

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
July 19, 2017
REVISED**

The Redwoods and Wheeler Manor, located at 9005 Kern Avenue and 651 W. Sixth Street in Gilroy, requested and is being recommended for a reservation of \$1,675,223 in annual federal tax credits to finance the acquisition and rehabilitation of 139 units of housing serving tenants with rents affordable to households earning 35-60% of area median income (AMI). The project will be developed by Eden Housing, Inc. and is located in Senate District 17 and Assembly District 30.

The Redwood and Wheeler Manor is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, The Redwoods (CA-1990-031) and Wheeler Manor (CA-1990-032). See **Special Issues/Other Significant Information** below for additional re-syndication information. The Wheeler Manor site will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers. The project financing includes state funding from the RHCP program of HCD.

Project Number CA-17-758

Project Name The Redwoods and Wheeler Manor

Site Address:	<u>The Redwoods</u> 9005 Kern Avenue Gilroy, CA 95020	<u>Wheeler Manor</u> 651 W. Sixth Street Gilroy, CA 95020
Census Tract:	5125.05	5125.08
County:	Santa Clara	

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,675,223	\$0
Recommended:	\$1,675,223	\$0

Applicant Information

Applicant: Eden Housing, Inc. and Redwoods Wheeler, L.P.
Contact: Linda Mandolini
Address: 22645 Grand Street
Hayward, CA 94541
Phone: 510-582-1460 Fax: 510-582-0122
Email: lmandolini@edenhousing.org

General Partner(s) or Principal Owner(s):	Redwoods Wheeler LLC
General Partner Type:	Nonprofit
Parent Company(ies):	Eden Housing, Inc.
Developer:	Eden Housing, Inc.
Investor/Consultant:	Community Economics
Management Agent:	Eden Housing Management, Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 11
Total # of Units: 141
No. & % of Tax Credit Units: 139 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Wheeler - HUD Section 8 Project-based Vouchers (10 units / 14%) /
CDBG / HOME; The Redwoods - HOME
55-Year Use/Affordability: Yes
Number of Units @ or below 35% of area median income: 68
Number of Units @ or below 50% of area median income: 37
Number of Units @ or below 60% of area median income: 34

Bond Information

Issuer: California Municipal Finance Agency
Expected Date of Issuance: September 1, 2017
Credit Enhancement: N/A

Information

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

Unit Mix

116 1-Bedroom Units
7 2-Bedroom Units
12 3-Bedroom Units
6 4-Bedroom Units
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141 Total Units

<u>Unit Type & Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
<u>The Redwoods (CA-1990-031)</u>			
1 2 Bedrooms	35%	33%	\$879
4 2 Bedrooms	50%	33%	\$888
1 2 Bedrooms	60%	40%	\$1,069
4 3 Bedrooms	35%	27%	\$838
6 3 Bedrooms	50%	40%	\$1,240
2 3 Bedrooms	60%	39%	\$1,226
2 4 Bedrooms	35%	26%	\$915
2 4 Bedrooms	50%	41%	\$1,405
1 4 Bedrooms	60%	42%	\$1,459
1 4 Bedrooms	Manager's Unit	Manager's Unit	\$0
<u>Wheeler Manor (CA-1990-032)</u>			
51 1 Bedroom	35%	28%	\$622
10 1 Bedroom	35%	28%	\$622
25 1 Bedroom	50%	33%	\$740
30 1 Bedroom	60%	39%	\$866
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$119,532,600

Project Cost Summary at Application

Land and Acquisition	\$25,166,541
Construction Costs	\$0
Rehabilitation Costs	\$13,509,120
Construction Contingency	\$1,976,080
Relocation	\$300,000
Architectural/Engineering	\$1,460,532
Const. Interest, Perm. Financing	\$2,401,370
Legal Fees, Appraisals	\$50,000
Reserves	\$593,330
Other Costs	\$1,790,498
Developer Fee	\$6,735,998
Commercial Costs	\$0
Total	\$53,983,468

Project Financing

Estimated Total Project Cost:	\$53,983,468
Estimated Residential Project Cost:	\$53,983,468
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$145
Per Unit Cost:	\$382,861
True Cash Per Unit Cost*:	\$345,398

