CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
June 6, 2007

Project Number CA-2007-840

Project Name Ardenaire Apartments
Address: 1960-1972 Ethan Way
Sacramento, CA 95825 County: Sacramento

Applicant Information
Applicant: Mercy Housing California XXXV, L.P.
Contact Wendy Saca
Address: 3120 Freeboard Drive, Suite 202
West Sacramento, CA 95691
Phone: (916) 414-4445 Fax: (916) 414-4490
Sponsors Type: Nonprofit

Bond Information
Issuer: Sacramento Housing Redevelopment Agency
Expected Date of Issuance: August 2007
Credit Enhancement: N/A

Eligible Basis
Actual: $9,830,590
Requested: $9,830,590
Maximum Permitted: $16,640,650

Extra Feature Adjustments:
Required to Pay Prevailing Wages: 20% ☒
55-Year Use/Rent Restriction Adjustment: 120% ☒

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$421,508	$0
Recommended:	$421,508	$0

Project Information
Construction Type: Acquisition and Rehabilitation
Federal Subsidy: Tax-Exempt/HOME
HCD MHP Funding: Yes
Total # of Units: 53
Total # Residential Buildings: 4

Income/Rent Targeting
Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 52 units
55-Year Use/Affordability Restriction: Yes
Number of Units @ or below 30% of area median income: 19
Number of Units @ or below 55% of area median income: 33

Unit Type & Number	2007 Rents % of Area Median Income	Proposed Rent (including utilities)
16 One-Bedroom	30%	$245
3 Two-Bedroom	30%	$294
26 One-Bedroom	55%	$674
7 Two-Bedroom	55%	$736
1 One-Bedroom	Manager's Unit	$0

The general partners or principal owners are Mercy Housing West and Rural California Housing Corporation.

The project developer is Mercy Housing California.

The management services will be provided by Mercy Services Corporation.

The market analysis was provided by Laurin Associates.

The Local Reviewing Agency, the Sacramento Housing Redevelopment Agency, has completed a site review of this project and strongly supports this project.

Project Financing

Estimated Total Project Cost: $12,702,428 Per Unit Cost: $239,668 Construction Cost Per Sq. Foot: $104

Construction Financing Source	Amount	Permanent Financing Source	Amount
Wells Fargo Bank	$7,619,000	HCD – MHP/GHI	$3,502,000
SHRA – HOME	$3,110,000	SHRA – HOME	$3,110,000
Income from Operations (Acq/Holding)	$40,059	Income from Operations (Acq/Holding)	$40,059
Costs Deferred Until Perm Loan Closing	$1,370,412	SHRA – MHSA Operating Reserve Fund	$800,000
Deferred Developer Fee	$512,957	AHP	$397,500
Investor Equity	$50,000	HCD – CRS Reserve Subsidy	$142,500
		PV Energy Rebate	$56,250
		Deferred Developer Fee	$512,957
		Investor Equity	$4,141,162
		TOTAL	**$12,702,428**

Determination of Credit Amount(s)

Requested Rehabilitation Eligible Basis:	$6,372,807
Requested Acquisition Eligible Basis:	$3,457,783
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	$8,284,649
Qualified Acquisition Basis:	$3,457,783
Applicable Rate:	3.60%
Maximum Annual Federal Rehabilitation Credit:	$297,028
Maximum Annual Federal Acquisition Credit:	$124,480
Total Maximum Annual Federal Credit:	$421,508
Approved Developer Fee:	$1,271,517
Tax Credit Factor:	$0.98246

Applicant requests and staff recommends annual federal credits of $421,508, based on a qualified rehabilitation basis of $8,284,649, a qualified acquisition basis of $3,457,783, and a funding shortfall of $4,141,162.

Cost Analysis and Line Item Review
The requested eligible basis $9,830,590 is below TCAC's adjusted threshold basis limit $16,640,650. 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 and projects that are required to pay state or federal prevailing wages. 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
$421,508	**$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: The applicant/owner is required to provide the tenants with after school program of an ongoing nature and Educational classes (such as English as a Second Language classes, computer training, etc.), but which are not the same as after school programs for a minimum often (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.

Project Analyst: Anthony Zeto