

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

**Project Number** CA-2011-906

**Project Name** De Anza II Apartments  
 Site Address: 233 East 4th Street  
 Calexico, CA 92231 County: Imperial  
 Census Tract: 121.000

| <b>Tax Credit Amounts</b> | <b>Federal/Annual</b> | <b>State/Total</b> |
|---------------------------|-----------------------|--------------------|
| Requested:                | \$365,224             | \$0                |
| Recommended:              | \$365,224             | \$0                |

**Applicant Information**

Applicant: De Anza II CIC, LP  
 Contact: Tim Baker  
 Address: 5993 Avenida Encinas, Suite 101  
 Carlsbad, CA 92008  
 Phone: 760-456-6000 Fax: 760-456-6001  
 Email: tbaker@chelseainvestco.com

General partner(s) or principal owner(s): CIC De Anza II, LLC  
 PSCDC  
 General Partner Type: Joint Venture  
 Developer: Chelsea Investment Corporation  
 Investor: The Richman Group  
 Management Agent: CIC Management, Inc.

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 1  
 Total # of Units: 54  
 No. & % of Tax Credit Units: 53 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax Exempt / HOME  
 HCD MHP Funding: No  
 55-Year Use/Affordability: Yes  
 Number of Units @ or below 35% of area median income: 6  
 Number of Units @ or below 50% of area median income: 47

**Bond Information**

Issuer: California Municipal Finance Authority  
 Expected Date of Issuance: 12/1/2011  
 Credit Enhancement: N/A

**Information**

Housing Type: Seniors  
 Geographic Area: Inland Empire Region  
 TCAC Project Analyst: DC Navarrette

**Unit Mix**

54 SRO/Studio Units  
54 Total Units

| <u>Unit Type &amp; Number</u> | <u>2011 Rents Targeted<br/>% of Area Median<br/>Income</u> | <u>2011 Rents Actual<br/>% of Area Median<br/>Income</u> | <u>Proposed<br/>Rent<br/>(including<br/>utilities)</u> |
|-------------------------------|--|--|--|
| 34 SRO/Studio                 | 50%  | 46%  | \$460  |
| 13 SRO/Studio                 | 40%  | 40%  | \$401  |
| 6 SRO/Studio                  | 30%  | 30%  | \$300  |
| 1 SRO/Studio                  | Manager's Unit   | Manager's Unit   | \$0  |

**Project Financing**

Estimated Total Project Cost: \$8,894,884  
 Estimated Residential Project Cost: \$8,894,884

**Residential**

Construction Cost Per Square Foot: \$119  
 Per Unit Cost: \$164,720

**Construction Financing**

| <u>Source</u>          | <u>Amount</u> |
|------------------------|---------------|
| Rabobank, NA           | \$4,955,474   |
| HOME                   | \$2,266,884   |
| Deferred Developer Fee | \$993,210     |
| Tax Credit Equity      | \$679,316     |

**Permanent Financing**

| <u>Source</u>          | <u>Amount</u>      |
|------------------------|--------------------|
| HOME                   | \$5,000,000        |
| AHP                    | \$265,000          |
| Deferred Developer Fee | \$233,304          |
| Tax Credit Equity      | \$3,396,580        |
| <b>TOTAL</b>           | <b>\$8,894,884</b> |

**Determination of Credit Amount(s)**

Requested Eligible Basis: \$8,262,982  
 130% High Cost Adjustment: Yes  
 Applicable Fraction: 100.00%  
 Qualified Basis): \$10,741,877  
 Applicable Rate: 3.40%  
 Maximum Annual Federal Credit: \$365,224  
 Approved Developer Fee (in Project Cost & Eligible Basis): \$894,000  
 Investor: The Richman Group  
 Federal Tax Credit Factor: \$0.93000

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:  | \$8,262,982  |
| Actual Eligible Basis:                | \$8,262,982  |
| Unadjusted Threshold Basis Limit:     | \$8,541,720  |
| Total Adjusted Threshold Basis Limit: | \$20,377,215 |

**Adjustments to Basis Limit:**

- Required to Pay Prevailing Wages
- Local Development Impact Fees
- 55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 88%
- 55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 22%

**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/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:** None

**Local Reviewing Agency:**

The Local Reviewing Agency has not yet completed a site review of this project. Any negative comments in the LRA report will cause this staff report to be revised to reflect such comments.

**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>\$365,224</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 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:** The applicant/owner is required to complete the following Sustainable Building Methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the placed-in-service application is submitted:

1. Energy Star rated ceiling fans in all bedrooms and living rooms; or use of a whole house fan; or use of an economizer cycle on mechanically cooled HVAC systems.
2. Water-saving fixtures or flow restrictors in the kitchen (2 gpm or less) and bathrooms (1.5 gpm or less).
3. At least one high efficiency toilet (1.3 gallons per flush) or dual-flush toilet per unit.