9% lihtc application narrative

Project Name: Oakshire Commons

(a combination of Trinity Life Gardens and Oakshire Gardens with newly constructed units to create a combined 118-unit Assisted Living Facility)

Project Address: 2400 -2430 Oakshire Drive, Pueblo, Colorado 81001

The following Narrative describes the characteristics of the Oakshire Commons Project (the "Project") and why it should be selected above others for an award of Tax Credits, addressing both its strengths and weaknesses. As required by CHFA's 2015 Tax Credit Allocation Plan, it includes a description of the Project as proposed; detailed type of construction; population being served; bedroom mix; location; amenities; services; description of energy efficiencies; type of financing; and applicable state subsidies (through the Medicaid program). At the end of the Narrative are answers to the specific CHFA questions noted in the instructions.

Summary

The Oakshire Commons Project is being developed by MEJansen Development Company ("MEJansen" or the "Developer"), and encompasses the consolidation of two existing Section 42 tax credit properties located adjacent to one another (Trinity Life Gardens and Oakshire Gardens), along with the addition of a new expanded dining room, commercial kitchen and common areas and a total of 49 additional tenant units. The property line separating the two existing facilities will be eliminated (through a lot-line rearrangement), with the new combined facility being comprised of one inter-connected structure with a total of 118 tenant units (that is, 50 existing Trinity Life Gardens units, 19 existing Oakshire Gardens units and 49 new units).

The Oakshire Commons Project will for Section 42 purposes be comprised of 4 separate buildings (and will thereby have 4 separate "BINs" or building identification numbers), which structure will be accomplished through the filing of appropriate condominium materials, as follows:

Building One (the "TLG Building"): The TLG Building is comprised of the existing 50 Trinity Life Gardens units as renovated and updated, including a new HVAC system, a solar panel array and upgraded roof, façade, common areas and entry. The acquisition of this building and its rehab/upgrades will be funded through a combination of 4% tax credits and related bond issuance proceeds, seller financing from affiliates of MEJansen (which will own all interests of the investment partners of the limited partnership owning the property prior to the acquisition), deferred developer fees and other owner contributions as needed. The TLG Building is approximately 28,000 square feet in size.

Building Two (the "OG Building"): The OG Building is comprised of the existing 19 Oakshire Gardens units, which will be connected to the other buildings through new connecting hallways. This OG Building will be contributed to the new combined entity by affiliates of MEJansen, which owns all interests of the managing and investment members of the entity owning the property, and is approximately 10,000 square feet in size.

Building Three (the "New Building I"): The New Building I is comprised of 19 new units, the construction of which will be funded through a combination of 4% tax credits and related bond issuances, deferred developer fees and other owner contributions as needed. The New Building I, including its share of the new common areas, is approximately 10,000 square feet in size.

Building Four (the "New Building II"). The New Building II is comprised of 30 new units, the construction of which will be funded through 9% (competitive) tax credits, with any balance required provided by conventional debt financing, deferred developer fees and other owner contributions as needed. The New Building II, including its share of the new common areas, is approximately 20,000 square feet in size.

MEJansen was the developer of the existing Trinity Life Gardens facility in 2000 and the Oakshire Gardens facility in 2008. MEJansen also developed North Pointe Gardens in 2003, Pueblo West Gardens (Phase I in 2010 and Phase II in 2014) and Point of the Pines Gardens in 2012. These are all assisted living tax credit properties very similar to the subject project, located in Pueblo, Pueblo West and Colorado Springs, Colorado. The management entities are Accolade Living Centers, Tri-Star Management Company and Pines Management Company, all of which currently manage these developments and are owned and controlled by the Developer.

As noted below, there is a great unmet need in the Pueblo area for additional affordable assisted living units, as evidenced by the 100% occupancy (and waiting lists of tenants) of our existing affordable Tax Credit facilities. The Market Study prepared supports this strong need, noting an astoundingly low 5.9% capture (or "penetration") rate for the 49 new units. As noted in the Market Study:

> "Because of the highly-selective criteria used in the demand formula, a capture rate of 30% or less is considered to be a reasonable capture percentage for the subject project, thus the required project penetration (capture) of 5.9% is considered quite low, and thereby easily attainable."

