

**THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**  
**July 15, 2015**  
**Staff Report**  
**REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A**  
**QUALIFIED RESIDENTIAL RENTAL PROJECT**

*Prepared by: Brian Clark*

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**Applicant:** City of San Jose

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**Allocation Amount Requested:**  
**Tax-exempt:** \$23,750,000

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**Project Information:**  
**Name:** Canoas Terrace Apartments  
**Project Address:** 420 Sands Drive  
**Project City, County, Zip Code:** San Jose, Santa Clara, 95125

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**Project Sponsor Information:**  
**Name:** ISG Canoas Terrace LP (AOF Canoas, LLC and ISG Development II, LLC)  
**Principals:** Raman Nayar for AOF Canoas, LLC; Gary P. Downs, Stephen Ho and Denny Hou for ISG Development II, LLC  
**Property Management Company:** FPI Management, Inc.

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**Project Financing Information:**  
**Bond Counsel:** Jones Hall, A Professional Law Corporation  
**Underwriter:** Not Applicable  
**Credit Enhancement Provider:** Not Applicable  
**Private Placement Purchaser:** Citibank, NA  
**TEFRA Adoption Date:** April 24, 2015

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**Description of Proposed Project:**  
**State Ceiling Pool:** General  
**Total Number of Units:** 111, plus 1 manager unit  
**Type:** Acquisition and Rehabilitation  
**Type of Units:** Family

The Project, constructed in 1997, is located on a 2.66 acre parcel in San Jose. The Project, consisting of 12 residential buildings, a community building, laundry facility and 221 subterranean parking spaces; houses 111 tenant units (57 two-bedroom units, 48 three-bedroom units and 6 four-bedroom units) and a single four-bedroom manager's unit. All tenant units will be income restricted; 44 units at 50% Area Median Income ("AMI") and 67 units at 60% AMI. Unit amenities include patio/balcony, carpeting, blinds, exterior storage, coat closet, washer/dryer (four-bedroom units only) central heat/AC, refrigerator, dishwasher, garbage disposal and range. Site amenities include a clubhouse/community room, courtyard, picnic area, playground, on-site management and secure limited access. Renovations will include energy efficiency improvements, upgrading unit finishes and enhancing common areas, property exteriors, and grounds. Rehabilitation is expected to begin in October 2015 and be completed in November 2017.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 100%  
40% (44 units) restricted to 50% or less of area median income households.  
60% (67 units) restricted to 60% or less of area median income households.  
**Unit Mix:** 2, 3 & 4 bedrooms

There are no service amenities.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

**Estimated Total Development Cost:** \$ 33,959,245  
**Estimated Hard Costs per Unit:** \$ 39,721 (\$4,409,003 /111 units)  
**Estimated per Unit Cost:** \$ 305,939 (\$33,959,245 /111 units)  
**Allocation per Unit:** \$ 213,964 (\$23,750,000 /111 units)  
**Allocation per Restricted Rental Unit:** \$ 213,964 (\$23,750,000 /111 restricted units)

<b>Sources of Funds:</b>	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 23,750,000	\$ 18,461,011
Developer Equity	\$ 1,516,215	\$ 3,016,215
LIH Tax Credit Equity	\$ 8,693,030	\$ 10,433,326
Construction Period NOI	\$ 0	\$ 2,048,693
Total Sources	\$ 33,959,245	\$ 33,959,245

<b>Uses of Funds:</b>	
Acquisition/Land Purchase	\$ 23,680,000
Hard Construction Costs	\$ 4,409,003
Architect & Engineering Fees	\$ 82,000
Contractor Overhead & Profit	\$ 617,260
Developer Fee	\$ 2,500,000
Relocation	\$ 50,000
Cost of Issuance	\$ 124,229
Construction and Permanent Financing	\$ 1,058,301
Legal	\$ 170,000
Reserves	\$ 920,290
Other Soft Costs (Third Party Reports, Furnishings, Marketing, etc.)	\$ 348,162
Total Uses	\$ 33,959,245

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

The bonds will be purchased as a private placement transaction by Citibank, N.A. The tax-exempt loan will have two tranches: Tranche A will be funded first and provide construction-to-permanent phase financing; Tranche B will be for additional construction phase financing only. The construction phase will be for a period of 30 months, during which the construction loan will bear interest at variable rate equal to one-month LIBOR plus a spread of 2.00%. Upon conversion to permanent phase, the permanent loan will bear interest at a fixed rate equal to the sum of the 17-year LIBOR swap index plus a spread of 2.10%. The permanent loan will have a 30-year term and a 35-year amortization period. Citi previously funded a conventional acquisition loan to allow the Borrower to acquire the Project on April 30, 2015. That acquisition loan will be taken out by the tax exempt construction and permanent financing described above.

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**Analyst Comments:**

Not Applicable

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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:** 60.5 out of 130

[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$23,750,000 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	5
Leveraging	10	10	0
Community Revitalization Area	15	15	0
Site Amenities	10	10	0
Service Amenities	10	10	2.5
New Construction	10	10	0
Sustainable Building Methods	10	10	3
Negative Points	-10	-10	0
<b>Total Points</b>	<b>130</b>	<b>100</b>	<b>60.5</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.