

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report  
2008 Second Round Cycle  
October 8, 2008**

**Project Number** CA-2008-140

**Project Name** Mutual Housing at the Highlands  
Site Address: 3417 Freedom Park Drive  
North Highlands, CA 95660 County: Sacramento  
Census Tract: 0074.03

**Applicant Information**

Applicant: Sacramento Mutual Housing Association  
Contact: Rachel Iskow  
Address: 3451 Fifth Avenue  
Sacramento, CA 95817  
Phone: (916) 453-8400 Fax: (916) 453-8401  
Email: [rachel@mutualhousing.com](mailto:rachel@mutualhousing.com)  
General Partners Type: Nonprofit

**Information**

Set-Aside: Nonprofit Homeless Apportionment  
Housing Type: Special Needs  
Type of SpN: Homeless people with disabilities  
66 of 90 Special Need Units: 73%  
Geographic Area: N/A

**Eligible Basis**

Requested: \$15,454,317  
Actual: \$20,554,657  
Maximum Permitted: \$15,454,317

**Adjustments to Threshold Basis Limit:**

- Required to Pay Prevailing Wages
- Local Impact Fees
- 3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$1,575,104	\$0
Recommended:	\$1,575,104	\$0

**Project Information**

Construction Type: New Construction  
Federal Subsidy: HUD Supportive Housing Program (SHP)  
Total # of Units: 90  
Total # Residential Buildings: 9

**Income/Rent Targeting**

Federal Set-Aside Elected: 40%/60%  
% & No. of Tax Credit Units: 100% - 89 units  
Average Affordability of Special Needs Units or SRO Project: 28%  
Breakdown by %: 30% @ 30%, 40% @ 40%

<b>Selection Criteria</b>	<b>Max. Possible Points</b>	<b>Requested Points</b>	<b>Points Awarded</b>
<b><i>Cost Efficiency/Credit Reduction/Public Funds</i> Maximum of 20 points</b>	<b>20</b>	<b>20</b>	<b>20</b>
<input checked="" type="checkbox"/> Credit Reduction	20	2	2
<input checked="" type="checkbox"/> Public Funds	18	18	18
<b><i>Owner / Management Characteristics</i> Maximum of 9 points</b>	<b>9</b>	<b>9</b>	<b>9</b>
<input checked="" type="checkbox"/> General Partner Experience	6	6	6
<input checked="" type="checkbox"/> Management Experience	3	3	3
<b><i>Housing Needs</i> Maximum of 10 points</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b><i>Site Amenities</i> Maximum of 15 points</b>	<b>15</b>	<b>15</b>	<b>15</b>
<input checked="" type="checkbox"/> Within 1500 feet of a regular bus stop or rapid transit system stop:	3	3	3
<input checked="" type="checkbox"/> Within ¼ mile of public park or community center open to general public:	3	3	3
<input checked="" type="checkbox"/> Within ¼ mile of a full-scale grocery store with staples, fresh meat and fresh produce:	4	4	4
<input checked="" type="checkbox"/> Special Needs or SRO project within ½ mile of a facility operated to serve population:	3	3	3
<input checked="" type="checkbox"/> Within ½ mile of medical clinic or hospital:	3	3	3
<input checked="" type="checkbox"/> Within ½ mile of a pharmacy:	1	1	1
<b><i>Service Amenities</i> Maximum of 10 points</b>	<b>10</b>	<b>10</b>	<b>10</b>
<input checked="" type="checkbox"/> Direct client services where a contract is in place at the time of application	5	5	5
<input checked="" type="checkbox"/> Bona fide service coordinator available	5	5	5
<b><i>Neighborhood Revitalization</i> Maximum of 9 points</b>	<b>9</b>	<b>9</b>	<b>9</b>
<b><i>Sustainable Building Methods</i> Maximum of 8 points</b>	<b>8</b>	<b>8</b>	<b>8</b>
<input checked="" type="checkbox"/> New construction/adaptive reuse increases energy efficiency 10% above Title 24	4	4	4
<input checked="" type="checkbox"/> Flow restrictors for kitchen & bath faucets or water-saving fixtures	1	1	1
<input checked="" type="checkbox"/> Bathroom fans in all bathrooms w/humidistat, timer and outdoor exhaust	2	2	2
<input checked="" type="checkbox"/> Formaldehyde-free insulation	1	1	1
<b><i>Lowest Income</i> Maximum of 52 points</b>	<b>52</b>	<b>52</b>	<b>52</b>
<input checked="" type="checkbox"/> Basic Targeting	50	50	50
<input checked="" type="checkbox"/> Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
<b><i>Readiness to Proceed</i> Maximum of 20 points</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b><i>State credit substitution</i> Maximum of 2 points</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total Points</b>	<b>155</b>	<b>155</b>	<b>155</b>

**Tie-Breaker Information**

Tie-Breaker Categories Apply to this Project: **Yes**

First: Housing Type **Special Needs**

Second: Maximum Neighborhood Revitalization Points/Federal Designated Area **Yes**

Third: Calculated Ratio per Regulation 10325(c)(12) **63.716%**

<b><u>Unit Type &amp; Number</u></b>	<b><u>2008 Rents for 2<sup>nd</sup> Round 2008</u></b> <b><u>% of Area Median Income</u></b>	<b><u>Proposed Rent</u></b> <b>(including utilities)</b>
50 0-Bedroom Units	30%	\$263
12 0-Bedroom Units	60%	\$509
16 1-Bedroom Units	30%	\$263
11 3-Bedroom Units	60%	\$923
1 3-Bedroom Units	Manager's Unit	\$842

The general partner or principal owner is Highlands Mutual Housing Association, LLC.

