CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
January 18, 2017

Lilly Gardens Apartments, located at 8800 Lilly Avenue in Gilroy, requested and is being recommended for a reservation of $1,309,969 in annual federal tax credits to finance the acquisition and rehabilitation 83 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Islas Development and is located in Senate District 17 and Assembly District 30.

Lilly Gardens Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Lilly Gardens Apartments (CA-02-824). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of a HUD Section 8 Project-based Contract.

Project Number CA-17-703

Project Name Lilly Gardens Apartments
Site Address: 8800 Lilly Avenue
Gilroy, CA 95020 County: Santa Clara
Census Tract: 5125.060

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$1,309,969	$0
Recommended:	$1,309,969	$0

Applicant Information
Applicant: Lilly Affordable Communities, LP
Contact: Peter Lopez-Hodoyan
Address: 1927 Adams Avenue #200
San Diego, CA 92116
Phone: (480) 899-3545 Fax: (480) 718-7466
Email: peter@logancapitaladvisors.com

General Partner(s) or Principal Owner(s): Pacific Housing Inc.
Lilly Communities, LLC
General Partner Type: Joint Venture
Parent Company(ies): Pacific Housing Inc.
Islas Development LLC, Finco Development, Inc., and Suffolk Development, LLC
Developer: Islas Development LLC
Investor/Consultant: RBC Tax Credit Equity LLC
Management Agent: Logan Property Management

Project Information

Construction Type:	Acquisition & Rehabilitation	
Total # Residential Buildings:	9	
Total # of Units:	84	
No. & % of Tax Credit Units:	83	100.00%
Federal Set-Aside Elected:	40%/60%	
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Contract (83 units - 100%)	
HCD MHP Funding:	No	
55-Year Use/Affordability:	Yes	
Number of Units @ or below 50% of area median income:	50	
Number of Units @ or below 60% of area median income:	33	

Bond Information

Issuer:	California Statewide Communities Development Authority
Expected Date of Issuance:	February 1, 2017
Credit Enhancement:	N/A

Information

Housing Type:	Non-Targeted
Geographic Area:	South and West Bay Region
TCAC Project Analyst:	Jack Waegell

Unit Mix

12	1-Bedroom Units
64	2-Bedroom Units
8	3-Bedroom Units
84	Total Units

Unit Type & Number		2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
7	1 Bedroom	50%	50%	$1,046
34	2 Bedrooms	50%	50%	$1,256
5	2 Bedrooms	50%	50%	$1,256
4	3 Bedrooms	50%	50%	$1,451
5	1 Bedroom	60%	60%	$1,256
22	2 Bedrooms	60%	60%	$1,507
3	2 Bedrooms	60%	60%	$1,507
3	3 Bedrooms	60%	60%	$1,741
1	3 Bedrooms	Manager’s Unit	Manager’s Unit	$0

Project Cost Summary at Application

Land and Acquisition	$29,200,000
Construction Costs	$0
Rehabilitation Costs	$4,122,836
Construction Contingency	$394,772
Relocation	$84,000
Architectural/Engineering	$85,000
Const. Interest, Perm. Financing	$1,581,754
Legal Fees, Appraisals	$310,000
Reserves	$466,162
Other Costs	$518,139
Developer Fee	$5,015,668
Commercial Costs	$0
Total	**$41,778,331**

Project Financing

Estimated Total Project Cost:	$41,778,331
Estimated Residential Project Cost:	$41,778,331
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$57
Per Unit Cost:	$497,361
True Cash Per Unit Cost*:	$432,458

Construction Financing

Source	Amount
Citi Community Capital	$23,010,000
Citi Community Capital - Tranche B	$10,700,000
Seller Carryback Loan	$2,920,000
Deferred Developer Fee/Existing Reserves	$5,015,668
Tax Credit Equity	$132,663

Permanent Financing

Source	Amount
Citi Community Capital	$21,100,000
Seller Carryback Loan	$2,920,000
Existing Reserves	$161,808
Deferred Developer Fee	$2,531,879
Tax Credit Equity	$15,064,644
TOTAL	**$41,778,331**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$6,177,555
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$32,275,900
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$8,030,822
Qualified Basis (Acquisition):	$32,275,900
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$261,002
Maximum Annual Federal Credit, Acquisition:	$1,048,967
Total Maximum Annual Federal Credit:	$1,309,969
Approved Developer Fee (in Project Cost & Eligible Basis):	$5,015,668
Investor/Consultant:	RBC Tax Credit Equity LLC
Federal Tax Credit Factor:	$1.15000

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:	$38,453,455
Actual Eligible Basis:	$38,453,455
Unadjusted Threshold Basis Limit:	$24,377,476
Total Adjusted Threshold Basis Limit:	$39,003,962

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

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-02-824). 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 1/1/2002 through 12/31/2016. The existing regulatory agreement expires 12/31/2031. The existing regulatory agreement income targeting is 8 units at or below 50% AMI and 75 units at or below 60% AM. 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 resyndication 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 was originally placed-in-service: year 2002. The new regulatory agreement shall reflect the current tax credit rent limits, while the project may continue to charge the hold harmless rents for: 8 units at or below 50% AMI and 75 units at or below 60% AMI, provided that such hold harmless rents do not exceed the current tax credit rent limit for 60% AMI, only until such time as the current tax credit rent limits equal or exceed the hold harmless rents.

The project is a resyndication occurring concurrently with a Transfer Event with distribution of Net Project Equity. The project is currently subject to a Capital Needs Agreement do to a prior Transfer Event. There is a capitalized replacement reserve in the amount of $44,720 which will continue to stay with the project. This Subsequent Transfer Event requires either a seller carryback note or a general partner equity contribution in the amount of $180,607. There is a seller carryback note in the amount of $180,607 as described in the Purchase and Sale Agreement and Joint Escrow Instructions dated as of October 12, 2016 ("Effective Date") in clause 2.(ii) as the "TCAC Carry-Back Loan" and another subordinate seller carryback loan of $2,739,393 in clause 2.(iii). The "TCAC Carry-Back Loan" and note of at least $180,607 satisfies such requirement.

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
$1,309,969	**$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 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 off-site within 1/2 mile for a minimum of 84 hours per year