

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2008 Second Round Cycle
October 8, 2008

Project Number [CA-2008-111](#)

Project Name The Sagebrush of Downtown II
Site Address: 730 West Lancaster Boulevard
 Los Angeles, CA 93534 County: Los Angeles
Census Tracts: 9008.06

Applicant Information

Applicant: Lean Mean Fighting Machine, L.P.
Contact: Carol Cromar
Address: 4220 West 2100 South Suite B
 Salt Lake City, UT 84120
Phone: (801) 328-3644 Fax: (818) 304-7660
Email: carol@housingcorpofamerica.com
General Partners Type: Joint Venture

Information

Set-Aside: N/A
Housing Type: Large Family
Geographic Area: Los Angeles County

Eligible Basis

Requested: \$8,684,557
Actual: \$8,684,557
Maximum Permitted: \$10,590,925

Adjustments to Threshold Basis Limit:

Parking Beneath Residential Units Local Development Impact Fees
3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features
95% of Upper Floor Units are Elevator-Serviced

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$885,130	\$0
Recommended:	\$885,130	\$0

Project Information

Construction Type: New Construction
Federal Subsidy: None
Total # of Units: 40
Total # Residential Buildings: 1

Income/Rent Targeting

Federal Set-Aside Elected: [40%/60%](#)
% & No. of Tax Credit Units: [100% - 39 units](#)
Breakdown by %: 10% @ 30%, 10% @ 40%, 50% @ 50%

Selection Criteria	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency/Credit Reduction/Public Funds Maximum of 20 points	20	20	20
<input checked="" type="checkbox"/> Cost Efficiency	18	18	18
<input checked="" type="checkbox"/> Credit Reduction	20	2	2
Owner / Management Characteristics Maximum of 9 points	9	9	9
<input checked="" type="checkbox"/> General Partner Experience	6	6	6
<input checked="" type="checkbox"/> Management Experience	3	3	3
Negative Points			
Housing Needs Maximum of 10 points	10	10	10
Site Amenities Maximum of 15 points	15	15	15
<input checked="" type="checkbox"/> Within ¼ mile of transit stop with service every 30 minutes	6	6	6
<input checked="" type="checkbox"/> Within ½ mile of public park or community center open to general public	2	2	2
<input checked="" type="checkbox"/> Within ¼ mile of public library	3	3	3
<input checked="" type="checkbox"/> Within 1 mile of medical clinic or hospital	2	2	2
<input checked="" type="checkbox"/> Within ¼ mile of a pharmacy	2	2	2
Service Amenities Maximum of 10 points	10	10	10
<input checked="" type="checkbox"/> High speed internet service provided in each unit	5	5	5
<input checked="" type="checkbox"/> Educational classes	5	5	5
Neighborhood Revitalization Maximum of 9 points	9	9	9
Sustainable Building Methods Maximum of 8 points	8	8	8
<input checked="" type="checkbox"/> New construction/adaptive reuse increases energy efficiency 10% above Title 24	4	4	4
<input checked="" type="checkbox"/> Energy star rated ceiling fans in bedroom/living room; whole house fan; economizer	2	2	2
<input checked="" type="checkbox"/> Flow restrictors for kitchen & bath faucets or water-saving fixtures	1	1	1
<input checked="" type="checkbox"/> Minimum 1 High Efficiency Toilet (1.3 gpf) or dual flush	2	2	2
Lowest Income Maximum of 52 points	52	52	52
<input checked="" type="checkbox"/> Basic Targeting	50	50	50
<input checked="" type="checkbox"/> Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed Maximum of 20 points	20	20	20
State credit substitution Maximum of 2 points	2	2	2
Total Points	155	155	155

Tie-Breaker Information

Tie-Breaker Categories Apply to this Project: **Yes**

First: Housing Type **Large Family**

Second: Maximum Neighborhood Revitalization Points/Federal Designated Area **Yes**

Third: Calculated Ratio per Regulation 10325(c)(12) **90.726%**

<u>Unit Type & Number</u>	<u>2008 Rents for 2nd Round 2008</u> <u>% of Area Median Income</u>	<u>Proposed Rent</u> (including utilities)
4 Three-bedroom Units	30%	\$591
4 Three-bedroom Units	40%	\$788
31 Three-bedroom Units	50%	\$985
1 Three-bedroom Unit	Manager's Unit	\$948

The general partners or principal owners are Housing Corporation of America, Inc. and InSite Development LLC.

The project developer is InSite Development LLC.

The management agent is Ironwood Management.

