

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
October 19, 2011

Project Number CA-2011-899

Project Name Monarch Fountain & La Brea
 Site Address: 1216, 1222 & 1234 North La Brea Avenue
 West Hollywood, CA 90038 County: Los Angeles
 Census Tract: 7001.000

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$494,146	\$0
Recommended:	\$494,146	\$0

Applicant Information

Applicant: Essex Monarch La Brea Apartments, L.P.
 Contact: Rodney F. Stone
 Address: 7727 Herschel Avenue
 La Jolla, CA 92037
 Phone: (858) 551-4390 Fax: (858) 551-4388
 Email: rodstone@monarchgroup.com

General partner(s) or principal owner(s): Essex Monarch GP I, LLC
 AOF/Pacific Affordable Housing Corporation
 General Partner Type: Joint Venture
 Developer: Essex Monarch GP I, LLC
 Investor/Consultant: Alliant Capital
 Management Agent: Western National Property Management

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 1
 Total # of Units: 38
 No. & % of Tax Credit Units: 38 100%
 Federal Set-Aside Elected: 20%/50%
 Federal Subsidy: Tax Exempt
 HCD MHP Funding: No
 55-Year Use/Affordability: Yes
 Number of Units @ or below 50% of area median income: 38

Bond Information

Issuer: CSCDA
 Date of Issuance: September 28, 2011
 Credit Enhancement: N/A

Information

Housing Type: Non-Targeted
 Geographic Area: Los Angeles County
 TCAC Project Analyst: Jack Waegell

Unit Mix

10 SRO/Studio Units
 20 1-Bedroom Units
 8 2-Bedroom Units

 38 Total Units

<u>Unit Type & Number</u>	<u>2011 Rents Targeted % of Area Median Income</u>	<u>2011 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
10 SRO/Studio	50%	44%	\$658
20 1 Bedroom	50%	47%	\$754
8 2 Bedrooms	50%	50%	\$961

Project Financing

Estimated Total Project Cost: \$15,400,028
 Estimated Residential Project Cost: \$15,400,028

Residential

Construction Cost Per Square Foot: \$153
 Per Unit Cost: \$405,264

Construction Financing

Permanent Financing

<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citibank, N.A.	\$10,000,000	Citibank, N.A.	\$1,370,000
Essex Monarch I, L.P.	\$5,400,028	Essex Monarch I, L.P.	\$9,829,787
		Tax Credit Equity	\$4,200,241
		TOTAL	\$15,400,028

Determination of Credit Amount(s)

Requested Eligible Basis: \$11,179,771
 130% High Cost Adjustment: Yes
 Applicable Fraction: 100%
 Qualified Basis: \$14,533,702
 Applicable Rate: 3.40%
 Total Maximum Annual Federal Credit: \$494,146
 Approved Developer Fee (in Project Cost & Eligible Basis): \$1,458,231
 Investor/Consultant: Alliant Capital
 Federal Tax Credit Factor: \$0.85000

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:	\$11,179,771
Actual Eligible Basis:	\$11,179,771
Unadjusted Threshold Basis Limit:	\$7,446,900
Total Adjusted Threshold Basis Limit:	\$16,159,773

Adjustments to Basis Limit:

Parking Beneath Residential Units

95% of Upper Floor Units are Elevator-Serviced

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 100%

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 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 3.40% 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: This 38-unit tax credit project consists of the air-space subdivided tax credit units located in a mixed income building/project. As subdivided, these 38 units form a 100% affordable project for purposes of tax credit program. The larger project includes a total of 187 residential units consisting of the 38 tax credit units (20% of the total units) under this reservation of tax credits, 147 market-rate units, 2 manager units, and 4 retail spaces with 18,215 square feet on the first floor. Parking is provided free of charge to the tax credit units/tenants with each studio unit and 1-bedroom unit provided 1 parking space and each 2-bedroom unit provided 2 parking spaces.

As currently proposed, the 38 tax credit units will consist of the following units: 201, 203, 205, 207, 209, 211, 213, 214, 216, 218, 220, 224, 226-231, 233, 235-237, 239, 241, 301, 305, 307, 309, 318-320, 322, 324, 328, 329, 401, 403, and 409.

The applicant anticipates that the water service will be sub-metered and that the tenants will be billed separately for their water usage by a 3rd party company. Accordingly, the units' utility allowances include a component for water. The applicant is aware that sub-metering the water service and direct billing of the tenants by a 3rd party company must follow certain IRS rules in order to be in compliance. In conjunction with the IRS rules, prior to the issuance of the IRS 8609 forms, TCAC will need to confirm that the water service and tenant billing have been implemented correctly. In addition, the TCAC Compliance Section will require specific information regarding the master water bill and each tenant's water usage and water bill when they inspect the project.

Local Reviewing Agency:

The Local Reviewing Agency, the City of West Hollywood, 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:

Federal Tax Credits/Annual	State Tax Credits/Total
\$494,146	\$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.

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 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 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 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.

Additional Conditions: None.