

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**Tax-Exempt Bond Project**

**August 19, 2015**

Cottonwood Place, located at 24115 Cottonwood Avenue in Moreno Valley, CA, requested and is being recommended for a reservation of \$492,704 in annual federal tax credits to finance the acquisition and rehabilitation of 109 units of housing serving large families with rents affordable to households earning 50% of area median income (AMI). The project will be developed by D.L. Horn & Associates, LLC and will be located in Senate District 31 and Assembly District 61.

Cottonwood Place is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Cottonwood Place I Apartments (CA-96-060).

**Project Number** CA-15-864

**Project Name** Cottonwood Place  
**Site Address:** 24115 Cottonwood Avenue  
Moreno Valley, CA 92553 County: Riverside  
**Census Tract:** 425.160

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$492,704	\$0
Recommended:	\$492,704	\$0

**Applicant Information**

**Applicant:** Moreno Valley Cottonwood I Partners LP  
**Contact:** Mitch Slagerman  
**Address:** 15635 Alton Parkway, Suite 375  
Irvine, CA 92618  
**Phone:** (949) 878-9373 **Fax:** (949) 878-9373  
**Email:** mslagerman@palmcommunities.com

**General Partner(s) or Principal Owner(s):** Housing Corporation of North America  
PC MV Cottonwood 1 Developers LLC  
**General Partner Type:** Joint Venture  
**Parent Company(ies):** Housing Corporation of North America  
Palm Communities  
**Developer:** D.L. Horn & Associates, LLC  
**Investor/Consultant:** Alden Torch Financial LLC  
**Management Agent:** ConAm Mangement Corporation

**Project Information**

Construction Type: Acquisition & Rehabilitation  
 Total # Residential Buildings: 9  
 Total # of Units: 109  
 No. & % of Tax Credit Units: 108 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt / HOME  
 HCD MHP Funding: No  
 55-Year Use/Affordability: Yes  
 Number of Units @ or below 50% of area median income: 108

**Bond Information**

Issuer: CSCDA  
 Expected Date of Issuance: October 1, 2015  
 Credit Enhancement: N/A

**Information**

Housing Type: Large Family  
 Geographic Area: Inland Empire Region  
 TCAC Project Analyst: DC Navarrette

**Unit Mix**

54 3-Bedroom Units  
 55 4-Bedroom Units  


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 109 Total Units

<b>Unit Type &amp; Number</b>	<b>2015 Rents Targeted % of Area Median Income</b>	<b>2015 Rents Actual % of Area Median Income</b>	<b>Proposed Rent (including utilities)</b>
54 3 Bedrooms	46%	46%	\$742
54 4 Bedrooms	46%	46%	\$828
1 4 Bedrooms	Manager's Unit	Manager's Unit	\$739

**Project Cost Summary at Application**

Land and Acquisition	\$9,000,000
Construction Costs	\$0
Rehabilitation Costs	\$3,290,610
Construction Contingency	\$274,999
Relocation	\$150,000
Architectural/Engineering	\$50,000
Construction Interest, Perm Financing	\$716,490
Legal Fees, Appraisals	\$220,500
Reserves	\$266,676
Other Costs	\$384,507
Developer Fee	\$1,795,211
Commercial Costs	\$0
<b>Total</b>	<b>\$16,148,993</b>

**Project Financing**

Estimated Total Project Cost:	\$16,148,993
Estimated Residential Project Cost:	\$16,148,993

**Residential**

Construction Cost Per Square Foot:	\$22
Per Unit Cost:	\$148,156

**Construction Financing**

Source	Amount
Citi Construction/Perm Loan	\$4,728,396
Citi Construction Only Loan	\$4,182,479
City of Moreno Valley RDA	\$1,420,394
Seller Carry Back Note	\$2,591,262
Deferred Developer Fee	\$2,457,922
Tax Credit Equity	\$768,541

**Permanent Financing**

Source	Amount
Citi Construction/Perm Loan	\$4,728,396
Citi Subordinate Loan	\$1,635,000
City of Moreno Valley RDA	\$1,420,394
Seller Carry Back Note	\$2,591,262
Construction Period Income	\$327,036
Deferred Developer Fee	\$323,297
Tax Credit Equity	\$5,123,608
<b>TOTAL</b>	<b>\$16,148,993</b>

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation):	\$4,965,789
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$8,797,500
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$6,455,526
Qualified Basis (Acquisition):	\$8,797,500
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$202,386
Maximum Annual Federal Credit, Acquisition:	\$290,318
Total Maximum Annual Federal Credit:	\$492,704
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,795,211
Investor/Consultant:	Alden Torch Financial LLC
Federal Tax Credit Factor:	\$1.03990

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:	\$13,763,289
Actual Eligible Basis:	\$13,763,289
Unadjusted Threshold Basis Limit:	\$35,412,000
Total Adjusted Threshold Basis Limit:	\$70,824,000

**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: 100%

**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 3.30% 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:** None.

**Local Reviewing Agency:**

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

**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>\$492,704</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 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:** None.