CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
August 17, 2016

Polo Run Family Apartments, located at 8165 Palisades Drive in Stockton, requested and is being recommended for a reservation of $1,156,728 in annual federal tax credits to finance the acquisition and rehabilitation of 315 units of housing serving large families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by ROEM Development Corporation and is located in Senate District 5 and Assembly District 13.

Project Number	CA-16-919	
Project Name	Polo Run Family Apartments	
Site Address:	8165 Palisades Drive	
	Stockton, CA 95210	County: San Joaquin
Census Tract:	34.060	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,156,728	$0
Recommended:	$1,156,728	$0

Applicant Information

Applicant:	ROEM Development Corporation	
Contact:	Eric Sobotka	
Address:	1650 Lafayette Street	
	Santa Clara, CA 95050	
Phone:	408-984-5600	Fax: 408-984-3111
Email:	esobotka@roemcorp.com	

General Partner(s) or Principal Owner(s):	Pacific Housing, Inc.
	ROEM Palisades Drive Family, LLC
General Partner Type:	Joint Venture
Parent Company(ies):	Pacific Housing, Inc.
	ROEM Development Corporation
Developer:	ROEM Development Corporation
Investor/Consultant:	Aegon
Management Agent:	FPI Management, Inc.

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	25
Total # of Units:	318
No. & % of Tax Credit Units:	315 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt
HCD MHP Funding:	No
55-Year Use/Affordability:	Yes
Number of Units @ or below 50% of area median income:	33
Number of Units @ or below 60% of area median income:	282

Bond Information

Issuer:	California Statewide Communities Development Authority (CSCDA)
Expected Date of Issuance:	October 18, 2016
Credit Enhancement:	N/A

Information

Housing Type:	Large Family
Geographic Area:	Central Valley Region
TCAC Project Analyst:	Marisol Parks

Unit Mix

96	1-Bedroom Units
190	2-Bedroom Units
32	3-Bedroom Units
318	Total Units

Unit Type & Number		2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
86	1 Bedroom	60%	60%	$663
10	1 Bedroom	50%	50%	$553
171	2 Bedrooms	60%	60%	$796
19	2 Bedrooms	50%	50%	$663
25	3 Bedrooms	60%	60%	$919
4	3 Bedrooms	50%	50%	$766
3	3 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application

Land and Acquisition	$20,550,000
Construction Costs	$0
Rehabilitation Costs	$7,821,132
Construction Contingency	$648,335
Relocation	$200,000
Architectural/Engineering	$30,000
Const. Interest, Perm. Financing	$2,452,341
Legal Fees, Appraisals	$151,000
Reserves	$555,263
Other Costs	$524,813
Developer Fee	$3,828,000
Commercial Costs	$0
Total	**$36,760,884**

Project Financing

Estimated Total Project Cost:	$36,760,884
Estimated Residential Project Cost:	$36,760,884
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$29
Per Unit Cost:	$115,600
True Cash Per Unit Cost*:	$103,657

Construction Financing

Source	Amount
Citibank - Tranche A	$17,090,019
Citibank - Tranche B	$7,103,210
Income During Operations	$1,852,388
Deferred Reserve Funding	$555,263
Deferred Developer Fee	$3,798,000
Tax Credit Equity	$6,362,004

Permanent Financing

Source	Amount
Citibank	$17,090,019
General Partner Loan	$1,296,469
Income During Operations	$1,852,388
Deferred Developer Fee	$3,798,000
Tax Credit Equity	$12,724,008
TOTAL	**$36,760,884**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$11,367,035
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$20,814,507
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$14,777,146
Qualified Basis (Acquisition):	$20,814,507
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$480,257
Maximum Annual Federal Credit, Acquisition:	$676,471
Total Maximum Annual Federal Credit:	$1,156,728
Approved Developer Fee (in Project Cost & Eligible Basis):	$3,828,000
Investor/Consultant:	Aegon
Federal Tax Credit Factor:	$1.10000

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:	$32,181,542
Actual Eligible Basis:	$32,181,542
Unadjusted Threshold Basis Limit:	$72,294,624
Total Adjusted Threshold Basis Limit:	$79,524,086

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: 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 are below the minimum operating expenses established in the Regulations (see "Special Issues/Other Significant Information" section), 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’s annual per unit operating expense total is below the TCAC published per unit operating expense minimums of $4,300. As allowed by TCAC Regulation Section 10327(g)(1), TCAC approves an annual per unit operating expense total of $3,700 on agreement of the permanent lender and equity investor.

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 the significant financial cost of retrofitting the necessary units. The project shall provide 5% of units (16 units) meeting the provisions of California Building Code Chapter 11(B) regarding mobility accessibility and will provide the full 4% of the units with communications accessibility features.

Local Reviewing Agency

The Local Reviewing Agency, The City of Stockton Economic Development Department, has completed a site review of this project and strongly 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
$1,156,728	**$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 fifteen (15) 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:

- After school program on-site or off-site within 1/2 mile for a minimum of 10 hours per week
- Instructor-led educational classes, health and wellness or skill-building classes on-site or off-site within 1/2 mile for a minimum of 84 hours per year

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The rehabilitation project commits to improve energy efficiency above the modeled energy consumption of the building(s) by a 15% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERS II) post rehabilitation.
- The project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.