Agenda Item No. 7.20
Application No. 16-321

**THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**
**March 16, 2016**
**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:** | $17,000,000 |

**Project Information:**

| | |
|---|---|
| **Name:** | **RCC Cadence Family Apartments** |
| **Project Address**: | Cadence and Harringay |
| **Project City, County, Zip Code**: | Irvine, Orange, 92618 |

**Project Sponsor Information:**

| | |
|---|---|
| **Name**: | Cadence Family Irvine Housing Partners, LP (Related/Cadence Family Irvine Development Co., LLC; and Riverside Charitable Corporation) |
| **Principals**: | Frank Cardone for Related/Cadence Family Irvine Development Co., LLC and Kenneth S. Robertson Riverside Charitable Corporation |
| **Property Management Company:** | Related Management Company |

**Project Financing Information:**

| | |
|---|---|
| **Bond Counsel**: | Orrick, Herrington & Sutcliffe LLP |
| **Underwriter**: | Not Applicable |
| **Credit Enhancement Provider**: | Not Applicable |
| **Private Placement Purchaser**: | MUFG Union Bank, N.A. |
| **TEFRA Noticing Date**: | December 24, 2015 |
| **TEFRA Adoption Date**: | January 12, 2016 |

**Description of Proposed Project:**

| | |
|---|---|
| **State Ceiling Pool:** | General |
| **Total Number of Units:** | 81, plus 1 manager unit |
| **Type:** | New Construction |
| **Type of Units:** | Family |

The proposed project is a new construction project located within the Beacon Park Neighborhood, the latest phase of the Great Park Neighbors within the greater Orange County Great Park. The Beacon Park Neighborhood development includes a central park which includes a meeting house and patio, an outdoor kitchen, shaded sports court, barbeque areas, and children's playgrounds surrounded by a range of two-story and single-story homes from a variety of different home builders. The proposed 82 unit Family Project will consist of fifty-seven (57) two bedroom/one bath units (one (1) two bedroom unit will be a manager unit) and twenty-five (25) three bedroom/two bath units. Of the 82 units, 81 will be restricted to households with incomes at 50% of the Area Median Income. The Project is comprised of eight (8) residential buildings, a separate free-standing common area building, which includes Leasing & Social Services, a Media Lounge, a Computer Center, a Multipurpose Room with kitchen, and a Pool

Equipment room with restrooms and showers. The residential buildings will be Type-V-B wood-framed construction. The buildings are two-story on-grade. Each residential building will contain enclosed parking garages, and electrical/utility closets. Ten percent (10%) of all units, nine (9) units total, are designed to accommodate mobility disabled residents. Four percent (4%) of all units, four (4) units total, are designed to accommodate communication disabled residents. One hundred percent (100%), twenty-five (25) units total, of the ground floor units are on an accessible path of travel and are adaptable to accommodate disabled residents. The auxiliary buildings are Type-V wood-framed single-story structures. The Project contains the required 164 parking spaces. The Project is scheduled to close on construction financing in March 2016 and commence construction April 2016 with an estimated completion date of March 2017.

**Description of Public Benefits:**

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

100% (81 units) restricted to 50% or less of area median income households.

**Unit Mix:** 2 & 3 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:** | $ | 28,224,065 | |
| **Estimated Hard Costs per Unit:** | $ | 175,205 | ($14,191,583 /81 units) |
| **Estimated per Unit Cost:** | $ | 348,445 | ($28,224,065 /81 units) |
| **Allocation per Unit:** | $ | 209,877 | ($17,000,000 /81 units) |
| **Allocation per Restricted Rental Unit:** | $ | 209,877 | ($17,000,000 /81 restricted units) |

| **Sources of Funds:** | Construction | | Permanent | |
|---|---|---|---|---|
| Tax-Exempt Bond Proceeds | $ | 17,000,000 | $ | 4,874,000 |
| Seller Carryback Loan (Residual Receipts Loan) | $ | 8,271,537 | $ | 10,240,789 |
| LIH Tax Credit Equity | $ | 1,213,028 | $ | 12,130,276 |
| Deferred Developer Fee | $ | 1,739,500 | $ | 979,000 |
| Total Sources | $ | 28,224,065 | $ | 28,224,065 |

| **Uses of Funds:** | | |
|---|---|---|
| Land Cost/Acquisition | $ | 10,501 |
| New Construction | $ | 16,408,990 |
| Architectural Fees | $ | 740,000 |
| Survey & Engineering | $ | 1,298,000 |
| Construction Interest & Fees | $ | 1,116,000 |
| Permanent Financing | $ | 100,000 |
| Legal Fees | $ | 350,000 |
| Reserves | $ | 205,060 |
| Appraisal | $ | 15,000 |
| Contigency Cost | $ | 820,449 |
| Developer Impact Fees | $ | 1,555,779 |
| Permit Process Fees | $ | 864,286 |
| Other Project Costs (Soft Costs, Marketing, etc.) | $ | 1,261,000 |
| Developer Costs | $ | 3,479,000 |
| Total Uses | $ | 28,224,065 |

