CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
October 19, 2016

Carolina Heights, located at 135 Carolina Street in Vallejo, requested and is being recommended for a reservation of $848,997 in annual federal tax credits to finance the acquisition and rehabilitation of 151 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Solano Affordable Housing Foundation and is located in Senate District 3 and Assembly District 14.

Carolina Heights is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Marina Heights (CA-98-979). See **Special Issues/Other Significant Information** below for additional re-syndication information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

Project Number	CA-16-950	
Project Name	Carolina Heights	
Site Address:	135 Carolina Street	
	Vallejo, CA 94590	County: Solano
Census Tract:	2509.00	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$848,997	$0
Recommended:	$848,997	$0

Applicant Information

Applicant:	Solano Carolina Partners, LP	
Contact:	Gail Zick-Clyde	
Address:	1049 Union Ave., #A	
	Fairfield, CA 94533	
Phone:	707-422-5919	Fax: 707-422-0631
Email:	sahf@sbcglobal.net	

General Partner(s) or Principal Owner(s):	Solano Vallejo Housing, LLC
General Partner Type:	Nonprofit
Parent Company(ies):	Solano Affordable Housing Foundation
Developer:	Solano Affordable Housing Foundation
Investor/Consultant:	RBC Capital Markets
Management Agent:	John Stewart Company

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	9
Total # of Units:	152
No. & % of Tax Credit Units:	151 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Contract (105 units - 69%)
HCD MHP Funding:	No
55-Year Use/Affordability:	Yes
Number of Units @ or below 50% of area median income:	31
Number of Units @ or below 60% of area median income:	120

Bond Information

Issuer:	CalHFA
Expected Date of Issuance:	December 15, 2016
Credit Enhancement:	N/A

Information

Housing Type:	Non-Targeted
Geographic Area:	North and East Bay Region
TCAC Project Analyst:	Connie Harina

Unit Mix

72	1-Bedroom Units
80	2-Bedroom Units
152	Total Units

Unit Type & Number		2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
15	1 Bedroom*	50%	54%	$786
15	1 Bedroom	60%	60%	$874
29	1 Bedroom	60%	60%	$874
13	1 Bedroom	60%	60%	$874
16	2 Bedrooms*	50%	54%	$943
15	2 Bedrooms	60%	60%	$1,048
15	2 Bedrooms	60%	60%	$1,048
33	2 Bedrooms	60%	60%	$1,048
1	2 Bedrooms	Manager’s Unit	Manager’s Unit	$0

*See **Special Issues/Other Significant Information** below for hold harmeless rent information.

Project Cost Summary at Application

Land and Acquisition	$13,325,000
Construction Costs	$0
Rehabilitation Costs	$5,934,176
Construction Contingency	$0
Relocation	$1,200,000
Architectural/Engineering	$400,000
Const. Interest, Perm. Financing	$2,825,131
Legal Fees, Appraisals	$165,000
Reserves	$830,000
Other Costs	$588,109
Developer Fee	$3,022,573
Commercial Costs	$0
Total	**$28,289,989**

Project Financing

Estimated Total Project Cost:	$28,289,989
Estimated Residential Project Cost:	$28,289,989
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$44
Per Unit Cost:	$186,118
True Cash Per Unit Cost*:	$172,513

Construction Financing

Source	Amount
FHA Loan - Red Capital	$16,600,000
Seller Carryback Perm Loan	$2,048,400
Seller Carryback Bridge Loan	$4,200,000
Short Term Work from Seller	$60,740
Existing Reserves from Seller	$17,260
Deferred Fees and Costs	$2,075,110
Tax Credit Equity	$3,288,452

Permanent Financing

Source	Amount
FHA Loan - Red Capital	$16,600,000
Seller Carryback Perm Loan	$2,048,400
Short Term Work from Seller	$60,740
Existing Reserves from Seller	$17,260
Operating Income	$656,274
Deferred Developer Fee	$19,607
Tax Credit Equity	$8,887,708
TOTAL	**$28,289,989**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$9,833,058
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$13,340,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$12,782,975
Qualified Basis (Acquisition):	$13,340,000
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$415,447
Maximum Annual Federal Credit, Acquisition:	$433,550
Total Maximum Annual Federal Credit:	$848,997
Approved Developer Fee (in Project Cost & Eligible Basis):	$3,022,573
Investor/Consultant:	RBC Capital Markets
Federal Tax Credit Factor:	$1.04685

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:	$23,173,058
Actual Eligible Basis:	$23,173,058
Unadjusted Threshold Basis Limit:	$42,465,152
Total Adjusted Threshold Basis Limit:	$50,958,182

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

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 01/01/1999 through 12/31/2013. The existing regulatory agreement expires 12/31/2054. The existing regulatory agreement income targeting is 151 units at or below 60% AMI. The project shall maintain the rents and income targetting levels in the existing regulatory agreement(s) for the duration of the new regulatory agreement(s).

The project is a re-syndication that is subject to the hold harmless rent provisions of the federal Housing and Economic Recovery Act of 2008 (HERA). 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 project was originally placed-in-service year 1999. The new regulatory agreement shall reflect the current tax credit rent limits, while the project may continue to charge hold harmless rents for 31 units targeted at 50% AMI only until such time as the current tax credit rent limits equal or exceed the hold harmless rents.

The project is a re-syndication occurring concurrently with a Transfer Event with distribution of Net Project Equity, which is otherwise required to set aside a Short Term Work Capitalized Replacement Reserve in the amount of $60,740. In lieu of a Short Term Work Capitalized Reserve, the seller of the project will give a credit in the amount of $60,740, allowing the applicant to use Short Term Work Reserve Amount to fund rehabilitation expenses and to receive eligible basis for that amount.

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
$848,997	**$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.