

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2008 Second Round Cycle
Tax-Exempt Bond Project with State Credits
October 8, 2008

Project Number CA-2008-914

Project Name The Crossings at Morgan Hill
Site Address: 170 Wright Avenue
Morgan Hill, CA 95037 County: Santa Clara
Census Tract: 5123.06

Applicant Information

Applicant: UHC 00381 Morgan Hill, L.P.
Contact: John Bigley
Address: 2000 East 4th Street, Suite 205
Santa Ana, CA 92705
Phone: (714) 835-3955 Fax: (714) 835-3275
Email: jbigley@uhcllc.net
Sponsors Type: Joint Venture

Information

Housing Type: Large Family

Bond Information

Issuer: CSCDA
Expected Date of Issuance: November 15, 2008
Credit Enhancement: N/A

Eligible Basis

Actual: \$6,945,767
Requested: \$6,945,767
Maximum Permitted: \$21,309,850

Extra Feature Adjustments:

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted
Between 50% AMI & 36% AMI: 8%
55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at
35% AMI or Below: 182%

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$243,102	\$404,725
Recommended:	\$243,102	\$404,725

Project Information

Construction Type: Acquisition and Rehabilitation
Federal Subsidy: Tax-Exempt
HCD MHP Funding: Yes
Total # of Units: 24
Total # Residential Buildings: 5

Income/Rent Targeting

Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 24 units
55-Year Use/Affordability Restriction: Yes
Breakdown by %: 50% @ 30%, 25% @ 35%

Number of Units @ or below 50% of area median income: 24
 Number of Units @ or below 60% of area median income: 0

Selection Criteria	Max. Possible Points	Requested Points	Points Awarded
Owner/Management Characteristics Maximum of 9 points	9	9	9
<input checked="" type="checkbox"/> General Partner Experience	6	6	6
<input checked="" type="checkbox"/> Management Experience	3	3	3
Negative Points			
Housing Needs Maximum of 10 points	10	10	0
Site Amenities Maximum of 15 points	15	15	15
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes during rush hours	6	6	6
<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 ½ mile of a full-scale grocery store with staples, fresh meat and fresh produce	3	3	3
<input checked="" type="checkbox"/> Large Family project within ¼ mile of public school that project children may attend	3	3	3
<input checked="" type="checkbox"/> Within ½ mile of medical clinic or hospital	3	3	3
Service Amenities Maximum of 10 points	10	10	10
<input checked="" type="checkbox"/> High speed internet service provided in each unit	5	5	5
<input checked="" type="checkbox"/> Educational classes (e.g. ESL, Computer training, etc. and aren't same as After	5	5	5
Sustainable Building Methods Maximum of 8 points	8	8	8
<input checked="" type="checkbox"/> Energy star rated ceiling fans in bedroom/living room; whole house fan; economizer	2	2	2
<input checked="" type="checkbox"/> Flow restrictors for kitchen & bath faucets or water-saving fixtures	1	1	1
<input checked="" type="checkbox"/> Minimum 1 High Efficiency Toilet (1.3 gpf) or dual flush	2	2	2
<input checked="" type="checkbox"/> No-VOC interior paint	1	1	1
<input checked="" type="checkbox"/> CRI Green-label, low-VOC carpet and pad	1	1	1
<input checked="" type="checkbox"/> Project has nonsmoking buildings or contiguous sections within a building	1	1	1
Lowest Income Maximum of 52 points	52	52	52
<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
Readiness to Proceed Maximum of 20 points	20	20	20
Total Points	124	124	114

<u>Unit Type & Number</u>	<u>2008 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
9 Three-Bedroom	25%	\$689
6 Three-Bedroom	30%	\$827
7 Three-Bedroom	35%	\$965
2 Three-Bedroom	40%	\$1,103

The general partners or principal owners are UHC 00381 Morgan Hill Holdings LLC and Heritage Community Housing Inc.

The project developer is UHC 00381 Morgan Hill Development.

The management services will be provided by Solari Enterprises.

The market analysis was provided by Apt Market Research.

The Local Reviewing Agency, the city of Morgan Hill and Morgan Hill Redevelopment Agency, have completed a site review of this project and strongly support this project.

Project Financing

Estimated Total Project Cost: \$8,524,718 Per Unit Cost: \$355,197 Construction Cost Per Sq. Foot: \$55

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
US Bank – Tax Exempt Bonds	\$4,800,000	US Bank – Tax Exempt Bonds	\$1,061,917
City of Morgan Hill RDA	\$2,450,000	City of Morgan Hill RDA	\$2,450,000
FHLB – AHP	\$144,000	HCD – MHP	\$2,081,112
Deferred Developer Fee	\$557,078	FHLB – AHP	\$144,000
Investor Equity	\$573,641	Income from Operations	\$112,000
		Deferred Developer Fee	\$242,787
		General Partner Equity	\$100
		Investor Equity	\$2,432,802
		TOTAL	\$8,524,718

Determination of Credit Amount(s)

Requested Rehabilitation Eligible Basis :	\$3,113,267
Requested Acquisition Eligible Basis :	\$3,832,500
130% High Cost Adjustment:	No
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	\$3,113,267
Qualified Acquisition Basis:	\$3,832,500
Applicable Rate:	3.50%
Maximum Annual Federal Rehabilitation Credit:	\$108,964
Maximum Annual Federal Acquisition Credit:	\$134,138
Total Maximum Annual Federal Credit:	\$243,102
State Credit Applicable Rate:	13%
Total State Credit:	\$404,725
Approved Developer Fee in Project Cost:	\$701,078
Approved Developer Fee in Eligible Basis:	\$588,578
Tax Credit Factor: NEF, Inc.	\$0.8579

Applicant requests and staff recommends annual federal credits of \$243,102 and total state credits of \$404,725, based on a qualified rehabilitation basis of \$3,113,267, a qualified acquisition basis of \$3,832,500, and a funding shortfall of \$2,432,802.

Cost Analysis and Line Item Review

The requested eligible basis \$6,945,767 is below TCAC’s adjusted threshold basis limit \$21,309,850. The basis limit includes the adjustment for extraordinary features for the 55-year use/affordability restriction for projects where each 1% of low-income units are income targeted between 50% AMI & 36% AMI and for the 55-year use/affordability restriction for projects where each 1% of low-income units are income targeted at 35% AMI & below. 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: None

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
\$243,102	\$404,275

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 and state 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

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: Jack Waegell