

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 21, 2014
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Sarah Lester

Applicant: California Municipal Finance Authority

Allocation Amount Requested:
Tax-exempt: \$10,116,914

Project Information:
Name: Peppertree Senior Apartments
Project Address: 8956 Harness Street
Project City, County, Zip Code: Spring Valley, San Diego, 91977

Project Sponsor Information:
Name: Peppertree Apartments Holdings, LP (Peppertree Holdings, LLC; and CHBA Affordable II, LLC)
Principals: Kipling Sheppard, Jeff Nielson, Tony Hladek, Joel Larson, JD Nielson for Peppertree Holdings, LLC; Graham Espley-Jones, Leanne Truofreh and Sandy Gibbons for CHBA Affordable II, LLC
Property Management Company: Wasatch Property Management

Project Financing Information:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriter: Prudential Mortgage Company
Credit Enhancement Provider: Prudential Mortgage Company/Freddie Mac
Private Placement Purchaser: Not Applicable
TEFRA Adopted Date: June 18, 2014

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 103, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Senior Citizens

The proposed project is an existing 104-unit market rate development situated on 3.73 acres of land in the City of Spring Valley, County of San Diego. The development consists of 13 two-story buildings, one (1) two-story building comprised of a leasing office/community building and surface parking throughout the site. The unit configuration consists of 1- and 2-bedroom units. Post renovation, the proposed project will offer units to residents with income levels at 50% and 60% of the area median income or below. The renovated property will offer improved landscaping and drainage, energy efficient windows, upgraded community center, 24-hour maintenance, upgraded/improved building systems, and new roofs. Unit amenities will include new flooring, cabinets, hardware, countertops and appliances. Construction is tentatively scheduled to begin in June 2014 and finish in December 2014.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

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

89% (92 units) restricted to 60% or less of area median income households.

Unit Mix: 1 & 2 bedrooms

The proposed project will provide health and wellness services and programs for individualized support for tenants for a minimum of 100 hours per year.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$	13,444,588	
Estimated Hard Costs per Unit:	\$	15,191	(\$1,564,641 /103 units)
Estimated per Unit Cost:	\$	130,530	(\$13,444,588 /103 units)
Allocation per Unit:	\$	98,222	(\$10,116,914 /103 units)
Allocation per Restricted Rental Unit:	\$	98,222	(\$10,116,914 /103 restricted units)

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 10,116,914	\$ 10,116,914
LIH Tax Credit Equity	\$ 3,327,674	\$ 3,327,674
Total Sources	\$ 13,444,588	\$ 13,444,588
 Uses of Funds:		
Acquisition/Land Purchase	\$ 8,450,000	
Hard Construction Costs	\$ 1,564,641	
Architect & Engineering Fees	\$ 45,000	
Contractor Overhead & Profit	\$ 219,050	
Developer Fee	\$ 1,543,889	
Relocation	\$ 92,800	
Cost of Issuance	\$ 1,243,536	
Other Soft Costs (Marketing, etc.)	\$ 285,672	
Total Uses	\$ 13,444,588	

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a credit enhancement and liquidity facility transaction provided by Prudential Affordable Mortgage Company, LLC secured by the Property to be issued by the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The estimated credit enhancement amount is \$10,116,914 with a debt service coverage ratio of a minimum of 1.15. The credit enhancement will have a fixed rate with a term of eight (8) years with a 12-month interest only amortization period followed by principal and interest payments based on a 35-year amortization period. The bonds will be issued by the California Municipal Finance Authority.

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.

Total Points: 55 out of 130

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$10,116,914 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	25
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	10
Service Amenities	10	10	5
New Construction	10	10	0
Sustainable Building Methods	10	10	10
Negative Points	-10	-10	0
Total Points	130	100	55

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.