

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 21, 2014
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Sarah Lester

Applicant: City of San Jose

Allocation Amount Requested:
Tax-exempt: \$38,069,000

Project Information:
Name: Cambrian Center Apartments
Project Address: 2360 Samaritan Place
Project City, County, Zip Code: San Jose, Santa Clara, 95124

Project Sponsor Information:
Name: Eden Cambrian, LP (Eden Cambrian, LLC)
Principals: Linda Mandolini, Kathleen Hamm, Pauline Weaver and Jan Peters
Property Management Company: Eden Housing Management, Inc.

Project Financing Information:
Bond Counsel: Quint & Thimmig, LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Union Bank, NA
TEFRA Adopted Date: March 3, 2014

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 151, plus 2 manager units
Type: Acquisition and Rehabilitation
Type of Units: Senior Citizens

The proposed project is an existing 153-unit senior project located in the City of San Jose that was originally build in 1980. The development was originally constructed with funding through the HUD 202 program and provides housing for senior and disabled households. The project is situated on a 2.25 acre trapezoidal shaped site and is adjacent to the Good Samaritan Hospital. The development is composed of one seven-story building and a smaller single-story building. The property currently consists of 12 studio units, 140 one-bedroom units and one (1) two-bedroom unit. 151 of these units will be restricted to households with incomes no greater than 60% of the Area Median Income. Post rehabilitation, there will be 7 studio units, 145 one-bedroom units and still one (1) two-bedroom unit. The scope of rehabilitation will consist of structural and mechanical repair work; electrical upgrades installing more energy conserving fixtures and new installation to meet current code; replacement of hydraulic elevator with new traction elevators; ADA compliant accessible entry and paths of travel from the parking lot; restoration of currently impaired ADA access in the courtyard area; unit upgrades; common area upgrades; replacement of sliding glass doors, installation of new solar thermal water heating system and replacing of generator; upgrading and servicing of fire sprinklers; upgrading of furniture in lobby and community rooms; and landscaping. Construction is anticipated to start in August of 2014 and be completed in March 2016 (19 months).

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
72% (108 units) restricted to 50% or less of area median income households.
28% (43 units) restricted to 60% or less of area median income households.
Unit Mix: Studio & 1 bedroom

NOTE: There will be one 2-bedroom unit manager's unit.

The proposed project will include the following service amenities: 1) instructor-led educational, health and wellness or skill building classes for a minimum of 84 hours per year; and 2) a bona fide service coordinator/social worker.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost: \$ 58,103,309
Estimated Hard Costs per Unit: \$ 158,081 (\$23,870,221 /151 units)
Estimated per Unit Cost: \$ 384,790 (\$58,103,309 /151 units)
Allocation per Unit: \$ 252,113 (\$38,069,000 /151 units)
Allocation per Restricted Rental Unit: \$ 252,113 (\$38,069,000 /151 restricted units)

| Sources of Funds: | Construction | Permanent |
|---------------------------|----------------------|----------------------|
| Tax-Exempt Bond Proceeds | \$ 38,069,000 | \$ 18,801,000 |
| LIH Tax Credit Equity | \$ 912,585 | \$ 20,721,704 |
| Other (Seller financing) | \$ 14,067,193 | \$ 14,067,193 |
| Existing Reserves | \$ 1,394,842 | \$ 1,394,842 |
| Accrued/Deferred Interest | \$ 1,043,317 | \$ 1,043,317 |
| Income from Operations | \$ 0 | \$ 2,075,253 |
| Total Sources | \$ 55,486,937 | \$ 58,103,309 |

| Uses of Funds: | |
|------------------------------------|----------------------|
| Acquisition/Land Purchase | \$ 18,474,735 |
| On-site & Off-site Costs | \$ 1,342,855 |
| Hard Construction Costs | \$ 22,527,366 |
| Architect & Engineering Fees | \$ 1,608,244 |
| Contractor Overhead & Profit | \$ 1,029,329 |
| Developer Fee | \$ 2,250,000 |
| Relocation | \$ 2,500,000 |
| Cost of Issuance | \$ 690,985 |
| Capitalized Interest | \$ 2,883,143 |
| Other Soft Costs (Marketing, etc.) | \$ 4,796,652 |
| Total Uses | \$ 58,103,309 |

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a private placement transaction provided by Union Bank, NA (the "Bank"). The Bank has committed to provide both the construction and permanent financing. During the construction period, the Bank will purchase bonds in the amount of \$38,069,000 and will have a floating interest rate based on 1.65% plus: 30-day LIBOR multiplied by 65%. The all-in rate during construction used for underwriting is 3.526%. Upon conversion to permanent, a portion of the construction bond proceeds will be redeemed from Low-Income Housing Tax Credit equity. During the permanent bond financing phase, there will be two bond tranches (with fixed interest rates) totaling \$18,801,000 that will remain in place. Both Tranche A (\$5,850,000) and Tranche B (\$12,951,000) will have a loan term of 15 years with an amortized period of 30 years. At the end of the 15 years, the borrower will refinance. Tranche A will be serviced by residential Net Operating Income at TCAC/CDLAC rents and Tranche B will be serviced by Section 8 incremental income. The permanent bonds will be priced at 2.40% plus: 65% of LIBOR-based swap rate. The estimated underwriting rate is 5.575% fixed on Tranche A and Tranche B, including annual issuer fee. The bonds will be secured by a first deed of trust, and will be recourse to the borrower during construction, and non-recourse upon conversion. The bonds will be issued by the City of San Jose.

Analyst Comments:

Not Applicable

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: 77.5 out of 130

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$38,069,000 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 | 35 |
| Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project] | [10] | [10] | 10 |
| Gross Rents | 5 | 5 | 5 |
| Large Family Units | 5 | 5 | 0 |
| 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 | 0 |
| Sustainable Building Methods | 10 | 10 | 10 |
| Negative Points | -10 | -10 | 0 |
| Total Points | 130 | 100 | 77.5 |

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.