

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 19, 2017

Kensington Apartments, located at 3644 Kings Way in Sacramento, requested and is being recommended for a reservation of \$280,263 in annual federal tax credits to finance the acquisition and rehabilitation of 61 units of housing serving tenants with rents affordable to households earning 50% of area median income (AMI). The project will be developed by Klein Financial Corporation and is located in Senate District 6 and Assembly District 8.

Project Number CA-17-767

Project Name Kensington Apartments
 Site Address: 3644 Kings Way
 Sacramento, CA 95821 County: Sacramento
 Census Tract: 60.02

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$280,263	\$0
Recommended:	\$280,263	\$0

Applicant Information

Applicant: Kensington Apartments, LP
 Contact: Alan Bogomilsky
 Address: 550 S. California Ave., Suite 330
 Palo Alto, CA 94306
 Phone: 650-833-0100
 Email: Alan@klein-financial.com

General Partner(s) or Principal Owner(s): Kensington Apartments, GP LLC
 Casa Major, Inc
 Kensington Apartments, LLC

General Partner Type: Joint Venture

Parent Company(ies): Klein Financial Corporation
 Casa Major, Inc
 Klein Financial Corporation

Developer: Klein Financial Corporation

Investor/Consultant: Klein Financial Corporation

Management Agent: Alliance Residential Company

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 22
 Total # of Units: 301
 No. & % of Tax Credit Units: 61 20.47%
 Federal Set-Aside Elected: 20%/50%
 Federal Subsidy: Tax-Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 61

Bond Information

Issuer: California Satewide Communities Development Authority
 Expected Date of Issuance: August 15, 2017
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: Capital and Northern Region
 TCAC Project Analyst: Lucy Vang

Unit Mix

40 SRO/Studio Units
 79 1-Bedroom Units
 158 2-Bedroom Units
 24 3-Bedroom Units

 301 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>
10 SRO/Studio	50%	50%	\$650
16 1 Bedroom	50%	50%	\$696
30 2 Bedrooms	50%	50%	\$835
5 3 Bedrooms	50%	50%	\$965
3 2 Bedrooms	Manager's Unit	Manager's Unit	\$1,610
30 SRO/Studio	Market Rate Unit	Market Rate Unit	\$925
63 1 Bedroom	Market Rate Unit	Market Rate Unit	\$1,130
125 2 Bedrooms	Market Rate Unit	Market Rate Unit	\$1,290
19 3 Bedrooms	Market Rate Unit	Market Rate Unit	\$1,610

Projected Lifetime Rent Benefit: \$17,299,516

Project Cost Summary at Application

Land and Acquisition	\$29,300,000
Construction Costs	\$0
Rehabilitation Costs	\$9,511,291
Construction Contingency	\$1,426,694
Relocation	\$75,000
Architectural/Engineering	\$125,000
Const. Interest, Perm. Financing	\$514,796
Legal Fees, Appraisals	\$220,000
Reserves	\$956,169
Other Costs	\$208,750
Developer Fee	\$5,400,000
Commercial Costs	\$0
Total	\$47,737,700

Project Financing

Estimated Total Project Cost:	\$47,737,700
Estimated Residential Project Cost:	\$47,737,700
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$35
Per Unit Cost:	\$158,597
True Cash Per Unit Cost*:	\$148,630

Construction Financing

Source	Amount
Deutsche Bank	\$31,000,000
Market Rate Equity	\$10,935,069
Deferred Developer Fee	\$3,000,000
Tax Credit Equity	\$2,802,631

Permanent Financing

Source	Amount
Deutsche Bank	\$38,000,000
Cashflow	\$490,834
Market Rate Equity	\$3,444,236
Deferred Developer Fee	\$3,000,000
Tax Credit Equity	\$2,802,630
TOTAL	\$47,737,700

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$13,154,070
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	\$30,350,000
Applicable Fraction:	20.22%
Qualified Basis (Rehabilitation):	\$2,659,140
Qualified Basis (Acquisition):	\$6,135,357
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	\$80,864
Maximum Annual Federal Credit, Acquisition:	\$199,399
Total Maximum Annual Federal Credit:	\$280,263
Approved Developer Fee (in Project Cost & Eligible Basis):	\$5,400,000
Investor/Consultant:	Klein Financial Corporation
Federal Tax Credit Factor:	\$1.00000

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:	\$43,504,070
Actual Eligible Basis:	\$43,504,070
Unadjusted Threshold Basis Limit:	\$79,911,058
Total Adjusted Threshold Basis Limit:	\$95,893,270

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: 20%

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:

Project is a mixed-used project consisting of 61 low-income units and 237 market rate units.

Local Reviewing Agency

The Local Reviewing Agency, Sacramento Housing & Redevelopment Agency, has completed a site review of this project and took no position on 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
\$280,263	\$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 for a minimum of 10 hours per week

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 project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.