

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
October 21, 2015

Kenneth Park Apartments, located at 5945 Kenneth Avenue in Carmichael, CA, requested and is being recommended for a reservation of \$494,540 in annual federal tax credits to finance the acquisition and rehabilitation of 96 units of housing serving large families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Preservation Partners Development and will be located in Senate District 4 and Assembly District 8.

The project will be receiving rental assistance in the form of HUD Section 8 Project-Based Contract.

Project Number CA-15-896

Project Name Kenneth Park Apartments
 Site Address: 5945 Kenneth Avenue
 Carmichael, CA 95608 County: Sacramento
 Census Tract: 78.020

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$494,540	\$0
Recommended:	\$494,540	\$0

Applicant Information

Applicant: Sac4 Preservation Limited Partnership
 Contact: William Szymczak
 Address: 21515 Hawthorne Blvd., Suite 390
 Torrance, CA 90503
 Phone: (310) 802-6671 Fax: (310) 802-6680
 Email: bill@preservationpartners.org

General Partner(s) or Principal Owner(s): Sac4 Presevation Partners, LLC
 Sac4 Cornucopia, LLC
 General Partner Type: Joint Venture
 Parent Company(ies): Preservation Partners
 Cornucopia Services
 Developer: Preservation Partners Development
 Investor/Consultant: City Real Estate Advisors, Inc.
 Management Agent: Preservation Partners Management Group Inc.

Project Information

Construction Type: Acquisition and Rehabilitation
 Total # Residential Buildings: 11
 Total # of Units: 97
 No. & % of Tax Credit Units: 96 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HUD Project-Based Section 8 Contract (71 units - 73%)
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 29
 Number of Units @ or below 60% of area median income: 67

Bond Information

Issuer: California Housing Finance Agency
 Expected Date of Issuance: November 1, 2015
 Credit Enhancement: No

Information

Housing Type: Large Family
 Geographic Area: Capital and Northern Region
 TCAC Project Analyst: Mayra Lozano

Unit Mix

68 1-Bedroom Units
 29 2-Bedroom Units

 97 Total Units

<u>Unit Type & Number</u>	<u>2015 Rents Targeted % of Area Median Income</u>	<u>2015 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
48 1 Bedroom	60%	60%	\$804
19 2 Bedrooms	60%	60%	\$966
20 1 Bedroom	50%	50%	\$670
9 2 Bedrooms	50%	50%	\$805
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$966

Project Cost Summary at Application

Land and Acquisition	\$8,657,895
Construction Costs	\$0
Rehabilitation Costs	\$3,786,928
Construction Contingency	\$386,193
Relocation	\$551,050
Architectural/Engineering	\$85,000
Construction Interest, Perm Financing	\$505,438
Legal Fees, Appraisals	\$167,500
Reserves	\$242,505
Other Costs	\$266,306
Developer Fee	\$1,954,899
Commercial Costs	\$0
Total	\$16,603,714

Project Financing

Estimated Total Project Cost:	\$16,603,714
Estimated Residential Project Cost:	\$16,603,714

Construction Financing

Source	Amount
Citi Community Capital - TE Bonds	\$11,250,000
Citi Community Capital - Taxable	\$2,750,000
Deferred Developer Fee	\$1,954,899
Tax Credit Equity	\$648,815

Residential

Construction Cost Per Square Foot:	\$67
Per Unit Cost:	\$171,172

Permanent Financing

Source	Amount
Citi Community Capital	\$10,398,400
Net Operating Income	\$247,500
Deferred Developer Fee	\$765,144
Tax Credit Equity	\$5,192,670
TOTAL	\$16,603,714

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$5,908,609
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	\$9,078,948
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$5,908,609
Qualified Basis (Acquisition):	\$9,078,948
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$194,935
Maximum Annual Federal Credit, Acquisition:	\$299,605
Total Maximum Annual Federal Credit:	\$494,540
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,954,899
Investor/Consultant:	City Real Estate Advisors, Inc.
Federal Tax Credit Factor:	\$1.05000

Per Regulation Section 10322(i)(4)(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:	\$14,987,557
Actual Eligible Basis:	\$14,987,557
Unadjusted Threshold Basis Limit:	\$20,557,564
Total Adjusted Threshold Basis Limit:	\$26,724,833

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: 30%

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 are below the minimum operating expenses established in the Regulations as allowed under regulation section 10327(g)(1). See the "Special Issues/Other Significant Information" section of this report below. The project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.30% 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: The project has an existing HUD Section 8 Project-Based contract for 71 of the affordable units (73%).

The proposed rent does not include any utility allowance. The owner will pay for all utilities.

This project’s annual per unit operating expense total is below the TCAC published per unit operating expense minimums of \$4,200. As allowed by Regulation Section 10327(g)(1), TCAC approves an annual per unit operating expense total of \$3,980 on agreement of the permanent lender and equity investor.

Local Reviewing Agency:

The Local Reviewing Agency, Sacramento Housing and Redevelopment Agency, has completed a site review of this project and has no position in regards to 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
\$494,540	\$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 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 improve energy efficiency above the modeled energy consumption of the building(s) by a 15% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERSII) post rehabilitation.
- The rehabilitation project will implement the following sustainable building management practices:
 - (i) Development of a project-specific maintenance manual including replacement specifications and operating information of all energy and green building features; and (ii) Certify building management staff in sustainable building operations per BPI Multifamily Building Operator or equivalent training program; and (iii) Undertaking formal building systems commissioning, retro-commissioning or re-commissioning as appropriate (continuous commissioning is not required).