As also explained below, an award of Tax Credits for the Project is a very efficient use of available credits by CHFA, as the Development Cost for the new units is well below the calculated HUD value limits, both on a per unit and total cost basis. In fact, the total Project development costs (including all soft costs but excluding reserves) for the new 59 units are under $6.6 million, which is more than $1.2 million lower than the HUD Section 221 limit for a 49 zero-bedroom unit facility in the area. This fact is a very compelling indication of the Project's enormously economical cost which makes it a very efficient use of the Tax Credits being requested.

Finally, all zoning is in place, the site is already owned by the Developer/Applicant and construction will be able to commence within a short period of time after the Tax Credits are allocated. In fact, the Developer successfully completed construction (and placement into service) both the initial Pueblo West Gardens project and the Oakshire Gardens project within one year of Tax Credit allocation (going straight to the Final Application and by-passing the Carryover Application process), which we understand is unique and evidences the strong "Readiness to Proceed" of the Project and its development team.

General Description of the Project

<u>Project Design</u>

The Oakshire Commons Project is a single story, assisted living facility with 118 total units. The new units and common areas will be constructed between the two existing buildings, and the new units will be the same size and have the same general layout as the existing buildings. A new large dining room (with a high "Cathedral ceiling") will enable the combined 118 tenants (of all 4 buildings) to dine in one sitting, and the dining rooms and sun rooms of the existing buildings will be used for common activities rooms for tenants. The new commercial kitchen will be enlarged in order to prepare meals for all tenants.

The tenant units are individual 325 square feet studio units with private bathrooms, accessed from the inside of the buildings from common corridors. The total building size of the new Project (including all 4 buildings) will be approximately 70,000 square feet, including all units, common spaces, and circulation/mechanical space). There are a total of approximately 40,000 square feet in residential units in the combined Project.

Site and Site Plan

The building site is located at 2400 – 2430 Oakshire Lane in Pueblo, Colorado. The total site will be approximately 4.3 acres in size (after the lot-line arrangement is effected), and is rectangular in shape.

The site is already zoned appropriately for this use (R-5 multi-family) and the Developer/Applicant controls the entities owning the site. All utilities (water/sewer, natural gas, electric and cable TV) are already located at the site, and the site is relatively flat.

The site plan includes the buildings, access drive and 60 parking spaces, along with landscaping and patios. As also noted in the drawings, the new buildings will be connected to the existing buildings via hallways and common areas.

Number of Units by Type and Size

There will be a total of 118 studio units in the Project, 116 of which will be LIHTC units and 2 of which will be Market Rate units (both located in the existing OG Building). All of the units will be identical. The monthly rent and fee structure (for those tenants electing to receive assisted living services and meals) is as follows:

Medicaid/Income-Restricted Units - As of January 2015, for all Medicaid residents, the operator is required to receive a co-pay of $675 per month from the resident. Of this amount, $375 is allocated to food service and $300 to rent. The operator will receive $1,579 per month in services fees that are partially paid by the resident and partially by Medicaid, depending on the income level of the resident. This brings the total amount earned by the operator to a total of $2,254 per month. This is the same amount available to any and all Medicaid providers in Colorado regardless of the type or size of unit, quality of unit, care needs of the resident, property location, or any other factor.

Market Rate Units – For the two Market Rate units, a total of $2,700 per month will be received per unit, comprised of rent, assisted living services fees and food services fees. This $2,700 total monthly amount is what the operators are currently receiving for the Market Rate units.

Project and Unit Amenities

Resident common areas include various living and activities rooms, a dining room large enough to serve all the residents, a central kitchen, laundry rooms and maintenance rooms. The finish level will be of high quality for an affordable project and will include, for example, wainscoting throughout the common areas, six-panel doors on all doorways, and handrails throughout the building. All common areas will be furnished appropriately for frail elders and special needs residents. The grounds will include landscaping, patios adjacent to the building, fencing, gardens and fountains.

The size of all planned units is 325 square feet. Because the Project is assisted living, kitchens are not included, however, each unit is equipped with a small refrigerator and can include an optional microwave, depending on the abilities of the resident. Each unit will include: wall-to-wall carpet, drapes or blinds, and a private bathroom with shower. The building will have central air conditioning both in units and in common spaces.

