

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report  
Tax-Exempt Bond Project  
October 19, 2016**

SLO 55, a scattered site project located at the addresses below in the City of San Luis Obispo, requested and is being recommended for a reservation of \$357,363 in annual federal tax credits to finance the acquisition and rehabilitation of 55 units of housing serving tenants with rents affordable to households earning 40-50% of area median income (AMI). The project will be developed by Community Preservation Partners and is located in Senate District 17 and Assembly District 35.

SLO 55 is a re-syndication of three existing Low Income Housing Tax Credit (LIHTC) projects: Laurel Creek Apartments (CA-94-117), Ironbark Apartments (CA-94-209), and Pismo-Buchon Apartments (CA-99-170). See **Special Issues/Other Significant Information** below for additional re-syndication information.

**Project Number** CA-16-951

**Project Name** SLO 55

Site Address:

**Laurel Creek Apartments**

1092 Orcutt Rd., 1105 Laurel Ln.  
San Luis Obispo, CA 93401  
Census Tract: 0110.01

**Ironbark Apartments**

1102-1120 Ironbark Street  
San Luis Obispo, CA 93401  
Census Tract: 0115.03

**Pismo-Buchon Apartments**

1363 Pismo Street  
San Luis Obispo, CA 93401  
Census Tract: 0111.01

County: San Luis Obispo

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$357,363	\$0
Recommended:	\$357,363	\$0

**Applicant Information**

Applicant: SLO 55, LP  
Contact: Ken Litzinger  
Address: 487 Leff St.  
San Luis Obispo, CA 93401  
Phone: 805-594-5304  
Email: klitzinger@haslo.org

General Partner(s) or Principal Owner(s): SLO Non-Profit Corporation  
General Partner Type: Nonprofit  
Parent Company(ies): SLO Non-profit Corporation  
Developer: Community Preservation Partners  
Investor/Consultant: WNC  
Management Agent: HASLO

**Project Information**

Construction Type: Acquisition & Rehabilitation  
 Total # Residential Buildings: 10  
 Total # of Units: 55  
 No. & % of Tax Credit Units: 55 100.00%  
 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: 33  
 Number of Units @ or below 60% of area median income: 22

**Bond Information**

Issuer: Housing Authority of the City of San Luis Obispo  
 Expected Date of Issuance: October 31, 2016  
 Credit Enhancement: N/A

**Information**

Housing Type: Non-Targeted  
 Geographic Area: Central Coast Region  
 TCAC Project Analyst: Zhuo Chen

**Unit Mix**

19 1-Bedroom Units  
 22 2-Bedroom Units  
 12 3-Bedroom Units  
2 4-Bedroom Units  
 55 Total Units

<u>Unit Type &amp; 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>Laurel Creek Apartments (CA-94-117)</u>			
4 1 Bedroom	40%	40%	\$573
1 2 Bedrooms	40%	40%	\$688
9 1 Bedroom	50%	50%	\$716
1 2 Bedrooms	50%	50%	\$860
6 1 Bedroom	60%	60%	\$859
3 2 Bedrooms	60%	60%	\$1,032
<u>Ironbark Apartments (CA-94-209)</u>			
4 2 Bedrooms	50%	50%	\$860
3 3 Bedrooms	50%	50%	\$993
1 4 Bedrooms	50%	50%	\$1,108
6 2 Bedrooms	60%	60%	\$1,032
5 3 Bedrooms	60%	60%	\$1,192
1 4 Bedrooms	60%	60%	\$1,330

<u>Unit Type &amp; 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>Pismo-Buchon Apartments (CA-99-170)</u>			
4 2 Bedrooms	45%	45%	\$774
1 3 Bedrooms	45%	45%	\$894
2 2 Bedrooms	50%	50%	\$860
3 3 Bedrooms	50%	50%	\$993
1 2 Bedrooms	60%	60%	\$1,032

**Project Cost Summary at Application**

Land and Acquisition	\$6,800,000
Construction Costs	\$0
Rehabilitation Costs	\$1,854,449
Construction Contingency	\$185,445
Relocation	\$110,000
Architectural/Engineering	\$125,000
Const. Interest, Perm. Financing	\$458,024
Legal Fees, Appraisals	\$200,000
Reserves	\$120,000
Other Costs	\$190,059
Developer Fee	\$1,309,396
Commercial Costs	\$0
<b>Total</b>	<b>\$11,352,373</b>