Construction Financing

Source	Amount
Wells Fargo	\$32,300,000
HCD RHCP Loans ^{1 & 2}	\$10,748,166
County of Santa Clara - CDBG ²	\$150,000
City of Gilroy ²	\$250,000
Seller Carryback Loan ^{1 & 2}	\$3,282,221
Accrued Interest	\$396,836
Tax Credit Equity	\$1,793,296

Permanent Financing

Source	Amount
CCRC Tranche A	\$4,181,000
CCRC Tranche B	\$782,000
HCD RHCP Loans ^{1 & 2}	\$10,748,166
County of Santa Clara ²	\$150,000
Santa Clara Conty - New ^{1 & 2}	\$733,706
City of Gilroy ²	\$250,000
Seller Carryback Loan ^{1 & 2}	\$3,282,220
Accrued Interest	\$396,836
Income from Operations	\$187,215
Sponsor Loan	\$13,464,369
Deferred Developer Fee	\$2,000,000
Energy Tax Credit Equity	\$194,648
Tax Credit Equity	\$17,613,308
TOTAL	\$53,983,468

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

¹ The Redwoods

² Wheeler Manor

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$23,046,557
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	\$28,498,772
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$23,046,557
Qualified Basis (Acquisition):	\$28,498,772
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$749,013
Maximum Annual Federal Credit, Acquisition:	\$926,210
Total Maximum Annual Federal Credit:	\$1,675,223
Approved Developer Fee (in Project Cost & Eligible Basis):	\$6,735,998
Investor/Consultant:	Community Economics
Federal Tax Credit Factor:	\$1.05140

Per Regulation Section 10327(c)(6), 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:	\$51,545,329
Actual Eligible Basis:	\$51,545,329
Unadjusted Threshold Basis Limit:	\$43,512,236
Total Adjusted Threshold Basis Limit:	\$96,597,164

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: 26%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 96%

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 meet 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 2 scattered-sites originally constructed in the 1990s in the City of Gilroy.

The applicant requested and has been granted a partial waiver at both sites, to reduce the 10% mobility feature requirement under TCAC Regulation Section 10325(f)(7)(K) due to significant financial cost of retrofitting the necessary units.

At the Wheeler Manor site, the seven new construction units (5.98%) shall fully meet the mobility requirements of Chapter 11(B). Five additional unit (4.27%) shall meet the mobility requirements of Chapter 11(B) with the exception of requirements that necessitate the movement of load-bearing walls or electrical panels and/or modification of sheer walls or demolition of the slab-on-grade or floor/ceiling assemblies. The Project shall continue to provide at least 4% of units with communications features that meet the requirements of Chapter 11(B). Units that meet this requirement may be the same units that meet the mobility requirements.

At the Redwoods site, two of the units (8.33%) shall fully meet the mobility requirements of Chapter 11(B). One additional unit (4.17%) shall meet the mobility requirements of Chapter 11(B) with the exception of requirements that necessitate the movement of load-bearing walls or electrical panels or modification of the slab of an accessible path of travel. The Project shall continue to provide at least 4% of units with communications features that meet the requirements of Chapter 11(B). Units that meet this requirement may be the same units that meet the mobility requirements.

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 project occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period for each existing TCAC projects are: from 01/01/1992 through 12/31/2006 for The Redwoods (CA-1990-031), and from 01/01/1993 through 12/31/2007 for Wheeler Manor (CA-1990-032). The existing regulatory agreement expiration date for each existing TCAC projects are: 12/31/2047 for The Redwoods (CA-1990-031) and 12/31/2052 for Wheeler Manor. The existing regulatory agreement for income targeting for each existing TCAC projects are: 23 units at or below 60% AMI for The Redwoods (CA-1990-031) and 109 units at or below 60% AMI for Wheeler Manor (CA-1990-032) . 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 without distribution of Net Project Equity, and thus is waived from the requirements of TCAC Regulation Section 10320(b)(4)(B).

For Wheeler Manor, the Housing Authority of the County of Santa Clarahas committed to providing Project-based Section 8 Vouchers for ten (10) units.

Local Reviewing Agency

The Local Reviewing Agency, The City of Gilroy, 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
\$1,675,223	\$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