All units are furnished with a bed, dresser, nightstand, lamp and chair. Those residents preferring to furnish their unit with their own items are welcome to do so. Each unit is equipped with cable TV hook-ups and local phone service.

Services and Management

The Project is being developed by MEJansen Development Company, which also developed Trinity Life Gardens in 2000, North Pointe Gardens in 2003, Oakshire Gardens in 2008, Pueblo West Gardens in 2010 (and Phase II in 2014) and Point of the Pines Gardens in 2012, all five of which facilities are assisted living Tax Credit properties. The management entities are Accolade Living Centers, Tri-Star Management Company and Pines Management Company, which currently manage all of these previously developed projects and are all owned/controlled by the Developer.

Because the facility will be a licensed assisted living residence, an extensive package of services is offered to all residents who elect to receive them. Services to be included in the monthly food service fees and service fees are:

- 3 meals per day and snacks
- 24-hour oversight

- Medication administration
- Personal laundry and linens
- Housecleaning
- Transportation to doctor appointments
- Weekly bathing assistance
- Activities program seven days per week, with at least 2 activities daily.

Staffing includes one caregiver for each 10 residents during the day and one for each 16 residents during the night. There are no additional service levels for additional fees. Beauty shop services are available on-site by an outside contractor. Residents needing additional levels of service are discharged to another setting.

<u>Utilities and Type of Heat</u>

Water, sewer, gas and electric utilities will be paid by the owner. Also included will be cable TV hook-ups and local phone service. The heating system will be gas forced air and hot water heat. Central air-conditioning is also included. As is the case with the existing facilities, the use of green and energy-efficient equipment and systems will be maximized.

In particular, it should be noted that the Project has been designed using sustainable practices throughout all phases of the proposed development. Various members of the design team at HGF Architects (the Project's architectural and design firm) are LEED certified, and are well versed in all trades applicable to the design of high performance buildings. All members of the development team, including operations management, have contributed in the design of the green-friendly facility using systems and products that will enhance (and not hamper) the facility's ongoing operations once it is placed into service.

In addition, the Project incorporates an array of solar panels (i.e., a Solar Photo Voltaic Collector System) on the TLG Building, similar to what we have previously installed at our other facilities, which are anticipated to generate 90% of the building's estimated electrical use.

Development Schedule and Anticipated Date for Delivery of Units

Construction will commence as soon as possible after receipt of a Tax Credit allocation. All zoning is in place and financing and construction documents will be finalized once the Tax Credit reservations are received.

Both construction and permanent bond debt financing (through CHFA as the issuer conduit) for the Project will be provided by Canon National Bank, and the equity financing will be provided by Michel Associates Ltd. as described in the attachments to the Applications.

It is expected that the building will be placed into service in late 2016, with stabilized occupancy within six months, which is consistent with the lease-up period of the existing facilities developed and owned by the Developer.

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In response to the specific items requested to be provided by the Narrative instructions pursuant to CHFA's 2015 Tax Credit Allocation Plan, the following noted items are also addressed:

1. Identify which guiding principles in Section 2 of the Qualified Allocation Plan ("QAP") the project meets and why it meets them:

The Project meets numerous of the Guiding Principles, including the following cited:

- "To support rental housing projects serving the lowest income tenants for the longest period of time." The Project serves the lowest income tenants (given that 30% of the new units are set aside for those tenants under the 30% AMI level) for the longest period of time (given the longest 15-year compliance plus 25-year waiver period selected). In fact, many of our tenants are homeless elderly with no income other than the Colorado Old Age Pension Act and SSI payments, for which payments we assist them in qualifying.

- " To provide for distribution of housing credits across the state." The Project is located in Southern Colorado, which historically has not received as many Tax Credit allocations as other areas of the state, which supports this Guiding Principle.

- "To distribute housing credits to assist a diversity of populations in need of affordable housing, including homeless persons, persons in need of supportive housing, senior citizens, and families." The Project, by its nature as an assisted living facility, serves frail elders and others in need of supportive housing and services. It also houses a number of individuals who were previously homeless (many homeless individuals have mental health and other problems that are best served in an assisted living setting). Senior citizens are another main area of service, and its tenants are much in need of the Project as supported by the strong Market Study findings.

