

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2017 First Round
June 7, 2017

The Lofts at Normal Heights, located at 3808 & 3814 El Cajon Boulevard and 4317 38th Street in San Deigo, requested and is being recommended for a reservation of \$1,329,269 in annual federal tax credits to finance the new construction of 52 units of housing serving special needs tenants with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by Chelsea Investment Corporation and will be located in Senate District 39 and Assembly District 78.

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

Project Number CA-17-031

Project Name The Lofts at Normal Heights
Site Address: 3808 & 3814 El Cajon Boulevard and 4317 38th Street
San Diego, CA 92105 County: San Diego
Census Tract: 0021.00

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,329,269	\$0
Recommended:	\$1,329,269	\$0

Applicant Information

Applicant: Normal Heights CIC, LP
Contact: Randy Slabbers
Address: 6339 Paseo Del Lago
Carlsbad, CA 92011
Phone: (760) 456-6000 **Fax:** (760) 456-6001
Email: rslabbers@chelseainvestco.com

General Partner(s) / Principal Owner(s): Alpha Project for the Homeless
CIC Normal Heights, LLC
General Partner Type: Joint Venture
Parent Company(ies): Alpha Project for the Homeless
Chelsea Investment Corporation
Developer: Chelsea Investment Corporation
Investor/Consultant: The Richman Group
Management Agent(s): Royal Property Management Group, Inc.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 53
 No. & % of Tax Credit Units: 52 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Section 8 Project-Based Vouchers (52 units - 100%)
 Average Targeted Affordability of Special Needs/SRO Project Units: 37.88%
 Affordability Breakdown by Units and % (Lowest Income Points):

30% AMI:	19	35 %
35% AMI:	8	15 %
40% AMI:	9	15 %
45% AMI:	8	15 %
50% AMI:	8	15 %

Information

Set-Aside: N/A
 Housing Type: Special Needs
 Type of Special Needs: Homeless/Formerly Homeless
 % of Special Need Units: 52 units 100%
 Geographic Area: San Diego County
 TCAC Project Analyst: Diane SooHoo

Unit Mix

32 SRO/Studio Units
 20 1-Bedroom Units
 1 2-Bedroom Units

 53 Total Units

<u>Unit Type & Number</u>	<u>2016 Rents Targeted % of Area Median Income</u>	<u>2016 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
5 SRO/Studio	50%	50%	\$743
5 SRO/Studio	45%	45%	\$669
5 SRO/Studio	40%	40%	\$595
5 SRO/Studio	35%	35%	\$520
12 SRO/Studio	30%	30%	\$446
3 1 Bedroom	50%	50%	\$796
3 1 Bedroom	45%	45%	\$717
4 1 Bedroom	40%	40%	\$637
3 1 Bedroom	35%	35%	\$557
7 1 Bedroom	30%	30%	\$478
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$24,267,540

Project Cost Summary at Application

Land and Acquisition	\$2,375,058
Construction Costs	\$7,910,205
Rehabilitation Costs	\$0
Construction Contingency	\$400,933
Relocation	\$0
Architectural/Engineering	\$705,360
Const. Interest, Perm. Financing	\$514,045
Legal Fees, Appraisals	\$182,196
Reserves	\$775,864
Other Costs	\$1,720,767
Developer Fee	\$1,400,000
Commercial Costs	\$1,914,359
Total	\$17,898,786

Project Financing

Estimated Total Project Cost:	\$17,898,786
Estimated Residential Project Cost:	\$15,984,427
Estimated Commercial Project Cost:	\$1,914,359

Residential

Construction Cost Per Square Foot:	\$250
Per Unit Cost:	\$301,593
True Cash Per Unit Cost*:	\$301,593

Construction Financing

Source	Amount
Citibank	\$10,379,895
San Diego Housing Commission	\$4,940,000
Deferred Fees and Costs	\$1,449,013
Tax Credit Equity	\$1,129,879

Permanent Financing

Source	Amount
Citibank - Tranche B	\$1,400,000
San Diego Housing Commission	\$5,200,000
Tax Credit Equity	\$11,298,786
TOTAL	\$17,898,786

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$11,361,281
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$14,769,665
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,329,269
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,400,000
Investor/Consultant:	The Richman Group
Federal Tax Credit Factor:	\$0.85000

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:	\$11,361,281
Actual Eligible Basis:	\$12,318,561
Unadjusted Threshold Basis Limit:	\$10,260,636
Total Adjusted Threshold Basis Limit:	\$13,314,934

Adjustments to Basis Limit

- Parking Beneath Residential Units or On-Site Parking Structure of Two or More Levels
- 100% of Units for Special Needs Population
- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced

Tie-Breaker Information

First:	Special Needs
Final:	53.755%

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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.23%. 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 applicant has requested and been granted a waiver to use the standard vacancy rate of 5% instead of the special needs housing type vacancy rate of 10% for pro-forma purposes, TCAC Regulation Section 10325(g)(4)(H).

Legal Status

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Local Reviewing Agency

The Local Reviewing Agency, San Diego Housing Commission, 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
\$1,329,269	\$0

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of fifteen years and at no cost to the tenants. Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(6) at project completion. Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2) at project completion.

Additional Conditions: None

Points System	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency / Credit Reduction / Public Funds	20	20	20
Public Funds	20	20	20
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within 1/8 mile of transit, service every 30 min, 25 units/acre density	7	7	7
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	2	2	2
Within 1 mile of a full-scale grocery/supermarket of at least 25,000 sf	4	4	4
Within 1/2 mile of public middle school	3	3	3
Within 1 mile of medical clinic or hospital	2	2	2
Within 1 mile of a pharmacy	1	1	1
Service Amenities	10	10	10
SPECIAL NEEDS AND SRO HOUSING TYPES			
Case Manager, minimum ratio of 1 FTE to 100 bedrooms	5	5	5
Adult ed/health & wellness/skill bldg classes, min. 36 hrs/yr instruction	2	2	2
Health/behavioral services provided by licensed org. or individual	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Develop project in accordance w/ requirements of: GreenPoint Rated Program	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed	15	15	15
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	138	138	138

Please Note: If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.