner Type: | Joint Venture |
| Parent Company(ies): | Highland Property Development, LLC<br>Hearthstone Housing Foundation |
| Developer: | Highland Property Development |
| Bond Issuer: | CSCDA |
| Investor/Consultant: | Boston Financial Investment Mgmt. |
| Management Agent: | FPI Management |

**Project Information**

| | | |
|---|---|---|
| Construction Type: | Acquisition & Rehabilitation | |
| Total # Residential Buildings: | 5 | |
| Total # of Units: | 48 | |
| No. / % of Low Income Units: | 47 | 100.00% |
| Federal Set-Aside Elected: | 40%/60% | |
| Federal Subsidy: | Tax Exempt / HUD Project Based Contract (47 Units-100%) | |

**Information**

| | |
|---|---|
| Housing Type: | Non-Targeted |
| Geographic Area: | N/A |
| TCAC Project Analyst: | Franklin Cui |

**55-Year Use / Affordability**

| Aggregate Targeting Number of Units | | Percentage of Affordable Units |
|---|---|---|
| 30% AMI: | 5 | 11% |
| 50% AMI: | 5 | 11% |
| 60% AMI: | 37 | 79% |

**Unit Mix**

| | |
|---|---|
| 20 | 1-Bedroom Units |
| 24 | 2-Bedroom Units |
| 4 | 3-Bedroom Units |
| 48 | Total Units |

| Unit Type & Number | | 2021 Rents Targeted % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|
| 1 | 1 Bedroom | 30% | $392 |
| 1 | 1 Bedroom | 50% | $653 |
| 18 | 1 Bedroom | 60% | $784 |
| 3 | 2 Bedrooms | 30% | $471 |
| 3 | 2 Bedrooms | 50% | $785 |
| 18 | 2 Bedrooms | 60% | $942 |
| 1 | 3 Bedrooms | 30% | $543 |
| 1 | 3 Bedrooms | 50% | $906 |
| 1 | 3 Bedrooms | 60% | $1,087 |
| 1 | 3 Bedrooms | Manager’s Unit | $0 |

| **Project Cost Summary at Application** | |
|---|---|
| Land and Acquisition | $1,880,000 |
| Construction Costs | $0 |
| Rehabilitation Costs | $3,329,280 |
| Construction Hard Cost Contingency | $75,000 |
| Soft Cost Contingency | $0 |
| Relocation | $50,000 |
| Architectural/Engineering | $76,000 |
| Const. Interest, Perm. Financing | $241,638 |
| Legal Fees | $119,500 |
| Reserves | $140,200 |
| Other Costs | $121,428 |
| Developer Fee | $661,112 |
| Commercial Costs | $0 |
| **Total** | **$6,694,158** |

| **Residential** | |
|---|---|
| Construction Cost Per Square Foot: | $92 |
| Per Unit Cost: | $139,462 |
| True Cash Per Unit Cost*: | $134,440 |

**Construction Financing**

| Source | Amount |
|---|---|
| JP Morgan Chase | $3,500,000 |
| USDA 515 | $1,030,000 |
| Net Operating Income | $85,750 |
| Deferred Developer Fee | $661,112 |
| Tax Credit Equity | $1,417,296 |

**Permanent Financing**

| Source | Amount |
|---|---|
| Bonneville Mortgage Company | $2,700,000 |
| USDA 515 | $1,030,000 |
| Net Operating Income | $85,750 |
| Deferred Developer Fee | $241,048 |
| Tax Credit Equity | $2,637,360 |
| **TOTAL** | **$6,694,158** |

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

| **Determination of Credit Amount(s)** | |
|---|---|
| Requested Eligible Basis (Rehabilitation): | $4,440,242 |
| 130% High Cost Adjustment: | Yes |
| Requested Eligible Basis (Acquisition): | $1,720,950 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | $5,772,315 |
| Qualified Basis (Acquisition): | $1,720,950 |
| Applicable Rate: | 4.00% |
| Maximum Annual Federal Credit, Rehabilitation: | $230,892 |
| Maximum Annual Federal Credit, Acquisition: | $68,838 |
| Total Maximum Annual Federal Credit: | $299,730 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | $661,112 |
| Investor/Consultant: | Boston Financial Investment Mgmt. |
| Federal Tax Credit Factor: | $0.87991 |

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.

**Significant Information / Additional Conditions:**
The Housing and Economic Recovery Act of 2008 provided, among other things, that any building that is "substantially assisted, financed, or operated" under (i) Section 8 of the United States Housing Act of 1937, Section 221(d)(4) or 236 of the National Housing Act, Section 515 of the Housing Act of 1949, or any other housing program administered by the Department of Housing and Urban Development or the Rural Housing Service of the Department of Agriculture, shall be exempt from the 10 year hold rule that previously existed under IRC Section 42(d)(2)(B)(ii). As a 100% Project-based Section 8 Rental Assisted property with a Section 515 USDA Loan, Valley Terrace Apartments is not subject to the 10-year hold rule. Accordingly, a Chain of Title and Opinion on Acquisition Credit are not necessary to be included in the Application submission.

**Resyndication and Resyndication Transfer Event**
Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-05-806). To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. For resyndications that were originally rehabilitation and acquisition, the resyndication acquisition date cannot occur before the last rehabilitation credit year of the original credit period.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-05-806) 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 without distribution of Net Project Equity, and thus is waived from setting aside a Short Term Work Capitalized Replacement Reserve that is otherwise required.

**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.

If the applicant has requested the use of a CUAC utility allowance, TCAC's Compliance staff will review the CUAC documentation for this project prior to placed in service. Until written approval is received from TCAC, this project is not eligible to use a utility allowance based on the CUAC.

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.