

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
September 26, 2007

Project Number CA-2007-877

Project Name Tracy Garden Village Apartments
Address: 662 East Street
 Tracy, CA 95376

County: San Joaquin

Applicant Information

Applicant: DHI Tracy Garden Associates, L.P., a California Limited Partnership
Contact: Tim Fluetsch
Address: 3 Harbor Drive, Suite 302
 Sausalito, CA 94965
Phone: (801) 733-6111 **Fax:** (801) 733-5481
Sponsors Type: Joint Venture

Bond Information

Issuer: ABAG Finance Authority for Nonprofit Corporations
Expected Date of Issuance: November 15, 2007
Credit Enhancement: N/A

Eligible Basis

Actual: \$7,060,431
Requested: \$7,060,431
Maximum Permitted: \$24,565,781

Extra Feature Adjustments:
 55-Year Use/Rent Restriction Adjustment: 120%

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$282,195	\$0
Recommended:	\$282,195	\$0

Project Information

Construction Type: Acquisition and Rehabilitation
Federal Subsidy: Tax-Exempt
HCD MHP Funding: No
Total # of Units: 88
Total # Residential Buildings: 15

Income/Rent Targeting

Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 87 units
55-Year Use/Affordability Restriction: Yes
Number of Units @ or below 50% of area median income: 86
Number of Units @ or below 60% of area median income: 1

<u>Unit Type & Number</u>	<u>2007 Rents</u> <u>% of Area Median Income</u>	<u>Proposed Rent</u> (including utilities)
86 One-Bedroom	50%	\$565
1 One-Bedroom	60%	\$678
1 Two-Bedroom	Manager's Unit	\$656

The general partners or principal owners are DHI Tracy Garden Associates, LLC, Pacific Housing, Inc. & Dawson Holdings, Inc and Pacific Housing, Inc.

The project developer is Dawson Holdings, Inc.

The management services will be provided by Pacific West Management.

The market analysis was provided by M.E. Shay & Co.

The Local Reviewing Agency, the City of Tracy, has completed a site review of this project and strongly supports this project.

Project Financing

Estimated Total Project Cost: \$9,505,973 Per Unit Cost: \$108,022 Construction Cost Per Sq. Foot: \$54

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
Centerline	\$2,493,600	Centerline	\$2,493,600
Centerline	\$1,535,100	Centerline	\$1,535,100
Centerline	\$134,900	Centerline	\$134,900
Centerline	\$836,400	City of Tracy	\$1,975,000
City of Tracy	\$1,975,000	Net cash flow during rehab	\$56,785
Net cash flow during rehab	\$56,785	Deferred Developer Fee	\$449,173
Deferred Developer Fee	\$862,126	Investor Equity	\$2,861,415
Investor Equity	\$1,612,062	TOTAL	\$9,505,973

Determination of Credit Amount(s)

Requested Rehabilitation Eligible Basis:	\$3,495,431
Requested Acquisition Eligible Basis:	\$3,565,000
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	\$4,544,060
Qualified Acquisition Basis:	\$3,565,000
Applicable Rate:	3.60%
Maximum Annual Federal Rehabilitation Credit:	\$153,855
Maximum Annual Federal Acquisition Credit:	\$128,340
Total Maximum Annual Federal Credit:	\$282,195
Approved Developer Fee:	\$920,926
Tax Credit Factor:	\$1.0140

Applicant requests and staff recommends annual federal credits of \$282,195, based on a qualified rehabilitation basis of \$4,544,060, a qualified acquisition basis of \$3,565,000, and a funding shortfall of \$2,861,415.

Cost Analysis and Line Item Review

The requested eligible basis \$7,060,431 is below TCAC's adjusted threshold basis limit \$24,565,781. The basis limit includes the adjustment for extraordinary features for the 120% adjustment for the 55-year use/affordability restriction for projects that have more than 50% tax-credit units. Staff analysis of project costs to determine reasonableness found most fees to be within TCAC's underwriting guidelines and TCAC limitation with the exception of the contractor profit, overhead and general requirement costs as explained in the Special Issues section of this report below.

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 3.60% of the qualified basis. Unless the applicant fixed the rate at bond issuance, the Federal Rate applicable to the month the project is placed-in-service will be used to determine the final allocation.

Special Issues/Other Significant Information: 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.

The applicant's estimate of contractor profit, overhead and general requirement costs exceeds TCAC limits. The applicant is cautioned that at final review, prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceeds the limits will not be allowed.

Recommendation: Staff recommends that the Committee make a reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal/Annual	State/Total
\$282,195	\$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.

TCAC makes the 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 will be permitted without the express approval of TCAC.

The applicant must pay TCAC an 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 anticipated to be the final project costs, staff recommends that a reservation be made in the amount of federal credit shown above on condition that the final project costs be supported by itemized lender approved costs, and certified costs of the buildings as completed.

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 credits 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 provide the tenants with educational classes for a minimum of ten (10) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification to TCAC.

Project Analyst: Anthony Zeto