

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

2015 Second Round

September 23, 2015

Escondido Site, located at 1560-1574 South Escondido Boulevard in Escondido, CA, requested and is being recommended for a reservation of \$571,946 in annual federal tax credits and \$1,684,405 in state tax credits to finance the new construction of 23 units of housing serving Special Needs and Large Family tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Solutions Escondido Boulevard, LLC and will be located in Senate District 38 and Assembly District 75.

The project financing includes state funding from the MHP program of HCD.

Project Number CA-15-165

Project Name Escondido Site
Site Address: 1560-1574 S. Escondido Blvd.
Escondido, CA 92025 County: San Diego
Census Tract: 207.070

| Tax Credit Amounts | Federal/Annual | State/Total |
|---------------------------|-----------------------|--------------------|
| Requested: | \$571,946 | \$1,684,405 |
| Recommended: | \$571,946 | \$1,684,405 |

Applicant Information

Applicant: Solutions Escondido Boulevard, LLC
Contact: Michael C. Megison
Address: 722 W. California Avenue
Vista, CA 92083
Phone: (760) 941-6545 Fax: (760) 941-1715
Email: Chris@solutionsforchange.org

General Partner(s) / Principal Owner(s): Pacific Southwest Community Development Corp.
Solutions Escondido Boulevard, LLC
General Partner Type: Nonprofit
Parent Company(ies): Pacific Southwest Community Development Corp.
Solutions For Change, Inc.
Developer: Solutions Escondido Boulevard, LLC
Investor/Consultant: Boston Capital
Management Agent(s): Hyder and Co.

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 4
 Total # of Units: 24
 No. & % of Tax Credit Units: 23 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: N/A
 Average Targeted Affordability of Special Needs/SRO Project Units: 30.00%
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 17 70 %
 50% AMI: 3 10 %

Information

Set-Aside: Nonprofit (Homeless Assistance)
 Housing Type: Special Needs
 Type of Special Needs: Homeless/Formerly Homeless
 % of Special Need Units: 17 Units - 70%
 Geographic Area: San Diego County
 TCAC Project Analyst: DC Navarrette

Unit Mix

16 2-Bedroom Units
 8 3-Bedroom Units

 24 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> |
|-------------------------------|--|--|--|
| 12 2 Bedrooms | 30% | 29% | \$533 |
| 2 2 Bedrooms | 50% | 49% | \$888 |
| 2 2 Bedrooms | 60% | 59% | \$1,066 |
| 5 3 Bedrooms | 30% | 29% | \$615 |
| 1 3 Bedrooms | 50% | 49% | \$1,026 |
| 1 3 Bedrooms | 60% | 58% | \$1,231 |
| 1 3 Bedrooms | Manager's Unit | Manager's Unit | \$987 |

Project Cost Summary at Application

| | |
|---------------------------------------|---------------------|
| Land and Acquisition | \$1,597,900 |
| Construction Costs | \$6,264,401 |
| Rehabilitation Costs | \$0 |
| Construction Contingency | \$310,970 |
| Relocation | \$0 |
| Architectural/Engineering | \$559,888 |
| Construction Interest, Perm Financing | \$744,195 |
| Legal Fees, Appraisals | \$198,500 |
| Reserves | \$41,424 |
| Other Costs | \$1,030,054 |
| Developer Fee | \$1,289,802 |
| Commercial Costs | \$0 |
| Total | \$12,037,134 |

Project Financing

| | |
|-------------------------------------|--------------|
| Estimated Total Project Cost: | \$12,037,134 |
| Estimated Residential Project Cost: | \$12,037,134 |

Residential

| | |
|------------------------------------|-----------|
| Construction Cost Per Square Foot: | \$256 |
| Per Unit Cost: | \$501,547 |

Construction Financing

| Source | Amount |
|------------------------|-------------|
| Citibank | \$9,630,000 |
| Deferred Developer Fee | \$250,000 |
| Tax Credit Equity | \$2,157,134 |

Permanent Financing

| Source | Amount |
|------------------------|---------------------|
| City of Escondido | \$2,100,000 |
| HCD - MHP | \$2,469,989 |
| AHP | \$230,000 |
| Deferred Developer Fee | \$500,000 |
| Tax Credit Equity | \$6,737,145 |
| TOTAL | \$12,037,134 |

Determination of Credit Amount(s)

| | |
|--|----------------|
| Requested Eligible Basis: | \$5,721,180 |
| 130% High Cost Adjustment: | Yes |
| Applicable Fraction: | 100.00% |
| Qualified Basis: | \$7,437,534 |
| Applicable Rate: | 7.69% |
| Total Maximum Annual Federal Credit: | \$571,946 |
| Total State Credit: | \$1,684,405 |
| Approved Developer Fee (in Project Cost & Eligible Basis): | \$1,289,802 |
| Investor/Consultant: | Boston Capital |
| Federal Tax Credit Factor: | \$0.96000 |
| State Tax Credit Factor: | \$0.74000 |

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: | \$5,721,180 |
| Actual Eligible Basis: | \$9,941,180 |
| Unadjusted Threshold Basis Limit: | \$6,654,464 |
| Total Adjusted Threshold Basis Limit: | \$8,662,454 |

Adjustments to Basis Limit:

- Required to Pay Prevailing Wages
- Local Development Impact Fees

Tie-Breaker Information

| | |
|---------|----------------------|
| First: | Special Needs |
| Second: | 57.367% |

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: None.

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, the City of Escondido Community Development Department Housing Division, 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
\$571,946

State Tax Credits/Total
\$1,684,405

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 transit stop, service every 30 minutes in rush hours | 6 | 6 | 6 |
| Within ¼ mile of a full-scale grocery/supermarket of at least 25,000 sf | 5 | 5 | 5 |
| Within ½ mile of a public elementary school | 2 | 2 | 2 |
| Within ¼ mile of a pharmacy | 2 | 2 | 2 |
| Service Amenities | 10 | 10 | 10 |
| SPECIAL NEEDS AND SRO HOUSING TYPES | | | |
| Case Manager, minimum ratio of 1 FTE/100 bdrms | 5 | 5 | 5 |
| Adult ed/health & wellness/skill bldg classes, minimum 84 hrs/yr | 5 | 5 | 5 |
| Sustainable Building Methods | 10 | 10 | 10 |
| NEW CONSTRUCTION/ADAPTIVE REUSE | | | |
| Develop project in accordance w/ requirements of: LEED | 5 | 5 | 5 |
| Develop project to requirements of: LEED Gold | 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 | 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.