

**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*

<b>Applicant:</b>	<b>California Statewide Communities Development Authority</b>
<b>Allocation Amount Requested:</b>	<b>Tax-exempt:</b> \$23,000,000
<b>Project Information:</b>	<b>Name:</b> Watts Arms I Apartments <b>Project Address:</b> 10130 South Beach Street <b>Project City, County, Zip Code:</b> Los Angeles, Los Angeles, 90002
<b>Project Sponsor Information:</b>	<b>Name:</b> Watts Arms I Renewal, LP (Watts Arms I MM LLC and Foundation Housing Capital III LLC) <b>Principals:</b> Jason Goldblatt, Todd Travis, Randall Kelly and Robert Custer for Watts Arms I MM LLC; Andrew Schwartzbert for Foundation Housing Capital III LLC <b>Property Management Company:</b> Barker Management, Incorporated
<b>Project Financing Information:</b>	<b>Bond Counsel:</b> Orrick, Herrington & Sutcliffe LLP <b>Underwriter:</b> Stifel, Nicolaus & Company, Incorporated <b>Credit Enhancement Provider:</b> Stifel, Nicolaus & Company, Incorporated <b>Private Placement Purchaser:</b> Not Applicable <b>TEFRA Noticing Date:</b> June 1, 2016 <b>TEFRA Adoption Date:</b> June 19, 2016
<b>Description of Proposed Project:</b>	<b>State Ceiling Pool:</b> General <b>Total Number of Units:</b> 103, plus 1 manager unit <b>Type:</b> Acquisition and Rehabilitation <b>Type of Units:</b> Family

This existing property is a low income housing community located in the Watts neighborhood of Los Angeles, CA benefiting from a Section 8 Housing Assistance Payment contract covering 100% of the units. This contract will expire on May 31, 2019. The property is situated on 7.53 acres and was built in 1979 and consists of 104 units spread across 19 two-story townhouse residential units along with one single-story community building. It has 18 one-bedroom units, 50 two-bedroom units, and 36 three-bedroom units. The targeted population includes large families for the three-bedroom units as well as individuals and small families for the one and two-bedroom units. The Property will undergo a substantial renovation estimated to begin in the late fall/early winter of 2016 with a completion scheduled for yearend 2017. The renovation will feature unit interior upgrades including, but not limited to, new kitchen cabinetry and countertops, new Energy Star appliances (refrigerators, range, disposal), the addition of

microwaves to all units, the addition of dishwashers to the two and three-bedroom units, updated bathroom countertops and cabinets, new dual flush toilets and other energy efficient bathroom fixtures, new energy efficient double pane windows, new closet and bedroom doors in all units, new energy efficient HVAC systems, and electrical upgrades including replacement of the existing electrical panel. Exterior and common area upgrades include, but are not limited to, the installation of high efficiency water heaters for each building, new property signage, restriping and repair of parking lot pavement, improvement of exterior site lighting, new drought-resistant landscaping, exterior painting and roof upgrades.

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**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 100%  
16% (16 units) restricted to 50% or less of area median income households.  
84% (87 units) restricted to 60% or less of area median income households.  
**Unit Mix:** 1, 2 & 3 bedrooms

The proposed project will not be providing service amenities.

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**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

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**Details of Project Financing:**

**Estimated Total Development Cost:** \$ 37,456,227  
**Estimated Hard Costs per Unit:** \$ 44,031 (\$4,535,221 /103 units)  
**Estimated per Unit Cost:** \$ 363,653 (\$37,456,227 /103 units)  
**Allocation per Unit:** \$ 223,301 (\$23,000,000 /103 units)  
**Allocation per Restricted Rental Unit:** \$ 223,301 (\$23,000,000 /103 restricted units)

<b>Sources of Funds:</b>	<b>Construction</b>	<b>Permanent</b>
Tax-Exempt Bond Proceeds	\$ 23,000,000	\$ 0
Taxable Bond Proceeds	\$ 0	\$ 19,144,000
Equity Bridge Loan	\$ 5,930,000	\$ 0
LIH Tax Credit Equity	\$ 6,204,397	\$ 13,023,504
Deferred Developer Fee	\$ 0	\$ 1,708,231
Seller Carryback Loan	\$ 0	\$ 3,400,000
Interim Income	\$ 0	\$ 180,493
<b>Total Sources</b>	<b>\$ 35,134,397</b>	<b>\$ 37,456,228</b>

<b>Uses of Funds:</b>	
Land Cost/Acquisition	\$ 24,925,000
Rehabilitation	\$ 4,879,444
Relocation	\$ 260,000
Contractor Overhead & Profit	\$ 362,817
Architectural Fees	\$ 79,500
Survey and Engineering	\$ 55,706
Construction Interest and Fees	\$ 495,801
Permanent Financing	\$ 342,668
Legal Fees	\$ 100,000
Reserves	\$ 471,765
Appraisal	\$ 15,000
Contingency Cost	\$ 517,015
Other Project Costs (Soft Costs, Marketing, etc.)	\$ 710,859
Developer Costs	\$ 4,240,652
<b>Total Uses</b>	<b>\$ 37,456,227</b>

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

The financial structure for the proposed project will be a short term cash collateralized bonds sold publicly and underwritten by Stifel, Nicolaus & Company, Incorporated. The permanent financing will be provided by Wells Fargo Bank, N.A. which will convey the facility to the Federal Home Loan Mortgage Corporation (Fannie Mae - at conversion). The bonds will be issued by the California Statewide Communities Development Authority.

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**Analyst Comments:**

None

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**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.

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**Total Points:** 83 out of 140

[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$23,000,000 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	28
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	5
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
<b>Total Points</b>	<b>140</b>	<b>110</b>	<b>83</b>

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.