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

Hemet Vistas 1&2R, located at 225 West Fruitvale Avenue in the City of Hemet, requested and is being recommended for a reservation of $563,971 in annual federal tax credits to finance the acquisition and rehabilitation of 143 units of housing serving large families with rents affordable to households earning 45-60% of area median income (AMI). The project will be developed by D.L. Horn & Associates and is located in Senate District 23 and Assembly District 42.

Hemet Vistas 1&2R is a re-syndication of two adjacent existing Low Income Housing Tax Credit (LIHTC) projects, Hemet Vista Apartments (CA-96-058) and Hemet Vista II CA-99-005). See **Special Issues/Other Significant Information** below for additional re-syndication information.

Project Number	CA-16-956	
Project Name	Hemet Vistas 1&2R	
Site Address:	225 West Fruitvale Avenue	
	Hemet, CA 92543	County: Riverside
Census Tract:	435.070	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$563,971	$0
Recommended:	$563,971	$0

Applicant Information

Applicant:	Hemet Vistas 1&2R Partners LP	
Contact:	Erik Halter	
Address:	100 Pacifica, Suite 205	
	Irvine, CA 92618	
Phone:	(949) 625-6419	Fax: (949) 625-6419
Email:	ehalter@palmcommunities.com	

General Partner(s) or Principal Owner(s):	PC Hemet Vistas 1&2R Developers LLC Las Palmas Foundation
General Partner Type:	Joint Venture
Parent Company(ies):	Palm Communities Las Palmas Foundation
Developer:	D.L. Horn & Associates
Investor/Consultant:	Alden Capital Partners, LLC
Management Agent:	ConAm Management Company

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 12
Total # of Units: 144
No. & % of Tax Credit Units: 143 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 140
Number of Units @ or below 60% of area median income: 3

Bond Information

Issuer: California Statewide Communities Development Authority
Expected Date of Issuance: December 1, 2016
Credit Enhancement: N/A

Information

Housing Type: Large Family
Geographic Area: Inland Empire Region
TCAC Project Analyst: Zhuo Chen

Unit Mix

108	3-Bedroom Units
36	4-Bedroom Units
144	Total Units

Unit Type & Number		2016 Rents Targeted % of Area Median Income	2016 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
Hemet Vista Apartments (CA-96-058)				
36	3 Bedrooms	46%	48%	$801
36	4 Bedrooms	46%	47%	$877
1	3 Bedrooms	Manager’s Unit	Manager’s Unit	$0
Hemet Vista II (CA-99-005)				
2	3 Bedrooms	45%	36%	$605
30	3 Bedrooms	45%	47%	$784
36	3 Bedrooms	50%	52%	$871
3	3 Bedrooms	60%	60%	$997

Project Cost Summary at Application

Land and Acquisition	$10,450,000
Construction Costs	$0
Rehabilitation Costs	$3,710,760
Construction Contingency	$365,940
Relocation	$143,000
Architectural/Engineering	$107,000
Const. Interest, Perm. Financing	$819,037
Legal Fees, Appraisals	$155,500
Reserves	$279,453
Other Costs	$465,470
Developer Fee	$1,991,836
Commercial Costs	$0
Total	**$18,487,996**

Project Financing

Estimated Total Project Cost:	$18,487,996
Estimated Residential Project Cost:	$18,487,996
Estimated Commercial Project Cost:	$0

Residential

Construction Cost Per Square Foot:	$22
Per Unit Cost:	$128,389
True Cash Per Unit Cost*:	$107,210

Construction Financing

Source	Amount
JP Morgan Chase	$10,882,161
Riverside County HOME (Assumed)	$1,252,463
Riverside County RDA (Assumed)	$1,031,106
Seller Carryback Note	$2,650,000
Deferred Costs & Fees	$1,729,686
General Partner Equity	$54,415
Tax Credit Equity	$888,165

Permanent Financing

Source	Amount
JP Morgan Chase	$6,543,040
Riverside County HOME (Assumed)	$1,252,463
Riverside County RDA (Assumed)	$1,031,106
Seller Carryback Note	$2,650,000
Net Operating Income	$636,144
Deferred Developer Fee	$399,725
General Partner Equity	$54,415
Tax Credit Equity	$5,921,103
TOTAL	**$18,487,996**

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

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$5,698,651
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$9,944,716
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$7,408,246
Qualified Basis (Acquisition):	$9,944,716
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$240,768
Maximum Annual Federal Credit, Acquisition:	$323,203
Total Maximum Annual Federal Credit:	$563,971
Approved Developer Fee (in Project Cost & Eligible Basis):	$1,991,836
Investor/Consultant:	Alden Capital Partners, LLC
Federal Tax Credit Factor:	$1.04989

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:	$15,643,367
Actual Eligible Basis:	$15,956,456
Unadjusted Threshold Basis Limit:	$43,223,328
Total Adjusted Threshold Basis Limit:	$85,149,956

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: 97%

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

This project involves the substantial rehabilitation of two adjacent existing TCAC projects originally constructed in the late 1990s in the City of Hemet.

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 projects occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period is from 01/01/1998 through 12/31/2012 for Hemet Vista Apartments (CA-96-058) and from 01/01/2001 through 12/31/2015 for Hemet Vista II (CA-99-005). The expiration date of the existing regulatory agreement is 12/31/2052 for Hemet Vista Apartments (CA-96-058) and 12/31/2055 for Hemet Vista II (CA-99-005). The existing regulatory agreement income targeting is 100% (72 units) at or below 46% AMI for Hemet Vista Apartments (CA-96-058), and 45% (32 units) at or below 45% AMI and 50% (36 units) at or below 50% AMI for Hemet Vista II (CA-99-005). 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 re-syndication subject to the hold harmless rent limits. 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 projects were originally placed-in-service: year 1998 for Hemet Vista Apartments (CA-96-058) and year 2001 for Hemet Vista II (CA-99-005). The new regulatory agreement shall reflect the current tax credit rent limits, while the project may continue to charge hold harmless rents for: all 72 units at or below 46% AMI for Hemet Vista Apartments (CA-96-058), and 32 units at or below 45% AMI and 36 units at or below 50% AMI for Hemet Vista II (CA-99-005), 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 $1,132,579. In consideration of the Short Term Work Capitalized Replacement Reserve requirement, the sellers of the existing properties reduced the combined purchase price to $10,450,000 which is $2,300,000 less than the appraised value of $12,750,000. In lieu of setting aside a Short Term Work Capitalized Reserve, the applicant is allowed to use the Short Term Work Reserve Amount of $1,132,579 to fund rehabilitation expenses and to receive eligible basis for that full amount given the price reduction.

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**
$563,971	**$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
- After school program off-site within 1/2 mile 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
- Instructor-led educational classes, health and wellness or skill-building classes off-site within 1/2 mile for a minimum of 84 hours per year

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 rehabilitation project commits to improve energy efficiency above the modeled energy consumption of the building(s) by a 20% decrease, based on an estimated annual energy use, in the buildings Home Energy Rating System II (HERS II) post rehabilitation.