

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

**Project Staff Report
Tax-Exempt Bond Project
July 11, 2012**

Project Number CA-12-835

Project Name Morgan Hill Retirement Residence
Site Address: NW Corner of Butterfield Blvd. & Barrett Avenue
Morgan Hill, CA 95037 County: Santa Clara
Census Tract: 5123.040

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$795,831	\$0
Recommended:	\$795,831	\$0

Applicant Information

Applicant: Morgan Hill Retirement Residence, LP
Contact: Darren Berberian
Address: 3416 Via Oporto, Suite 301
Newport Beach, CA 92663
Phone: (949) 235-0704 Fax: (866) 337-3242
Email: dberberian@communitydevpartners.com

General partner(s) or principal owner(s): CDP - Morgan Hill, LLC
Foundation for Affordable Housing II, Inc.
General Partner Type: Joint Venture
Developer: Community Development Partners
Investor/Consultant: PNC Real Estate
Management Agent: Buickingham Property Management

Project Information

Construction Type: New Construction
Total # Residential Buildings: 1
Total # of Units: 138
No. & % of Tax Credit Units: 136 100%
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: 28
Number of Units @ or below 60% of area median income: 108

Bond Information

Issuer: California Statewide Communities Development Authority
Expected Date of Issuance: August 31, 2012
Credit Enhancement: None

Information

Housing Type: Seniors
 Geographic Area: South and West Bay Region
 TCAC Project Analyst: Benjamin Schwartz

Unit Mix

110 1-Bedroom Units
 28 2-Bedroom Units

 138 Total Units

<u>Unit Type & Number</u>	<u>2012 Rents Targeted % of Area Median Income</u>	<u>2012 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
22 1 Bedroom	50%	50%	\$984
86 1 Bedroom	60%	60%	\$1,181
6 2 Bedrooms	50%	50%	\$1,181
22 2 Bedrooms	60%	60%	\$1,417
2 1 Bedroom	Manager's Unit	Manager's Unit	\$0

Project Financing

Estimated Total Project Cost: \$23,297,715
 Estimated Residential Project Cost: \$23,297,715

Residential

Construction Cost Per Square Foot: \$93
 Per Unit Cost: \$168,824

Construction Financing

<u>Source</u>	<u>Amount</u>
Citi Community Capital	\$18,187,922
Deferred Developer Fee	\$2,495,290
Tax Credit Equity	\$2,614,503

Permanent Financing

<u>Source</u>	<u>Amount</u>
Citi Community Capital	\$15,313,656
Deferred Developer Fee	\$264,496
Tax Credit Equity	\$7,719,563
TOTAL	\$23,297,715

Determination of Credit Amount(s)

Requested Eligible Basis: \$19,130,558
 130% High Cost Adjustment: Yes
 Applicable Fraction: 100.00%
 Qualified Basis: \$24,869,725
 Applicable Rate: 3.20%
 Total Maximum Annual Federal Credit: \$795,831
 Approved Developer Fee (in Project Cost & Eligible Basis): \$2,495,290
 Investor/Consultant: PNC Real Estate
 Federal Tax Credit Factor: \$0.97000

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:	\$19,130,558
Actual Eligible Basis:	\$19,130,558
Unadjusted Threshold Basis Limit:	\$29,654,450
Total Adjusted Threshold Basis Limit:	\$39,516,192

Adjustments to Basis Limit:

- Local Development Impact Fees
- 95% of Upper Floor Units are Elevator-Serviced
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 20%

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 3.20% 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 applicant’s estimate of the 3-month operating reserve shown in the application development budget is below TCAC’s minimum. At placed-in-service review, the applicant is cautioned that the 3-month operating reserve must meet the TCAC required minimum.

Local Reviewing Agency:

The Local Reviewing Agency, City of Morgan Hill Community Development Agency, 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:

Federal Tax Credits/Annual	State Tax Credits/Total
\$795,831	\$0

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: The applicant/owner is required to provide the tenants with the following service amenities 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 TCAC:

- Bona fide service coordinator

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 TCAC placed-in-service application is submitted:

- The project commits to becoming certified under any one of the following programs: Leadership in Energy & Environmental Design (LEED); Green Communities; or the GreenPoint Rated Multifamily Guidelines
- The project is a new construction or adaptive reuse project that exceeds Title 24 Energy Standards by at least 10%, or is a rehabilitation project not subject to Title 24, that reduces energy use on a per square foot basis by 25% as calculated using a methodology approved by the California Energy Commission.