

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2007 Second Round Cycle
September 26, 2007

Project Number CA-2007-198

Project Name Two Worlds Apartments
Site Addresses: Scattered Sites: Los Angeles, CA County: Los Angeles
809 West 23rd Street, 90007 Census Tract: 2244.20
1306 South Westlake Avenue, 90006 Census Tract: 2243.10
1048-1054 West 42nd Street, 90037 Census Tract: 2316.00
8640 South Denver Avenue, 90044 Census Tract: 2403.00
2625 South Harvard Boulevard, 90018 Census Tract: 2222.00
4807 South Gramercy Place, 90062 Census Tract: 2324.00

Applicant Information

Applicant: Two Worlds Preservation Limited Partnership
Contact: Mr. William E. Szymczak
Address: 904 Manhattan Avenue, Suite 7
Manhattan Beach, CA 90266
Phone: (310) 802-6671 Fax: (310) 802-6680 email: wszymczak@preservationpartners.org
General Partners Type: Joint Venture

Information

Set-Aside: At-Risk
Housing Type: At-Risk
Geographic Area: Los Angeles

Eligible Basis

Requested: \$11,736,653
Actual: \$11,736,653
Maximum Permitted: \$15,115,586

Adjustments to Threshold Basis Limit: Required to Pay Prevailing Wages
Region Where Development Costs Frequently Exceed Published Limit

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,241,057	\$0
Recommended:	\$1,065,008	\$3,520,996

Project Information

Construction Type: Rehabilitation
Federal Subsidy: HUD Section 8
Total # of Units: 96
Total # Residential Buildings: 19

Income/Rent Targeting

Federal Set-Aside Elected: 40%/60%
% & No. of Tax Credit Units: 100% - 93 units
Breakdown by %: 30% @ 30%, 10% @ 40%, 10% @ 45%, 15% @ 50%

Selection Criteria	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency/Credit Reduction/Public Funds Maximum of 20 points	20	18	18
<input checked="" type="checkbox"/> Cost Efficiency	18	3	3
<input checked="" type="checkbox"/> Credit Reduction	20	2	2
<input checked="" type="checkbox"/> Public Funds	18	15	15
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
Housing Needs Maximum of 10 points	10	10	10
Site Amenities Maximum of 15 points	15	15	13.25 avg.
1306 South Westlake Avenue			
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density	7	7	7
<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 ¼ mile of a full-scale grocery store with staples, fresh meat and fresh produce	4	4	4
<input checked="" type="checkbox"/> Within ½ mile of medical clinic or hospital	3	3	3
<input checked="" type="checkbox"/> Within ½ mile of a pharmacy	1	1	1
809 West 23 rd Street			
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density	7	7	7
<input checked="" type="checkbox"/> Within ½ mile of public park or community center open to general public	2	2	2
<input checked="" type="checkbox"/> Within ½ mile of a full-scale grocery store with staples, fresh meat and fresh produce	3	3	3
2625 South Harvard Boulevard			
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density	7	7	7
<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 ¼ mile of a full-scale grocery store with staples, fresh meat and fresh produce	4	4	4
<input checked="" type="checkbox"/> Within ½ mile of medical clinic or hospital	3	3	3
<input checked="" type="checkbox"/> Within ½ mile of a pharmacy	1	1	1
1048 – 1054 West 42 nd Street			
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density	7	7	7
<input checked="" type="checkbox"/> Within ½ mile of public park or community center open to general public	2	2	2
<input checked="" type="checkbox"/> Within ¼ mile of a full-scale grocery store with staples, fresh meat and fresh produce	4	4	4
4807 South Gramercy Place			
<input checked="" type="checkbox"/> Within 1/3 mile of transit stop with service every 30 minutes	5	5	5
<input checked="" type="checkbox"/> Within ½ mile of public park or community center open to general public	2	2	2
<input checked="" type="checkbox"/> Inner-city project within ½ mile of a full-scale grocery store	4	4	4
8640 South Denver Avenue			
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes & 25 units per acre density	7	7	7
<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 ¼ mile of a full-scale grocery store with staples, fresh meat and fresh produce	4	4	4
<input checked="" type="checkbox"/> Within ½ mile of medical clinic or hospital	3	3	3
<input checked="" type="checkbox"/> Within ¼ mile of a pharmacy	2	2	2
Service Amenities Maximum of 10 points	10	10	0
<input checked="" type="checkbox"/> High speed internet service provided in each unit	5	5	0
<input checked="" type="checkbox"/> Bona fide service coordinator available	5	5	0
Balanced Communities Maximum of 9 points	9	9	5
<input checked="" type="checkbox"/> Local government initiatives re: affordable housing	3	3	0
<input checked="" type="checkbox"/> Adjacent to upper income family housing	2	2	1
<input checked="" type="checkbox"/> Project with at least 30% of units @ 30% AMI or less	4	4	4

