

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**Tax-Exempt Bond Project**  
**October 22, 2009**

**Project Number** CA-2009-861

**Project Name** Lenzen Gardens  
Address: 893 Lenzen Avenue  
San Jose, CA 95126 County: Santa Clara

**Applicant Information**

Applicant: Housing Authority of the County of Santa Clara  
Contact: Marianne Lim  
Address: 100 Great Oaks Blvd., 2<sup>nd</sup> Floor  
San Jose, CA 95119  
Phone: (408) 361-4676 Fax: (408) 361-4664  
Email: mariannel@hacsc.org  
Sponsors Type: Nonprofit

**Information**

Housing Type: Senior

**Bond Information**

Issuer: Housing Authority of the County of Santa Clara  
Expected Date of Issuance: November 18, 2009  
Credit Enhancement: JP Morgan Chase and Freddie Mac

| <b>Tax Credit Amounts</b> | <b>Federal/Annual</b> | <b>State/Total</b> |
|---------------------------|-----------------------|--------------------|
| Requested:                | \$670,611             | \$0                |
| Recommended:              | \$670,611             | \$0                |

**Project Information**

Construction Type: Acquisition and Rehabilitation  
Federal Subsidy: Tax-Exempt  
HCD MHP Funding: No  
Total # of Units: 94  
Total # Residential Buildings: 1  
Federal Setaside Elected: 40%/60%  
% & No. of Targeted Units: 100% - 92 units  
55-Year Use/Affordability Restriction: Yes  
Number of Units @ or below 50% of area median income: 10  
Number of Units @ or below 60% of area median income: 82

**Eligible Basis**

Actual: \$19,893,705  
Requested: \$19,893,705  
Maximum Permitted: \$25,086,369

**Adjustments to Threshold Basis Limit:**

- 95% of Upper Floor Units are Elevator-Serviced
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units that are Income Targeted Between 50% AMI & 36% AMI: 10%
- 3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features
  - Projects using tank less water heaters, a high efficiency condensing boiler (92% AFUE or greater), or a solar thermal domestic hot water pre-heating system
  - Projects recycling at least 75% of the construction and demolition waste (measured by either weight or volume)
  - Projects using vent kitchen range hoods to the exterior of the building in at least 80% of the units

| <u>Unit Type &amp; Number</u> | <u>2009 Rents<br/>Targeted % of Area<br/>Median Income</u> | <u>2009 Rents<br/>Actual % of Area<br/>Median Income</u> | <u>Proposed Rent<br/>(including utilities)</u> |
|-------------------------------|--|--|--|
| 10 One-bedroom Units          | 50%  | 16%  | \$309  |
| 78 One-bedroom Units          | 60%  | 16%  | \$309  |
| 4 Two-bedroom Units           | 60%  | 16%  | \$373  |
| 1 One-bedroom Unit            | Manager's Unit   | Manager's Unit   | \$0  |
| 1 Two-bedroom Unit            | Manager's Unit   | Manager's Unit   | \$0  |

The general partner or principal owner is a to be formed entity.

The project developer is Housing Authority of the County of Santa Clara.

The management services will be provided by Property Management, Inc.

The market analysis was provided by Laurin Associates.

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

**Project Financing**

Estimated Total Project Cost: \$21,525,059 Per Unit Cost: \$228,990 Construction Cost Per Sq. Foot: \$112

| <u>Construction Financing</u>      |               | <u>Permanent Financing</u> |                     |
|------------------------------------|---------------|----------------------------|---------------------|
| <u>Source</u>                      | <u>Amount</u> | <u>Source</u>              | <u>Amount</u>       |
| JP Morgan Chase & Prudential Mort. | \$10,941,538  | Prudential Mortgage        | \$3,711,712         |
| HACSC* Purchase Money Note         | \$7,078,934   | HACSC* Purchase Money Note | \$7,078,934         |
| General Partner Equity             | \$24          | Net Operating Income       | \$717,674           |
| Deferred Developer Fee             | \$857,547     | General Partner Equity     | \$3,478,119         |
|                                    |               | Deferred Developer Fee     | \$857,547           |
|                                    |               | Investor Equity            | \$5,681,074         |
|                                    |               | <b>TOTAL</b>               | <b>\$21,525,059</b> |

\*Housing Authority of the County of Santa Clara

**Determination of Credit Amount(s)**

|  |                                 |
|--|---------------------------------|
| Requested Rehabilitation Eligible Basis:                   | \$10,053,679                    |
| Requested Acquisition Eligible Basis:                      | \$9,840,026                     |
| 130% High Cost Adjustment:                                 | No                              |
| Applicable Fraction:                                       | 100%                            |
| Qualified Rehabilitation Basis:                            | \$10,053,679                    |
| Qualified Acquisition Basis:                               | \$9,840,026                     |
| Applicable Rate:   | 3.50%                           |
| Maximum Annual Federal Rehabilitation Credit:              | \$351,879                       |
| Maximum Annual Federal Acquisition Credit:                 | \$344,401                       |
| Total Maximum Annual Federal Credit:                       | \$670,611                       |
| Approved Developer Fee (in Project Cost & Eligible Basis): | \$1,715,093                     |
| Investor:  | Enterprise Community Investment |
| Federal Tax Credit Factor:                                 | \$.847                          |

**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 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 total land cost/acquisition cost of \$9,840,026 in the sources and uses budget excludes the land value of \$1,130,000. The sponsor does not want to show this value as it is a ground lease.

**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:

|                                   |                                |
|-----------------------------------|--------------------------------|
| <b>Federal Tax Credits/Annual</b> | <b>State Tax Credits/Total</b> |
| \$670,611                         | \$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 educational classes and contracts for services free of charge 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:** DC Navarrette