

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
December 10, 2014
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Brian Clark

Applicant: California Municipal Finance Authority

Allocation Amount Requested:
Tax-exempt: \$20,797,319

Project Information:
Name: Stanford/Palo Alto Apartments
Project Address: 2500 El Camino Real
Project City, County, Zip Code: Palo Alto, Santa Clara, 94306

Project Sponsor Information:
Name: Palo Alto ECR Partners, L.P. (Related/Palo Alto ECR Development Co., LLC & Palo Alto MGP, LLC)
Principals: William A Witte, Frank Cardone & Steve Sherman for Related/Palo Alto ECR Development Co., LLC; Jon Webb for Palo Alto MGP, LLC
Property Management Company: Related Management Company

Project Financing Information:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Private Placement Purchaser: Union Bank, NA
TEFRA Adoption Date: August 4, 2014

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 69, plus 1 manager unit
Type: New Construction
Type of Units: Family

The proposed Project will be located on approximately 1.8 acres in Palo Alto and will consist of a single elevator served U-shaped structure with three stories of residential rental units and a central landscaped courtyard over a 145 space concrete podium parking garage. The project will house 24 one-bedroom units, 23 two-bedroom units, 22 three-bedroom units (69 total tenant units) and a single one-bedroom manager's unit. All tenant units will be income restricted; 14 units at 50% AMI and 55 units at 60% AMI. All units will feature patio/balcony, coat closet, window coverings, microwave, refrigerator, garbage disposal, dishwasher, ceiling fans, carpeting, central heat/AC and energy efficient lighting and windows. Community amenities will include community room, exercise room, picnic area, on-site management, laundry room, computer room, bicycle storage and surveillance cameras. The Project will also include approximately 7,000 square feet of ground floor retail space with surface parking. Construction is expected to start in December 2014 with completion in June 2016.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
20% (14 units) restricted to 50% or less of area median income households.
80% (55 units) restricted to 60% or less of area median income households.
Unit Mix: 1, 2 & 3 bedrooms

There are no service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost: \$ 36,462,886
Estimated Hard Costs per Unit: \$ 302,887 (\$20,899,208 /69 units)
Estimated per Unit Cost: \$ 528,448 (\$36,462,886 /69 units)
Allocation per Unit: \$ 301,410 (\$20,797,319 /69 units)
Allocation per Restricted Rental Unit: \$ 301,410 (\$20,797,319 /69 restricted units)

The Project has total project costs that appear high for the geographic area in which it is located. According to the Project sponsor, the high cost is due to: the site being located over a toxic groundwater plume, requiring the installation of a Vapor Intrusion Mitigation System; Area construction costs that are 38% higher than State average; site constraints that require a concrete podium base with two-level structured parking; The City of Palo Alto requiring design aesthetics that include concrete polished floors, screened parking & bowed/graded façade; The City of Palo Alto requiring that the first floor include 7,000 sq/ft of retail space and The City of Palo Alto requiring that the rental units be 15-20% larger than those of comparable new family affordable projects.

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 20,797,319	\$ 7,810,000
Deferred Developer Fee	\$ 2,500,000	\$ 0
LIH Tax Credit Equity	\$ 1,099,289	\$ 10,992,886
Reserves	\$ 406,279	\$ 0
GP Equity Contribution	\$ 0	\$ 1,000,000
Residual Receipts - Stanford University	\$ 11,660,000	\$ 16,660,000
Total Sources	<u>\$ 36,462,887</u>	<u>\$ 36,462,886</u>

Uses of Funds:	
On & Off Site Costs	\$ 2,369,724
Hard Construction Costs	\$ 18,529,484
Architect & Engineering Fees	\$ 2,302,383
Contractor Overhead & Profit	\$ 2,902,855
Developer Fee	\$ 2,500,000
Cost of Issuance	\$ 141,664
Capitalized Interest	\$ 925,000
Other Soft Costs (Marketing, etc.)	\$ 6,791,776
Total Uses	<u>\$ 36,462,886</u>

Description of Financial Structure and Bond Issuance:

The bonds will be purchased as a private placement transaction by Union Bank, NA. The construction phase will be for a period of 30 months, during which the construction loan will be interest-only at a fixed rate equal to 65% of the 30-day LIBOR rate plus a spread of 1.70%, for an all-in rate of 2.80%. During the construction phase, the loan will be fully recourse to the Borrower and will be secured by a Deed of Trust, a security agreement and UCC-1 financing statement, an assignment of the construction contract, an assignment of plans and specifications, an assignment of tax credits and assignments of the Borrower's general and limited partnership interests. The permanent loan will not exceed \$7,810,000, will have a 35 year term and amortization rate and will bear interest at a fixed rate of 65% of the 30-day LIBOR rate plus 2.40%. At closing, the interest rate on the permanent loan will be hedged with a 30 month forward starting interest rate swap. The indicative swap rate is 2.51% LIBOR Swap Rate plus 240 basis points, for an all-in rate of 4.91%. The rate is subject to change due to market conditions until the swap is confirmed. The permanent loan will be non-recourse to the borrower. Upon conversion to permanent phase, the Bank will release the tax credit assignment and the assignments of the Borrower's general and limited partnership interests.

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 \$20,797,319 in tax exempt bond allocation on a carryforward basis.

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	30
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	5
Leveraging	10	10	0
Community Revitalization Area	15	15	0
Site Amenities	10	10	7.5
Service Amenities	10	10	0
New Construction	10	10	10
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.