- "To reserve credits for as many rental housing projects as possible while considering the Priorities and Criteria for Approval." The Project is requesting a relatively small amount of competitive Tax Credits as compared to the norm. By selecting the Project for an award of Tax Credits, this Guiding Principle is adhered to as it permits more projects to be funded when a smaller amount of credits are involved.

- "To reserve only the amount of credit that CHFA determines to be necessary for the financial feasibility of a project and its viability throughout the credit period." As noted in the Application, the Project is financially feasible, and is only requesting that amount of credits that are necessary to generate the equity required. As noted elsewhere in this Narrative, the costs for the Project are very reasonable (on both a total and per unit basis), so the Project represents an efficient use of Tax Credits.

2. <u>Identify which housing priority in Section 2 of the QAP the project qualifies for</u>:

The Project qualifies for the following Housing Priorities as identified in the QAP:

- *Persons with Special Needs*. As an assisted living facility, the broad range of services and meals provided to tenants permits them to maintain and increase their independence so they do not otherwise have to live in a nursing home or other institutional setting. In effect, the supporting services provided permit tenants to continue to live in a residential setting.

- *Counties with Populations of less than 175,000*. Pueblo County, in which the Project is located, meets this definition.

3. <u>Describe how the project meets the criteria for approval in Section 2 of the QAP</u>:

a. *Market conditions:* As noted above, the Market Study (with an astoundingly low capture (or penetration rate) of only 5.9% for the 49 new units) and our waiting list of tenants at all of our existing facilities (which are all at full 100% occupancy) confirm the enormous need in the Pueblo market for the Project.

b. *Readiness-to-proceed:* As noted above, the site is already owned by the Developer and is appropriately zoned. The equity syndicator and bank involved are very familiar with the Developer and the management team as they have provided funding for their prior projects. Construction will commence shortly after allocation of the Tax Credits by CHFA and is anticipated to be completed within a year (as was the case with our Oakshire Gardens and initial Pueblo West Gardens facilities), which confirms an absolute readiness to imminently proceed.

c. *Overall financial feasibility and viability:* The strong operating performance of our existing facilities confirms the overall financial feasibility and viability of the Project, which is based upon the same expense and revenue structures. The strong pro-forma contained in the Application materials support this, and the extremely reasonable costs of construction (on both an overall and per unit basis) enhance this feasibility.

d. *Experience and track record of the development and management team:* The Developer and management team have successfully placed into service and operated five existing projects in the Pueblo area over the past sixteen years. Their regulatory compliance and tax credit record is impeccable, and the Project will represent an addition to existing (and already successful) tax credit projects.

e. *Cost reasonableness:* As noted in the Application, the total Project development costs (including all soft costs but excluding reserves) are under $6.6 million, which is over $1.2 million lower than the HUD Section 221 limit of $7,801,682 for a 49 zero-bedroom unit facility in the area. This fact is a very compelling indication of the Project's enormously economical cost which makes it a very efficient use of the Tax Credits being requested. Moreover, the HUD Section 221 cost does not even contemplate the large common areas and kitchen/dining areas of an assisted living facility which further supports and enhances this efficient use of Tax Credits.

f. *Proximity to existing tax credit developments:* Although the Project is an addition to existing tax credit projects, there are no other competing projects in the general vicinity of the Project.

g. *Site suitability:* As evidenced by the successful development and operation of the existing TLG Building and OG Building, the site is appropriate and suitable for the Project.

4. <u>Provide the following information as applicable</u>:

a. *Justification for waiver of any underwriting criteria (minimum operating reserve, minimum PUPA or high PUPA, first year debt coverage ratio below 1.15 or above 1.30, minimum replacement reserve, vacancy rate below CHFA's minimum)*:

- As noted in the Application materials, the only waiver being requested (which was granted by CHFA for all of our previous projects for which Tax Credits were awarded) is the waiver of the minimum $20,000 per unit per annum ("PUPA") in operating expenses, since our track record confirms we are able to operate facilities at a lower expense rate. In this connection, the Consolidated Application includes total annual operating expenses of $2,023,000, which equates to a consolidated PUPA in operating expenses of $17,144. Such expenses are based on the most recent operating expenses of the existing TLG Building as described in the Application materials (and reflected in its most recent audited financials) after making adjustments for the number of units.

