

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
September 16, 2015
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Devon King

Applicant: California Statewide Communities Development Authority

Allocation Amount Requested:
Tax-exempt: \$8,910,874

Project Information:
Name: Cottonwood Place (Phase I) Apartments
Project Address: 24115 Cottonwood Avenue
Project City, County, Zip Code: Moreno Valley, Riverside, 92553

Project Sponsor Information:
Name: Moreno Valley Cottonwood I Partners L.P. (Palm Communities and Housing Corporation of America)
Principals: Danavon Horn, Mitch Slagerman, Karen Craig, and Stacy Leckwart for Palm Communities and Ronald Olson and Carol Cromar for Housing Corporation of America
Property Management Company: Con Am Management Corporation

Project Financing Information:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Citi Community Capital
TEFRA Adoption Date: May 19, 2015

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 108, plus 1 manager unit
Type: Acquisition and Rehabilitation
Type of Units: Family

The proposed project is an existing 109-unit tax credit property located in Moreno Valley, California. The project is located on an 8-acre site in a residential area. The site is flat and there are no special features to the site that would impact construction. Cottonwood Place Apartments contains nine residential buildings spread throughout the site. The project has playground spaces, bbq and picnic areas, a swimming pool and basketball courts. The community rooms include fitness equipment, computers, gaming areas, classroom and other multipurpose areas. The project contains three and four-bedrooms units. There are 54 three-bedrooms and 54 four-bedrooms that are restricted to low-income families with one unit reserved for the manager. Both unit types contain dining areas, large closets, outdoor patio spaces and storage spaces. The units have full kitchens with dishwashers and refrigerators. Cottonwood Place's rehabilitation will address the issues within the project. The landscaping will be upgraded with drought tolerant materials to minimize water use. Exterior lighting will be replaced with energy efficient models. Within the units, appliances will be replaced with energy efficient models, cabinets and countertops will be replaced and new flooring will be installed in the kitchens and bathrooms. The units will be painted in the kitchens and bathrooms. For water and energy savings, all toilets will be replaced with low-flow toilets to save water and the interior plumbing will be replaced to prevent water leaks. To meet strict energy efficiency requirements, all of the HVAC equipment will be replaced with energy efficient models. Indoor lighting will also be replaced with energy efficient models. Humidistat fans will be installed in the bathrooms to prevent mold damage. There will be vacancy sensors installed in the bathrooms to minimize energy use. Cottonwood Place's play areas will be improved with new playground rubber and repaired play equipment. The upper walking decks will be repaired and correct with the proper slope and be waterproofed. The rehabilitation project will start in September 2015 and be completed in March 2016. Tenants will remain in place throughout the project.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%
100% (108 units) restricted to 50% or less of area median income households.
Unit Mix: 3 & 4 bedrooms

There are no service amenities for the project.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

| | | |
|---|---------------|-------------------------------------|
| Estimated Total Development Cost: | \$ 16,148,994 | |
| Estimated Hard Costs per Unit: | \$ 23,286 | (\$2,514,864 /108 units) |
| Estimated per Unit Cost: | \$ 149,528 | (\$16,148,994 /108 units) |
| Allocation per Unit: | \$ 82,508 | (\$8,910,874 /108 units) |
| Allocation per Restricted Rental Unit: | \$ 82,508 | (\$8,910,874 /108 restricted units) |

| Sources of Funds: | Construction | Permanent |
|--------------------------------|----------------------|----------------------|
| Tax-Exempt Bond Proceeds | \$ 8,910,874 | \$ 4,728,396 |
| Taxable Bond Proceeds | \$ 0 | \$ 1,635,000 |
| Deferred Developer Fee | \$ 2,457,922 | \$ 323,297 |
| LIH Tax Credit Equity | \$ 768,541 | \$ 5,123,609 |
| Direct & Indirect Public Funds | \$ 1,420,394 | \$ 1,420,394 |
| Seller Carryback Note | \$ 259,126 | \$ 2,591,262 |
| Other (Project NOI) | \$ 0 | \$ 327,036 |
| Total Sources | \$ 16,148,993 | \$ 16,148,994 |

| Uses of Funds: | |
|--------------------------------------|----------------------|
| Acquisition/Land Purchase | \$ 9,000,000 |
| On & Off Site Costs | \$ 164,835 |
| Hard Construction Costs | \$ 2,350,029 |
| Architect & Engineering Fees | \$ 50,000 |
| Contractor Overhead & Profit | \$ 346,536 |
| Developer Fee | \$ 1,795,211 |
| Relocation | \$ 150,000 |
| Legal Fees | \$ 215,000 |
| Operating Reserve | \$ 266,676 |
| Hard Cost Contingency | \$ 429,210 |
| Construction and Permanent Financing | \$ 706,390 |
| Other Soft Costs (Marketing, etc.) | \$ 675,107 |
| Total Uses | \$ 16,148,994 |

Description of Financial Structure and Bond Issuance:

The proposed financial structure for the project will be a private placement purchase by Citibank, N.A. During the construction financing phase the loan will have two separate but distinct tranches, A and B. The term for both Tranche A and B will be for 24 months. Tranche A will be in the amount of \$4,725,000 and will carry a fixed interest rate of 17 year LIBOR Swap index plus a spread of 2.00%. Current rate is 4.62% Tranche B will be for \$4,200,000 and will carry a interest rate of a One Month Libor plus a spread of 2.25%. Current rate is 4.62%. During the permanent financing phase, the loan term will be for 17 years with an amortization period of 35 years at a fixed rate of 4.24%. There was no underwritten rate provided.

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: 57.5 out of 130
[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$8,910,874 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 | 35 |
| Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project] | [10] | [10] | 10 |
| 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 | 2.5 |
| Service Amenities | 10 | 10 | 0 |
| New Construction | 10 | 10 | 0 |
| Sustainable Building Methods | 10 | 10 | 0 |
| Negative Points | -10 | -10 | 0 |
| Total Points | 130 | 100 | 57.5 |

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.