**Project Financing**

Estimated Total Project Cost:	\$11,352,373
Estimated Residential Project Cost:	\$11,352,373
Estimated Commercial Project Cost:	\$0

**Residential**

Construction Cost Per Square Foot:	\$36
Per Unit Cost:	\$206,407
True Cash Per Unit Cost*:	\$137,515

**Construction Financing**

<u>Source</u>	<u>Amount</u>
Citibank N.A.	\$5,600,000
Seller Carryback Note	\$3,705,912
Net Operating Income	\$193,969
Deferred Developer Fee	\$879,065
Tax Credit Equity	\$973,427

**Permanent Financing**

<u>Source</u>	<u>Amount</u>
Citibank N.A.	\$3,390,000
Seller Carryback Note	\$3,705,912
Net Operating Income	\$206,585
Deferred Developer Fee	\$83,147
Tax Credit Equity	\$3,966,729
<b>TOTAL</b>	<b>\$11,352,373</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation):	\$3,436,562
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$6,727,500
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$4,467,531
Qualified Basis (Acquisition):	\$6,727,500
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$138,719
Maximum Annual Federal Credit, Acquisition:	\$218,644
Total Maximum Annual Federal Credit:	\$357,363
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,309,396
Investor/Consultant:	WNC
Federal Tax Credit Factor:	\$1.11000

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:	\$10,164,062
Actual Eligible Basis:	\$10,164,062
Unadjusted Threshold Basis Limit:	\$16,251,662
Total Adjusted Threshold Basis Limit:	\$26,002,659

**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: 60%

**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 substantial rehabilitation of 3 scattered-sites originally constructed in the mid-1990s in the City of San Luis Obispo.

In lieu of having at least two on-site manager's units, the project is commit to employ an equivalent number of on-site full-time property management staff (at least two of whom are property managers, each of whom will be located at the two sites with 16 or more units) and provide an equivalent number of desk or security staff capable of responding to emergencies for the hours when property management staff is not working. All staff or contractors performing desk or security work shall be knowledgeable of how the property's fire system operates and be trained in, and have participated in, fire evacuation drills for tenants. 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.

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 both the acquisition date and the placed in service date for each existing TCAC projects occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period for each existing TCAC projects are: from 01/01/1994 through 12/31/2008 for Laurel Creek Apartments (CA-94-117), from 01/01/1996 through 12/31/2010 for Ironbark Apartments (CA-94-209), and from 01/01/2000 through 12/31/2014 for Pismo-Buchon Apartments (CA-99-170). The existing regulatory agreement expiration date for each existing TCAC projects are: 12/31/2048 for Laurel Creek Apartments (CA-94-117), 12/31/2050 for Ironbark Apartments (CA-94-209), and 12/31/2054 for Pismo-Buchon Apartments (CA-99-170). The existing regulatory agreement income targeting for each existing TCAC projects are: 5 units at or below 40% AMI for Laurel Creek Apartments (CA-94-117), 8 units at or below 50% AMI for Ironbark Apartments (CA-94-209), and 5 units at or below 45% AMI and 5 units at or below 50% AMI for Pismo-Buchon Apartments (CA-99-170). 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).

The project is a re-syndication subject to the hold harmless rent limits. The applicant requested and is approved to underwrite the project at the hold harmless rent limits based on the year in which the existing TCAC projects were originally placed-in-service: year 1994 for Laurel Creek Apartments (CA-94-117), year 1996 for Ironbark Apartments (CA-94-209), and year 2000 for Pismo-Buchon Apartments (CA-99-170). The new regulatory agreement shall reflect the current tax credit rent limits, while the project may continue to charge hold harmless rents for: 5 units at or below 40% AMI and 10 units at or below 50% AMI for Laurel Creek Apartments (CA-94-117), 8 units at or below 50% AMI for Ironbark Apartments (CA-94-209), and 5 units at or below 45% AMI and 5 units at or below 50% AMI for Pismo-Buchon Apartments (CA-99-170) only until such time as the current tax credit rent limits equal or exceed the hold harmless rents.

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.

### **Local Reviewing Agency**

The Local Reviewing Agency, the City of San Luis Obispo, 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:

<b>Federal Tax Credits/Annual</b>	<b>State Tax Credits/Total</b>
<b>\$357,363</b>	<b>\$0</b>

**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.