

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2015 Second Round

September 23, 2015

Holly Heights I & II Apartments, is a scattered site project located at 77 & 201 Holly Street in Willits, CA, requested and is being recommended for a reservation of \$435,816 in annual federal tax credits to finance the acquisition and rehabilitation of 41 units of housing serving large families with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by HLH GP LLC and will be located in Senate District 2 and Assembly District 2.

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

Project Number CA-15-100

Project Name Holly Heights I & II Apartments
Site Address: 77 & 201 Holly Street
Willits, CA 95490 County: Mendocino
Census Tract: 10700

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$435,816	\$0
Recommended:	\$435,816	\$0

Applicant Information

Applicant: HLH GP LLC
Contact: Paul Patierno
Address: 250 West Colorado Boulevard, Suite 210
Arcadia, CA 91007
Phone: (626) 698-6357 **Fax:** (626) 294-9270
Email: p.patierno@highlandcompanies.com

General Partner(s) / Principal Owner(s): HLH GP LLC
GSCDC Holly Heights I & II, LLC
General Partner Type: Joint Venture
Parent Company(ies): Highland Property Development LLC
AOF/Pacific Afford Housing Corp.
Developer: HLH GP LLC
Investor/Consultant: Boston Capital
Management Agent(s): FPI Management, Inc.

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 11
Total # of Units: 42
No. & % of Tax Credit Units: 41 100%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: USDA RHS 515 and RHS 538 / HOME /
HUD Section 8 Project-based Contract (26 units - 53%)

Affordability Breakdown by Units and % (Lowest Income Points):

30% AMI: 5 10 %
45% AMI: 11 25 %
50% AMI (Rural): 17 40 %

Information

Set-Aside: Rural
Housing Type: Large Family
Geographic Area: N/A
TCAC Project Analyst: Connie Harina

Unit Mix

8 1-Bedroom Units
20 2-Bedroom Units
12 3-Bedroom Units
2 4-Bedroom Units

42 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>
Holly Heights Apartments I			
2 1 Bedroom	45%	45%	\$489
2 1 Bedroom	50%	50%	\$543
2 2 Bedrooms	30%	30%	\$391
5 2 Bedrooms	45%	45%	\$587
8 2 Bedrooms	50%	50%	\$652
1 2 Bedrooms	60%	60%	\$783
2 3 Bedrooms	30%	30%	\$452
3 3 Bedrooms	45%	45%	\$678
1 3 Bedrooms	50%	50%	\$754
Holly Heights Apartments II			
1 1 Bedroom	50%	50%	\$543
3 1 Bedroom	60%	60%	\$652
3 2 Bedrooms	60%	60%	\$783
5 3 Bedrooms	50%	50%	\$754
1 3 Bedrooms	60%	60%	\$905
1 4 Bedrooms	30%	30%	\$504
1 4 Bedrooms	45%	45%	\$757
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$1,750,000
Construction Costs	\$0
Rehabilitation Costs	\$2,913,120
Construction Contingency	\$126,000
Relocation	\$15,000
Architectural/Engineering	\$121,600
Construction Interest, Perm Financing	\$156,835
Legal Fees, Appraisals	\$87,000
Reserves	\$156,200
Other Costs	\$98,953
Developer Fee	\$703,366
Commercial Costs	\$0
Total	\$6,128,074

Project Financing

Estimated Total Project Cost:	\$6,128,074
Estimated Residential Project Cost:	\$6,128,074

Residential

Construction Cost Per Square Foot:	\$81
Per Unit Cost:	\$145,907

Construction Financing

Source	Amount
JP Morgan Chase	\$2,250,000
USDA - RHS 515 (Assumed)	\$734,796
HCD - HOME (Assumed)	\$417,564
Tax Credit Equity	\$1,931,613

Permanent Financing

Source	Amount
Bonneville - RHS 538 - Tranche A	\$423,344
Bonneville - RHS 538 - Tranche B	\$341,656
USDA - RHS 515 (Assumed)	\$734,796
HCD - HOME (Assumed)	\$417,564
Deferred Developer Fee	\$27,299
Tax Credit Equity	\$4,183,415
TOTAL	\$6,128,074

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$3,913,818
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$1,350,084
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$5,087,963
Applicable Rate:	7.69%
Qualified Basis (Acquisition):	\$1,350,084
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$391,263
Maximum Annual Federal Credit, Acquisition:	\$44,553
Total Maximum Annual Federal Credit:	\$435,816
Approved Developer Fee in Project Cost:	\$703,366
Approved Developer Fee in Eligible Basis:	\$574,787
Investor/Consultant:	Boston Capital
Federal Tax Credit Factor:	\$0.95990

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:	\$5,263,902
Actual Eligible Basis:	\$5,263,902
Unadjusted Threshold Basis Limit:	\$10,941,936
Total Adjusted Threshold Basis Limit:	\$10,941,936

Adjustments to Basis Limit: None.

Tie-Breaker Information

First:	Large Family
Second:	32.945%

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 7.69% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.30%. 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:

Holly Heights I & II Apartments, is a scattered site project located at 77 & 201 Holly Street in Willits, CA. Holly Heights I consists of 26 units with a HUD Section 8 Project-based contract for all units. Holly Heights II consists of 16 units including 1 managers unit.

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 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
\$435,816	\$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 ten 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 ¼ mile of regular bus stop (or dial-a-ride service for rural set-aside)	4	4	4
Within ½ mile of public park or community center open to general public	3	3	3
Within ½ mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Within ½ mile of a public elementary school in attendance area of school	3	3	3
Within 1 mile of medical clinic or hospital	3	3	3
Within ½ mile of a pharmacy	2	2	2
Service Amenities	10	10	10
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
Health & wellness services and programs, minimum 60 hrs per 100 bdrms	3	3	3
Sustainable Building Methods	10	10	10
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating):	7	7	7
Additional rehab measures: PV generation that offsets either 50% of common area load or 90% of solar accessible roof area	3	3	3
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	20	20	20
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	148	148	148

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.