

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 20, 2015
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Sarah Lester

Applicant: California Municipal Finance Authority

Allocation Amount Requested:
Tax-exempt: \$23,000,000

Project Information:
Name: **Monterra Redwoods Wheeler Apartments**
Project Address: 651 W. 6th Street / 650 W 5th Street / 9005 Kern Avenue
Project City, County, Zip Code: Gilroy, Santa Clara, 95020

Project Sponsor Information:
Name: MRW, LP (MRW GP LLC)
Principals: John Gaffney, Doug Kuerschner, Timothy Reilly and Linda Mandolini
Property Management Company: Eden Housing Management, Inc.

Project Financing Information:
Bond Counsel: Jones Hall, A Professional Law Corporation
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: U.S. Bank National Association
TEFRA Adopted Date: April 6, 2015

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 165, plus 2 manager units
Type: Acquisition and Rehabilitation
Type of Units: Senior (109 units) & Family (56 units)

The proposed scattered site project consists of three (3) sites: 1) Monterra Village, which was constructed in 1997 and is a 34-unit affordable multifamily low-rise project located at 860-950 Mantelli Drive, Gilroy. The project is an existing, occupied building and it has two-bedroom, three-bedroom and four-bedroom units. Temporary relocation is likely not necessary for this project. Monterra Village has 9 buildings, eight of which are apartment buildings. The other building has a community room and laundry facility; 2) The Redwoods Apartments, which was constructed in 1992 and is a 24-unit affordable multifamily low-rise project located at 9005 Kern Avenue, Gilroy. The project is an existing, occupied building and it has two-bedroom, three-bedroom and four-bedroom units. Temporary relocation is likely not necessary for this project. It is the project sponsor's intention to maintain affordability and retain as many of the existing residents as possible. The Redwoods has 10 buildings, nine of which are apartment buildings. The other building has a community room and laundry facility; and 3) Wheeler Manor, which was constructed in 1992 and 1993 and is a 110-unit affordable senior multifamily low-rise project located at 651 W. 6th Street / 650 W. 5th Street, in Gilroy. The project is an existing, occupied building and all of the existing units are one-bedroom. No relocation is anticipated for this property. It is the project sponsor's intention to maintain affordability and retain as many of the existing residents as possible. **SCOPE:** In order to address the capital needs of this project, Eden has developed a scope of work that will ensure the property will continue to perform as high-quality affordable housing in the coming decades. The scope of rehabilitation will include reinforcing the building, upgrading the aging building systems, and implementing "greening and blueing" of the property by installing measures to reduce energy and water usage. Materials used during the repair and renewal of the property will be selected based on their environmental footprint and extended expected useful life.

Description of Proposed Project (contd.):

Proposed improvements to the property include the following: roof replacement, flash in stanchions that will support a new solar photovoltaic system (off sets of at least 50% of common area load or covers 90% of solar accessible roof area); energy efficiency improvement by a minimum of 25 percent; installation of water conservation measures throughout the project; upgrade HVAC, mechanical, plumbing and electrical systems; repainting of common areas; replacement of light fixtures; renew plantings; upgrade playgrounds; replace and upgrade interior finishes including lighting, flooring, cabinets and counter tops; replacement of appliances with Energy Star rated models; and replacement of bathroom exhaust fans.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
73% (120 units) restricted to 50% or less of area median income households.
27% (45 units) restricted to 60% or less of area median income households.
Unit Mix: 1, 2, 3 & 4 bedrooms

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 sevice coordinator/social worker with Monterra's minimum of 5.98 hours per week, the Redwoods site at 4.35 hours per week minimum and the Wheeler site at 7.41 hours per week minimum.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$	41,829,540	
Estimated Hard Costs per Unit:	\$	74,438	(\$12,282,243 /165 units)
Estimated per Unit Cost:	\$	253,512	(\$41,829,540 /165 units)
Allocation per Unit:	\$	139,394	(\$23,000,000 /165 units)
Allocation per Restricted Rental Unit:	\$	139,394	(\$23,000,000 /165 restricted units)

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 23,000,000	\$ 3,868,700
Developer Equity	\$ 1,050,862	\$ 6,404,711
LIH Tax Credit Equity	\$ 500,000	\$ 15,548,030
Direct & Indirect Public Funds	\$ 9,293,069	\$ 10,593,069
Other (Seller Take Back Loan)	\$ 5,415,030	\$ 5,415,030
Total Sources	\$ 39,258,961	\$ 41,829,540

Uses of Funds:	
Acquisition/Land Purchase	\$ 20,734,714
On-site & Off-site Costs	\$ 625,000
Hard Construction Costs	\$ 11,657,243
Architect & Engineering Fees	\$ 1,241,300
Contractor Overhead & Profit	\$ 1,416,984
Developer Fee	\$ 2,500,000
Relocation	\$ 421,500
Cost of Issuance	\$ 522,312
Capitalized Interest	\$ 695,992
Other Soft Costs (Marketing, etc.)	\$ 2,014,495
Total Uses	\$ 41,829,540

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a private placement transaction provided by U.S. Bank National Association (the "Bank") for both construction and permanent financing. The term is projected to be 18 months, with one six-month extension available. The loan will consist of a Note A, a tax-exempt convertible loan for up to \$4 million that would become a permanent source, and a Note B, a tax-exempt construction loan for up to \$19 million. The construction loan would be based upon one-month LIBOR plus 165 basis points. The indicative rate as of 3/4/2015 would be 1.82%. The pro forma has modeled this rate at 3.25%, providing a 143 basis point cushion. During the permanent financing phase, the loan term will be for 15 years with an amortization period of 30 years with one six month option to extend. The bonds will be issued by the California Municipal Finance Authority.

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:

75.8 out of 130

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$23,000,000 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	10
Community Revitalization Area	15	15	0
Site Amenities	10	10	5.8
Service Amenities	10	10	10
New Construction	10	10	0
Sustainable Building Methods	10	10	0
Negative Points	-10	-10	0
Total Points	130	100	75.8

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.