

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**2016 First Round**  
**June 8, 2016**

Esperanza Crossing, Phase II, located at 16797 County Road 87 in Esparto, requested and is being recommended for a reservation of \$366,794 in annual federal tax credits and \$1,467,177 in total state tax credits to finance the new construction of 39 units of housing serving large families with rents affordable to households earning 30-55% of area median income (AMI). The project will be developed by Mercy Housing California and will be located in Senate District 5 and Assembly District 2.

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

**Project Number** CA-16-847

**Project Name** Esperanza Crossing, Phase II  
**Site Address:** 16797 County Road 87  
 Esparto, CA 95627 County: Yolo  
**Census Tract:** 115.000

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$366,794	\$1,467,177
Recommended:	\$366,794	\$1,467,177

**Applicant Information**

**Applicant:** Mercy Housing California  
**Contact:** Jeff Riley  
**Address:** 2512 River Plaza Drive, Suite 200  
 Sacramento, CA 95833  
**Phone:** (916) 414-4406 Fax: (916) 414-4490  
**Email:** jriley@mercyhousing.org

**General Partner(s) / Principal Owner(s):** Mercy Housing Calwest  
**General Partner Type:** Nonprofit  
**Parent Company(ies):** Mercy Housing, Inc.  
**Developer:** Mercy Housing California  
**Investor/Consultant:** Community Economics  
**Management Agent:** Mercy Housing Management Group

**Project Information**

Construction Type: New Construction  
Total # Residential Buildings: 4  
Total # of Units: 40  
No. & % of Tax Credit Units: 39 100%  
Federal Set-Aside Elected: 40%/60%  
Federal Subsidy: Tax-Exempt / HOME /  
HUD Section 8 Project-based Vouchers (10 units - 25%)

Affordability Breakdown by Units and % (Lowest Income Points):

30% AMI: 5 10 %  
40% AMI: 8 20 %  
45% AMI: 9 20 %  
50% AMI: 9 20 %

Affordability Breakdown by % (Basis Limit Increase):

Number of Units @ or below 35% of area median income: 5  
Number of Units @ or below 50% of area median income: 26  
Number of Units @ or below 60% of area median income: 8

**Bond Information**

Issuer: California Municipal Finance Authority  
Expected Date of Issuance: 09/01/16  
Credit Enhancement: No

**Information**

Set-Aside: N/A  
Housing Type: Large Family  
Geographic Area: Capital and Northern Region  
TCAC Project Analyst: Mayra Lozano

**Unit Mix**

8 1-Bedroom Units  
20 2-Bedroom Units  
12 3-Bedroom Units  


---

40 Total Units

<u>Unit Type &amp; Number</u>	<u>2015 Rents Targeted % of Area Median Income</u>	<u>2015 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
1 1 Bedroom	30%	30%	\$406
2 1 Bedroom	40%	40%	\$542
2 1 Bedroom	45%	45%	\$609
2 1 Bedroom	50%	50%	\$677
1 1 Bedroom	55%	55%	\$745
2 2 Bedrooms	30%	30%	\$487
4 2 Bedrooms	40%	40%	\$650
5 2 Bedrooms	45%	45%	\$731
2 2 Bedrooms	50%	50%	\$812
6 2 Bedrooms	55%	55%	\$893
2 3 Bedrooms	30%	30%	\$563
2 3 Bedrooms	40%	40%	\$751
2 3 Bedrooms	45%	45%	\$844
5 3 Bedrooms	50%	50%	\$938
1 3 Bedrooms	55%	55%	\$1,032
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

**Project Cost Summary at Application**

Land and Acquisition	\$372,000
Construction Costs	\$7,387,193
Rehabilitation Costs	\$0
Construction Contingency	\$369,360
Relocation	\$0
Architectural/Engineering	\$375,000
Construction Interest & Perm Financing	\$628,332
Legal Fees, Appraisals	\$102,500
Reserves	\$167,530
Other Costs	\$1,381,001
Developer Fee	\$1,472,084
Commercial Costs	\$0
<b>Total</b>	<b>\$12,255,000</b>

**Project Financing**

Estimated Total Project Cost:	\$12,255,000
Estimated Residential Project Cost:	\$12,255,000
Estimated Commercial Project Cost:	\$0

**Residential**

Construction Cost Per Square Foot:	\$203
Per Unit Cost:	\$306,375
Effective Per Unit Cost*:	\$303,875

**Construction Financing**

Source	Amount
Wells Fargo Bank	\$7,031,562
HCD - HOME	\$3,300,000
Yolo County Housing Trust Fund	\$300,000
Tax Credit Equity	\$500,000

**Permanent Financing**

Source	Amount
CCRC - Tranche A	\$598,400
CCRC - Tranche B	\$900,800
HCD - HOME	\$4,500,000
Yolo County Housing Trust Fund	\$300,000
Sponsor Loan	\$868,262
Deferred developer fee	\$100,000
GP Equity	\$100
Tax Credit Equity	\$4,987,438
<b>TOTAL</b>	<b>\$12,255,000</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis:	\$11,285,976
130% High Cost Adjustment:	No
Applicable Fraction:	100.00%
Qualified Basis:	\$11,285,976
Applicable Rate:	3.25%
Total Maximum Annual Federal Credit:	\$366,794
Total State Credit:	\$1,467,177
Approved Developer Fee (in Project Cost & Eligible Basis):	\$1,472,084
Investor/Consultant:	Community Economics
Federal Tax Credit Factor:	\$1.08374
State Tax Credit Factor:	\$0.69000

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:	\$11,285,976
Actual Eligible Basis:	\$11,285,976
Unadjusted Threshold Basis Limit:	\$10,548,392
Total Adjusted Threshold Basis Limit:	\$22,151,623

**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

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 66%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 24%

**Tie-Breaker Information**

Final: 48.234%

**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 3.25% 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:**

This project is Phase II of Esparto Family Apartments, Phase I (CA-11-123) and both phases will share the community and laundry room. Both phases are under the same control of Mercy Housing California and prior to the start of construction, all necessary agreements shall be in place to ensure that Phase II has access to the required space free of charge. The Joint Use Agreement shall be provided in the placed in service submission.

**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, Yolo County Housing Authority, 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:

<b>Federal Tax Credits/Annual</b>	<b>State Tax Credits/Total</b>
<b>\$366,794</b>	<b>\$1,467,177</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.

The applicant must submit all documentation required for any Readiness to Proceed Requirements elected. Failure to provide the documentation at the time required may result in rescission of the Credit reservation.

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 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.

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 ten 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

<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>9</b>	<b>9</b>
General Partner Experience	6	6	6
Management Experience	3	3	3
<b>Housing Needs</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>Site Amenities</b>	<b>15</b>	<b>15</b>	<b>15</b>
Within 1/3 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 public library	3	3	3
Within 1/4 mile of a neighborhood market of at least 5,000 sf	4	4	0
Within 1/2 mile of a neighborhood market of at least 5,000 sf	3	0	3
Within 1/4 mile of a highschool	3	3	3
<b>Service Amenities</b>	<b>10</b>	<b>10</b>	<b>10</b>
LARGE FAMILY, SENIOR, AT-RISK HOUSING TYPES			
Service Coordinator, minimum ratio of 1 FTE to 600 bedrooms	5	5	5
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>
NEW CONSTRUCTION/ADAPTIVE REUSE			
Energy efficiency beyond CA Building Code Title 24 requirements: 15.0%	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 units @ 30% AMI or less	2	2	2
<b>Readiness to Proceed</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Total Points</b>	<b>116</b>	<b>116</b>	<b>116</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.**