- Pursuant to Section 4.C of the 2015 Allocation Plan, licensed assisted living facilities are to use a $20,000 PUPA in operating expenses except "a lower PUPA may be accepted if documentation of actual expenses from an existing senior-only deal is made available." Documentation of these actual expenses from our existing facilities included with the Application supports this lower overall consolidated PUPA of $17,144 (and the waiver is thereby requested).

b. *Justification of the financial need for CHFA's DDA credit up to 130 percent of qualified basis:*

- The Application materials evidence the maximum construction and permanent debt financing for the Project (which will be provided by Canon National Bank along with significant Owner/Seller Financing), which debt is being serviced from net profit after the low PUPA expenses noted above. As for the equity financing, Michel Associates Ltd. will be purchasing the Tax Credits to be generated by the Project at the rate noted in the Application, which is the highest rate ever received by one of our assisted living projects.

- Given the large service component inherent in the operation of assisted living facilities, an assisted living development is more akin to a services business than a real estate investment. Tax Credit syndicators realize this, and do not pay as much for Tax Credits generated by assisted living facilities as they do for other Section 42 Tax Credit properties, which was also experienced by us in the development of our other assisted living facilities.

- Moreover, the total Project funding involves a very significant amount of Owner/Seller Financing as noted above, which will be re-paid in after-tax dollars and will therefore erode the depreciation/tax loss to be generated on which the equity syndicate calculates its yields.

- As a result, the proposed equity factor is reasonable and appropriate (and as noted above represents the highest rate we have ever received for one of our assisted living facility developments). Also, it should be noted that even with this equity rate, we only need a small "eligible basis boost" (when looking at all of the Project funding overall) given the economical construction and other costs of the Project described above. That being said, a 28% basis boost is being requested for the 9% new construction costs as permitted by the applicable rules, which is helping to fill the overall funding "gap" resulting from the 4% Application.

- We therefore respectfully request this basis boost for the 9% Application which we believe is justified for all of the foregoing reasons.

5. <u>Address any issues raised in the Market Study submitted with your application</u>:

- No issues were raised in the Market Study included with the Application materials.

6. <u>Address any issues raised in the environmental report(s) submitted with your application:</u>

- No issues were raised in the Phase I Environmental Report included with the Application materials.

7. <u>In your own words, describe the outreach that you have conducted within the proposed community and demonstrate local support for the project (including financial support):</u>

- As for the outreach we have conducted throughout Pueblo, we are in constant contact with local government agencies and charitable organizations as to our facilities and the elderly and special needs tenants served, and consistently receive referrals from Spanish Peaks, the Pueblo Housing Authority, Pueblo County caseworkers, local medical centers and providers, the Pueblo County Department of Housing and Human Services, the Senior Resource Development Agency and other individuals and entities. All of such individuals and entities strongly support our facilities, including the proposed Oakshire Commons Project, as represented in part by the letters of support referenced below.

- As for financial support, we have considered/pursued soft funds (along with subsidized loan financing) for the Project, including those offered by the Colorado

Division of Housing, CHFA and HUD, and have determined through our discussions with the relevant representatives of such agencies that such soft funds are either not available or would negatively affect the Development Budget costs, cash flow/financial viability and/or Equity Investor funding received by the Project as follows:

