

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**Tax-Exempt Bond Project**  
**March 16, 2011**  
**REVISED**

**Project Number** CA-2011-820

**Project Name** Sorrento Tower  
 Site Address: 2875 Cowley Way  
 San Diego, CA 92117 County: San Diego  
 Census Tract: 91.030

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$635,765	\$0
Recommended:	\$635,765	\$0

**Applicant Information**

Applicant: Sorrento Tower Housing Partners, LP  
 Contact: Casey Haeling  
 Address: 610 Catalina Blvd  
 San Diego, CA 92106  
 Phone: (619) 548-0160 Fax: (267) 565-1268  
 Email: casey@cc-development.com

General partner(s) or principal owner(s): Sorrento Tower Development, LLC  
 Hearthstone Housing Foundation, Inc.  
 General Partner Type: Joint Venture  
 Developer: Sorrento Tower Development, LLC  
 Investor/Consultant: Boston Capital  
 Management Agent: Commercial Facilities Inc.

**Project Information**

Construction Type: Acquisition & Rehabilitation  
 Total # Residential Buildings: 1  
 Total # of Units: 198  
 No. & % of Tax Credit Units: 196 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax Exempt Bonds / HUD Project-based Section 8 (165 units - 84%)  
 HCD MHP Funding: No  
 55-Year Use/Affordability: Yes  
 Number of Units @ or below 50% of area median income: 59  
 Number of Units @ or below 60% of area median income: 137

**Information**

Housing Type: Non-Targeted  
 Geographic Area: San Diego County  
 TCAC Project Analyst: Nicola Hil

**Bond Information**

Issuer: San Diego Housing Authority  
 Expected Date of Issuance: May, 2011  
 Credit Enhancement: Freddie Mac Credit Enhancement with immediate funding non-recourse loan

**Unit Mix**

130 SRO/Studio Units  
 67 1-Bedroom Units  
1 2-Bedroom Units  
 198 Total Units

<u>Unit Type &amp; Number</u>	<u>2010 Rents Targeted % of Area Median Income</u>	<u>2010 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
91 SRO/Studio	60%	59%	\$810
31 SRO/Studio	50%	50%	\$687
8 SRO/Studio	50%	24%	\$335
43 1 Bedroom	60%	60%	\$883
3 1 Bedroom	60%	23%	\$335
20 1 Bedroom	50%	23%	\$335
1 1 Bedroom	Manager's Unit	Manager's Unit	\$335
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$1,100

**Project Financing**

Estimated Total Project Cost: \$19,286,037      Construction Cost Per Square Foot: \$58  
 Per Unit Cost: \$97,404

<b>Construction Financing</b>		<b>Permanent Financing</b>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citibank/Freddie Credit Enhancement Bond NOI Loan	\$12,250,000	Citibank/Freddie Credit Enhancement Bond NOI Loan	\$12,250,000
Citibank/Freddie Credit Enhancement Bond IRP Loan	\$1,350,000	Citibank/Freddie Credit Enhancement Bond IRP Loan	\$1,350,000
Deferred Developer Fee	\$1,986,037	Deferred Developer Fee	\$409,187
Boston Capital Tax Credit Equity	\$3,700,000	Tax Credit Equity	\$5,276,850
		<b>TOTAL</b>	<b>\$19,286,037</b>

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation): \$8,532,075  
 130% High Cost Adjustment: Yes  
 Requested Eligible Basis (Acquisition): \$7,607,250  
 Applicable Fraction: 100.00%  
 Qualified Basis (Rehabilitation): \$11,091,698  
 Qualified Basis (Acquisition): \$7,607,250  
 Applicable Rate: 3.40%  
 Maximum Annual Federal Credit, Rehabilitation: \$377,118  
 Maximum Annual Federal Credit, Acquisition: \$258,647  
 Total Maximum Annual Federal Credit: \$635,765  
 Approved Developer Fee (in Project Cost & Eligible Basis): \$2,105,129  
 Investor/Consultant: Boston Capital  
 Federal Tax Credit Factor: \$0.83000

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:	\$16,139,325
Actual Eligible Basis:	\$16,139,325
Unadjusted Threshold Basis Limit:	\$36,483,201
Total Adjusted Threshold Basis Limit:	\$47,428,161

**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: 30%

**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 3.40% 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

**Local Reviewing Agency:**

The Local Reviewing Agency, San Diego Housing Commission, has completed a site review of this project and strongly 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>\$635,765</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 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 educational classes and contract for services 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

The applicant/owner is required to complete the following Sustainable Building Methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the placed-in-service

- Water saving fixtures
- At least one high efficiency toilet
- Cabinets and countertops free of added formaldehyde
- Interior paint with no VOC
- CRI green-label, low-VOC carpeting and pad
- Florescent light fixtures.