<i>Sustainable Building Methods</i> 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"/> Formaldehyde free cabinets, countertops and shelving	1	1	1
<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
<i>Lowest Income</i> 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
<i>Readiness to Proceed</i> Maximum of 20 points	20	20	20
<i>State credit substitution</i> Maximum of 2 points	2	2	2
Total Points	155	155	139.25

Tie-Breaker Information

Tie-Breaker Categories Apply to this Project: No

First: Housing Type: At-Risk

Second: Maximum Neighborhood Revitalization Points/Federal Designated Area: No

Third: Calculated Ratio per Regulation 10325(c)(12) 65.354%

<u>Unit Type & Number</u>	<u>2007 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
26 Studio	30%	\$388
4 Studio	40%	\$518
10 Studio	45%	\$582
15 Studio	50%	\$647
10 Studio	60%	\$777
2 One-Bedroom	30%	\$416
6 One-Bedroom	40%	\$555
11 One-Bedroom	60%	\$832
1 Two-Bedroom	30%	\$499
8 Two-Bedroom	60%	\$999
2 Studio	Managers' Units	\$0
1 Two-Bedroom	Manager's Unit	\$0

The general partners or principal owners are Jamboree Housing Corporation and Two Worlds Preservation Partners LLC.

The project developer is Preservation Partners Development III, L.P.

The management agent is Preservation Partners Management Group, Inc.

The market analyst is Market Insights.

The Local Reviewing Agency, the Los Angeles Housing Department, has completed a site review of this project and strongly supports this project.

Project Financing

Estimated Total Project Cost: \$20,319,146 Per Unit Cost: \$211,658 Construction Cost Per Sq. Foot: \$139

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
US Bank	\$3,900,000	US Bank	\$3,900,000
LAHD	\$3,225,000	LAHD	\$3,225,000
Deferred Developer Fee	\$660,721	Deferred Developer Fee	\$660,721
Investor Equity	\$12,533,425	Investor Equity	\$12,533,425
		TOTAL	\$20,319,146

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$11,736,653
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis Credit Reduction (2%)	\$305,153
Qualified Basis (Rehabilitation):	\$14,952,496
Applicable Rate:	8.30%
Total Maximum Annual Federal Credit:	\$1,065,008
Total State Credit:	\$3,520,996
Approved Developer Fee in Project Cost	\$1,400,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Tax Credit Factor: Hudson Housing Capital	\$1.0098

Applicant requested annual federal credits of \$1,241,057 based on a qualified basis of \$14,952,496 and a funding shortfall of \$12,533,425. Staff recommends annual federal credits of \$1,065,008 and total state credit of \$3,520,996 based on a qualified basis of \$14,952,496 and a funding shortfall of \$12,533,425. Please see special issues section of this report.

Cost Analysis and Line Item Review

The requested eligible basis \$11,736,653 is below TCAC's threshold basis limit \$15,115,586. The basis limit was increased by the following extraordinary features: projects that are located in regions where development costs frequently exceed the published limit and projects that are required to pay state or federal prevailing wages. 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 **8.30%** 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: TCAC requested and the applicant agreed to exchange \$176,049 in annual federal credit for \$3,520,996 in total state credit.

Legal Status: Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

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/Annual: \$1,065,008

State/Total: \$3,520,996

Standard Conditions

An application for a carryover allocation must be submitted by [October 31, 2007](#), as required by regulation section 10328(d), together with the applicable allocation fee and all required documentation. The time for meeting the “10%” test and submitting related documentation will be no later than six (6) months after the date of the executed carryover allocation (as defined by IRC Section 42 and IRS Notices). The applicant must ensure the project meets all Additional Threshold Requirements for the housing type of the proposed project.

The applicant must submit all documentation required for a Final Reservation no later than February 1 of the year that the building(s) must be placed in service pursuant to Section 42(h)(E)(i) of the Internal Revenue Code of 1986, as amended. The applicant shall provide the Committee a Final Reservation application providing the documentation for the project set forth in Section 10322(i)(1) of these regulations. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation fee calculated in accordance with regulation. The performance deposit must be paid by cashier's check within 20 calendar days of any preliminary reservation. The allocation fee must be paid within a time period specified in the preliminary reservation letter. The allocation fee will be due prior to execution of a carryover allocation or issuance of tax forms, whichever comes first. 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 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.

If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of ten years and at no cost to the tenants.

Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(8) at project completion.

Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2)(P) at project completion.

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 **February 22, 2008**, 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