

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 11, 2012

Project Number CA-12-838

Project Name Madonna Road Apartments
 Site Address: 1550 Madonna Road
 San Luis Obispo, CA 93405 County: San Luis Obispo
 Census Tract: 113.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$584,016	\$0
Recommended:	\$584,016	\$0

Applicant Information

Applicant: Madonna Road Partners, LP
 Contact: David Beacham
 Address: 169 Saxony Road, Suite 103
 Encinitas, CA 92024
 Phone: (760) 557-1480 Fax: (760) 557-1480
 Email: david.beacham@vitusgroup.com

General partner(s) or principal owner(s): Madonna Road Management, LLC
 Hearthstone Housing Foundation
 General Partner Type: Joint Venture
 Developer: Vitus Development, LLC
 Investor/Consultant: City Real Estate Advisors
 Management Agent: Hyder Property Management Professional

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 43
 Total # of Units: 120
 No. & % of Tax Credit Units: 119 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: Tax-Exempt/HUD Section 8 Project-based Vouchers (119 units / 100%)
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 13
 Number of Units @ or below 60% of area median income: 106

Bond Information

Issuer: California Municipal Finance Authority
 Expected Date of Issuance: August 1, 2012
 Credit Enhancement: Freddie Mac/Citibank

Information

Housing Type: At-Risk
 Geographic Area: Central Coast Region
 TCAC Project Analyst: Jack Waegell

Unit Mix

20 1-Bedroom Units
 44 2-Bedroom Units
 40 3-Bedroom Units
16 4-Bedroom Units
 120 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>
18 1 Bedroom	60%	60%	\$849
2 1 Bedroom	50%	50%	\$707
38 2 Bedrooms	60%	60%	\$1,018
5 2 Bedrooms	50%	50%	\$848
36 3 Bedrooms	60%	60%	\$1,176
4 3 Bedrooms	50%	50%	\$980
14 4 Bedrooms	60%	60%	\$1,312
2 4 Bedrooms	50%	50%	\$1,093
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$962

Project Financing

Estimated Total Project Cost: \$21,717,290
 Estimated Residential Project Cost: \$21,717,290

Residential

Construction Cost Per Square Foot: \$53
 Per Unit Cost: \$180,977

Construction Financing

Permanent Financing

<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citibank/Freddie Mac - TE Bonds	\$15,000,000	Citibank/Freddie Mac - TE Bonds	\$15,000,000
Cash Flow from Operations	\$207,797	Deferred Developer Fee	\$818,728
Deferred Developer Fee	\$2,380,500	Tax Credit Equity	\$5,898,562
Tax Credit Equity	\$4,128,993	TOTAL	\$21,717,290

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$8,245,500
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	\$10,005,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$8,245,500
Qualified Basis (Acquisition):	\$10,005,000
Applicable Rate:	3.20%
Maximum Annual Federal Credit, Rehabilitation:	\$263,856
Maximum Annual Federal Credit, Acquisition:	\$320,160
Total Maximum Annual Federal Credit:	\$584,016
Approved Developer Fee (in Project Cost & Eligible Basis):	\$2,380,500
Investor/Consultant:	City Real Estate Advisors
Federal Tax Credit Factor:	\$1.01000

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:	\$18,250,500
Actual Eligible Basis:	\$18,250,500
Unadjusted Threshold Basis Limit:	\$35,317,992
Total Adjusted Threshold Basis Limit:	\$38,849,791

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: 10%

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 project was a HUD 236 insured project that matured as of March 1, 2012. All project units were assisted under the original HUD rent supplement contract which expired on July 31, 2011 at which time the project received HUD Tenant Protection Vouchers (TPVs). The applicant has applied to HUD to convert the TPVs to Project Based Vouchers (PBVs) as authorized by the Rental Assistance Demonstration (RAD) program.

The applicant's estimate of the contractor profit, overhead, and general requirement costs and eligible basis exceeds the 14% limit under regulation section 10327(c)(1). The applicant is cautioned, that at final review prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceed the limit will not be allowed and may result in a reduction to the final award of tax credits.

Local Reviewing Agency:

The Local Reviewing Agency, the City of San Luis Obispo, 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
\$584,016	\$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 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: utilize landscaping and construction materials which are compatible with the neighborhood in which the proposed project is to be located, and that the architectural design and construction materials will provide for low maintenance and durability, as well as be suited to the environmental conditions to which the project will be subjected.