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

The financial structure for the proposed project will be a private placement transaction provided by MUFG Union Bank, N.A. (the "Bank"). During the construction financing phase, the loan will be in the amount of $17,000,000 with a loan term of 18 months with a variable interest rate of 3.00%. The loan will bear interest at 65% of the 30-day LIBOR rate plus 2.75% (with no floor) computed on a 360 day year but for the actual number of days outstanding. Interest only payments shall be payable monthly, in arrears, on the loan. During the permanent financing phase, the loan will be in the amount $4,874,000 with a loan term of 15 years and a 35 year amortization period. The interest rate will be hedged with a 24 month forward starting interest rate swap acceptable to the Bank. As of the date of the commitment letter, the indicative swap rate from the Bank was 6.00% comprised of a 2.50 LIBOR Swap Rate plus 350 basis points. The rate is subject to change due to market conditions until the swap is confirmed. Also, during this permanent financial phase, the seller, Heritage Fields El Torro, LLC, will provide a Residual Receipts Loan in the amount of $10,240,789 during the permanent financing phase. The bonds will be issued by the California Statewide Communities Development Authority. Furthermore, the Master Developer is providing direct financing to this project and the other two separate projects.

**Analyst Comments:**

The proposed project is one of three separate affordable projects located at the former Marine Corps Air Station El Toro in Irvine, CA ("Air Station"). In connection with the closing of the Air Station, the United States Department of the Navy ("Navy"), predecessor-in-interest to the Five Point Communities ("Master Developer"), granted a portion of the base that consisted of pre-existing housing units to ETHIC Housing Trust ("ETHIC"), a conglomerate that consisted of five separate non-profit organizations. In 2005, ETHIC and the Master Developer executed a Letter of Intent (the "Original LOI") which called for the demolition of the older, obsolete housing units (166 units) and the replacement of such units with new housing as part of the base redevelopment. Currently,the Master Developer and ETHIC are amending, restating and replacing the Original LOI with three separate agreements (the "New LOIs") in order to provide separate housing projects to subsets of the original five non-profit ETHIC members in order to allow each to own and operate individual projects separately and according to their own mission statements. One of the new LOIs is a new agreement between the Master Developer and Riverside Charitable Corporation ("RCC"), which is a partner in the proposed project's ownership structure.

In order to redevelop the Air Station, the Master Developer and the City of Irvine ("City") entered into a Density Bonus Agreement, dated as of August 11, 2009, as amended by amendments in 2011 and 2013 (collectively, the "Density Bonus Agreement"), which provide that the Master Developer will develop both affordable senior and large family housing within the Air Station. The Density Bonus Agreement includes delivery benchmarks for certain numbers of affordable units before the Master Developer can receive Certificates of Occupancy for certain numbers of market-rate units. Therefore, in addition to the large family units being developed for the non-profit entities which comprise the ETHIC Housing Trust, the Master Developer must also develop a number of senior housing projects within the Air Station. In order to fulfill the Master Developer's obligations contained within the New LOIs and to provide affordable housing consistent with the City's Density Bonus Agreement, the Master Developer has partnered with The Related Companies of California, LLC to facilitate satisfaction of these obligations and to allow for master redevelopment of the Air Station, resulting in the projects being adjacent to each other and being required to close on construction financing within a few months of each other.

**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:** 67.5 out of 140

**[**See Attachment A**]**

**Recommendation:**

Staff recommends that the Committee approve $17,000,000 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 |
|---|---|---|---|
| Preservation Project | 20 | 20 | 0 |
| Exceeding Minimum Income Restrictions: | 35 | 15 | 35 |
| Exceeding Minimum Rent Restrictions<br><br>[Allowed if 10 pts not awarded above in Preservation Project] | [10] | [10] | 10 |
| Gross Rents | 5 | 5 | 5 |
| Large Family Units | 5 | 5 | 5 |
| Leveraging | 10 | 10 | 0 |
| Community Revitalization Area | 5 | 5 | 0 |
| Site Amenities | 10 | 10 | 2.5 |
| Service Amenities | 10 | 10 | 0 |
| New Construction or Substantial Renovation | 10 | 10 | 10 |
| Sustainable Building Methods | 10 | 10 | 0 |
| Forgone Eligible Developer Fee<br>(Competitive Allocation Process Only) | 10 | 10 | 0 |
| Minimum Term of Restrictions<br>(Competitive Allocation Process Only) | 10 | 10 | 0 |
| Negative Points (No Maximum) | -10 | -10 | 0 |
| **Total Points** | **140** | **120** | **67.5** |

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.