

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE  
May 18, 2011  
Staff Report  
*REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A  
QUALIFIED RESIDENTIAL RENTAL PROJECT*

*Prepared by: Sarah Lester*

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**Applicant:** California Municipal Finance Authority

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**Allocation Amount Requested:**  
**Tax-exempt:** \$20,855,000

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**Project Information:**  
**Name:** Elena Gardens Apartments  
**Project Address:** 1902 Lakewood Drive  
**Project City, County, Zip Code:** San Jose, Santa Clara, 95132

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**Project Sponsor Information:**  
**Name:** EAH Elena Gardens, LP (EAH Elena Gardens, LLC)  
**Principals:** Michael Farrel, Laura Manzo and Dianna Ingle

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**Project Financing Information:**  
**Bond Counsel:** Jones Hall, A Professional Law Corporation  
**Private Placement Purchaser:** Citibank, N.A.  
**TEFRA Hearing Date:** March 29, 2011

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**Description of Proposed Project:**  
**State Ceiling Pool:** General  
**Total Number of Units:** 165, plus 3 manager units  
**Type:** Acquisition and Rehabilitation  
**Type of Units:** Family

The Project will consist of the rehabilitation of 168 one, two and three bedroom units in ten (10) buildings located on approximately 6.7 acres. Currently, 161 of the units are covered under a project-based Section 8 contract. The property is situated in the northern end of the City of San Jose, in close proximity to border with the City of Milpitas. The targeted population to be served will be families and seniors that are low and very low income. Households with income ranging from 30% AMI to 60% AMI are the primary focus. Closing is expected to occur in late July 2011 or early August 2011. Construction will start immediately after closing and will take approximately 12 months to complete rehabilitation.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 98%  
79% (130 units) restricted to 50% or less of area median income households.  
19% (31 units) restricted to 60% or less of area median income households.  
**Unit Mix:** 1, 2 & 3 bedrooms

The proposed project would allow for an extensive rehabilitation of the property and thus extend the useful life of the property. The project will also include after school programs of an ongoing nature.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

**Estimated Total Development Cost:** \$ 39,338,371  
**Estimated Hard Costs per Unit:** \$ 47,412 (\$7,823,013 /165 units)  
**Estimated per Unit Cost:** \$ 238,414 (\$39,338,371 /165 units)  
**Allocation per Unit:** \$ 126,394 (\$20,855,000 /165 units)  
**Allocation per Restricted Rental Unit:** \$ 126,394 (\$20,855,000 /161 restricted units)

<b>Sources of Funds:</b>	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 20,855,000	\$ 11,509,200
Deferred Developer Fee	\$ 824,728	\$ 824,728
LIH Tax Credit Equity	\$ 1,070,957	\$ 11,971,575
Other	\$ 15,032,868	\$ 15,032,868
<b>Total Sources</b>	<b>\$ 37,783,553</b>	<b>\$ 39,338,371</b>

<b>Uses of Funds:</b>	
Land Purchase	\$ 23,412,209
On & Off Site Costs	\$ 287,277
Hard Construction Costs	\$ 7,535,736
Architect & Engineering Fees	\$ 312,582
Contractor Overhead & Profit	\$ 834,413
Developer Fee	\$ 2,000,000
Relocation	\$ 820,624
Cost of Issuance	\$ 495,689
Capitalized Interest	\$ 1,782,900
Other Soft Costs	\$ 1,856,941
<b>Total Uses</b>	<b>\$ 39,338,371</b>

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

The financial structure will be a private placement transaction through Citibank, N.A. The bonds will be unrated and will be "draw down" bonds with interest accruing on proceeds disbursed to the limited partnership. The tax-exempt borrower loan will have two phases: 1) an 18-month construction phase during which payments will be interest only bearing a variable rate, based on 2.50% over SIFMA, assuming the "Single Tranche Option" described in the Citi Commitment Letter and Term Sheet. During this period the loan obligation is recourse to the Borrower and Guarantors. The loan amount is \$20,855,000 during this period and will be reduced by \$9,345,800 from equity capital that becomes available when the Permanent Phase commences; and 2) a 15-year permanent phase that commences upon completion of construction and achievement of stabilized Property operations and during which time the loan is non-recourse and loan principal and interest is paid monthly. The \$11,509,200 of permanent bonds, will be in two tranches, and are assumed to be forward rate locked at bond issuance as follows: 1) \$6,381,400: Tranche A based on Base Residential Net Operating Income: 35 year amortization; 15 year permanent period term' fixed rate at 15-year priced at the AAA MMD rate plus 2.15%, plus a forward commitment cost. 2) \$5,127,800: Tranche B based on Section 8 Increment Income: 35 year amortization; 15 year permanent period term; fixed rate priced at the 15-year AAA MMD rate plus 2.15%, plus a forward commitment cost. Other financing sources include seller carry-back acquisition loan, LIHTC Equity, and Deferred Developer Fee.

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**Analyst Comments:**

The bonds will fund just under 60% of the anticipated limited partnership's basis in land, improvements and rehabilitation. The payment by the borrower under the borrower loan are pledged and, together with the mortgage on the Project, provide the sole source of security for repayment of the CMFA's obligations under the Governmental Lender Note that evidences Citi's Funding Loan to CMFA

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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:** 68 out of 118  
[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$20,855,000 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	0
Service Amenities	10	10	10
New Construction	10	10	0
Sustainable Building Methods	8	8	8
Negative Points	-10	-10	0
<b>Total Points</b>	<b>118</b>	<b>98</b>	<b>68</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.