THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
March 21, 2012

Consideration of Award of
Allocation to the California Statewide Communities Development Authority for the
Bella Vista Apartments Project (#12-020)
(Agenda Item No. 10)

I. ACTION

Consideration of an award of allocation to the California Statewide Communities Development Authority (CSCDA) for the Bella Vista Apartments (#12-020) (the "Project").

II. BACKGROUND

When an Applicant submits a request for allocation for a proposed project, they are required by CDLAC Regulations to meet minimum criteria in order to be recommended for an award of allocation. Notwithstanding this, the decision to approve or deny an award of allocation to a project is at the California Debt Limit Allocation Committee's discretion. The Committee's decision to approve or deny allocation may incorporate, in addition to the minimum requirements and point scoring criteria, other public policy and financial risk considerations.

III. DISCUSSION:

CDLAC received an application for the Bella Vista Apartments for consideration in the November 2011 allocation round. The application calls for the acquisition of an existing Bond and 4%-level Tax Credit project that was placed in service thirteen (13) years ago. As such, the property is still subject to both its Tax Credit 15-Year Compliance Period, as well as a set of extended affordability requirements until the Year 2028. As such, the property does not meet CDLAC's nor TCAC's definition of an "At-Risk" housing development.

Staff determined that the application met the minimum application requirements and achieved a revised QRRP ranking score of 62.2 out of 118. Under the CDLAC Open Competitive Process, a minimum score of 60 must be achieved for a QRRP – General Pool project to be recommended by CDLAC staff for approval. While the Project meets the minimum QRRP requirements under the CDLAC Regulations, staff believes that the Project's proposed financing structure presents a significant policy issue and associated risk of default on the awarded bond allocation. Specifically, the Project Sponsor proposes to receive both an allocation of tax exempt bond authority as well as a reservation of tax credits; yet not fully deploy those resources until a few years from now when the project has cleared its 15-Year Compliance Period. This type of financing plan, where the bond documents are executed in a closing but only a de minimis amount of bond proceeds are drawn, is commonly referred to as a "Dry Closing". Dry Closings have usually been done as a last resort when the project is still facing a significant readiness issue preventing the Project Sponsor from acquiring and/or starting construction on a project, but they are pressed to close on the bonds anyway due to a timing deadline or need to preserve the terms of their financing sources. In such cases, the project is not truly ready to proceed through the development process to eventual completion.

In the past, other Applicants and Project Sponsors with the best of intentions have sometimes encountered difficulties that critically delayed or prevented their projects from moving forward after a Dry Closing. Such projects that have had little if any of their bond proceeds expended for project costs often give the parties little incentive to aggressively work through whatever development challenges the project may be encountering. Typically the bonds are then redeemed and the associated bond allocation is lost. When reviewing CDLAC's historic list of bond projects that have defaulted in the last ten years, 7 of the 10 projects on that list closed on their bonds as a Dry Closing. It is for these reasons that Dry Closings are generally discouraged in the bond industry. Even though the Project Sponsor of this application proposes to close with a slightly larger initial draw amount ($500,000 as compared to the IRS-indicated minimum of $50,000; roughly 3% of the bond allocation amount), CDLAC staff believes the structure of the Project's drawdown schedule would be essentially the same.

Staff notes, as the Project Sponsor has indicated, that similar transactions have often preserved their acquisition tax credit eligibility through a non-profit 501(c)(3) purchase. This proposal states that the Project Sponsor is already working with a non-profit partner on this transaction, Affordable Housing Access. Staff has seen previous transactions where a non-profit has essentially 'purchased' the existing ownership interests; thus not violating the 10-Year Holding Rule and allowing for the project to be restructured (sometimes through a joint-venture with a for-profit development/ownership partner) after the 15-Year Tax Credit Compliance Period would end. At that point, the Project Sponsor would pursue a new bond allocation and new reservation of tax credits; with no complications raised by the project's then-completed compliance period. This type of structure is often referred to as a "Step-In-The-Shoes" structure. Though the Project Sponsor has stated that they would prefer to have the bond allocation now in order to both secure lower-cost financing and avoid any revised regulatory requirements that may occur between today and the expiration of Bella Vista's Compliance Period, the Step-In-The-Shoes structure has been the typical way that developers have secured properties in this situation. On the surface, Staff believes that same structure could be used in this case as well.

Lastly, staff has carefully reviewed the Project proposal and discussed the policy implications with a small group of housing industry stakeholders without identifying the specific project. The stakeholders uniformly expressed concerned about the potential risks associated with closing on a bond transaction that will not have the majority of bond proceeds expended for years, as well as the precedent that would be created for future purposeful Dry Closings should the Committee approve such a transaction here. Throughout the CDLAC Regulations, there is the implied policy objective of ensuring that there is timely and meaningful usage of bond allocation at the time that it is awarded. It is clear here that both a bond allocation and a tax credit reservation will be committed now, but not fully deployed for a number of years. Therefore, CDLAC staff believes it is compelled to highlight this policy issue and financial risk presented by this Project to the Committee as discussed above.

