

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

July 19, 2017

Cornerstone Place, located at 230 South Sunshine Avenue in El Cajon, requested and is being recommended for a reservation of \$1,136,649 in annual federal tax credits to finance the new construction of 69 units of housing serving large families with rents affordable to households earning 40-60% of area median income (AMI). The project will be developed by Domus Development, LLC and will be located in Senate District 38 and Assembly District 71.

The project financing includes state funding from the AHSC program(s) of HCD.

Project Number CA-17-770

Project Name Cornerstone Place
Site Address: 230 South Sunshine Avenue
El Cajon, CA 92020 County: San Diego
Census Tract: 158.02

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,136,649	\$0
Recommended:	\$1,136,649	\$0

Applicant Information

Applicant: South Sunshine Associates, L.P.
Contact: Monique Hastings
Address: 9 Cushing, Suite 200
Irvine, CA 92618
Phone: (949) 923-7805 Fax: (949) 585-0449
Email: mhastings@newportpartners.com

General Partner(s) or Principal Owner(s): Domus GP LLC
Community Resident Services, Inc.
General Partner Type: Joint Venture
Parent Company(ies): Domus Development, LLC
Community Resident Services, Inc.
Developer: Domus Development, LLC
Investor/Consultant: Bank of America, N.A.
Management Agent: Domus Management Company

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 70
 No. & % of Tax Credit Units: 69 100.00%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt / HOME
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 26
 Number of Units @ or below 60% of area median income: 43

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: July 31, 2017
 Credit Enhancement: N/A

Information

Housing Type: Large Family
 Geographic Area: San Diego County
 TCAC Project Analyst: Carmen Doonan

Unit Mix

48 1-Bedroom Units
 22 3-Bedroom Units

 70 Total Units

Unit Type & Number	2017 Rents Targeted % of Area Median Income	2017 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
25 1 Bedroom	60%	60%	\$1,023
17 1 Bedroom	50%	50%	\$853
6 1 Bedroom	40%	40%	\$682
18 3 Bedrooms	60%	60%	\$1,418
3 3 Bedrooms	50%	50%	\$1,181
1 3 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$21,712,680

Project Cost Summary at Application

Land and Acquisition	\$1,340,000
Construction Costs	\$19,750,240
Rehabilitation Costs	\$0
Construction Contingency	\$1,002,512
Relocation	\$0
Architectural/Engineering	\$970,000
Const. Interest, Perm. Financing	\$1,361,500
Legal Fees, Appraisals	\$135,000
Reserves	\$364,880
Other Costs	\$2,388,568
Developer Fee	\$2,000,000
Commercial Costs	\$0
Total	\$29,312,700

Project Financing

Estimated Total Project Cost:	\$29,312,700
Estimated Residential Project Cost:	\$29,312,700
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$251
Per Unit Cost:	\$418,753
True Cash Per Unit Cost*:	\$406,827

Construction Financing

Source	Amount
Bank of America - T.E. Bonds	\$20,000,000
El Cajon Housing Authority Funds	\$1,170,000
El Cajon HOME Funds	\$1,080,000
AHSC Grant (HRI) - GP Loan	\$3,136,500
Deferred Costs	\$2,381,637
Tax Credit Equity	\$1,544,563

Permanent Financing

Source	Amount
Bank of America - T.E. Bonds	\$3,800,000
El Cajon Housing Authority Funds	\$1,300,000
El Cajon HOME Funds	\$1,200,000
AHSC Loan	\$7,970,705
AHSC Grant (HRI) - GP Loan	\$3,485,000
General Partner Equity	\$100
Deferred Developer Fee	\$834,806
Tax Credit Equity	\$10,722,089
TOTAL	\$29,312,700

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$26,902,942
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$34,973,825
Applicable Rate:	3.25%
Total Maximum Annual Federal Credit:	\$1,136,649
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,000,000
Investor/Consultant:	Bank of America, N.A.
Federal Tax Credit Factor:	\$0.94331

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:	\$26,902,942
Actual Eligible Basis:	\$26,902,942
Unadjusted Threshold Basis Limit:	\$19,189,664
Total Adjusted Threshold Basis Limit:	\$32,046,739

Adjustments to Basis Limit

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages
95% of Upper Floor Units are Elevator-Serviced
55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 37%

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: None.

Local Reviewing Agency

The Local Reviewing Agency, the City of El Cajon, 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
\$1,136,649	\$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 having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.