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

Willowbrook Apartments, located at 110 Bailey Road in Bay Point, requested and is being recommended for a reservation of $844,144 in annual federal tax credits to finance the acquisition and rehabilitation of 71 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 7 and Assembly District 14.

Willowbrook Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Willowbrook Apartments (CA-2002-825). 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-17-705

**Project Name** Willowbrook Apartments
Site Address: 110 Bailey Road
Bay Point, CA 94565 County: Contra Costa
Census Tract: 3141.040

| **Tax Credit Amounts** | **Federal/Annual** | **State/Total** |
|---|---|---|
| Requested: | $844,144 | $0 |
| Recommended: | $844,144 | $0 |

**Applicant Information**
Applicant: Willowbrook 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): Willowbrook Communities, LLC
Pacific Housing, Inc.
General Partner Type: Joint Venture
Parent Company(ies): Logan Capital Advisors
Pacific Housing, Inc.
Developer: Islas Development
Investor/Consultant: RBC Capital Advisors
Management Agent: Logan Property Management

**Project Information**

| | |
|---|---|
| Construction Type: | Acquisition & Rehabilitation |
| Total # Residential Buildings: | 6 |
| Total # of Units: | 72 |
| No. & % of Tax Credit Units: | 71 100.00% |
| Federal Set-Aside Elected: | 40%/60% |
| Federal Subsidy: | Tax-Exempt / HUD Section 8 Project-Based Contract (72 Units - 100%) |
| HCD MHP Funding: | No |
| 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: | 63 |

**Bond Information**

| | |
|---|---|
| Issuer: | California Public Finance Authority |
| Expected Date of Issuance: | February 1, 2017 |
| Credit Enhancement: | N/A |

**Information**

| | |
|---|---|
| Housing Type: | Non-Targeted |
| Geographic Area: | North and East Bay Region |
| TCAC Project Analyst: | DC Navarrette |

**Unit Mix**

| | |
|---|---|
| 16 | 1-Bedroom Units |
| 48 | 2-Bedroom Units |
| 8 | 3-Bedroom Units |
| 72 | Total Units |

| Unit Type & Number | | 2016 Rents Targeted % of Area Median Income | 2016 Rents Actual % of Area Median Income | Proposed Rent (including utilities) |
|---|---|---|---|---|
| 2 | 1 Bedroom | 50% | 50% | $914 |
| 5 | 2 Bedrooms | 50% | 50% | $1,097 |
| 1 | 3 Bedrooms | 50% | 50% | $1,267 |
| 14 | 1 Bedroom | 60% | 60% | $1,097 |
| 43 | 2 Bedrooms | 60% | 60% | $1,317 |
| 6 | 3 Bedrooms | 60% | 60% | $1,521 |
| 1 | 3 Bedrooms | Manager’s Unit | Manager’s Unit | $0 |

**Project Cost Summary at Application**

| | |
|---|---|
| Land and Acquisition | $16,650,000 |
| Construction Costs | $0 |
| Rehabilitation Costs | $4,141,089 |
| Construction Contingency | $396,520 |
| Relocation | $72,000 |
| Architectural/Engineering | $85,000 |
| Const. Interest, Perm. Financing | $1,087,699 |
| Legal Fees, Appraisals | $310,000 |
| Reserves | $360,844 |
| Other Costs | $489,538 |
| Developer Fee | $3,185,829 |
| Commercial Costs | $0 |
| **Total** | **$26,778,519** |

**Project Financing**

| | |
|---|---|
| Estimated Total Project Cost: | $26,778,519 |
| Estimated Residential Project Cost: | $26,778,519 |
| Estimated Commercial Project Cost: | $0 |

**Residential**

| | |
|---|---|
| Construction Cost Per Square Foot: | $74 |
| Per Unit Cost: | $371,924 |
| True Cash Per Unit Cost*: | $340,662 |

**Construction Financing**

| Source | Amount |
|---|---|
| Citibank - Tranche A | $14,820,000 |
| Citibank - Tranche B | $6,800,000 |
| Seller Carryback Note | $832,500 |
| Deferred Developer Fee | $3,185,829 |
| Tax Credit Equity | $1,140,190 |

**Permanent Financing**

| Source | Amount |
|---|---|
| Citibank | $14,820,000 |
| Seller Carryback Note | $832,500 |
| Deferred Developer Fee | $1,418,363 |
| Tax Credit Equity | $9,707,656 |
| **TOTAL** | **$26,778,519** |

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

**Determination of Credit Amount(s)**

| | |
|---|---|
| Requested Eligible Basis (Rehabilitation): | $6,151,187 |
| 130% High Cost Adjustment: | Yes |
| Requested Eligible Basis (Acquisition): | $17,977,123 |
| Applicable Fraction: | 100.00% |
| Qualified Basis (Rehabilitation): | $7,996,543 |
| Qualified Basis (Acquisition): | $17,977,123 |
| Applicable Rate: | 3.25% |
| Maximum Annual Federal Credit, Rehabilitation: | $259,888 |
| Maximum Annual Federal Credit, Acquisition: | $584,256 |
| Total Maximum Annual Federal Credit: | $844,144 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | $3,185,829 |
| Investor/Consultant: | RBC Capital Advisors |
| 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: | $24,128,310 |
| Actual Eligible Basis: | $24,424,687 |
| Unadjusted Threshold Basis Limit: | $21,737,216 |
| Total Adjusted Threshold Basis Limit: | $24,128,310 |

**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: 11%

**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-2002-825). 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 01/01/2002 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 63 units at or below 60% AMI. 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 occurring concurrently with a Transfer Event with distribution of Net Project Equity. The project is currently subject to a Capital Needs Agreement due to a prior Transfer Event. There is a capitalized replacement reserve in the amount of $37,050 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 $106,579. There is a seller carryback note in the amount of $106,579 as described in the Purchase and Sale Agreement and Joint Escrow Instructions dated as of October 12, 2016 ("Effective Date") in clause 2(a)(ii) as the "TCAC Carry-Back Loan" and another subordinate seller carryback loan of $725,921 in clause 2(a)(iii). The "TCAC Carry-Back Loan" and note of at least $106,579 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 |
|---|---|
| $844,144 | $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 for a minimum of 10 hours per week
- Instructor-led educational classes, health and wellness or skill-building classes on-site for a minimum of 84 hours per year