

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**Tax-Exempt Bond Project**  
**August 20, 2008**

**Project Number** CA-2008-873

**Project Name** Continental Apartments  
**Address:** 1100 Crystal Street, 1101 West Street & 1117 School Street  
Suisun City, CA 94585 County: Solano

**Applicant Information**

**Applicant:** Dawson Holdings, Inc.  
**Contact** Tim Fluetsch  
**Address:** 3 Harbor Drive, Suite 302  
Sausalito, CA 94965  
**Phone:** (801) 733-6111 **Fax:** (801) 733-6116  
**Sponsors Type:** Joint Venture

**Information**

**Housing Type:** Not-Targeted

**Bond Information**

**Issuer:** Redevelopment Agency of the City of Suisun City  
**Expected Date of Issuance:** October 15, 2008  
**Credit Enhancement:** N/A

**Eligible Basis**

**Actual:** \$9,337,230  
**Requested:** \$9,337,230  
**Maximum Permitted:** \$22,106,844

**Extra Feature Adjustments:**

55-Year Use/Affordability Restriction - Each 1% of Low-Income Units are Income Targeted Between  
50% AMI & 36% AMI: 29%

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$326,803	\$0
Recommended:	\$326,803	\$0

**Project Information**

**Construction Type:** Acquisition and Rehabilitation  
**Federal Subsidy:** Tax-Exempt  
**HCD MHP Funding:** No  
**Total # of Units:** 76  
**Total # Residential Buildings:** 3

**Income/Rent Targeting**

**Federal Setaside Elected:** 40%/60%  
**% & No. of Targeted Units:** 100% - 75 units  
**55-Year Use/Affordability Restriction:** Yes  
**Number of Units @ or below 50% of area median income:** 22  
**Number of Units @ or below 60% of area median income:** 53

<u>Unit Type &amp; Number</u>	<u>2008 Rents % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
8 One-Bedroom	50%	\$706
20 One-Bedroom	60%	\$740
14 One-Bedroom	50%	\$706
33 One-Bedroom	60%	\$765
1 One-Bedroom	Manager's Unit	\$725

The general partners or principal owners are Community Resident Services, Inc. and DHI Continental Associates, LLC.

The project developer is Dawson Holdings, Inc.

The management services will be provided by Evans Property Management.

The market analysis was provided by M.E. Shay & Co.

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

**Project Financing**

Estimated Total Project Cost: \$10,668,919 Per Unit Cost: \$140,381 Construction Cost Per Sq. Foot: \$60

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
US Bank – Tax Exempt Bonds	\$5,982,000	US Bank – Tax Exempt Bonds	\$3,148,900
RDA of Suisun City	\$3,262,500	RDA of Suisun City	\$3,625,000
Project cash flow during rehab	\$37,938	Project cash flow during rehab	\$37,938
Deferred Fee	\$983,675	Deferred Fee	\$918,786
Investor Equity	\$440,744	Investor Equity	\$2,938,295
		<b>TOTAL</b>	<b>\$10,668,919</b>

**Determination of Credit Amount(s)**

Requested Rehabilitation Eligible Basis:	\$4,136,930
Requested Acquisition Eligible Basis:	\$5,200,300
130% High Cost Adjustment:	No
Applicable Fraction:	100%
Qualified Rehabilitation Basis:	\$4,136,930
Qualified Acquisition Basis:	\$5,200,300
Applicable Rate:	3.60%
Maximum Annual Federal Rehabilitation Credit:	\$139,592
Maximum Annual Federal Acquisition Credit:	\$187,211
Total Maximum Annual Federal Credit:	\$326,803
Approved Developer Fee:	\$1,217,900
Tax Credit Factor: <i>WNC &amp; Associates</i>	\$0.8991

Applicant requests and staff recommends annual federal credits of \$326,803, based on a qualified rehabilitation basis of \$4,136,930, a qualified acquisition basis of \$5,200,300, and a funding shortfall of \$2,938,295.

### **Cost Analysis and Line Item Review**

The requested eligible basis \$9,337,230 is below TCAC's adjusted threshold basis limit \$22,106,844. The basis limit includes the adjustment for extraordinary features for the 55-year use/affordability restriction for projects where each 1% of low-income units are income targeted between 50% AMI & 36% AMI. Staff analysis of project costs to determine reasonableness found most fees to be within TCAC's underwriting guidelines and TCAC limitation with the exception of the contractor profit, overhead and general requirement costs as explained in the Special Issues/Other Significant Information section of this report below.

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's estimate of contractor profit, overhead and general requirement costs exceeds TCAC limits. The applicant is cautioned that at final review, prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceeds the limits will not be allowed.

**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
<b>\$326,803</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 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 programs of an ongoing nature and educational classes that are not the same as after-school programs for a minimum of ten (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