

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Project Staff Report

Tax-Exempt Bond Project

October 19, 2011

Project Number CA-2011-896

Project Name Key Largo Apartments
Site Address: 380 N. Mollison Avenue
El Cajon, CA 92021 County: San Diego
Census Tract: 163.010

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$748,544	\$0
Recommended:	\$748,544	\$0

Applicant Information

Applicant: Highland Property Development LLC
Contact: Kristoffer J. Kaufmann
Address: 250 West Colorado Boulevard, Suite 210
Arcadia, CA 91007
Phone: (626) 294-9525 Fax: (626) 294-9270
Email: k.kaufmann@highlandcompanies.com

General partner(s) or principal owner(s): HPD Key Largo LLC
National Housing Corporation, Inc.
General Partner Type: Joint Venture
Developer: Highland Property Development
Investor/Consultant: Boston Financial Investment Mgmt
Management Agent: Pacific West Management

Project Information

Construction Type: Acquisition & Rehabilitation
Total # Residential Buildings: 16
Total # of Units: 132
No. & % of Tax Credit Units: 130 100%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax Exempt / HUD Project-Based Section 8 (105 Units - 81%)
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 50% of area median income: 13
Number of Units @ or below 60% of area median income: 117

Bond Information

Issuer: California Muni Finance Authority
 Expected Date of Issuance: 12/01/11
 Credit Enhancement: HUD-Insured Loan

Information

Housing Type: At-Risk
 Geographic Area: San Diego County
 TCAC Project Analyst: DC Navarrette

Unit Mix

20 1-Bedroom Units
 70 2-Bedroom Units
 42 3-Bedroom Units

 132 Total Units

<u>Unit Type & Number</u>	<u>2011 Rents Targeted % of Area Median Income</u>	<u>2011 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
1 1 Bedroom	50%	50%	\$774
7 2 Bedrooms	50%	50%	\$928
5 3 Bedrooms	50%	50%	\$1,073
16 1 Bedroom	60%	58%	\$895
48 2 Bedrooms	60%	60%	\$1,114
28 3 Bedrooms	60%	60%	\$1,288
3 1 Bedroom	60%	58%	\$894
13 2 Bedrooms	60%	60%	\$1,114
9 3 Bedrooms	60%	60%	\$1,288
2 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Financing

Estimated Total Project Cost: \$25,072,022
 Estimated Residential Project Cost: \$25,072,022

Residential

Construction Cost Per Square Foot: \$42
 Per Unit Cost: \$189,940

Construction Financing

<u>Source</u>	<u>Amount</u>
PNC Real Estate	\$16,500,000
Boston Financial Investment Mgmt	\$5,432,079

Permanent Financing

<u>Source</u>	<u>Amount</u>
PNC Real Estate	\$16,500,000
Highland Property Development LLC	\$1,086,571
Tax Credit Equity	\$7,485,451
TOTAL	\$25,072,022

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$6,028,247
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$14,181,558
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$7,836,721
Applicable Rate:	3.40%
Qualified Basis (Acquisition):	\$14,181,558
Applicable Rate:	3.40%
Maximum Annual Federal Credit, Rehabilitation:	\$266,372
Maximum Annual Federal Credit, Acquisition:	\$482,172
Total Maximum Annual Federal Credit:	\$748,544
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,495,651
Investor/Consultant:	Boston Financial Investment Mgmt
Federal Tax Credit Factor:	\$1.00000

Per Regulation Section 10322(i)(4)(A), The “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), Once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	\$20,209,805
Actual Eligible Basis:	\$20,209,805
Unadjusted Threshold Basis Limit:	\$34,130,692
Total Adjusted Threshold Basis Limit:	\$37,543,761

Adjustments to Basis Limit:

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are
Income Targeted between 50% AMI & 36% AMI: 10%

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 limitations. 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 3.40% 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: None

Local Reviewing Agency:

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.

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:

Federal Tax Credits/Annual	State Tax Credits/Total
\$748,544	\$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 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 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 preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state 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.

Additional Conditions: The applicant/owner is required to provide the tenants with high-speed internet service 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.