

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
July 20, 2016
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Louise Eller

Applicant: City of San Jose

Allocation Amount Requested:
Tax-exempt: \$20,000,000

Project Information:
Name: Don de Dios Apartments
Project Address: 987 Fair Avenue
Project City, County, Zip Code: San Jose, Santa Clara, 95122

Project Sponsor Information:
Name: Don de Dios L.P. (Don de Dios EAH, LLC)
Principals: Mary Murtagh, Alvin Bonnett, Laura Hall, Matthew Steinle and Cathy Macy for Don de Dios EAH, LLC.
Property Management Company: EAH Inc. (EAH Housing)

Project Financing Information:
Bond Counsel: Jones Hall, A Professional Law Corporation
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Union Bank of California, N.A.
TEFRA Noticing Date: April 25, 2016
TEFRA Adoption Date: May 12, 2016

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 68, plus 2 manager units
Type: Acquisition and Rehabilitation
Type of Units: Family

Don de Dios Apartments is an existing project location in San Jose on a 5.02 acre site. The project consists of 68 units and 2 managers' unit. The project has 6 one-bedroom units, 19 two-bedroom units, 28 three-bedroom units and 15 four-bedroom units. 14 one-and-two-story garden style/townhouse residential buildings each having 4 to 6 units and a community building are situated on this landscaped, rectangular and flat site. The site rehabilitation includes asphalt repairs, revise existing handicapped parking spaces and create additional handicapped spaces, revise pathways, install new drought tolerant landscaping and repair/replace irrigation system as needed. The structure rehabilitation includes replacing multiple items such as exterior stucco walls, back patio wood fences and stucco party walls with new wood fences, roofing and gutters, windows, exterior doors and dry rotted wood. Additionally, existing electrical panels will be upgraded in all units. All hot water plumbing lines in the units will be replaced along with existing furnaces and water heaters. New toilets, faucets and showerheads will be installed and bathroom exhaust fans and tubs will be replaced/refinished. The units will also have appliances replaced as well as kitchen sinks, disposals, cabinets, etc. The construction is expected to begin October 2016 and complete December 2017.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

85% (58 units) restricted to 50% or less of area median income households.

15% (10 units) restricted to 60% or less of area median income households.

Unit Mix: 1, 2, 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: | \$ | 32,623,577 | |
| Estimated Hard Costs per Unit: | \$ | 133,756 | (\$9,095,406 /68 units) |
| Estimated per Unit Cost: | \$ | 479,758 | (\$32,623,577 /68 units) |
| Allocation per Unit: | \$ | 294,118 | (\$20,000,000 /68 units) |
| Allocation per Restricted Rental Unit: | \$ | 294,118 | (\$20,000,000 /68 restricted units) |

| Sources of Funds: | Construction | Permanent |
|------------------------------------|----------------------|----------------------|
| Tax-Exempt Bond Proceeds | \$ 20,000,000 | \$ 6,366,000 |
| City of San Jose - Loan Assumption | \$ 1,626,224 | \$ 1,626,224 |
| LIH Tax Credit Equity | \$ 1,254,572 | \$ 13,423,218 |
| Seller Carryback Loan | \$ 5,690,308 | \$ 5,690,308 |
| Deferred Developer Fee | \$ 969,352 | \$ 969,352 |
| Withdrawal from Project Reserves | \$ 190,954 | \$ 190,954 |
| EAH Permanent Loan | \$ 0 | \$ 1,750,000 |
| Accrued/Deferred Interest | \$ 292,661 | \$ 292,661 |
| General Partner Capital | \$ 0 | \$ 2,100,000 |
| Income from Operations | \$ 0 | \$ 214,860 |
| Total Sources | \$ 30,024,071 | \$ 32,623,577 |

| Uses of Funds: | |
|---|----------------------|
| Land Cost/Acquisition | \$ 12,250,000 |
| Title/Rec/Transfer Tax/Legal | \$ 90,369 |
| Rehabilitation | \$ 9,912,037 |
| Relocation | \$ 1,544,815 |
| Contractor Overhead | \$ 217,962 |
| Architectural Fees | \$ 407,960 |
| Survey and Engineering | \$ 101,250 |
| Construction Interest and Fees | \$ 1,400,315 |
| Permanent Financing | \$ 82,175 |
| Legal Fees | \$ 110,000 |
| Reserves | \$ 381,011 |
| Appraisal | \$ 7,000 |
| Contingency Cost | \$ 1,519,500 |
| Other Project Costs (Soft Costs, Marketing, etc.) | \$ 573,624 |
| Developer Costs | \$ 4,025,559 |
| Total Uses | \$ 32,623,577 |

Description of Financial Structure and Bond Issuance:

The bonds will be purchase in a private placement transaction by Union Bank N.A. During the construction financing phase the loan term will be for 18 months with a variable interest rate of 65% of the 30-day LIBOR rate plus 1.60%. During the permanent financing phase, the loan term will be for 15 years with an amortization period of 35 years at a fixed rate of 4.17%.

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: 82.5 out of 140

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$20,000,000 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 | 20 |
| Exceeding Minimum Income Restrictions: | 35 | 15 | 35 |
| Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Preservation Project] | [10] | [10] | 0 |
| 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 | 7.5 |
| Service Amenities | 10 | 10 | 0 |
| New Construction or Substantial Renovation | 10 | 10 | 10 |
| Sustainable Building Methods | 10 | 10 | 0 |
| Forgone Eligible Developer Fee (Competitive Allocation Process Only) | 10 | 10 | 0 |
| Minimum Term of Restrictions (Competitive Allocation Process Only) | 10 | 10 | 0 |
| Negative Points (No Maximum) | -10 | -10 | 0 |
| Total Points | 140 | 110 | 82.5 |

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.