

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 16, 2012
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Annie Ong

Applicant: California Municipal Finance Authority

Allocation Amount Requested:
Tax-exempt: \$15,000,000

Project Information:
Name: Madonna Road Apartments
Project Address: 1550 Madonna Road Apartments
Project City, County, Zip Code: San Luis Obispo, San Luis Obispo, 93405

Project Sponsor Information:
Name: Madonna Road Partners, LP (Madonna Road Management, LLC and Hearthstone Housing Foundation, Inc.)
Principals: Madonna Road Management, LLC: Stephen Whyte
Hearthstone Housing Foundation, Inc.: Socorro Vasquez
Property Management Company: Hyder and Company

Project Financing Information:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Citibank, N.A. (Freddie Mac)
Private Placement Purchaser: Not Applicable
TEFRA Hearing Date: March 13, 2012

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 119, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Family

The subject is an existing project proposed for rehabilitation. The Project had a HUD 236 Use Agreement that has already expired. The sponsor has proposed to HUD a new Section 8 HAP Contract with 100% Project Based Vouchers. The Sponsor plans to have the vouchers in place at time of acquisition. Occupancy for the Project will be restricted to households with annual incomes below 50% and 60% of the area median. The targeted population is families and seniors. The scope of rehabilitation includes external repairing of cracks in concrete and paving, repairing and replacing stucco, and replacing roofs and exterior windows. Internal rehabilitation includes replacing flooring, shower enclosures and tubs, water heating units, heating system, refrigerators, ranges, cabinets, countertops, and bathroom vanities.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

11% (13 units) restricted to 50% or less of area median income households.

89% (106 units) restricted to 60% or less of area median income households.

Unit Mix: 1, 2, 3 & 4 bedrooms

Service amenities will not be offered.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$ 21,150,000	
Estimated Hard Costs per Unit:	\$ 40,336	(\$4,800,000 /119 units)
Estimated per Unit Cost:	\$ 177,731	(\$21,150,000 /119 units)
Allocation per Unit:	\$ 126,050	(\$15,000,000 /119 units)
Allocation per Restricted Rental Unit:	\$ 126,050	(\$15,000,000 /119 restricted units)

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 15,000,000	\$ 15,000,000
Developer Equity	\$ 1,700,000	\$ 600,000
LIH Tax Credit Equity	\$ 4,450,000	\$ 5,550,000
Total Sources	\$ 21,150,000	\$ 21,150,000

Uses of Funds:	
Land Purchase	\$ 10,500,000
On & Off Site Costs	\$ 422,040
Hard Construction Costs	\$ 4,377,960
Architect & Engineering Fees	\$ 200,000
Contractor Overhead & Profit	\$ 672,000
Developer Fee	\$ 2,230,000
Relocation	\$ 250,000
Cost of Issuance	\$ 500,000
Capitalized Interest	\$ 230,000
Other Soft Costs (Marketing, etc.)	\$ 1,768,000
Total Uses	\$ 21,150,000

Description of Financial Structure and Bond Issuance:

Citibank, N.A. acting by and through its Municipal Securities Division, in its capacity as an authorized Program Plus Seller/Service for Freddie Mac will make available to the borrower a Freddie Mac credit enhancement and liquidity facility. The loan shall not exceed \$15,000,000 and will have a loan term of 17 years with an amortization period of 35 years.

Analyst Comments:

In the application, it was disclosed that the developer was a party to a project default on February 24, 2011 for the Bella Vista Apartments (AZ). The Vitus Development principal associated with the Madonna Road Application was not involved in the default of Bella Vista Apartments in AZ. Bella Vista Apartments is the only default on record for the Vitus Development. CDLAC staff was informed by Lisa Troy of the Arizona Department of Housing that the Bella Vista property was not well maintained and that these conditions inadvertently led to the default of the property. Vitus Development continues to have a good working relationship with its lenders. Staff cautiously recommends approval of the Madonna Road Apartments Project award of allocation and compliance will be carefully monitored once the project is placed-in-service.

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: 71 out of 130
[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$15,000,000 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	20
Exceeding Minimum Income Restrictions:	35	15	31
Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project]	[10]	[10]	0
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	10
Service Amenities	10	10	0
New Construction	10	10	0
Sustainable Building Methods	10	10	0
Negative Points	-10	-10	0
Total Points	130	110	71

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.