

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
March 21, 2012
Staff Report
**REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT**

Prepared by: Crystal Alvarez

Applicant: California Statewide Communities Development Authority

Allocation Amount Requested:

Tax-exempt: \$200,000

The amount of allocation requested is supplemental to the \$20,500,000 of allocation the Project received on January 18, 2012.

Project Information:

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

Project Sponsor Information:

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

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

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:

Estimated Total Development Cost:	\$ 25,191,793	
Estimated Hard Costs per Unit:	\$ 81,209	(\$14,292,820 /176 units)
Estimated per Unit Cost:	\$ 143,135	(\$25,191,793 /176 units)
Allocation per Unit:	\$ 128,977	(\$20,700,000 /176 units)
Allocation per Restricted Rental Unit:	\$ 630,555	(\$20,700,000 /36 restricted units)

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 20,700,000	\$ 20,700,000
Developer Equity	\$ 4,491,793	\$ 4,491,793
Total Sources	\$ 25,191,793	\$ 25,191,793

Uses of Funds:	
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	\$ 850,000
Capitalized Interest	\$ 600,000
Other Soft Costs (Marketing, etc.)	\$ 5,835,088
Total Uses	\$ 25,191,793

Description of Financial Structure and Bond

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+".

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.

Recommendation:

Staff recommends that the Committee approve \$200,000 in tax exempt bond allocation.