

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
May 23, 2007

Project Number CA-2007-835

Project Name Tannery Artist Lofts
Address: 1040 River Street
Santa Cruz, CA 95060

County: Santa Cruz

Applicant Information

Applicant: Artspace Projects, Inc.
Contact Greg Handberg
Address: 250 North Third Avenue, Suite 500
Minneapolis, MN 55401
Phone: (612) 465-0210
Sponsors Type: Nonprofit

Fax: (612) 333-9089

Bond Information

Issuer: City of Santa Cruz Redevelopment Agency
Expected Date of Issuance: July 1, 2007
Credit Enhancement: N/A

Eligible Basis

Actual: \$32,459,789
Requested: \$32,459,789
Maximum Permitted: \$35,498,045

Extra Feature Adjustments:

Required to Pay Prevailing Wages: 20%

Parking Beneath Residential Units: 7%

55-Year Use/Rent Restriction Adjustment: 120%

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,519,118	\$0
Recommended:	\$1,519,118	\$0

Project Information

Construction Type: New Construction
Federal Subsidy: Tax-Exempt
HCD MHP Funding: Yes
Total # of Units: 100
Total # Residential Buildings: 2

Income/Rent Targeting

Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 99 units
55-Year Use/Affordability Restriction: Yes
Number of Units @ or below 50% of area median income: 99
Number of Units @ or below 60% of area median income: 0

<u>Unit Type & Number</u>	<u>2007 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
5 Studio	30%	\$411
5 Studio	40%	\$549
4 Studio	50%	\$686
7 One-Bedroom	30%	\$441
5 One-Bedroom	40%	\$589
4 One-Bedroom	50%	\$736
10 Two-Bedroom	30%	\$530
9 Two-Bedroom	40%	\$707
8 Two-Bedroom	50%	\$883
13 Three-Bedroom	30%	\$612
15 Three-Bedroom	40%	\$816
14 Three-Bedroom	50%	\$1,020
1 Two-Bedroom	Manager's Unit	\$0

The general partner(s) or principal owner(s) are Artspace Tannery Lofts LLC and Artspace Projects, Inc.

The project developer is Artspace Projects, Inc.

The management services will be provided by The John Stewart Company.

The market analysis was provided by Laurin Associates.

The Local Reviewing Agency has completed a site review of this project and strongly supports it.

Project Financing

Estimated Total Project Cost: \$33,636,613 Per Unit Cost: \$336,366 Construction Cost Per Sq. Foot: \$187

<u>Construction Financing</u>		<u>Permanent Financing</u>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Washington Mutual	\$27,881,000	Washington Mutual	\$4,258,666
AHP	\$1,000,000	AHP	\$1,000,000
Santa Cruz RDA	\$765,000	HCD - MHP	\$8,181,201
City of Santa Cruz	\$405,000	HCD - NSSS	\$500,000
Santa Cruz County	\$500,000	City of Santa Cruz	\$1,300,000
		Santa Cruz County	\$500,000
		Santa Cruz RDA	\$765,000
		Deferred Developer Fee	\$684,469
		General Partner Equity	\$746,808
		Investor Equity	\$15,700,469
		TOTAL	\$33,636,613

Determination of Credit Amount(s)

Requested Eligible Basis:	\$32,459,789
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis:	\$42,197,726
Applicable Rate:	3.60%
Total Maximum Annual Federal Credit:	\$1,519,118
Approved Developer Fee:	\$2,500,000
Tax Credit Factor:	\$1.03

Applicant requests and staff recommends annual federal credits of \$1,519,118 based on a qualified basis of \$42,197,726 and a funding shortfall of \$15,700,469.

Cost Analysis and Line Item Review

The requested eligible basis \$32,459,789 is below TCAC's adjusted threshold basis limit \$35,498,045. The basis limit includes the adjustment for extraordinary features for the 120% adjustment for the 55-year use/affordability restriction for projects that have more than 50% tax-credit units, projects that are required to pay state or federal prevailing wages, and projects that are required to provide parking beneath the residential units. Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitation.

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 3.60% 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: 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.

Recommendation: Staff recommends that the Committee make a reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal/Annual	State/Total
\$1,519,118	\$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.

TCAC makes the 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 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 anticipated to be the final project costs, staff recommends that a reservation be made in the amount of federal credit shown above on condition that the final project costs be supported by itemized lender approved costs, and certified costs of the buildings as completed.

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 credits 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

Project Analyst: Elaine Johnson