

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**Tax-Exempt Bond Project**

**August 29, 2012**

**Project Number** CA-12-849

**Project Name** Village Grove Apartments  
Site Address: 660 North Quince Street  
Escondido, CA 92025 County: San Diego  
Census Tract: 203.070

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$756,894	\$0
Recommended:	\$756,894	\$0

**Applicant Information**

Applicant: A to-be-formed affiliate of Wasatch Advantage Group, LLC  
Contact: Tony Hladek  
Address: 26440 La Alameda Suite 370  
Mission Viejo, CA 92691  
Phone: 949-367-1393 Fax: 949-367-0244  
Email: thladek@netwasatch.com

General partner(s) or principal owner(s): Western Community Housing  
General Partner Type: Nonprofit  
Developer: Wasatch Advantage Group, LLC  
Investor: Red Stone Equity Partners  
Management Agent: Wasatch Property Management

**Project Information**

Construction Type: Acquisition & Rehabilitation  
Total # Residential Buildings: 8  
Total # of Units: 161  
No. & % of Tax Credit Units: 160 100%  
Federal Set-Aside Elected: 40%/60%  
Federal Subsidy: Tax-Exempt  
HCD MHP Funding: No  
55-Year Use/Affordability: Yes  
Number of Units @ or below 50% of area median income: 16  
Number of Units @ or below 60% of area median income: 144

**Bond Information**

Issuer: California Municipal Finance Authority  
Expected Date of Issuance: October 15, 2012  
Credit Enhancement: N/A

**Information**

Housing Type: Non-Targeted  
 Geographic Area: San Diego County  
 TCAC Project Analyst: DC Navarrette

**Unit Mix**

160 1-Bedroom Units  
 1 2-Bedroom Units  
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 161 Total Units

<u>Unit Type &amp; Number</u>	<u>2012 Rents Targeted % of Area Median Income</u>	<u>2012 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
16 1 Bedroom	50%	50%	\$753
144 1 Bedroom	60%	60%	\$904
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$1,046

**Project Financing**

Estimated Total Project Cost: \$24,446,628  
 Estimated Residential Project Cost: \$24,446,628

**Residential**

Construction Cost Per Square Foot: \$38  
 Per Unit Cost: \$151,842

**Construction Financing**

**Permanent Financing**

<u>Source</u>	<u>Amount</u>	<u>Source</u>	<u>Amount</u>
Citi Community Capital	\$14,548,332	Citi Community Capital	\$16,500,000
Deferred Costs	\$2,452,227	Tax Credit Equity	\$7,946,628
Red Stone Equity Partners	\$7,446,069	<b>TOTAL</b>	<b>\$24,446,628</b>

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation): \$5,218,217  
 130% High Cost Adjustment: Yes  
 Requested Eligible Basis (Acquisition): \$16,869,363  
 Applicable Fraction: 100.00%  
 Qualified Basis (Rehabilitation): \$6,783,682  
 Applicable Rate: 3.20%  
 Qualified Basis (Acquisition): \$16,869,363  
 Applicable Rate: 3.20%  
 Maximum Annual Federal Credit, Rehabilitation: \$217,075  
 Maximum Annual Federal Credit, Acquisition: \$539,819  
 Total Maximum Annual Federal Credit: \$756,894  
 Approved Developer Fee (in Project Cost & Eligible Basis): \$2,500,000  
 Investor: Red Stone Equity Partners  
 Federal Tax Credit Factor: \$1.04990

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:	\$22,087,580
Actual Eligible Basis:	\$22,087,580
Unadjusted Threshold Basis Limit:	\$35,174,080
Total Adjusted Threshold Basis Limit:	\$38,691,488

**Adjustments to Basis Limit:**

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 10%

**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 are below minimum operating expenses established in the Regulations (see Special Issues/Other Significant Information), and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.20% 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:** The permanent lender approved an operating expense of \$3,910 which is within 15% of TCAC's operating expense minimum as allowed by regulation.

**Local Reviewing Agency:**

The Local Reviewing Agency, the City of Escondido, has completed a site review of this project and 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>\$756,894</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 a reservation 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 provide the tenants with the following service amenities free of charge 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:

- Educational classes
- Contracts for services

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 TCAC placed-in-service application is submitted:

- The project is a rehabilitation project not subject to Title 24, that reduces energy use on a per square foot basis by 30% as calculated using a methodology approved by the California Energy Commission.