The market analyst is Market Insights.

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

Project Financing

Estimated Total Project Cost: \$10,874,948 Per Unit Cost: \$271,874 Construction Cost Per Sq. Foot: \$140

Construction Financing		Permanent Financing	
Source	Amount	Source	Amount
East West Bank	\$4,000,000	PNC ARCS	\$2,700,000
Deferred Developer Fee	\$1,219,902	Deferred Developer Fee	\$651,343
Investor Equity	\$5,551,199	Investor Equity	\$7,523,605
		TOTAL	\$10,874,948

Determination of Credit Amount(s)

Requested Eligible Basis:	\$8,684,557
130% High Cost Adjustment:	Yes
Applicable Fraction:	100%
Qualified Basis Credit Reduction (2%)	\$225,798
Qualified Basis:	\$11,064,126
Applicable Rate:	8.00%
Total Maximum Annual Federal Credit:	\$885,130
Total State Credit:	\$0
Approved Developer Fee in Project Cost:	\$1,302,684
Approved Developer Fee in Eligible Basis:	\$0
Tax Credit Factor: Alliant Capital LLC	\$0.85

Applicant requests and staff recommends annual federal credits of \$885,130, based on a qualified basis of \$11,064,126 and a funding shortfall of \$7,523,605.

Cost Analysis and Line Item Review

The requested eligible basis \$8,684,557 is below TCAC’s threshold basis limit \$10,590,925. The basis limit was increased by the following extraordinary features: projects where 95% of upper floor units are elevator-serviced, projects that are required to provide parking beneath the residential units, local development impact fees, and the adjustment for projects with 3 or more energy efficiency/resource conservation/indoor air quality items for using a Minimum Efficiency Report Value (MERV) 8 or higher air filter for HVAC systems that introduce outside air, installing bamboo, stained concrete, cork, salvaged or FSC-Certified wood, ceramic tile, or natural linoleum in all living rooms or 50% or all common areas, and using CRI Green Label Plus Carpet or no carpet in all bedrooms. 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 8.00% 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: Staff noted that the preliminary architectural drawings indicated that some of the 3-bedroom units did not meet the 1,000 square feet of living space minimum requirement pursuant to TCAC Regulation section 10325(g)(1)(B). Please note that these minimums must be met when the final architectural drawings are completed and the project is constructed.

Legal Status: Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

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:

Federal/Annual	State/Total
\$885,130	\$0

Standard Conditions

An application for a carryover allocation must be submitted by **October 31, 2008**, as required by regulation section 10328(d), together with the applicable allocation fee and all required documentation. The time for meeting the "10%" test and submitting related documentation will be no later than six (6) months after the date of the executed carryover allocation (as defined by IRC Section 42 and IRS Notices). The applicant must ensure the project meets all Additional Threshold Requirements for the housing type of the proposed project.

The applicant must submit all documentation required for a Final Reservation no later than February 1 of the year that the building(s) must be placed in service pursuant to Section 42(h)(1)(E)(i) of the Internal Revenue Code of 1986, as amended. The applicant shall provide the Committee a Final Reservation application providing the documentation for the project set forth in Section 10322(i)(1) of these regulations. Failure to provide the documentation at the time required may result in rescission of the Credit reservation and cancellation of a carryover allocation.

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 performance deposit and allocation fee calculated in accordance with regulation. The performance deposit must be paid by cashier's check within 20 calendar days of any preliminary reservation. The allocation fee must be paid within a time period specified in the preliminary reservation letter. The allocation fee will be due prior to execution of a carryover allocation or issuance of tax forms, whichever comes first. 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 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.

If points were awarded for service amenities, the applicant will be required to provide such amenity or amenities identified in the application, for a minimum period of ten years and at no cost to the tenants.

Applicants that received points for sustainable building methods (energy efficiency) must submit the certification required by Section 10325(c)(8) at project completion.

Applicants that received increases (exceptions to limits) in the threshold basis limit under Section 10327(c)(5) must submit the certification required by Section 10322(i)(2)(P) at project completion.

Additional Conditions

Applicants that received 20 points for readiness to proceed must meet ALL of the following requirements. The applicant must be ready to begin construction within 150 days of the Credit Reservation which is **March 9, 2009**, as evidenced by submission, within that time of, recorded deeds of trust for all construction financing, payment of all construction lender fees, issuance of building permits and notice to proceed delivered to the contractor. Failure to meet this timeline will result in rescission of the Credit Reservation.

Project Analyst: Jack Waegell