

**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: Richard Fischer*

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**Applicant:** California Statewide Communities Development Authority

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**Allocation Amount Requested:**  
**Tax-exempt:** \$11,000,000

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**Project Information:**  
**Name:** Marygold Apartments  
**Project Address:** 17215 Marygold Avenue  
**Project City, County, Zip Code:** Fontana, San Bernardino, 92335

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**Project Sponsor Information:**  
**Name:** Marygold, LP (Intercontinental Affordable Housing, Inc.-  
Marygold, LLC)  
**Principals:** Jey Samuels, Juan C. Chavez and Scott Park for IAHI-  
Marygold, LLC  
**Property Management Company:** Genessy Management and Development, LLC

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**Project Financing Information:**  
**Bond Counsel:** Kutak Rock LLP  
**Underwriter:** Not Applicable  
**Credit Enhancement Provider:** CW Capital/ Freddie Mac (for Series A); International  
Finance, LLC (for Series B bonds)  
**Private Placement Purchaser:** Not Applicable  
**TEFRA Hearing Date:** June 12, 2012

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**Description of Proposed Project:**  
**State Ceiling Pool:** General  
**Total Number of Units:** 80, plus 0 manager units  
**Type:** Acquisition and Rehabilitation  
**Type of Units:** Family/Federally Assisted At-Risk

Marygold Apartments is a multifamily development originally constructed in 1973. It consists of 80 one, two and three-bedroom units, spread across eight one-story four-plex buildings; four, one-story eight-plex buildings, and one, two-story garden style building. The project amenities include wall heaters, blinds, carpeting and coat closet. Appliances include a stove/oven, garbage disposal and refrigerator. The addition of washer/dryer hookups and microwaves will be included within the scope of renovation. The renovation will include: new floor coverings, Low VOC interior finishes for all interior finishes, landscaping, new roof, replacement of kitchen and bathroom fixtures and the rehabilitation of the common areas used for communal activities.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 100%

50% (40 units) restricted to 50% or less of area median income households.

50% (40 units) restricted to 60% or less of area median income households.

**Unit Mix:** 1, 2 & 3 bedrooms

There are no service amenities.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

**Estimated Total Development Cost:** \$ 17,708,102

**Estimated Hard Costs per Unit:** \$ 35,000 (\$2,800,000 /80 units)

**Estimated per Unit Cost:** \$ 221,351 (\$17,708,102 /80 units)

**Allocation per Unit:** \$ 137,500 (\$11,000,000 /80 units)

**Allocation per Restricted Rental Unit:** \$ 137,500 (\$11,000,000 /80 restricted units)

<b>Sources of Funds:</b>	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 11,000,000	\$ 11,000,000
Developer Equity	\$ 859,161	\$ 312,336
LIH Tax Credit Equity	\$ 1,348,941	\$ 5,395,766
Other (Seller's Note)	\$ 4,500,000	\$ 1,000,000
<b>Total Sources</b>	<b>\$ 17,708,102</b>	<b>\$ 17,708,102</b>
<b>Uses of Funds:</b>		
Acquisition/Land Purchase	\$ 10,000,000	
Hard Construction Costs	\$ 2,800,000	
Architect & Engineering Fees	\$ 115,000	
Contractor Overhead & Profit	\$ 392,000	
Developer Fee	\$ 1,846,050	
Relocation	\$ 50,000	
Cost of Issuance	\$ 909,065	
Capitalized Interest	\$ 1,079,987	
Other Soft Costs (Marketing, etc.)	\$ 516,000	
<b>Total Uses</b>	<b>\$ 17,708,102</b>	

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

Bonds will be issued by the California Statewide Communities Development Authority in the aggregate total of \$11,000,000 (\$7,940,000 A bonds and \$3,060,000 B bonds) \$7,940,000 will be purchased by CW Capital through their Freddie Mac Targeted Affordable Housing relationship. The \$3,060,000 will be privately purchased by International Finance. The financial structure of the proposed project will be both a credit enhancement transaction and a private placement transaction. Permanent financing is provided by CW Capital with a 35 year amortization and a 15 year term. The indicative interest rate is at 5.65% on the A bonds and the B Bonds will be paid out of surplus cash. The permanent financing shows a seller's note with a 4.25% interest rate and a 100% optional 10 year redemption.

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**Analyst Comments:**

While the project's financing plan generally appears feasible, it should be noted that the Seller Loan from Marygold 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% for Water, 41% for Marygold] 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.

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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:**

65 out of 130

[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$11,000,000 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	5
Large Family Units	5	5	0
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
<b>Total Points</b>	<b>130</b>	<b>110</b>	<b>65</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.