

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
2009 Single Round
September 10, 2009**

Project Number CA-2009-204

Project Name Palace Hotel

Site Address: 2640 East Anaheim Street
Long Beach, CA 90804

County: Los Angeles

Census Tract: 5769.02

Applicant Information

Applicant: LINC Housing Corporation

Contact: Suny Lay Chang

Address: 110 Pine Avenue, Suite 500
Long Beach, CA 90802

Phone: (562) 684-1108

Fax: (562) 684-1137

Email: schang@linchousing.org

General Partner Type: Nonprofit

Information

Set-Aside: Nonprofit Homeless Assistance

Housing Type: Special Needs

Type of Special Needs: Homeless/Transition Age Youth

% of Special Need Units (10 units): 77%

Geographic Area: Los Angeles

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$310,430	\$0
Recommended:	\$310,430	\$0

ARRA Award Amount

Federal Calculated Amount Requested: $(\$310,430 \times 10 \times \$0.12) = \$372,516$

State Calculated Amount Requested: \$0

Total Federal Award Recommended: \$372,516

Total State Award Recommended: \$0

Project Information

Construction Type: Rehabilitation

Federal Subsidy: None

Total # of Units: 14

Total # Residential Buildings: 1

Federal Set-Aside Elected: 40%/60%

% & No. of Tax Credit Units: 100% - 13 units

Average Affordability of Special Needs Units: 40%

Eligible Basis

Requested: \$2,653,250

Actual: \$5,033,386

Maximum Permitted: \$2,653,250

Adjustments to Threshold Basis Limit:

- Required to Pay Prevailing Wages
- Utilizing New Energy Technologies
- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced
- 3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features
 - Projects recycling at least 75% of the construction and demolition waste (measured by either weight or volume)
 - Projects using natural linoleum/ceramic tile/natural rubber for all kitchens and bathrooms where no VOC adhesives or backing is used
 - Projects using at least four recycled products listed in the Construction, Flooring, or Recreation section of the California Integrated Waste Management Board's Recycled Content Products Database)

Selection Criteria	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency/Credit Reduction/Public Funds Maximum 20 points	20	20	20
<input checked="" type="checkbox"/> Public Funds	20	20	20
Owner / Management Characteristics Maximum 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 10 points	10	10	10
Site Amenities Maximum 15 points	15	15	15
<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 full-scale grocery store w/staples, fresh meat and fresh produce	4	4	4
<input checked="" type="checkbox"/> Within 1 mile of medical clinic or hospital	2	2	2
<input checked="" type="checkbox"/> Within ½ mile of a pharmacy	1	1	1
Service Amenities Maximum 10 points	10	10	10
<input checked="" type="checkbox"/> Educational classes (e.g. ESL, Computer training, etc. and aren't same as After School)	5	5	5
<input checked="" type="checkbox"/> Direct client services available for Senior, SRO, or Special Needs projects	5	5	5
Sustainable Building Methods Maximum 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"/> Bathroom fans in all bathrooms w/humidistat, timer and outdoor exhaust	2	2	2
<input checked="" type="checkbox"/> Project has nonsmoking buildings or contiguous sections within a building	1	1	1
Lowest Income Maximum 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 20 points	20	20	20
State Credit Substitution Maximum 2 points	2	2	2
Total Points	146	146	146

Tie-Breaker Information

First: Housing Type
 Second: Calculated Ratio per Regulation 10325(c)(10)

Special Needs
80.131%

<u>Unit Type & Number</u>	<u>2009 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
2 SRO/Studio	30%	\$416
2 SRO/Studio	35%	\$485
9 SRO/Studio	40%	\$543
1 SRO/Studio	Manager's Unit	\$0

The general partner or principal owner is LINC Housing Corporation.

The project developer is LINC Housing Corporation.

The management agent is Brackenhoff Management Group, Inc.

The market analyst is Novogradac & Company, LLP.

The Local Reviewing Agency, city of Long Beach Housing Services Bureau, has completed a site review of this project and strongly supports this project.

Project Financing

Estimated Total Project Cost: \$5,999,300 Estimated Total Commercial/Retail Cost: \$503,982
 Estimated Total Residential Cost: \$5,495,318 Per Unit Cost: \$392,523 Construction Cost Per Sq. Foot: \$686 *

* This is a very small project with only 14 units, 4,221 square feet of tax-credit residential space, and 5,240 square feet of common space/manager's unit/service space. The construction cost per square foot figure is based on just the tax-credit residential square footage. The overall construction cost per square foot figure is \$299 taking into consideration the other 5,240 square feet.

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
US Bank	\$1,521,359	Long Beach Housing Dev. Company	\$2,983,000
Long Beach Housing Dev. Company	\$2,983,000	FHLB – AHP	\$250,000
FHLB – AHP	\$250,000	Deferred Developer Fee	\$134,828
Deferred Developer Fee	\$134,828	G.P. Equity/Home Depot Grant	\$30,000
G.P. Equity/Home Depot Grant	\$30,000	Park & Recreation Fee Waiver	\$47,967
Park & Recreation Fee Waiver	\$47,967	Investor Equity	\$2,180,989
Costs Deferred During Construction	\$375,652	TCAC ARRA Award	\$372,516
Investor Equity	\$283,978		
TCAC ARRA Award	\$372,516	TOTAL	\$5,999,300

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$2,653,250
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis (Rehabilitation):	\$3,449,225
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$310,430
Approved Developer Fee (in Project Cost & Eligible Basis):	\$605,600
Investor Consultant:	California Housing Partnership
Federal Tax Credit Factor:	\$0.70256

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 9.00% 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: The project has obtained an annual operating subsidy on all 13 tax-credit units from Long Beach Housing Development Corporation. At some point the operating subsidy may be converted to HUD Section 8 project-based vouchers should they become available.

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 and ARRA funds, 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
\$310,430	\$0
ARRA/Federal	ARRA/State
\$372,516	\$0

Standard Conditions

An application for a carryover allocation must be submitted by **November 20, 2009**, as required by regulation sections 10328(d) and 10323(d)(2), 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 twelve (12) 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)(1)(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 and allocation fees must be paid by cashier's check within the time periods specified in the 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 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.

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)(6) 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.

The Committee may make a Conditional Reservation of American Recovery and Reinvestment Act of 2009 (ARRA), Tax Credit Assistance Program (TCAP) funds for the project sponsor. This Conditional Reservation would not constitute a commitment of funds or site approval, and that such commitment of funds or approval may occur only upon satisfactory completion of environmental review and receipt by the California Tax Credit Allocation Committee of a release of funds from the U.S. Department of Housing and Urban Development under 24 CFR Part §58. The provision of any funds to the project is conditioned on

TCAC's determination to proceed with, modify or cancel the project based on the results of a subsequent environmental review and further underwriting.

The project sponsor is prohibited from undertaking or committing any funds to physical or choice-limiting actions, including property acquisition, demolition, movement, rehabilitation, conversion, repair or construction prior to the environmental clearance. A violation of this provision may result in the denial of any funds.

In addition, each project ultimately awarded ARRA TCAP funds will have to comply with all federal requirements, such as Section 504, Davis-Bacon federal labor standards laws, anti-lobbying requirements, lead-based paint rules, and other federal laws.

All ARRA funded projects will be required to track and report on all jobs created or retained as a result of the funds.

Numbers contained in the proposed financing are subject to update and will be refined within 30 days of loan execution agreement.

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 8, 2010**, 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