- First, as for potential HUD subsidized construction loans, the Project contractor would have to abide by the Davis-Bacon prevailing wage rate provisions to be eligible for such funds, which would significantly increase our construction costs (and the resultant amount of Tax Credits thereby needed). We construct our facilities with as reasonably low costs as possible, in part by bidding out all work to sub-contractors (many of whom are small local companies or individuals) who can provide the construction services at rates below these Davis-Bacon pricing levels.
- As for subsidized CHFA loans (like what we applied for and received for our North Pointe Gardens project several years ago), CHFA no longer offers these loan programs to assisted living facilities. Also, since we are a for-profit enterprise, CDBG funds are not available for construction funds. As for potential HOME grants, we have discussed our Project with Colorado Division of Housing personnel, but it is the current policy of the Colorado Division of Housing that for-profit projects are no longer eligible for grants.
- It should be noted, however, that we do in fact receive a large amount of local state funding already through the Medicaid waiver program which, in effect, subsidizes our operations so we are able to service the large amount of debt reflected in the Application materials. Were it not for this funding subsidy, the Project would have a "funding gap" that would need to be filled by other soft funding means.
- As for local funding, neither the City of Pueblo nor Pueblo County currently have programs or initiatives that would provide funding for the Project other than the HUD funds noted above, and there are no PEDCO (i.e., "Pueblo Economic Development Council") funds available since the Project does not "export" any goods or services outside of the metropolitan area.

* Finally, we would like to point out that, even though we have sought and considered such monies, the aggregate amount of "soft fund" monies available is greatly limited, and by our Project taking such other soft funds it would mean other worthy projects may not be able to fill their "funding gaps". We are fortunate that,

through the Medicaid funding we do receive and the low operating costs at which we are able to operate our facilities, we do not have a "funding gap" and can successfully finance the Project using only Tax Credits (and the Solar Tax credits).

- Attached to the Application are letters of support from various local governmental and private entities that describe the strong need for the Project and indicate their support of the Project. Included are letters from:

  -- Parkview Medical Center
  -- Pueblo County Department of Housing and Human Services
  -- The Pueblo Housing Authority
  -- SRDA (Senior Resource Development Agency of Pueblo)

8. <u>For acquisition/rehab projects, provide a detailed narrative that describes the proposed rehab plans and relocation plan (if applicable), and address the other items noted in the instructions.</u>

- The 4% Application includes both the acquisition of the TLG Building and its underlying land (at a price supported by the appraisal issued by Collier's International included with the Application), along with rehabilitation/upgrades to the facility including a new HVAC system, a solar panel array and an upgraded roof, façade, common areas and entry. The total costs of this rehab/upgrade work to the TLG Building are approximately $1.25 million, which is over $100,000 in excess of the "20% minimum" requirement of the Building Basis acquisition cost under the applicable rules.

- The rehabilitation costs include all of the capital improvement items noted in the Capital Needs Assessment included with the Application performed by Building Analytics, a national CNA specialist firm performing the assessment in accordance with ASTM standards. Such expenditures include an upgraded HVAC system, updated fire safety system, asphalt repairs and other smaller capital improvements suggested, along with an updated façade.

- As noted above, the improvements also include the costs of a roof-mounted photo voltaic array system (the "Solar System") components (e.g., panels, inverters, mounting/racking) that will be placed on the roof of the TLG Building between the new HVAC system components. The size of the Solar System is anticipated to provide up to 90% of the total electrical usage of the TLG Building. The cost represents an all-in cost of $3.64 per watt, which we understand to be a very competitive price for the system as many installations will run up to $5 or $6 per watt in cost. The pricing also includes all US-made components (both “mono crystalline” panels and SMA inverters) with 20 to 25 year warranties (instead of foreign equipment of inferior quality which are used by many high-volume solar installers).

- As for the 10-year rule, Paul Smith of Bryan Cave LLP has provided a legal opinion to CHFA as part of the Applications confirming that all of the requirements are met. His legal opinion also confirms that there are no related party relationships or past local, state or federal resources invested in the Project that would affect such requirements (the only such resources are the federal Section 42 tax credits previously received over 15 years ago).

- There are no significant capital expenditures that have been expended over the past two years, or any significant events that have led to the current need for rehabilitation. The safety and obsolescence issues identified by the Capital Needs Assessment (including replacement of the HVAC system and upgrading of the fire system) are covered by the construction work and budget included with the Applications.

- As for relocation, no relocation plans are necessary, as the current tenants of the TLG Building will not have to move during the rehabilitation work being done, and will be able to instead remain living in their units (as was the case with the recent expansion of our Pueblo West Gardens facility where the existing tenants were able to remain during the construction).

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The foregoing Narrative provides all of the requested information, and we trust it will support an award of the Tax Credits requested. All of the referenced documentation supporting this Narrative is included with the full Application.