

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2016 Second Round
September 21, 2016

Desert Horizon Apartments, located at 66789 Two Bunch Palms Trail in Desert Hot Springs, requested and is being recommended for a reservation of \$560,845 in annual federal tax credits to finance the acquisition and rehabilitation of 43 units of housing serving large families with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by DHA GP LLC and is located in Senate District 28 and Assembly District 56.

The project will be receiving rental assistance in the form of USDA RHS 521 Rental Assistance.

Project Number CA-16-082

Project Name Desert Horizon Apartments
Site Address: 66789 Two Bunch Palms Trail
 Desert Hot Springs, CA 92240 County: Riverside
Census Tract: 445.160

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$560,845	\$0
Recommended:	\$560,845	\$0

Applicant Information

Applicant: DHA Affordable LP
Contact: Paul Patierno
Address: 250 West Colorado Boulevard, Suite 210
 Arcadia, CA 91007
Phone: (626) 698-6357 Fax: (626) 698-6365
Email: p.patierno@highlandcompanies.com

General Partner(s) / Principal Owner(s): DHA GP LLC
 National Housing Corporation, Inc.
General Partner Type: Joint Venture
Parent Company(ies): Impact Development Group, LLC; Toffer Mann
 Investments LLC
 National Housing Corporation, Inc.
Developer: DHA GP LLC
Investor/Consultant: Boston Financial Investment Management
Management Agent(s): AWI Management

Project Information

Construction Type: Acquisition & Rehabilitation
 Total # Residential Buildings: 10
 Total # of Units: 44
 No. & % of Tax Credit Units: 43 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: USDA RHS 515 / USDA RHS 521 Rental Assistance (43 units - 100%)
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 5 10 %
 45% AMI: 11 25 %
 50% AMI (Rural): 18 40 %

Information

Set-Aside: Rural
 Housing Type: Large Family
 Geographic Area: N/A
 TCAC Project Analyst: Zhuo Chen

Unit Mix

20 1-Bedroom Units
 13 2-Bedroom Units
 11 3-Bedroom Units

 44 Total Units

<u>Unit Type & Number</u>	<u>2016 Rents Targeted % of Area Median Income</u>	<u>2016 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
1 1 Bedroom	30%	30%	\$360
2 2 Bedrooms	30%	30%	\$432
2 3 Bedrooms	30%	30%	\$498
5 1 Bedroom	45%	45%	\$540
3 2 Bedrooms	45%	45%	\$648
3 3 Bedrooms	45%	45%	\$748
8 1 Bedroom	50%	50%	\$600
5 2 Bedrooms	50%	50%	\$720
3 3 Bedrooms	50%	47%	\$789
2 3 Bedrooms	50%	50%	\$831
6 1 Bedroom	60%	60%	\$716
2 2 Bedrooms	60%	54%	\$779
1 3 Bedrooms	60%	50%	\$839
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$3,500,000
Construction Costs	\$0
Rehabilitation Costs	\$2,797,520
Construction Contingency	\$242,000
Relocation	\$30,000
Architectural/Engineering	\$107,000
Const. Interest, Perm. Financing	\$170,050
Legal Fees, Appraisals	\$169,000
Reserves	\$209,800
Other Costs	\$153,774
Developer Fee	\$902,148
Commercial Costs	\$0
Total	\$8,281,292

Project Financing

Estimated Total Project Cost:	\$8,281,292
Estimated Residential Project Cost:	\$8,281,292
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$72
Per Unit Cost:	\$188,211
True Cash Per Unit Cost*:	\$185,756

Construction Financing

Source	Amount
JP Morgan Chase	\$3,000,000
USDA RHS 515 Loan (Assumed)	\$1,391,039
Tax Credit Equity	\$2,979,755

Permanent Financing

Source	Amount
Bonneville - Tranche A	\$836,444
Bonneville - Tranche B	\$113,556
USDA RHS 515 Loan (Assumed)	\$1,391,039
Deferred Developer Fee	\$108,049
Tax Credit Equity	\$5,832,204
TOTAL	\$8,281,292

*Less Donated Land, Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	\$4,084,018
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$2,586,150
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$5,309,223
Applicable Rate:	9.00%
Qualified Basis (Acquisition):	\$2,586,150
Applicable Rate:	3.21%
Maximum Annual Federal Credit, Rehabilitation:	\$477,830
Maximum Annual Federal Credit, Acquisition:	\$83,015
Total Maximum Annual Federal Credit:	\$560,845
Approved Developer Fee in Project Cost:	\$902,148
Approved Developer Fee in Eligible Basis:	\$655,848
Investor/Consultant:	Boston Financial Investment Management
Federal Tax Credit Factor:	\$1.03990

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:	\$6,670,168
Actual Eligible Basis:	\$6,670,168
Unadjusted Threshold Basis Limit:	\$8,959,036
Total Adjusted Threshold Basis Limit:	\$8,959,036

Adjustments to Basis Limit: None.

Tie-Breaker Information

First:	Large Family
Final:	29.196%

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 9.0% of the qualified basis, or, in the case of acquisition credit or credit combined with federal subsidies, 3.21%. 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.

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 City of Coalinga, 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
\$560,845	\$0

Standard Conditions

The applicant must submit all documentation required for a Carryover Allocation and any Readiness to Proceed Requirements elected. 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 fifteen 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.

Points System	Max. Possible Points	Requested Points	Points Awarded
Cost Efficiency / Credit Reduction / Public Funds	20	20	20
Cost Efficiency	20	2	2
Public Funds	20	18	18
Owner / Management Characteristics	9	9	9
General Partner Experience	6	6	6
Management Experience	3	3	3
Housing Needs	10	10	10
Site Amenities	15	15	15
Within ½ mile of transit, service every 30 minutes in rush hours	5	5	5
Within 1 mile of public park or community center open to general public	3	3	3
Within 2 miles of public library	2	2	2
Within ½ mile of a neighborhood market of at least 5,000 sf	4	4	4
Within 1 mile of a public middle school	3	3	3
Within 1.5 miles of medical clinic or hospital	2	2	2
Within 1 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
Health & wellness services and programs, minimum 60 hrs per 100 bdrms	3	3	3
Sustainable Building Methods	5	5	5
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating): 20.0%	5	5	5
Lowest Income	52	52	52
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of units @ 30% AMI or less	2	2	2
Readiness to Proceed	15	15	15
Miscellaneous Federal and State Policies	2	2	2
State Credit Substitution	2	2	2
Total Points	138	138	138

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.