

**THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**  
**January 18, 2012**  
**Staff Report**  
**REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A**  
**QUALIFIED RESIDENTIAL RENTAL PROJECT**

*Prepared by: Crystal Alvarez*

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**Applicant:** California Statewide Communities Development Authority

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**Allocation Amount Requested:**  
**Tax-exempt:** \$20,500,000

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**Project Information:**  
**Name:** Encanto Apartments  
**Project Address:** 28037 Encanto Drive  
**Project City, County, Zip Code:** Menifee, Riverside, 92586

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**Project Sponsor Information:**  
**Name:** Encanto Apartment Homes, LP (Encanto Apartments Homes, Inc.)  
**Principals:** Sean S. Frost  
**Property Management Company:** Frost Management

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**Project Financing Information:**  
**Bond Counsel:** Orrick, Herrington & Sutcliffe LLP  
**Underwriter:** Stern Brothers & Co. and Hutchinson, Shockey & Erley  
**Credit Enhancement Provider:** East West Bank  
**TEFRA Hearing Date:** December 6, 2011

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**Description of Proposed Project:**  
**State Ceiling Pool:** Mixed Income  
**Total Number of Units:** 176, plus 2 manager units  
**Type:** New Construction  
**Type of Units:** Family

The Encanto Apartments is a mixed income project with a total of 178 units, 36 of which will be reserved for low income families with household incomes no greater than of 50% of the area median income. The project is located in the recently incorporated City of Menifee in Riverside County approximately 75 miles north of San Diego. The project will consist of 19 garden-style, two story buildings, surface parking and density of 17.8 units per acre.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 20%  
20% (36 units) restricted to 50% or less of area median income households.  
**Unit Mix:** 1, 2 & 3 bedrooms

The project sponsor has committed to providing residents with high speed internet service in each unit and educational classes. Both services will be free of charge for a period of 10 years.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

<b>Estimated Total Development Cost:</b>	\$	24,991,793	
<b>Estimated Hard Costs per Unit:</b>	\$	81,209	(\$14,292,820 /176 units)
<b>Estimated per Unit Cost:</b>	\$	141,999	(\$24,991,793 /176 units)
<b>Allocation per Unit:</b>	\$	116,477	(\$20,500,000 /176 units)
<b>Allocation per Restricted Rental Unit:</b>	\$	569,444	(\$20,500,000 /36 restricted units)

<b>Sources of Funds:</b>	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 20,500,000	\$ 20,500,000
Developer Equity	\$ 4,491,793	\$ 4,491,793
Total Sources	\$ 24,991,793	\$ 24,991,793

<b>Uses of Funds:</b>	
Land Purchase	\$ 2,600,000
On & Off Site Costs	\$ 2,682,520
Hard Construction Costs	\$ 11,610,300
Architect & Engineering Fees	\$ 1,013,885
Cost of Issuance	\$ 650,000
Capitalized Interest	\$ 600,000
Other Soft Costs (Marketing, etc.)	\$ 5,835,088
Total Uses	\$ 24,991,793

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

The Encanto Apartments will be financed using a combination of Developer equity and private activity tax-exempt variable rate demand multifamily housing revenue bonds. The tax-exempt bonds will be credit enhanced by an irrevocable, direct pay letter of credit issued by East West Bank and a stand by letter of credit issued by the Federal Home Loan Bank of San Francisco. The bonds will carry a variable interest rate approximately equal to SIFMA plus a total credit enhancement and fee stack of 2.40% for the construction period of 24 months and extending through the end of the permanent term following Conversion for another eight years. A SIFMA-based interest rate cap agreement will be required to be purchased at Conversion at a strike rate of 5%. The bonds will be secured with a First Trust Deed on the Project, and the reimbursement obligations with respect to the Letter of Credit will be secured by a Second Deed of Trust. The bonds will be publically offered, with the anticipated S&P rating of "AA-/A-1+".

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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:**

51 out of 98

[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$20,500,000 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	6
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	0
Large Family Units	5	5	5
Leveraging	10	10	0
Community Revitalization Area	15	15	0
Site Amenities	10	10	10
Service Amenities	10	10	10
New Construction	10	10	10
Sustainable Building Methods	8	8	0
Negative Points	-10	-10	0
<b>Total Points</b>	<b>118</b>	<b>98</b>	<b>51</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.