

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

Prepared by: Richard Fischer

Applicant: Housing Authority of the City of Santa Barbara

Allocation Amount Requested:
Tax-exempt: \$10,500,000

Project Information:
Name: Pearl/Sycamore Apartments (Scattered Site)
Project Address: 13, 15, 17, 19, 21 S. Soledad St.; 211-221 Sycamore Ln.
Project City, County, Zip Code: Santa Barbara, Santa Barbara, 93103

Project Sponsor Information:
Name: SB Housing Partnership IV, L.P. (2nd Story Associates and Garden Court, Inc.)
Principals: Rob Fredericks, Alexander (Skip) Szymanski, Gary Linker for 2nd Story Associates; Kevin Nimmons, John Campenella, Robert G. Pearson and Bhupi Sing for Garden Court, Inc.
Property Management Company: Housing Authority of the City of Santa Barbara

Project Financing Information:
Bond Counsel: Quint & Thimmig LLP
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: MUFG Union Bank, N.A. (Cons 't)/ California Community Reinvestment Corporation (Perm)
TEFRA Adoption Date: October 6, 2015

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 35, plus 2 manager units
Type: Acquisition and Rehabilitation
Type of Units: Family

Sycamore Gardens, is an existing property containing 19 revenue units and one manager's unit. The units will be targeted to low income households with incomes at 50 and 60 percent or less of the area median income. The subject contains 10 two-story townhouse buildings containing 19 revenue units and one manager's unit and laundry facility. Each unit contains a range/oven, refrigerator, carpet and tile flooring, blinds or drapes, coat closet and patio. The facility will also be installing dishwashers in all of the units. The property also provides the following project amenities: tenant storage, laundry facility and 31 open parking spaces. Pearl Gardens, is an existing property containing 14 revenue units and one manager's unit. The units will be targeted to low income households with incomes at 50 and 60 percent of the area median income. The subject contains five two-story townhouse buildings containing 14 revenue units and one manager's unit. Each unit contains a range/oven, refrigerator,

washer/dryer hook-ups, carpet and tile flooring, blinds or drapes, coat closet and patio. After habilitation, the property will also contain dishwashers. The property also provides the following project amenities: picnic area, playground and 30 open parking spaces.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 89%

83% (29 units) restricted to 50% or less of area median income households.

6% (2 units) restricted to 60% or less of area median income households.

Unit Mix: 3 & 4 bedrooms

The proposed project will not be providing service amenities.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$ 21,046,820	
Estimated Hard Costs per Unit:	\$ 216,431	(\$7,575,080 /35 units)
Estimated per Unit Cost:	\$ 601,338	(\$21,046,820 /35 units)
Allocation per Unit:	\$ 300,000	(\$10,500,000 /35 units)
Allocation per Restricted Rental Unit:	\$ 338,710	(\$10,500,000 /31 restricted units)

The Project has total project costs that appear high for the geographic area in which it is located. According to the Project sponsor, the high cost is due to these two sites consisting of 33 3-bedroom and 2 4-bedroom 2-story apartment homes located in a desirable neighborhood in downtown Santa Barbara. Central Santa Barbara real estate values are significantly higher than the region as a whole. The demand for large family rental properties far outstrips the available supply. The renovation costs are driven by both the need for substantial rebuilding to extend the useful life of the improvements, as well as the need to adhere to the City of Santa Barbara design ordinances, and implementation energy and water conservation components. Since the project is subject to a HUD CHAP subsidy regulatory agreement, the general contractors must pay and provide documentation that all wages paid by them and subcontractors meet the minimum state prevailing wages. Extensive replacement of driveways and parking area will be completed due to the creek side location of Sycamore. Santa Barbara has a strict enforcement of clean water retention and runoff. All of the existing 8,664 square feet of asphalt parking lot for Sycamore will be removed and replaced with permeable pavers as required for clean storm water compliance. Additionally, Sycamore is located on a private cul-de-sac which requires partial replacement and clean storm water compliance.

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 10,500,000	\$ 2,000,000
Developer Equity	\$ 2,470,729	\$ 124
LIH Tax Credit Equity	\$ 150,863	\$ 8,241,002
Direct- Indirect Public Funds	\$ 7,800,363	\$ 10,680,829
Other (Cash flow from operations)	\$ 124,865	\$ 124,865
Total Sources	\$ 21,046,820	\$ 21,046,820
 Uses of Funds:		
Acquisition/Land Purchase	\$ 7,625,000	
Hard Construction Costs	\$ 7,575,080	
Architect & Engineering Fees	\$ 497,720	
Contractor Overhead & Profit	\$ 954,058	
Developer Fee	\$ 2,610,729	
Legal Fees	\$ 175,000	
Relocation	\$ 347,800	
Cost of Issuance	\$ 234,175	
Operating Reserve	\$ 121,000	
Construction and Permanent Financing	\$ 670,995	

Other Soft Costs (Marketing, etc.)	\$	<u>235,263</u>
Total Uses	\$	21,046,820

Description of Financial Structure and Bond Issuance:

This is a private placement transaction, the construction lender is MUFG Union Bank, N.A., with the California Community Reinvestment Corporation as the permanent lender. During the construction financing phase the loan term will be for 24 months with a (variable) interest rate of 65% of the 30-day LIBOR rate plus 1.75% . During the permanent financing phase, the loan term will be for 18 years with an amortization of 35 years at a (fixed) rate of 15-year muni bond index plus 1.75%. The indicative rate is 4.38%. There was no underwritten rate provided.

Analyst Comments:

None.

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: 65 out of 130

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$10,500,000 in tax exempt bond allocation on a carryforward basis.

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]	0
Gross Rents	5	5	5
Large Family Units	5	5	5
Leveraging	10	10	10
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	100	65

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.