IV. RECOMMENDATION:

Staff recommends an allocation award to the California Statewide Communities Development Authority for the Bella Vista Apartments (#12-020) solely based upon the application's satisfaction of the minimum requirements and achievement of a score of 62.2 out of 118 as defined in the CDLAC Regulations, but with substantive policy and financial risk concerns as expressed above; to be considered by the Committee in its discretion to approve or deny the award of allocation.

Prepared by Sean Spear/Richard Fischer

Agenda Item No. 10.0
Application No. 12-020

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
March 21, 2012
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Richard Fischer

Applicant: California Statewide Communities Development Authority

Allocation Amount Requested:

Tax-exempt:	$13,740,000

Project Information:

Name:	**Bella Vista Apartments**
Project Address:	545 North Mollison Avenue and 950 East Madison
Project City, County, Zip Code:	El Cajon, San Diego, 92020

Project Sponsor Information:

Name:	Bella Vista El Cajon, L.P. (Affordable Housing Access Inc. and KDF Communities LLC)
Principals:	Jonathan B. Webb and William W. Hirsch for Affordable Housing Access Inc.; Mark E. Hyatt and Paul F. Fruchbom for KDF Communities LLC
Property Management Company:	VPM Management, Inc.

Project Financing Information:

Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Credit Enhancement Provider:	Not Applicable
Private Placement Purchaser:	Citibank, N.A.
TEFRA Hearing Date:	October 11, 2011

Description of Proposed Project:

State Ceiling Pool:	General
Total Number of Units:	149, plus 1 manager unit
Type:	Acquisition and Rehabilitation
Type of Units:	Family

Bella Vista Apartments is a 150 two-bedroom complex except for one three-bedroom manager's unit. The project consists of ten two-story residential buildings and a one-story on-site management office. The project's common area amenities include a central laundry facility, clubhouse/community room, on-site manager, playground and two swimming pools, Post renovation, the Project will offer picnic/barbeque areas.

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Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

10% (15 units) restricted to 50% or less of area median income households.
90% (134 units) restricted to 60% or less of area median income households.

Unit Mix: 2 bedrooms

There will be no service amenities offered.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	$	22,220,327	
Estimated Hard Costs per Unit:	$	23,060	($3,435,873 /149 units)
Estimated per Unit Cost:	$	149,130	($22,220,327 /149 units)
Allocation per Unit:	$	92,215	($13,740,000 /149 units)
Allocation per Restricted Rental Unit:	$	92,215	($13,740,000 /149 restricted units)

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	$ 13,740,000	$ 10,690,000
Taxable Bond Proceeds	$ 3,136,970	$ 1,250,000
Developer Equity	$ 0	$ 1,695,582
Deferred Developer Fee	$ 0	$ 1,900,342
LIH Tax Credit Equity	$ 0	$ 6,178,772
Other (Seller Carry)	$ 2,201,213	$ 505,631
Total Sources	$ 19,078,183	$ 22,220,327

Uses of Funds:	
Acquisition Cost	$ 13,500,000
Hard Construction Costs	$ 3,435,873
Architect & Engineering Fees	$ 21,500
Contractor Overhead & Profit	$ 294,503
Developer Fee	$ 2,357,103
Cost of Issuance	$ 502,085
Capitalized Interest	$ 1,258,322
Other Soft Costs (Marketing, etc.)	$ 850,941
Total Uses	$ 22,220,327

Description of Financial Structure and Bond Issuance:

Bella Vista Apartments will be financed via a private placement finance structure by Citibank, N.A.. This inlcudes the tax-exempt bond purchase of $12,473,000 and $1,250,000 taxable bonds. The interest rate will be fixed and equal to the sum of 17 year maturity "AAA" bond rates as published by Thompson Municipal Market Monitor (MMD) plus a spread of 2.50%. Currently, the MMD is 2.70% for a current indicate rate of 5.20%. The rate includes a 5bps servicing fee. Term will be 17 years and amortization will be 35 years. This is a "Dry Closing"

Analyst Comments:

Staff has noted comments to the Committee. Project is not expected to be rehabilitated until 2014.

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.

Total Points: 62.2 out of 118

[See Attachment A**]**

Recommendation:

Staff recommends that the Committee approve $13,740,000 in tax exempt bond allocation.

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	25
Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project]	[10]	[10]	2.2
Gross Rents	5	5	5
Large Family Units	5	5	0
Leveraging	10	10	0
Community Revitalization Area	15	15	15
Site Amenities	10	10	10
Service Amenities	10	10	0
New Construction	10	10	0
Sustainable Building Methods	10	10	5
Negative Points	-10	-10	0
Total Points	**118**	**100**	**62.2**

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.