

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
2016 Second Round
October 19, 2016

Fontana Sierra Family Apartments, located at 9351 Olive Street in Fontana, requested \$1,453,219 in annual federal tax credits, but is being recommended for a reservation of \$1,429,852 in annual federal tax credits (see "**Special Issues/Other Significant Information**" section) to finance the new construction of 68 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 Related Development Company of California and will be located in Senate District 20 and Assembly District 47.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers.

Project Number CA-16-077

Project Name Fontana Sierra Family Apartments
Site Address: 9351 Olive Street
Fontana, CA 92335 County: San Bernardino
Census Tract: 31.020

Tax Credit Amounts	Federal/Annual	State/Total
Requested:	\$1,453,219	\$0
Recommended:	\$1,429,852	\$0

Applicant Information

Applicant: Fontana Sierra Housing Partners, L.P.
Contact: Frank Cardone
Address: 18201 Von Karman Ave, Suite 900
Irvine, CA 92612
Phone: 949-660-7272 Fax: 949-660-7273
Email: fcardone@related.com

General Partner(s) / Principal Owner(s): Related/Fontana Sierra Development Co., LLC
HPI Fontana Sierra Avenue, LLC
LaBarge Industries, Inc.

General Partner Type: Joint Venture

Parent Company(ies): The Related Companies of California
HPI, Inc.
LeBarge Industries, Inc.

Developer: Related Development Company of California

Investor/Consultant: US Bancorp

Management Agent(s): Related Management Company

Project Information

Construction Type: New Construction
 Total # Residential Buildings: 6
 Total # of Units: 69
 No. & % of Tax Credit Units: 68 100%
 Federal Set-Aside Elected: 40%/60%
 Federal Subsidy: HUD Section 8 Project-Based Vouchers (8 Units - 11%)
 Utility Allowance: CUAC
 Affordability Breakdown by Units and % (Lowest Income Points):
 30% AMI: 7 10 %
 40% AMI: 14 20 %
 50% AMI: 28 40 %

Information

Set-Aside: N/A
 Housing Type: Large Family
 Geographic Area: Inland Empire Region
 TCAC Project Analyst: DC Navarrette

Unit Mix

47 2-Bedroom Units
 22 3-Bedroom Units

 69 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>
4 2 Bedrooms	30%	30%	\$432
2 2 Bedrooms	40%	40%	\$576
8 2 Bedrooms	40%	40%	\$576
19 2 Bedrooms	50%	50%	\$720
13 2 Bedrooms	60%	60%	\$864
2 3 Bedrooms	30%	30%	\$498
1 3 Bedrooms	30%	30%	\$498
4 3 Bedrooms	40%	40%	\$665
9 3 Bedrooms	50%	50%	\$831
6 3 Bedrooms	60%	60%	\$997
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Project Cost Summary at Application

Land and Acquisition	\$3,774,168
Construction Costs	\$13,791,864
Rehabilitation Costs	\$0
Construction Contingency	\$712,702
Relocation	\$0
Architectural/Engineering	\$1,176,071
Const. Interest, Perm. Financing	\$930,000
Legal Fees, Appraisals	\$204,500
Reserves	\$147,571
Other Costs	\$3,118,007
Developer Fee	\$2,000,000
Commercial Costs	\$0
Total	\$25,854,883

Project Financing

Estimated Total Project Cost:	\$25,854,883
Estimated Residential Project Cost:	\$25,854,883
Estimated Commercial Project Cost:	\$0

Residential

Construction Cost Per Square Foot:	\$190
Per Unit Cost:	\$374,708
True Cash Per Unit Cost*:	\$326,708

Construction Financing

Source	Amount
Union Bank	\$13,535,735
Fontana Housing Authority	\$5,000,000
Donated Land Value	\$3,312,000
Deferred Reserves	\$147,571
Deferred Developer Fee	\$1,000,000
Tax Credit Equity	\$3,109,577

Permanent Financing

Source	Amount
Union Bank - Tranche A	\$964,000
Union Bank - Tranche B	\$1,281,000
Fontana Housing Authority	\$5,000,000
Donated Land Value	\$3,312,000
Tax Credit Equity	\$15,297,883
TOTAL	\$25,854,883

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

Determination of Credit Amount(s)

Requested Eligible Basis:	\$12,420,671
130% High Cost Adjustment:	Yes
Applicable Fraction:	100.00%
Qualified Basis:	\$16,146,872
Applicable Rate:	9.00%
Total Maximum Annual Federal Credit:	\$1,429,852
Approved Developer Fee in Project Cost:	\$2,000,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	US Bancorp
Federal Tax Credit Factor:	\$1.06989

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:	\$12,420,671
Actual Eligible Basis:	\$20,533,572
Unadjusted Threshold Basis Limit:	\$17,256,736
Total Adjusted Threshold Basis Limit:	\$19,284,724

Adjustments to Basis Limit

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

- New construction: project buildings are at least 15% more energy efficient than current CA Code Energy Efficiency Standards as indicated in TCAC Regulations.

Local Development Impact Fees

Tie-Breaker Information

First:	Large Family
Final:	46.791%

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

The applicant’s estimate of contractor profit, overhead and general requirement costs exceeds TCAC limit of 14%. The applicant is cautioned that at final review, prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceeds the limits will not be allowed.

Staff noted the developer fee in cost and basis were in excess of the TCAC limits. The cost and basis were reduced accordingly resulting in a reduction to the federal tax credit amount recommended.

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 Fontana, 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
\$1,429,852	\$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
Public Funds	20	20	20
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 1/8 mile of transit (van or dial-a-ride service for rural set-aside)	4	4	4
Within 1/2 mile of public park or community center open to general public	3	3	3
Within 1/2 mile of a full-scale grocery/supermarket of at least 25,000 sf	5	5	5
Within 1 mile of a public high school	3	3	3
Within 1/2 mile of medical clinic or hospital	3	3	3
Within 1/2 mile of a pharmacy	2	2	2
Service Amenities	10	10	10
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Adult ed/health & wellness/skill bldg classes, min. 60 hrs/yr instruction	5	5	5
After school program for school age children, minimum of 10 hours/week	5	5	5
Sustainable Building Methods	5	5	5
NEW CONSTRUCTION/ADAPTIVE REUSE			
Energy efficiency beyond CA Building Code Title 24 requirements: 15%	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
Smoke Free Residence	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.