

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

July 20, 2016

REVISED

Sun Sage Homes, a scattered site project located at 10800 Laurel Avenue in South Whittier (Sunshine Terrace) and 11128 Osage Avenue in Lennox (Osage Apartments), requested and is being recommended for a reservation of \$565,792 in annual federal tax credits to finance the acquisition and rehabilitation of 69 units of housing serving tenants with rents affordable to households earning 35-60% of area median income (AMI). The project will be developed by Abode Communities and is located in Senate District 32 (Sunshine Terrace) and 35 (Osage Apartments) and Assembly District 57 (Sunshine Terrace) and 62 (Osage Apartments).

Sun Sage Homes is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Sunshine Terrace (CA-96-070) and Osage Apartments (CA-90-046). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project financing includes state funding from the RHCP program of HCD.

Project Number CA-16-912

Project Name Sun Sage Homes

	<u>Sunshine Terrace</u>	<u>Osage Apartments</u>
Site Address:	10800 Laurel Avenue South Whittier, CA 90605	11128 Osage Avenue Lennox, CA 90304
County:	Los Angeles	Los Angeles
Census Tract:	5029.02	6017.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$565,792	\$0
Recommended:	\$565,792	\$0

Applicant Information

Applicant: Sun Sage Homes, L.P.
Contact: Karl Lauff
Address: 1149 S. Hill Street, Suite 700
Los Angeles, CA 90015
Phone: 213-225-2808 Fax: 213-225-2709
Email: klauff@abodecommunities.org

General Partner(s) or Principal Owner(s):	Sun Sage Homes, LLC
General Partner Type:	Nonprofit
Parent Company(ies):	Abode Communities
Developer:	Abode Communities
Investor/Consultant:	California Housing Partnership Corporation
Management Agent:	Abode Communities

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 13
 Total # of Units: 71
 No. & % of Tax Credit Units: 69 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / CDBG / HOME
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 35% of area median income: 27
 Number of Units @ or below 50% of area median income: 37
 Number of Units @ or below 60% of area median income: 5

Bond Information

Issuer: Housing Authority of the County of Los Angeles
 Expected Date of Issuance: September 15, 2016
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: Balance of Los Angeles County
 TCAC Project Analyst: Marisol Parks

Unit Mix

10 2-Bedroom Units
 44 3-Bedroom Units
 17 4-Bedroom Units

 71 Total Units

<u>Unit Type & Number</u>	<u>2016 Rents Targeted % of Area Median Income</u>	<u>2016 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
<u>Sunshine Terrace</u>			
13 3 Bedrooms	35%	34%	\$771
7 4 Bedrooms	35%	34%	\$862
6 3 Bedrooms	40%	39%	\$869
4 4 Bedrooms	40%	38%	\$961
13 3 Bedrooms	50%	45%	\$1,012
6 4 Bedrooms	50%	45%	\$1,122
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$0

<u>Unit Type & Number</u>	<u>2016 Rents Targeted % of Area Median Income</u>	<u>2016 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
<u>Osage Apartments</u>			
7 3 Bedrooms	35%	32%	\$728
1 2 Bedrooms	40%	40%	\$781
1 3 Bedrooms	40%	32%	\$726
1 2 Bedrooms	50%	37%	\$719
1 3 Bedrooms	50%	32%	\$726
3 2 Bedrooms	50%	46%	\$894
1 3 Bedrooms	50%	45%	\$1,016
5 2 Bedrooms	60%	57%	\$1,123
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$10,271,175
Construction Costs	\$0
Rehabilitation Costs	\$4,434,019
Construction Contingency	\$701,253
Relocation	\$162,300
Architectural/Engineering	\$437,200
Const. Interest, Perm. Financing	\$708,715
Legal Fees, Appraisals	\$85,000
Reserves	\$234,983
Other Costs	\$819,844
Developer Fee	\$1,969,643
Commercial Costs	\$0
Total	\$19,824,132