The project developer is Sacramento Mutual Housing Association.

The management agent is Jon Berkely Management, Inc.

The market analyst is Laurin Associates.

The Local Reviewing Agency, Sacramento Housing and Redevelopment Agency, has completed a site review of this project and strongly supports this project.

**Project Financing**

Estimated Total Project Cost: \$26,115,173 Per Unit Cost: \$290,169 Construction Cost Per Sq. Foot: \$256

<b>Construction Financing</b>		<b>Permanent Financing</b>	
Source	Amount	Source	Amount
Wells Fargo Bank	\$16,965,000	HCD - MHP	\$6,743,650
MHSA*/CalHFA	\$2,971,945	MHSA* Loan through CalHFA	\$2,971,945
Sacramento County (local fee waivers)	\$568,663	MHSA* Capitalized Operating Reserve	\$1,800,000
Investor Equity	\$2,204,000	Sacramento County (local fee waivers)	\$568,663
		SMHA** Deferred Developer Fee	\$260,000
		Investor Equity	\$13,770,915
		<b>TOTAL</b>	<b>\$26,115,173</b>

\*Mental Health Services Act Housing Program

\*\*Sacramento Mutual Housing Association

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$15,454,317
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis Credit Reduction (2%)	\$401,812
Qualified Basis:	\$19,688,800
Applicable Rate:	8.00%
Total Maximum Annual Federal Credit:	\$1,575,104
Total State Credit:	\$0
Approved Developer Fee:	\$1,400,000
Tax Credit Factor: Community Economics	\$0.8742

Applicant requests and staff recommends annual federal credits of \$1,575,104 based on a qualified basis of \$19,688,880 and a funding shortfall of \$13,770,915.

**Cost Analysis and Line Item Review**

The requested eligible basis \$15,454,317 is at the TCAC's threshold basis limit \$15,454,317. The basis limit was increased by the following extraordinary features: required to pay state or federal prevailing wages; local development impact fees; has 3 or more energy efficiency/resource conservation/indoor air quality items (exceeds Title 24 by at least 15%, using tank less water heaters, a high efficiency condensing boiler (92% AFUE or greater), or a solar thermal domestic hot water pre-heating system, using vent kitchen range hoods to the exterior of the building in at least 80% of the units). Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitations.

Annual operating expenses **exceeds** 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 **8.00%** 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:** This is a 73% (66 units) Special Needs (Homeless/Mentally Ill) and 27% Family (24 units: 12 3-bedroom and 12 Studio) project that was granted a waiver for dishwashers in the Studio units, as well as outdoor play facilities as it is near a park, Freedom Park (immediately southwest of the property across the intersection of Freedom Park Drive and 34<sup>th</sup> Street).

Per the Law Offices of Gubb & Barshay LLP, the project has an upstairs sleeping area for 16 of the units, with dimensions of 10 feet by 10.5 feet that residents will enter through a door. The upstairs area will have a half wall, which will allow residents to overlook the remainder of the unit, rather than a full wall that extends to the ceiling. Each upstairs sleeping area will have a window, two electrical outlets, and a smoke detector. Based on the HQS, the units would be classified as one-bedroom units.

**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.

**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:

<b>Federal/Annual</b>	<b>State/Total</b>
<b>\$1,575,104</b>	<b>\$0</b>

### **Standard Conditions**

An application for a carryover allocation must be submitted by **October 31, 2008**, as required by regulation section 10328(d), together with the applicable allocation fee and all required documentation. The time for meeting the "10%" test and submitting related documentation will be no later than six (6) months after the date of the executed carryover allocation (as defined by IRC Section 42 and IRS Notices). The applicant must ensure the project meets all Additional Threshold Requirements for the housing type of the proposed project.

The applicant must submit all documentation required for a Final Reservation no later than February 1 of the year that the building(s) must be placed in service pursuant to Section 42(h)(1)(E)(i) of the Internal Revenue Code of 1986, as amended. The applicant shall provide the Committee a Final Reservation application providing the documentation for the project set forth in Section 10322(i)(1) of these regulations. 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. The performance deposit must be paid by cashier's check within 20 calendar days of any preliminary reservation. The allocation fee must be paid within a time period specified in the preliminary reservation letter. The allocation fee will be due prior to execution of a carryover allocation or issuance of tax forms, whichever comes first. 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 the federal 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.

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)(8) 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)(P) at project completion.

### **Additional Conditions**

Applicants that received 20 points for readiness to proceed must meet ALL of the following requirements. The applicant must be ready to begin construction within 150 days of the Credit Reservation which is **March 9, 2009**, as evidenced by submission, within that time of, recorded deeds of trust for all construction financing, payment of all construction lender fees, issuance of building permits and notice to proceed delivered to the contractor. Failure to meet this timeline will result in rescission of the Credit Reservation.

**Project Analyst: Velia Martinez**