

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**

**Project Staff Report**

**2017 Second Round**

**September 20, 2017**

Delano Gardens, located at 302 Garces Highway in Delano, requested and is being recommended for a reservation of \$1,286,181 in annual federal tax credits to finance the acquisition and rehabilitation of 75 units of housing serving tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Horizon Development Consulting, LLC and is located in Senate District 14 and Assembly District 32.

The project is currently at-risk, but is being recommended for a reservation of tax credits that will be preserve affordability for an additional 55 years. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Contract.

**Project Number** CA-17-130

**Project Name** Delano Gardens  
**Site Address:** 302 Garces Highway  
Delano, CA 93215 County: Kern  
**Census Tract:** 48.000

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$1,286,181	\$0
Recommended:	\$1,286,181	\$0

**Applicant Information**

**Applicant:** Horizon Development Consulting, LLC  
**Contact:** Keith Stanley  
**Address:** 2030 Main Street, Suite 1300  
Irvine, CA 92614  
**Phone:** (949) 260-4998 **Fax:** (949) 260-4994  
**Email:** Keith.Stanley@horizondev.com

**General Partner(s) / Principal Owner(s):** Horizon Development Consulting, LLC  
AOF/Pacific Affordable Housing Corp.

**General Partner Type:** Joint Venture

**Parent Company(ies):** Horizon Development Consulting, LLC  
The American Opportunity Foundation, Inc.

**Developer:** Horizon Development Consulting, LLC

**Investor/Consultant:** RBC Tax Credit Equity, LLC

**Management Agent(s):** Solari Enterprises, Inc.

**Project Information**

Construction Type: Acquisition & Rehabilitation  
 Total # Residential Buildings: 7  
 Total # of Units: 76  
 No. & % of Tax Credit Units: 75 100%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: HUD Section 8 Project-based Contract (75 units - 100%)  
 Affordability Breakdown by Units and % (Lowest Income Points):  
 30% AMI: 8 10 %  
 35% AMI: 8 10 %  
 40% AMI: 8 10 %  
 50% AMI: 19 25 %

**Information**

Set-Aside: At-Risk  
 Housing Type: At-Risk  
 Geographic Area: Central Valley Region  
 TCAC Project Analyst: Marlene McDonough

**Unit Mix**

17 1-Bedroom Units  
 40 2-Bedroom Units  
19 3-Bedroom Units  
 76 Total Units

<u>Unit Type &amp; Number</u>	<u>2017 Rents Targeted % of Area Median Income</u>	<u>2017 Rents Actual % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
2 1 Bedroom	30%	30%	\$337
8 1 Bedroom	35%	35%	\$393
7 1 Bedroom	40%	40%	\$450
4 2 Bedrooms	30%	30%	\$405
1 2 Bedrooms	40%	40%	\$540
19 2 Bedrooms	50%	50%	\$675
15 2 Bedrooms	60%	60%	\$810
2 3 Bedrooms	30%	30%	\$467
17 3 Bedrooms	60%	60%	\$934
1 2 Bedrooms	Manager's Unit	Manager's Unit	\$0

Projected Lifetime Rent Benefit: \$19,996,680

**Project Cost Summary at Application**

Land and Acquisition	\$10,200,000
Construction Costs	\$0
Rehabilitation Costs	\$7,190,835
Construction Contingency	\$711,889
Relocation	\$200,000
Architectural/Engineering	\$120,000
Const. Interest, Perm. Financing	\$943,166
Legal Fees, Appraisals	\$150,000
Reserves	\$439,611
Other Costs	\$451,366
Developer Fee	\$2,000,000
Commercial Costs	\$0
<b>Total</b>	<b>\$22,406,867</b>

**Project Financing**

Estimated Total Project Cost:	\$22,406,867
Estimated Residential Project Cost:	\$22,406,867
Estimated Commercial Project Cost:	\$0

**Construction Financing**

Source	Amount
Citi Community Capital	\$15,600,000
Seller Carryback Loan	\$1,000,000
Seller Property Donation Value	\$1,800,000
Deferred Developer Fee	\$1,640,531
Tax Credit Equity	\$2,366,336

**Residential**

Construction Cost Per Square Foot:	\$131
Per Unit Cost:	\$294,827
True Cash Per Unit Cost*:	\$248,877

**Permanent Financing**

Source	Amount
Citi Community Capital - Tranche B	\$4,700,000
Citi Community Capital - Tranche A	\$2,000,000
Seller Carryback Loan	\$1,000,000
Seller Property Donation Value	\$1,800,000
Net Operating Income	\$383,002
Deferred Developer Fee	\$692,183
Tax Credit Equity	\$11,831,682
<b>TOTAL</b>	<b>\$22,406,867</b>

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

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation):	\$10,562,917
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$1,557,911
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$13,731,792
Applicable Rate:	9.00%
Qualified Basis (Acquisition):	\$1,557,911
Applicable Rate:	3.23%
Maximum Annual Federal Credit, Rehabilitation:	\$1,235,861
Maximum Annual Federal Credit, Acquisition:	\$50,320
Approved Developer Fee in Project Cost:	\$2,000,000
Approved Developer Fee in Eligible Basis:	\$1,400,000
Investor/Consultant:	RBC Tax Credit Equity, LLC
Federal Tax Credit Factor:	\$0.91991

Per Regulation Section 10327(c)(6), 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, except that the adjustment factor related to costs described in Section 10327(c)(2)(A) shall be recalculated at placed in service where applicable.

**Eligible Basis and Basis Limit**

Requested Unadjusted Eligible Basis:	\$12,120,828
Actual Eligible Basis:	\$18,315,130
Unadjusted Threshold Basis Limit:	\$19,822,803
Total Adjusted Threshold Basis Limit:	\$19,822,803

**Adjustments to Basis Limit:** None

**Tie-Breaker Information**

First:	<b>At-Risk</b>
Final:	<b>48.239%</b>

**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, 3.23%. 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**

TCAC corrected the proration between land and improvements in project cost, the improvements basis was correct. Per TCAC regulation section 10327(g)(6)(B) if the purchase price is less than the appraised value, the savings shall be prorated between the land and improvements based on the ratio in the appraisal. In addition, the applicant incorrectly included a "Brokers Commission" in eligible basis which TCAC removed.

**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, City of Delano, 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>\$1,286,181</b>	<b>\$0</b>

**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

<b>Points System</b>	<b>Max. Possible Points</b>	<b>Requested Points</b>	<b>Points Awarded</b>
<b>Cost Efficiency / Credit Reduction / Public Funds</b>	<b>20</b>	<b>20</b>	<b>20</b>
Cost Efficiency	20	5	5
Public Funds	20	15	15
<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 ½ mile of transit (van or dial-a-ride service for rural set-aside)	4	4	4
Within ½ mile of public park or community center open to general public	3	3	3
Within 1 mile of public library	2	2	2
Within ¼ mile of a neighborhood market of at least 5,000 sf	4	4	4
Elementary School within 1/4 mile of project	3	3	3
Within 1 mile of medical clinic or hospital	2	2	2
Within 1 mile of a pharmacy	1	1	1
<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
Health & wellness services and programs, minimum 60 hrs per 100 bdrms	3	3	3
<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 units @ 30% AMI or less	2	2	2
<b>Readiness to Proceed</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Miscellaneous Federal and State Policies</b>	<b>2</b>	<b>2</b>	<b>2</b>
State Credit Substitution	2	2	2
<b>Total Points</b>	<b>138</b>	<b>138</b>	<b>138</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.**