Project Financing

Estimated Total Project Cost:	\$19,824,132
Estimated Residential Project Cost:	\$19,824,132
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$66
Per Unit Cost:	\$279,213
True Cash Per Unit Cost*:	\$274,199

Construction Financing

Source	Amount
Citibank	\$9,450,000
LA CDC (Assumed)	\$8,612,760
HCD - RHCP (Assumed)	\$1,443,428
General Partner Capital Contributions	\$312,615
Deferred Developer Fee	\$43,329
Tax Credit Equity	\$100,000

Permanent Financing

Source	Amount
Citibank - Tax Exempt Bonds	\$1,599,200
Citibank - Subordinate Loan Program	\$750,000
LA CDC - CDBG/HOME	\$330,000
LA CDC (Assumed)	\$8,612,760
HCD - RHCP (Assumed)	\$1,443,428
Income During Construction	\$63,243
Purchased Reserve Accounts	\$385,000
General Partner Capital Contribution	\$312,615
Deferred Developer Fee	\$355,945
Tax Credit Equity	\$5,971,941
TOTAL	\$19,824,132

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$7,694,598
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$7,406,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$10,002,977
Qualified Basis (Acquisition):	\$7,406,000
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$325,097
Maximum Annual Federal Credit, Acquisition:	\$240,695
Total Maximum Annual Federal Credit:	\$565,792
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,969,643
Investor/Consultant:	California Housing Partnership Corporation
Federal Tax Credit Factor:	\$1.05550

Per Regulation Section 10322(h)(9)(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:	\$15,100,598
Actual Eligible Basis:	\$15,100,598
Unadjusted Threshold Basis Limit:	\$24,270,616
Total Adjusted Threshold Basis Limit:	\$56,065,123

Adjustments to Basis Limit

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 53%
55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 78%

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 3.25% 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

This project involves the rehabilitation of two scattered site existing TCAC projects, Sunshine Terrace (CA-1996-070) and Osage Apartments (CA-1990-046). Sunshine Terrace is on a 2.77 acre site in South Whittier consisting of 50 total units (33 three-bedroom units and 17 four-bedroom units) in 12 two-story townhome style apartment buildings of wood frame construction with stucco exterior along with 84 parking spaces. Osage Apartments is on a 0.76 acre site in Lennox consisting of 21 total units (10 two-bedrooms and 11 three-bedroom units) in a two-story building of wood frame construction with stucco exterior along with 47 parking spaces.

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. The initial 15 year compliance period is from January 1 of the owner's elected first year of credit through December 31 of the 15th year. The existing regulatory agreement of Sunshine Terrace (CA-1996-070) expires 12/31/2027, and the existing regulatory agreement of Osage Apartments (CA-1990-046) expires 12/31/2046. The existing regulatory agreement income targeting of Sunshine Terrace (CA-1996-070) is the average income of tenants is at or below 42% of Area Median Income (AMI), and the existing regulatory agreement income targeting of Osage Apartments (CA-1990-046) is the average income of tenants is at or below 51% AMI.

The project is a re-syndication occurring concurrently with a Transfer Event without distribution of Net Project Equity, and thus received a waiver from setting aside a Short Term Work Capitalized Replacement Reserve.

The applicant requested and has been granted a partial waiver to reduce the 10% mobility feature requirement under TCAC Regulation Section 10325(f)(7)(K) down to 5% due to excessive expensiveness for Sun Sage Homes as follows:

- For the Sunshine Terrace site, five percent (5%) of the units shall meet the requirements of Chapter 11(B) with the exception of requirements that necessitate the movement of load-bearing walls.
- For the Osage Apartments site, five percent (5%) of the units shall meet the requirements of Chapter 11(B) with the exception of requirements that necessitate the movement of load-bearing walls. An additional five percent (5%) of units shall meet the requirements of Chapter 11(B) with the exception of requirements that necessitate the movement of walls or other structural modifications.

Local Reviewing Agency

The Local Reviewing Agency, the Community Development Commission of the County of Los Angeles (CDC), has completed a site review of this project and supports this project.

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
\$565,792	\$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: None.