

# CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

## Project Staff Report

### 2019 First Round

July 17, 2019

QHA Homes II, located at 607 Ironwood Terrace in Winterhaven, requested and is being recommended for a reservation of \$997,076 in annual federal tax credits and \$2,368,052 in total state tax credits to finance the acquisition and rehabilitation of 37 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 Quechan Housing Authority and is located in Senate District 40 and Assembly District 56.

The project will be receiving rental assistance in the form of NAHASDA Rental Subsidy.

<b>Project Number</b>	CA-19-009	
<b>Project Name</b>	QHA Homes II	
Site Address:	607 Ironwood Terrace - Ironwood Subdivision	
	Winterhaven, CA 92283	
	County: Imperial	
Census Tract:	9400.000	
<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total *</b>
Requested:	\$997,076	\$2,368,052
Recommended:	\$997,076	\$2,368,052

\* The applicant made an irrevocable election not to sell (Certificate) any portion of the state credits.

### Applicant Information

Applicant:	QHA Homes II Limited Partnership
Contact:	Cliff O'Neill
Address:	1860 Sapphire Lane
	Winterhaven, CA 92283
Phone:	760-572-0243
Email:	conceill@quechanhousing.org
General Partner(s) / Principal Owner(s):	Quechan Housing Authority
General Partner Type:	Nonprofit
Parent Company(ies):	Quechan Housing Authority
Developer:	Quechan Housing Authority
Investor/Consultant:	RBC Capital Markets
Management Agent(s):	Quechan Housing Authority

### Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	38
Total # of Units:	38
No. & % of Tax Credit Units:	37 100%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	NAHASDA

**Information**

Set-Aside: Rural (Native American apportionment)  
Housing Type: Large Family  
TCAC Project Analyst: Tiffani Negrete

**55-Year Use / Affordability**

<b>Aggregate Targeting</b>	<b>Number of Units</b>	<b>Percentage of Affordable Units</b>
At or Below 30% AMI:	6	15%
At or Below 40% AMI:	6	15%
At or Below 50% AMI:	10	25%
At or Below 60% AMI:	15	40%

**Unit Mix**

19 3-Bedroom Units
19 4-Bedroom Units
<b>38 Total Units</b>

<b>Unit Type &amp; Number</b>	<b>2018 Rents Targeted % of Area Median Income</b>	<b>2018 Rents Actual % of Area Median Income</b>	<b>Proposed Rent (including utilities)</b>
3 3 Bedrooms	30%	25%	\$394
3 3 Bedrooms	40%	30%	\$464
5 3 Bedrooms	50%	30%	\$464
8 3 Bedrooms	60%	30%	\$464
3 4 Bedrooms	30%	26%	\$442
3 4 Bedrooms	40%	30%	\$512
5 4 Bedrooms	50%	30%	\$512
7 4 Bedrooms	60%	30%	\$512
1 4 Bedrooms	Manager's Unit	Manager's Unit	\$400

**Project Cost Summary at Application**

Land and Acquisition	\$3,370,000
Construction Costs	\$0
Rehabilitation Costs	\$7,261,711
Construction Contingency	\$710,539
Relocation	\$25,000
Architectural/Engineering	\$530,876
Const. Interest, Perm. Financing	\$38,000
Legal Fees	\$150,000
Reserves	\$420,066
Other Costs	\$185,466
Developer Fee	\$1,125,000
Commercial Costs	\$0
<b>Total</b>	<b>\$13,816,658</b>

**Residential**

Construction Cost Per Square Foot:	\$125
Per Unit Cost:	\$363,596
True Cash Per Unit Cost*:	\$363,596

**Construction Financing**

Source	Amount
Quechan Housing Authority Loan	\$3,420,000
Solar Equity	\$145,323
Tax Credit Equity	\$10,251,335

**Permanent Financing**

Source	Amount
Quechan Housing Authority Loan	\$3,420,000
Solar Equity	\$145,323
Tax Credit Equity	\$10,251,335
<b>TOTAL</b>	<b>\$13,816,658</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation):	\$9,842,956
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	\$3,370,000
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$9,842,956
Applicable Rate:	9.00%
Qualified Basis (Acquisition):	\$3,370,000
Applicable Rate:	3.30%
Maximum Annual Federal Credit, Rehabilitation:	\$885,866
Maximum Annual Federal Credit, Acquisition:	\$111,210
Total Maximum Annual Federal Credit:	\$997,076
Total State Credit:	\$2,368,052
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,125,000
Investor/Consultant:	RBC Capital Markets
Federal Tax Credit Factor:	\$0.85002
State Tax Credit Factor:	\$0.75000

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, shall not increase during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits, unless a waiver has been granted for a purchase price not to exceed the sum of third party debt that will be assumed or paid off. The sum of the third party debt encumbering the property may increase during subsequent reviews to reflect the actual amount.

**Eligible Basis and Basis Limit**

Requested Unadjusted Eligible Basis:	\$13,212,956
Actual Eligible Basis:	\$13,212,956
Unadjusted Threshold Basis Limit:	\$14,848,367
Total Adjusted Threshold Basis Limit:	\$17,818,040

**Adjustments to Basis Limit**

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages

**Tie-Breaker Information**

First: **Large Family**  
Final: **41.017%**

**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 or 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, 3.30%. 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.

**Significant Information / Additional Conditions**

All units are individually metered for water/sewer and tenants are billed directly by the Quechan Indian Tribe for usage.

When contracting with a California-experienced property management company as described in TCAC regulation section 10325(c)(1) (A)(ii) and (B)(ii), the general partner and property co-management entity must obtain training in: project operations, on-site certification training in federal fair housing law, and manager certification in IRS Section 42 program requirements from a CTCAC-approved, nationally recognized entity. Additionally, the experienced property management agent or an equally experienced substitute, must remain for a period of at least 3 years from the placed-in-service date (or, for ownership transfers, 3 years from the sale or transfer date) to allow for at least one (1) CTCAC monitoring visit to ensure the project is in compliance with IRC Section 42. Thereafter, the experienced property manager may transfer responsibilities to the remaining general partner or property management firm following formal written approval from CTCAC.

**Resyndication and Resyndication Transfer Event:** 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, Quechan Indian Tribe, has completed a site review of this project and strongly supports this project.

**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)(5) 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.

<b>Points System</b>	<b>Max. Possible Points</b>	<b>Requested Points</b>	<b>Points Awarded</b>
<b>Owner / Management Characteristics</b>	<b>9</b>	<b>6</b>	<b>6</b>
General Partner Experience	6	4	4
Management Experience	3	2	2
<b>Housing Needs</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Site Amenities</b>	<b>15</b>	<b>0</b>	<b>0</b>
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Adult ed/health & wellness/skill bldg classes, min. 84 hrs/yr instruction	7	7	7
After school program for school age children, minimum of 10 hours/week	5	5	5
<b>Sustainable Building Methods</b>	<b>5</b>	<b>5</b>	<b>5</b>
REHABILITATION			
Rehabilitate to improve energy efficiency (change in HERS II rating): 20%	5	5	5
<b>Lowest Income</b>	<b>52</b>	<b>52</b>	<b>52</b>
Basic Targeting	50	50	50
Deeper Targeting – at least 10% of Low Income Units @ 30% AMI or less	2	2	2
<b>Readiness to Proceed</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Miscellaneous Federal and State Policies</b>	<b>2</b>	<b>2</b>	<b>2</b>
Smoke Free Residence	2	2	2
<b>Total Points</b>	<b>113</b>	<b>95</b>	<b>95</b>

**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.**