

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
September 26, 2012
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Sarah Lester

Applicant: California Statewide Communities Development Authority

Allocation Amount Requested:
Tax-exempt: \$6,000,000

Project Information:
Name: Water Gardens Apartments
Project Address: 1012 Water Street and 2018 Pacific Street
Project City, County, Zip Code: Bakersfield, Kern, 93305

Project Sponsor Information:
Name: Water Gardens, LP (IAHI - Water Gardens, LLC)
Principals: Jey Samuel, Johnathan Hawke, Scott Park and Juan C. Chavez
Property Management Company: Genessy Mgt. and Development, LLC

Project Financing Information:
Bond Counsel: Kutak Rock, LLP
Underwriter: CWCapital
Credit Enhancement Provider: CWCapital / Freddie Mac
Private Placement Purchaser: International Finance
TEFRA Hearing Date: June 12, 2012

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 62, plus 0 manager units
Type: Acquisition and Rehabilitation
Type of Units: Family/Federally Assisted At-Risk

The proposed project consists of 62 total units at two sites located about 1.3 miles from each other in East Bakersfield, CA. The two sites are separately known as Aqua Terrace Apartments (1.03 acres), located at 1012 Water Street and Woodlane Apartments (2.09 acres), located at 2018 Pacific Street. Both complexes are existing Section 8 developments. According to the application, due to the current Section 8 contract, the effective minimum qualifying income for Aqua Terrace is zero. Tenants pay 30 percent of their gross income towards rent with the subsidy responsible for any balance. Both complexes were originally built in 1973 and consists of a total of 12 apartment buildings, two laundry buildings and two electrical buildings. The scope of rehabilitation will include new floor coverings, low VOC interior finishes for all interior finishes, conversion of gas ranges to electric, landscaping, roof refinishing, replacement of kitchen and bathroom fixtures and rehabilitation of existing common areas. Construction is expected to begin November 2012 and anticipated to be completed November 2013.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
50% (31 units) restricted to 50% or less of area median income households.
50% (31 units) restricted to 60% or less of area median income households.
Unit Mix: 1, 2, 3 & 4 bedrooms

There will be no service amenities provided for the project.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$	10,087,354	
Estimated Hard Costs per Unit:	\$	36,855	(\$2,285,000 /62 units)
Estimated per Unit Cost:	\$	162,699	(\$10,087,354 /62 units)
Allocation per Unit:	\$	96,774	(\$6,000,000 /62 units)
Allocation per Restricted Rental Unit:	\$	96,774	(\$6,000,000 /62 restricted units)

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 6,000,000	\$ 6,000,000
Developer Equity	\$ 386,177	\$ 282,647
LIH Tax Credit Equity	\$ 701,177	\$ 2,804,707
Other (Seller's Note)	\$ 3,000,000	\$ 1,000,000
Total Sources	\$ 10,087,354	\$ 10,087,354

Uses of Funds:	
Acquisition/Land Purchase	\$ 5,000,000
Hard Construction Costs	\$ 2,170,000
Architect & Engineering Fees	\$ 115,000
Contractor Overhead & Profit	\$ 303,800
Developer Fee	\$ 1,055,820
Relocation	\$ 50,000
Cost of Issuance	\$ 456,685
Capitalized Interest	\$ 456,049
Other Soft Costs (Marketing, etc.)	\$ 480,000
Total Uses	\$ 10,087,354

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a combination of both a credit enhanced and a private placement transaction. The credit enhancement for the A Bonds is being provided through the Freddie Mac Moderate Rehabilitation Bond Credit Enhancement program. CW Capital will service this loan with an indicated interest rate of 565% and is based upon the 30/360 method of interest rate calculation. CW Capital may provide supplemental loans in accordance with Freddie Mac requirements. The term of the credit enhancement is 18 years with an amortization period of 35 years. The loan will be non-recourse. International Finance will provide the private placement commitment to purchase the unrated B Bonds in the amount of \$2,070,000. The minimum bond denomination will be \$100,000. The interest rate will be 4.25% subject to market conditions. The final maturity of the bonds will be 30 years (December 2042). The Issuer of all bonds will be the California Statewide Communities Development Authority.

Analyst Comments:

While the project's financing plan generally appears feasible, it should be noted that the Seller Loan from Water Gardens Apartments, L.P. does have an unusual term. Specifically, the seller loan, while subordinate to the lead permanent loan, does require that up to 85% of the net cash flow must go to repayment of any outstanding balance on the seller loan. Similar seller loans typically require a small minimum payment; with any balance owed paid as available within a set term. In this case, the subject loan's cash flow sweep would otherwise appear to act as an equity return rather than structured debt. However, there are no CDLAC Regulations or IRC Title 26 (26 USC Part IV, Subpart A) provisions prohibiting this subordinate loan structure. Any potential tax consequences will need to be determined by the seller in consultation with their tax counsel. Staff is not recommending any conditions of approval related to this seller loan, but felt compelled to highlight this element of the transaction for the Committee. In addition to the unusual repayment term of the Seller Take-Back Note, it should also be noted that the Seller will be purchasing a subordinate unrated tax-exempt bond on this transaction. Typical "B-Tranche" bonds are currently priced in the mid-to-high 4.00% range. In total, Seller-sourced project financing constitutes 47% of the Total Development Cost (TDC) for the project. Again, the substantial financial participation in this transaction by the Seller suggests more of an equity partner/investor position, not a wholly-independent property seller willing to delay the receipt of a portion of their sale proceeds. Nevertheless, CDLAC relies, in part, on the eventual Opinion prepared by the Bond Counsel that the bond structure as proposed does not violate the governing State and Federal regulations and statutes.

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: 62.5 out of 130
[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$6,000,000 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	10
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]	0
Gross Rents	5	5	0
Large Family Units	5	5	2.5
Leveraging	10	10	0
Community Revitalization Area	15	15	0
Site Amenities	10	10	5
Service Amenities	10	10	0
New Construction	10	10	0
Sustainable Building Methods	10	10	10
Negative Points	-10	-10	0
Total Points	130	110	62.5

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.