

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
August 20, 2014

Project Number CA-14-872

Project Name Heritage II
 Site Address: Burton Mesa Boulevard
 Lompoc, CA 93436 County: Santa Barbara
 Census Tract: 28.080

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$281,810	\$0
Recommended:	\$281,810	\$0

Applicant Information

Applicant: Heritage II, LP
 Contact: Russell A. Khouri
 Address: 1667 East Lincoln Ave.
 Orange, CA 92865
 Phone: 714-283-5800 Fax: 714-637-3196
 Email: russk@investmentconceptsinc.com

General Partner(s) or Principal Owner(s): Investment Concepts, Inc.
 Foundation for Affordable Housing II, Inc.

General Partner Type: Joint Venture

Parent Company(ies): Investment Concepts, Inc.
 Foundation for Affordable Housing II, Inc.

Developer: Investment Concepts, Inc.
 Investor/Consultant: Investment Concepts, Inc.
 Management Agent: Investment Concepts, Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 20
 Total # of Units: 80
 No. & % of Tax Credit Units: 79 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 8
 Number of Units @ or below 60% of area median income: 71

Bond Information

Issuer: California Statewide Communities Development Authority
 Date of Issuance: May 29, 2014
 Credit Enhancement: EastWest Bank / Letter of Credit

Information

Housing Type: Seniors
 Geographic Area: Central Coast Region
 TCAC Project Analyst: Daniel Tran

Unit Mix

44 1-Bedroom Units
 36 2-Bedroom Units

 80 Total Units

<u>Unit Type & Number</u>	<u>2014 Rents Targeted % of Area Median Income</u>	<u>2014 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
39 1 Bedroom	60%	60%	\$852
32 2 Bedrooms	60%	60%	\$1,023
4 1 Bedroom	50%	50%	\$710
4 2 Bedrooms	50%	50%	\$852
1 1 Bedroom	Manager's Unit	Manager's Unit	\$945

Project Financing

Estimated Total Project Cost: \$10,000,000
 Estimated Residential Project Cost: \$10,000,000

Residential

Construction Cost Per Square Foot: \$84
 Per Unit Cost: \$125,000

Construction Financing

<u>Source</u>	<u>Amount</u>
East West Bank	\$7,000,000
GP Equity	\$3,000,000

Permanent Financing

<u>Source</u>	<u>Amount</u>
East West Bank	\$7,000,000
Deferred Developer Fee	\$493,638
Tax Credit Equity	\$2,506,362
TOTAL	\$10,000,000

Determination of Credit Amount(s)

Requested Eligible Basis:	\$8,387,200
130% High Cost Adjustment:	No
Applicable Fraction:	100.00%
Qualified Basis:	\$8,387,200
Applicable Rate:	3.36%
Total Maximum Annual Federal Credit:	\$281,810
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,007,617
Investor/Consultant:	Investment Concepts, Inc.
Federal Tax Credit Factor:	\$0.88938

Per Regulation Section 10322(i)(4)(A), 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, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), Once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$8,387,200
Actual Eligible Basis:	\$8,387,200
Unadjusted Threshold Basis Limit:	\$19,249,608
Total Adjusted Threshold Basis Limit:	\$21,457,302

Adjustments to Basis Limit:

Local Development Impact Fees

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 10%

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 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 3.36% of the qualified basis. 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.

Special Issues/Other Significant Information: None

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.

Recommendation: Staff recommends that the Committee make a preliminary reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal Tax Credits/Annual	State Tax Credits/Total
\$281,810	\$0

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.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

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.

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.

Additional Conditions: The applicant/owner is required to provide the tenants with the following service amenities free of charge for a minimum of ten (10) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC:

- Instructor-led educational classes, health and wellness or skill-building classes on-site for a minimum of 84 hours per year
- Wellness services and programs providing individualized support for tenants on-site