

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report  
2010 Second Round  
September 22, 2010**

**Project Number** CA-2010-182

**Project Name** Estrella del Mercado  
**Site Address:** Cesar E. Chavez Parkway (North Side)  
National Avenue (West Side)  
Newton Avenue (East Side)  
San Diego, CA 92113 County: San Diego

**Census Tract:** 50.000

| <b>Tax Credit Amounts</b> | <b>Federal/Annual</b> | <b>State/Total</b> |
|---------------------------|-----------------------|--------------------|
| Requested:                | \$2,048,936           | \$0                |
| Recommended:              | \$2,048,936           | \$0                |

**Applicant Information**

**Applicant:** Chelsea Investment Corporation  
and Pacific Southwest Community Development Corporation  
on behalf of Mercado CIC, L.P.

**Contact:** Jordan Penn  
**Address:** 5993 Avenida Encinas, #101  
Carlsbad, CA 92008

**Phone:** (760) 456-6000 **Fax:** (760) 456-6001  
**Email:** jpenn@chelseainvestco.com

**General partner(s) or principal owner(s):** Pacific Southwest Community Development Corporation  
CIC Mercado, LLC

**General Partner Type:** Joint Venture  
**Developer:** Chelsea Investment Corporation  
**Investor/Consultant:** Raymond James  
**Management Agent:** CIC Management, Inc.

**Project Information**

**Construction Type:** New Construction

**Total # Residential Buildings:** 1

**Total # of Units:** 92

**No. & % of Tax Credit Units:** 91 100%

**Federal Set-Aside Elected:** 40%/60%

**Federal Subsidy:** N/A

**Affordability Breakdown by % (Lowest Income Points):**

|          |      |
|----------|------|
| 30% AMI: | 10 % |
| 40% AMI: | 10 % |
| 45% AMI: | 10 % |
| 50% AMI: | 40 % |

**Information**

**Set-Aside:** N/A

**Housing Type:** Large Family

**Geographic Area:** San Diego County

**TCAC Project Analyst:** DC Navarrette

**Unit Mix**

|       |                 |
|-------|-----------------|
| 19    | 1-Bedroom Units |
| 40    | 2-Bedroom Units |
| 33    | 3-Bedroom Units |
| <hr/> |                 |
| 92    | Total Units     |

| <u>Unit Type &amp; Number</u> | <u>2010 Rents Targeted % of Area Median Income</u> | <u>2010 Rents Actual % of Area Median Income</u> | <u>Proposed Rent (including utilities)</u> |
|-------------------------------|--|--|--|
| 5 1 Bedroom                   | 60%  | 60%  | \$883                                      |
| 4 1 Bedroom                   | 50%  | 50%  | \$736                                      |
| 4 1 Bedroom                   | 45%  | 45%  | \$662                                      |
| 4 1 Bedroom                   | 40%  | 40%  | \$589                                      |
| 2 1 Bedroom                   | 30%  | 30%  | \$441                                      |
| 8 2 Bedrooms                  | 60%  | 58%  | \$1,019                                    |
| 22 2 Bedrooms                 | 50%  | 48%  | \$849                                      |
| 3 2 Bedrooms                  | 45%  | 45%  | \$795                                      |
| 3 2 Bedrooms                  | 40%  | 40%  | \$707                                      |
| 4 2 Bedrooms                  | 30%  | 30%  | \$530                                      |
| 10 3 Bedrooms                 | 60%  | 56%  | \$1,133                                    |
| 12 3 Bedrooms                 | 50%  | 46%  | \$944                                      |
| 3 3 Bedrooms                  | 45%  | 45%  | \$918                                      |
| 3 3 Bedrooms                  | 40%  | 40%  | \$816                                      |
| 4 3 Bedrooms                  | 30%  | 30%  | \$612                                      |
| 1 3 Bedrooms                  | Manager's Unit                                     | Manager's Unit                                   | \$0  |

**Project Financing**

|                               |              |                                    |           |
|-------------------------------|--------------|------------------------------------|-----------|
| Estimated Total Project Cost: | \$43,520,486 | Construction Cost Per Square Foot: | \$118     |
|                               |              | Per Unit Cost:                     | \$473,049 |

| <b>Construction Financing</b> |               | <b>Permanent Financing</b>   |                     |
|-------------------------------|---------------|------------------------------|---------------------|
| <u>Source</u>                 | <u>Amount</u> | <u>Source</u>                | <u>Amount</u>       |
| Citibank                      | \$19,734,844  | Citibank                     | \$4,853,000         |
| San Diego Housing Commission  | \$6,250,000   | San Diego Housing Commission | \$7,000,000         |
| SDHC Land Lease               | \$4,560,000   | SDHC Land Lease              | \$4,560,000         |
| San Diego RDA                 | \$8,354,000   | San Diego RDA                | \$9,104,000         |
| Deferred Developer Fee        | \$610,965     | AHP                          | \$1,000,000         |
| Tax Credit Equity             | \$4,010,677   | Deferred Developer Fee       | \$611,998           |
|                               |               | Tax Credit Equity            | \$16,391,488        |
|                               |               | <b>TOTAL</b>                 | <b>\$43,520,486</b> |

**Determination of Credit Amount(s)**

|   |               |
|---|---------------|
| Requested Eligible Basis:                 | \$17,514,025  |
| 130% High Cost Adjustment:                | Yes           |
| Applicable Fraction:                      | 100.00%       |
| Qualified Basis:                          | \$22,768,233  |
| Applicable Rate:                          | 9.00%         |
| Maximum Annual Federal Credit:            | \$2,048,936   |
| Approved Developer Fee in Project Cost:   | \$2,000,000   |
| Approved Developer Fee in Eligible Basis: | \$1,400,000   |
| Investor/Consultant:                      | Raymond James |
| Federal Tax Credit Factor:                | \$0.80        |

