Agenda Item No. 5.19
Application No. 16-400

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: Sarah Lester

Applicant:	**California Municipal Finance Authority**
Allocation Amount Requested:	
Tax-exempt:	$8,200,000
Project Information:	
Name:	**Cedar-Nettleton Apartments**
Project Address:	245 Cedar Road, 160 Nettleton Road
Project City, County, Zip Code:	Vista, San Diego, 92083
Project Sponsor Information:	
Name:	Cedar Nettleton Housing Associates, LP (Vista Lilac LLC)
Principals:	Susan M. Reynolds and Anne B. Wilson
Property Management Company:	ConAm Management Corporation
Project Financing Information:	
Bond Counsel:	Jones Hall, A Professional Law Corporation
Underwriter:	Not Applicable
Credit Enhancement Provider:	Not Applicable
Private Placement Purchaser:	Wells Fargo Bank, N.A. / Freddie Mac
TEFRA Noticing Date:	May 10, 2016
TEFRA Adoption Date:	May 24, 2016
Description of Proposed Project:	
State Ceiling Pool:	General
Total Number of Units:	67, plus 1 manager unit
Type:	Acquisition and Rehabilitation
Type of Units:	Family

Cedar Nettleton Apartments is a two-story, garden apartment complex consisting of 68 apartments (of which 58 are townhomes) on a 3.67 acre site in Vista, CA. The site includes 14 residential buildings, a community building, and two laundry room buildings. Originally built as two projects immediately adjacent to each other on continuous parcels, Cedar Apartments (40 units) was completed in 1996 and Nettleton Apartments (28 units) in 1999. The apartments will be affordable to low-income families earning between 30% and 60% of Area Median Income (AMI). The unit configuration of the proposed project is ten (10) 2-BDRM/1BA units, eight (8) two-BDRM/2BA units, thirty-six (36) 3-BDRM/2BA units, fourteen (14) four-BDRM/2BA units, and one (1) 3-BDRM/2BA manager's unit. The community building of 2,230 sf includes the leasing office, a spacious community room with full kitchen, restrooms, storage, and maintenance space. There are 136 parking spaces including 72 carports, 8 accessible spaces and 56 standard spaces. Upgrades will be primarily focused on improving energy efficiency and completing major capital repairs such as new dual-pane, energy efficient windows, new unit hot water heaters, new roof, and modernizing the community building.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

72% (48 units) restricted to 50% or less of area median income households.
28% (19 units) restricted to 60% or less of area median income households.

Unit Mix: 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:	$	13,674,447	
Estimated Hard Costs per Unit:	$	28,327	($1,897,927 /67 units)
Estimated per Unit Cost:	$	204,096	($13,674,447 /67 units)
Allocation per Unit:	$	122,388	($8,200,000 /67 units)
Allocation per Restricted Rental Unit:	$	122,388	($8,200,000 /67 restricted units)

Sources of Funds:		Construction		Permanent
Tax-Exempt Bond Proceeds	$	8,200,000	$	4,730,000
Sponsor Loan	$	0	$	536,000
LIH Tax Credit Equity	$	486,602	$	4,790,159
GP Equity	$	486	$	486
Seller Carryback Loan	$	3,349,262	$	3,349,262
Net Income From Operations	$	0	$	268,539
Total Sources	$	12,036,350	$	13,674,446

Uses of Funds:		
Land Cost/Acquisition	$	7,914,080
Rehabilitation	$	2,163,636
Relocation	$	85,140
Architectural Fees	$	190,000
Construction Interest and Fees	$	555,258
Permanent Financing	$	57,300
Legal Fees	$	30,000
Reserves	$	234,982
Appraisal	$	9,000
Contingency Cost	$	216,364
Other Project Costs (Soft Costs, Marketing, etc.)	$	607,657
Developer Costs	$	1,611,030
Total Uses	$	13,674,447

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a private placement transaction for both construction and permanent financing provided by Wells Fargo Bank, N.A. which will convey the facility to the Federal Home Loan Mortgage Corporation (Freddie Mac - at conversion: 15 month commitment term plus two 3-month extensions). During the construction financing phase the loan term will be for 15 months. The loan shall bear interest at a rate per annum (computed of the basis of a 360-day year) equal to 30-day LIBOR plus 150 basis points. The interest rate will be a floating rate. Wells Fargo is reserving the right to increase the spread over the 30-day LIBOR rate to reflect market conditions. As of the date of the commitment the indicative tax-exempt rate was 2.00%. According to the commitment, the 30-day LIBOR rate will have a floor of 25 bps. The loan will be underwritten using a 150 basis point cushion. During the permanent financing phase, the permanent loan term will be for 18 years with an amortization period of 30 years. The interest rate will be fixed based on the 10 Year Treasury plus 2.40%, which equals an indicative rare of 4.15%. The bonds will be issued by the California Municipal Finance Authority.

Analyst Comments:

The two original projects were financed and syndicated separately and have completed the initial 15-Year Tax Credit Compliance period. Cedar Apartments was previously financed with 9% Low Income Housing Tax Credits, AHP, and loans from the City of Vista and the County of San Diego. Nettleton Apartments was financed with 9% Low Income Housing Tax Credits, AHP, SHP, and loans from the City of Vista and County of San Diego. Since the developments were completed, there has been only routine capital replacements and no major renovation.

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: 75 out of 140

[See Attachment A**]**

Recommendation:

Staff recommends that the Committee approve $8,200,000 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 [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	10
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**	**120**	**75**

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.