

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
October 8, 2008

Project Number CA-2008-922

Project Name Montecito Village
Address: 1464 Montecito Road
Ramona, CA 92065 County: San Diego

Applicant Information

Applicant: Montecito Village Affordable, L.P.
Contact: Ken Reiner
Address: 8105 Irvine Center Drive, Suite 830
Irvine, CA 92618 Fax: (949) 753-7590
Phone: (949) 753-0555
Email: kreiner@bentall.com
Sponsors Type: Joint Venture

Information

Housing Type: Large Family

Bond Information

Issuer: California Housing Finance Agency
Expected Date of Issuance: September 2008
Credit Enhancement: N/A

Eligible Basis

Actual: \$9,797,213
Requested: \$9,797,213
Maximum Permitted: \$21,412,833

Extra Feature Adjustments:

55-Year Use/Affordability Restriction - Each 1% of Low-Income Units are Income Targeted
Between 50% AMI & 36% AMI: 30%

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$385,577	\$0
Recommended:	\$374,905	\$0

Project Information

Construction Type: Rehabilitation and Acquisition
Federal Subsidy: Tax-Exempt
HCD MHP Funding: Yes
Total # of Units: 70
Total # Residential Buildings: 10

Income/Rent Targeting

Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 69 units
55-Year Use/Affordability Restriction: Yes
Number of Units @ or below 50% of area median income: 21
Number of Units @ or below 60% of area median income: 48

<u>Unit Type & Number</u>	<u>2008 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
5 One-Bedroom	50%	\$740
11 One-Bedroom	60%	\$772
7 Two-Bedroom	50%	\$888
17 Two-Bedroom	60%	\$926
7 Three-Bedroom	50%	\$988
14 Three-Bedroom	60%	\$1,232
2 Four-Bedroom	50%	\$1,066
6 Four-Bedroom	60%	\$1,374
1 Three-Bedroom	Manager's Unit	\$0

The general partner(s) or principal owner(s) are Montecito Village AGP, L.P. and Las Palmas Housing and Development Corporation.

The project developer is Bentall Residential, L.P.

The management services will be provided by John Stewart Company.

The market analysis was provided by Novogradac & Company, LLP.

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.

Project Financing

Estimated Total Project Cost: \$10,717,171 Per Unit Cost: \$153,102 Construction Cost Per Sq. Foot: \$31

<u>Construction Financing</u>		<u>Permanent Financing</u>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
CalHFA A loan – Tax Exempt Bonds	\$5,325,000	CalHFA A loan	\$5,325,000
CalHFA B loan	\$1,625,000	CalHFA B loan	\$1,625,000
Reserve transfer	\$183,072	Reserve transfer	\$183,072
Cash flow	\$49,750	Cash flow	49,750
Deferred reserves and costs	\$391,529	Deferred Developer Fee	\$347,656
Deferred Developer Fee	\$520,893	Investor Equity	\$3,186,693
Investor Equity	\$2,621,927	TOTAL	\$10,717,171

Determination of Credit Amount(s)

Requested Rehabilitation Eligible Basis:	\$3,047,897
Requested Acquisition Eligible Basis:	\$6,749,316
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	\$3,962,266
Qualified Acquisition Basis:	\$6,749,316
Applicable Rate:	3.50%
Maximum Annual Federal Rehabilitation Credit:	\$138,679
Maximum Annual Federal Acquisition Credit:	\$236,226
Total Maximum Annual Federal Credit:	\$374,905
Approved Developer Fee:	\$1,277,897
Tax Credit Factor: Union Bank of California	\$0.85

Applicant requested federal credits of \$385,577, based on a qualified rehabilitation basis of \$3,962,266, a qualified acquisition basis of \$6,749,316, and a funding shortfall of \$3,277,408. Staff recommends annual federal credits of \$374,905, based on a qualified rehabilitation basis of \$3,962,266, a qualified acquisition basis of \$6,749,316, and a funding shortfall of \$3,186,693. The applicant used the incorrect applicable percentage of 3.60%. Staff adjusted accordingly.

Cost Analysis and Line Item Review

The requested eligible basis \$9,797,213 is below TCAC's adjusted threshold basis limit \$21,412,833. The basis limit includes the adjustment for extraordinary features for 55-year use/affordability restriction for projects where each 1% of low-income units are income targeted between 50% AMI & 36% AMI. Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitation.

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 3.50% 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'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 must be corrected.

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
\$374,905	\$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.

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.

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 after school programs and 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: Gina Ferguson