Per Regulation Section 10322(i)(4)(A), The “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), Once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

**Eligible Basis and Basis Limit**

|                                       |              |
|---------------------------------------|--------------|
| Requested Unadjusted Eligible Basis:  | \$17,514,025 |
| Actual Eligible Basis:                | \$37,009,033 |
| Unadjusted Threshold Basis Limit:     | \$20,538,906 |
| Total Adjusted Threshold Basis Limit: | \$29,489,025 |

**Adjustments to Basis Limit:**

Required to Pay Prevailing Wages

3 or More Energy Efficiency/Resource Conservation/Indoor Air Quality Features:

- Projects exceeding Title 24 by at least 15%
- Projects using tank less water heaters, a high efficiency condensing boiler (92% AFUE or greater), or a solar thermal domestic hot water pre-heating system
- Projects using a Minimum Efficiency Report Value (MERV) 8 or higher air filter for HVAC systems that introduce outside air

Local Development Impact Fees

95% of Upper Floor Units are Elevator-Serviced

**Tie-Breaker Information**

|         |                     |
|---------|---------------------|
| First:  | <b>Large Family</b> |
| Second: | <b>107.238%</b>     |

**Cost Analysis and Line Item Review**

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC’s underwriting guidelines and TCAC limitations. Annual operating expenses meet 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 9.00% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.40%. 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:** During the review of this application TCAC staff was unable to identify the dishwashers in the preliminary drawings of the individual units. The applicant is advised dishwashers are required in each unit under the housing requirements for Large Family applications.

**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.

**Local Reviewing Agency:**

The Local Reviewing Agency, the San Diego Housing Commission, has completed a site review of this project and strongly supports this project.

**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:

|                                   |                                |
|-----------------------------------|--------------------------------|
| <b>Federal Tax Credits/Annual</b> | <b>State Tax Credits/Total</b> |
| <b>\$2,048,936</b>                | <b>\$0</b>                     |

**Standard Conditions**

The applicant must submit all documentation required for a Carryover Allocation, any Readiness 150-Day Requirements elected, and a Final Reservation. 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. 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 and state 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.

The applicant must ensure the project meets all Additional Threshold Requirements of the proposed project. 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)(6) 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) at project completion.

**Additional Conditions:** None

| <b>Points System</b>   | <b>Max. Possible Points</b> | <b>Requested Points</b> | <b>Points Awarded</b> |
|--|-----------------------------|-------------------------|-----------------------|
| <b>Cost Efficiency / Credit Reduction / Public Funds</b>                   | <b>20</b>                   | <b>20</b>               | <b>20</b>             |
| Public Funds   | 20                          | 20                      | 20                    |
| <b>Owner / Management Characteristics</b>                                  | <b>9</b>                    | <b>9</b>                | <b>9</b>              |
| General Partner Experience   | 6                           | 6                       | 6                     |
| Management Experience  | 3                           | 3                       | 3                     |
| <b>Housing Needs</b>   | <b>10</b>                   | <b>10</b>               | <b>10</b>             |
| <b>Site Amenities</b>  | <b>15</b>                   | <b>15</b>               | <b>15</b>             |
| Within ¼ mile of transit stop, service every 30 min, 25 units/acre density | 7                           | 7                       | 7                     |
| Within ¼ mile of public park or community center open to general public    | 3                           | 3                       | 3                     |
| Within 1.5 miles of a full-scale grocery/supermarket of at least 25,000 sf | 3                           | 3                       | 3                     |
| Large Family proj. w/i ¼ mile of public school project children may attend | 3                           | 3                       | 0                     |
| Within ½ mile of medical clinic or hospital                                | 3                           | 3                       | 3                     |
| <b>Service Amenities</b>   | <b>10</b>                   | <b>10</b>               | <b>10</b>             |
| Adult educational classes, minimum instruction of 60 hours/year            | 5                           | 5                       | 5                     |
| After school program for school age children, minimum of 10 hours/week     | 5                           | 5                       | 5                     |
| <b>Sustainable Building Methods</b>  | <b>8</b>                    | <b>8</b>                | <b>8</b>              |
| New construction/adaptive reuse energy efficiency 10% above Title 24       | 4                           | 4                       | 4                     |
| Flow restrictors for kitchen & bath faucets or water-saving fixtures       | 1                           | 1                       | 1                     |
| Minimum 1 High Efficiency Toilet (1.3 gpf) or dual flush                   | 2                           | 2                       | 2                     |
| Formaldehyde-free insulation   | 1                           | 1                       | 1                     |
| <b>Lowest Income</b>   | <b>52</b>                   | <b>52</b>               | <b>52</b>             |
| Basic Targeting  | 50                          | 50                      | 50                    |
| Deeper Targeting – at least 10% of units @ 30% AMI or less                 | 2                           | 2                       | 2                     |
| <b>Readiness to Proceed</b>  | <b>20</b>                   | <b>20</b>               | <b>20</b>             |
| <b>State Credit Substitution</b>   | <b>2</b>                    | <b>2</b>                | <b>2</b>              |
| <b>Total Points</b>  | <b>146</b>                  | <b>146</b>              | <b>146</b>            |

**Please Note:** If more than the maximum Site Amenity points were requested, not all amenities may have been scored and/or verified.

**DO NOT RELY ON SCORING IN THIS COMPETITIVE CYCLE FOR FUTURE APPLICATIONS. ALL RE-APPLICATIONS ARE REVIEWED WITHOUT RELIANCE ON PAST SCORING.**