

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**Tax-Exempt Bond Project**

**August 16, 2017**

Cottages at Mission Trail, located on the west side of the intersection of Mission Trail and Sedco Boulevard in Lake Elsinore, requested and is being recommended for a reservation of \$1,305,143 in annual federal tax credits to finance the new construction of 142 units of housing serving large families with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by Steve Semingson and will be located in Senate District 28 and Assembly District 67.

**Project Number** CA-17-776

**Project Name** Cottages at Mission Trail  
Site Address: West side of the intersection of Mission Trail and Sedco Boulevard  
Lake Elsinore, CA 92530 County: Riverside  
Census Tract: 430.01

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$1,305,143	\$0
Recommended:	\$1,305,143	\$0

**Applicant Information**

Applicant: Cottages Management, LLC  
Contact: Tina Alexander  
Address: 7777 Center Ave. Ste 230  
Huntington Beach, CA 92647  
Phone: (714) 230-8000 Fax: (714) 230-8010  
Email: talexander@civicpartners.com

General Partner(s) or Principal Owner(s): Cottages Management, LLC  
AOF Mission Trails LLC  
General Partner Type: Joint Venture  
Parent Company(ies): Steve Semingson  
AOF/Pacific Affordable Housing Corp  
Developer: Steve Semingson  
Investor/Consultant: Riverside Capital  
Management Agent: U.S. Residential Group

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 104  
 Total # of Units: 143  
 No. & % of Tax Credit Units: 142 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt  
 HCD MHP Funding: No  
 55-Year Use/Affordability: Yes  
 Number of Units @ or below 50% of area median income: 20  
 Number of Units @ or below 60% of area median income: 122

**Bond Information**

Issuer: California Statewide Communities Development Authority  
 Expected Date of Issuance: September 29, 2017  
 Credit Enhancement: N/A

**Information**

Housing Type: Large Family  
 Geographic Area: Inland Empire Region  
 TCAC Project Analyst: Diane SooHoo

**Unit Mix**

39 2-Bedroom Units  
 104 3-Bedroom Units  


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 143 Total Units

<b>Unit Type &amp; Number</b>	<b>2017 Rents Targeted % of Area Median Income</b>	<b>2017 Rents Actual % of Area Median Income</b>	<b>Proposed Rent (including utilities)</b>
8 2 Bedrooms	50%	50%	\$726
12 3 Bedrooms	50%	50%	\$838
30 2 Bedrooms	60%	60%	\$871
92 3 Bedrooms	60%	60%	\$1,006
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$34,572,120

**Project Cost Summary at Application**

Land and Acquisition	\$3,153,251
Construction Costs	\$19,203,866
Rehabilitation Costs	\$0
Construction Contingency	\$1,141,887
Relocation	\$0
Architectural/Engineering	\$1,115,000
Const. Interest, Perm. Financing	\$2,130,832
Legal Fees, Appraisals	\$245,000
Reserves	\$423,991
Other Costs	\$5,706,582
Developer Fee	\$4,194,609
Commercial Costs	\$0
<b>Total</b>	<b>\$37,315,018</b>

**Project Financing**

Estimated Total Project Cost:	\$37,315,018
Estimated Residential Project Cost:	\$37,315,018
Estimated Commercial Project Cost:	\$0

**Residential**

Construction Cost Per Square Foot:	\$116
Per Unit Cost:	\$260,944
True Cash Per Unit Cost*:	\$238,653

**Construction Financing**

Source	Amount
Bank of the West	\$20,000,000
City of Lake Elsinore	\$4,450,000
Sponser Carryback Loan	\$1,071,250
Deferred Fees and Cost	\$3,412,137
Tax Credit Equity	\$8,381,631

**Permanent Financing**

Source	Amount
Bank of the West	\$16,700,000
City of Lake Elsinore	\$4,650,000
Sponser Carryback Loan	\$1,071,250
Income from Operations	\$378,510
Deferred Developer Fee	\$2,116,399
Tax Credit Equity	\$12,398,859
<b>TOTAL</b>	<b>\$37,315,018</b>

\*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$32,158,667
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$41,806,267
Applicable Rate:	3.25%
Total Maximum Annual Federal Credit:	\$1,305,143
Approved Developer Fee (in Project Cost & Eligible Basis):	\$4,194,609
Investor/Consultant:	Riverside Capital
Federal Tax Credit Factor:	\$0.95000

Per Regulation Section 10322(h)(9)(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:	\$32,158,667
Actual Eligible Basis:	\$32,158,667
Unadjusted Threshold Basis Limit:	\$48,606,688
Total Adjusted Threshold Basis Limit:	\$55,411,624

**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: 14%

**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 meet 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 3.25% 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, City of Lake Elsinore, has completed a site review of this project and supports this project.

**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 Tax Credits/Annual</b>	<b>State Tax Credits/Total</b>
<b>\$1,305,143</b>	<b>\$0</b>

**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 a reservation 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:** None.