

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
July 25, 2007

Project Number CA-2007-859

Project Name Cherry Creek Apartments
Address: 2020 Southwest Expressway
San Jose, CA 95126 County: Santa Clara

Applicant Information

Applicant: Cherry Creek San Jose, L.P. & KDF Communities, LLC
Contact: Chris Burns
Address: 1301 Dove Street, Suite 720
Newport Beach, CA 92660
Phone: (949) 622-1888 Fax: (949) 851-1819
Sponsors Type: Joint Venture

Bond Information

Issuer: CSCDA
Expected Date of Issuance: August 1, 2007
Credit Enhancement: N/A

Eligible Basis

Actual: \$23,481,897
Requested: \$23,481,897
Maximum Permitted: \$38,526,594

Extra Feature Adjustments:
55-Year Use/Rent Restriction Adjustment: 120%

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$845,348	\$0
Recommended:	\$845,348	\$0

Project Information

Construction Type: Acquisition and Rehabilitation
Federal Subsidy: Tax-Exempt
HCD MHP Funding: Yes
Total # of Units: 130
Total # Residential Buildings: 8

Income/Rent Targeting

Federal Setaside Elected: 40%/60%
% & No. of Targeted Units: 100% - 129 units
55-Year Use/Affordability Restriction: Yes
Number of Units @ or below 50% of area median income: 14
Number of Units @ or below 60% of area median income: 115

<u>Unit Type & Number</u>	<u>2007 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
77 One-Bedroom	60%	\$1,112
9 One-Bedroom	50%	\$995
38 Two-Bedroom	60%	\$1,324
5 Two-Bedroom	50%	\$1,193
1 Two-Bedroom	Manager's Unit	\$1,250

The general partner(s) or principal owner(s) are Cherry Creek San Jose, LLC & Cherry Creek San Jose – MGP, LLC.

The project developer is Cherry Creek San Jose, LLC.

The management services will be provided by VPM Management.

The market analysis was provided by Novogradac & Co, LLP.

The Local Reviewing Agency, the City of San Jose, has completed a site review of this project and strongly supports this project.

Project Financing

Estimated Total Project Cost: \$27,741,771 Per Unit Cost: \$213,398 Construction Cost Per Sq. Foot: \$24

<u>Construction Financing</u>		<u>Permanent Financing</u>	
<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
CSCDA	\$19,150,000	CSCDA	\$16,790,000
Deferred Developer Fee	\$2,500,000	Deferred Developer Fee	\$1,991,921
Deferred Operating Reserve	\$360,867	Investor Equity	\$8,959,796
Investor Equity	\$5,730,850	TOTAL	\$27,741,717

Determination of Credit Amount(s)

Requested Rehabilitation Eligible Basis:	\$4,866,682
Requested Acquisition Eligible Basis:	\$18,615,215
130% High Cost Adjustment:	No
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	\$4,866,682
Qualified Acquisition Basis:	\$18,615,215
Applicable Rate:	3.60%
Maximum Annual Federal Rehabilitation Credit:	\$175,201
Maximum Annual Federal Acquisition Credit:	\$670,148
Total Maximum Annual Federal Credit:	\$845,348
Approved Developer Fee:	\$2,500,000
Tax Credit Factor:	\$1.06

Applicant requests and staff recommends annual federal credits of \$845,348, based on a qualified rehabilitation basis of \$4,866,682, a qualified acquisition basis of \$18,615,215, and a funding shortfall of \$8,959,796.

Cost Analysis and Line Item Review

The requested eligible basis \$23,481,897 is below TCAC's adjusted threshold basis limit \$38,526,594. The basis limit includes the 120% adjustment for the 55-year use/affordability restriction for projects that have more than 50% tax-credit 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
\$845,348	\$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