Agenda Item No. 11.9
Application No. 11-061

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
September 28, 2011
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:	$22,760,000
Project Information:	
Name:	**Elena Gardens Apartments**
Project Address:	1902 Lakewood Drive
Project City, County, Zip Code:	San Jose, Santa Clara, 95132
Project Sponsor Information:	
Name:	EAH Elena Gardens, LP (EAH Elena Gardens, LLC and EAH Inc.)
Principals:	Michael Farrel, Laura Manzo and Dianna Ingle
Property Management Company:	EAH inc.
Project Financing Information:	
Bond Counsel:	Jones Hall, A Professional Law Corporation
Underwriter:	Not Applicable
Credit Enhancement Provider:	Not Applicable
Private Placement Purchaser:	Citibank, N.A.
TEFRA Hearing Date:	March 26, 2011
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 proposed Project is an exisiting HUD 236 complex originally built in 1972-1973 and consists of a total of 168 units located on approximately 6.7 acres in the City of San Jose. The complex contains 10 two- and three-story wood frame buildings. Currently, 161 of the units are covered under a project based Section 8 contract. The Project is in close proximity to border with the City of Milpitas. The neighborgood is a mixture of residential and commercial improvements. The Project is targeted to serve families and seniors that are low and very low income. Households with income ranging from 30% AMI to 60% AMI are the primary focus. The application states that the owner will undertake significant rehabilitation, including implementing energy conservation measures. Construction is scheduled to start immediately after closing, which will occur in December 2011 and is scheduled for completion 12 months thereafter.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 97.6%

79% (131 units) restricted to 50% or less of area median income households.

18% (30 units) restricted to 60% or less of area median income households.

Unit Mix: 1, 2 & 3 bedrooms

The Project will include after school programs and a contract with a bona fide service coordinator/social worker.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	$	40,843,585	
Estimated Hard Costs per Unit:	$	48,748	($8,043,452 /165 units)
Estimated per Unit Cost:	$	247,537	($40,843,585 /165 units)
Allocation per Unit:	$	137,939	($22,760,000 /165 units)
Allocation per Restricted Rental Unit:	$	141,366	($22,760,000 /161 restricted units)

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	$ 22,760,000	$ 13,509,700
LIH Tax Credit Equity	$ 1,307,435	$ 13,074,347
Seller Carryback Loan	$ 12,143,658	$ 12,143,658
Accrued/Deferred Interest	$ 799,963	$ 799,963
Other (Inc. from Oper. Pre-Conv)	$ 1,315,917	$ 1,315,917
Total Sources	$ 38,326,973	$ 40,843,585

Uses of Funds:	
Acquisition Costs	$ 24,116,938
On & Off Site Costs	$ 251,027
Hard Construction Costs	$ 7,792,425
Architect & Engineering Fees	$ 388,497
Contractor Overhead & Profit	$ 834,413
Developer Fee	$ 2,000,000
Relocation	$ 863,401
Cost of Issuance	$ 535,181
Capitalized Interest	$ 1,834,178
Other Soft Costs	$ 2,227,525
Total Uses	$ 40,843,585

Description of Financial Structure and Bond Issuance:

The financial structure will be a Private Placement transaction through Citibank, N.A. The project will be financed using tax-exempt bonds, low income housing tax credit equity and a seller carryback loan. The tax-exempt bonds will carry a floating interest rate for the construction period. The bonds are anticipated to close on December 1, 2011. Upon the conversion to permanent, a portion of the construction bond proceeds will be redeemed from Low-Income Housing Tax Credit equity. Permanent bonds of $13,509,700 will remain in place. 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 construction period bonds will be floating rate during construction, based on 2.50% over SIFMA (based on the "Single Tranche Option" in the commitment Letter). The permanent bonds will be in two tranches, and will be forward rate locked at bond issuance as follows: 1) Residential NOI: $6,232,300, 35 year amortization; 15 year term; fixed rate at 15-year AAA MMD rate plus 2.30% and 2) Section 8 Increment: $7,277,400; 34 year amortization; 15 year tem; fixed rate at 15-year AAA MMD rate plus 2.30%.

Analyst Comments:

None.

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: 66.2 out of 118

[See Attachment A**]**

Recommendation:

Staff recommends that the Committee approve $22,760,000 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]	5.7
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	8	8	3
Negative Points	-10	-10	0
Total Points	**118**	**98**	**66.2**

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.