

**THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**  
**July 20, 2011**  
**Staff Report**  
**REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A**  
**QUALIFIED RESIDENTIAL RENTAL PROJECT**

*Prepared by: Sarah Lester*

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**Applicant:** California Statewide Communities Development Authority

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**Allocation Amount Requested:**  
**Tax-exempt:** \$9,510,497

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**Project Information:**  
**Name:** Hemlock Family Apartments  
**Project Address:** Hemlock Avenue & Perris Boulevard  
**Project City, County, Zip Code:** Moreno Valley, Riverside, 92557

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**Project Sponsor Information:**  
**Name:** MV Hemlock, LP (Rancho Belago Developers, Inc. and Housing Corporation of America)  
**Principals:** James M. Jernigan for Rancho Belago Developers, Inc.; Ronald Olson and Carol Cromar for Housing Corporation of America  
**Property Management Company:** AWI Property Management Company

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**Project Financing Information:**  
**Bond Counsel:** Orrick, Herrington & Sutcliffe LLP  
**Underwriter:** Not Applicable  
**Credit Enhancement Provider:** Not Applicable  
**Private Placement Purchaser:** Wells Fargo Bank (constr.) / California Community Reinvestment Corporation (perm.)  
**TEFRA Hearing Date:** April 12, 2011

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**Description of Proposed Project:**  
**State Ceiling Pool:** General  
**Total Number of Units:** 77, plus 1 manager unit  
**Type:** New Construction  
**Type of Units:** Family

The proposed project is a 78-unit New Construction family project located in the City of Moreno Valley in the County of Riverside. The site consists of two vacant parcels; a 1.73 acre parcel on the south side of Hemlock Avenue and a 3.63 acre parcel on the north side of Hemlock Avenue. The project will include 13 four-plex buildings, complete with garages located on the north parcel and two 2-story buildings located on the south parcel. There will be a total of 53 2-bedroom units and 25 3-bedroom units, one of which is the on-site manager's unit. The four-plexes will be restricted to households with incomes at 60% of the area median income and the units located in the 2-story walk-up buildings, with no garages, will be restricted to households with incomes at 50% of the area median income. The project has been designed to meet LEED standards and is expected to begin construction in October 2011 and be completed by December 2012.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 100%  
32% (25 units) restricted to 50% or less of area median income households.  
68% (52 units) restricted to 60% or less of area median income households.  
**Unit Mix:** 2 & 3 bedrooms

The project will provide educational classes and a contract with a bona fide service coordinator/social worker.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

<b>Estimated Total Development Cost:</b>	\$ 16,939,674	
<b>Estimated Hard Costs per Unit:</b>	\$ 92,288	(\$7,106,146 /77 units)
<b>Estimated per Unit Cost:</b>	\$ 219,996	(\$16,939,674 /77 units)
<b>Allocation per Unit:</b>	\$ 123,513	(\$9,510,497 /77 units)
<b>Allocation per Restricted Rental Unit:</b>	\$ 123,513	(\$9,510,497 /77 restricted units)

<b>Sources of Funds:</b>	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 9,510,497	\$ 4,012,478
Deferred Developer Fee	\$ 1,389,399	\$ 77,756
LIH Tax Credit Equity	\$ 2,139,778	\$ 5,349,443
Direct & Indirect Public Funds	\$ 3,900,000	\$ 7,500,000
Total Sources	\$ 16,939,674	\$ 16,939,677

<b>Uses of Funds:</b>	
Land Purchase	\$ 1,950,000
On & Off Site Costs	\$ 1,086,798
Hard Construction Costs	\$ 6,019,348
Architect & Engineering Fees	\$ 600,000
Contractor Overhead & Profit	\$ 528,315
Developer Fee	\$ 1,804,327
Cost of Issuance	\$ 290,830
Capitalized Interest	\$ 576,128
Other Soft Costs	\$ 4,083,928
Total Uses	\$ 16,939,674

**Description of Financial Structure and Bond Issuance:**

The financial structure of the Project will be a private placement transaction provided through Wells Fargo Bank (construction) and California Community Reinvestment Corporation (permanent). The bonds will carry a variable interest rate during construction equal to the LIBOR 30-day plus 3.0% for a term of 24 months. The project was underwritten at 3.21%. The permanent bonds will be for a term of 17 years commencing upon the conversion of the construction bonds at stabilization. The interest rate is equal to the 15-year AAA muni bond index plus 175 bps. The project was underwritten at 6%, with a 1.25 DCR, a minimum vacancy of 7.5% and a 75% loan to restricted value of 70% of the decontrolled value. The bonds will be secured with a First Trust Deed on the Project.

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**Analyst Comments:**

N/A

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**Legal Questionnaire:**

The Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed to question the financial viability or legal integrity of the Applicant.

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**Total Points:** 89.9 out of 118

[See Attachment A]

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**Recommendation:**

Staff recommends the Committee approve \$9,510,497 in tax-exempt bond allocation subject to all of the following conditions: 1) all financing commitments must be finalized and approved prior to issuance; 2) the lead lender closes on their loan simultaneously to the bond closing; and 3) the construction contract is executed prior to closing. All confirming documents must be delivered to CDLAC at least three (3) business days prior to closing.

**ATTACHMENT A**

**EVALUATION SCORING:**

Point Criteria	Maximum Points Allowed for Non-Mixed Income Projects	Maximum Points Allowed for Mixed Income Projects	Points Scored
Federally Assisted At-Risk Project or HOPE VI Project	20	20	0
Exceeding Minimum Income Restrictions:	35	15	35
Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project]	[10]	[10]	9.4
Gross Rents	5	5	5
Large Family Units	5	5	5
Leveraging	10	10	0
Community Revitalization Area	15	15	0
Site Amenities	10	10	7.5
Service Amenities	10	10	10
New Construction	10	10	10
Sustainable Building Methods	8	8	8
Negative Points	-10	-10	0
<b>Total Points</b>	<b>118</b>	<b>98</b>	<b>89.9</b>

The criteria for which points are awarded will also be incorporated into the Resolution transferring Allocation to the Applicant as well as the appropriate bond documents and loan and finance agreements.