

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
July 18, 2018
Staff Report
**REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT**

Prepared by: Richard Fischer

Applicant: California Municipal Finance Authority

Allocation Amount Requested:
Tax-exempt: \$7,250,000

Project Information:
Name: The Pearl Apartments
Project Address: 500 Block South Sierra Avenue
Project City, County, Zip Code: Solana Beach, San Diego, 92075

Project Sponsor Information:
Name: The Pearl Solana Beach, L.P. (Hitzke Development Corporation and Cascade Housing Association)
Principals: Ginger Hitzke for Hitzke Development Corporation and Mildred Burke, Joan Laughlin, Stanley James, M.D. and Rodger Terrall and Jorge Elizalde for the Cascade Housing Association
Property Management Company: Cambridge Real Estate Services

Project Financing Information:
Bond Counsel: Quint & Thimmig LLP
Private Placement Purchaser: Citibank, N.A.
Cash Flow Permanent Bond: Not Applicable
Public Sale: Not Applicable
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Rating: Not Applicable
TEFRA Noticing Date: March 9, 2018
TEFRA Adoption Date: March 28, 2018

Description of Proposed Project:
State Ceiling Pool: Mixed
Total Number of Units: 10
Manager's Units: 0 Unrestricted
Type: New Construction
Population Served: Family

The Pearl Apartments is a new construction project located in Solana Beach on a .34-acre site. The project consists of 5 restricted rental units, 5 market rate units and no manager unit. The project will have 3 one-bedroom units, 3 two-bedroom units, 3 three-bedroom units and 1 four-bedroom unit. The building will be a three story building with subterranean level parking. The building design is complimentary to the beach cottages found in the coastal area. Common amenities include low-flow plumbing fixtures, energy efficient windows, electrical fixtures, full kitchens, bathrooms and bicycle parking. The construction is expected to begin September 2018 and be completed in September 2019.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 50%
50% (5 units) restricted to 50% or less of area median income households.
Unit Mix: 1, 2, 3 & 4 bedrooms

The proposed project will not be receiving service amenity points.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost:	\$ 9,127,067	
Estimated Hard Costs per Unit:	\$ 465,437	(\$4,654,368 /10 units)
Estimated per Unit Cost:	\$ 912,707	(\$9,127,067 /10 units)
Allocation per Unit:	\$ 725,000	(\$7,250,000 /10 units)
Allocation per Restricted Rental Unit:	\$ 1,450,000	(\$7,250,000 /5 restricted units)

Sources of Funds:	Construction	Permanent
Tax-Exempt Bond Proceeds	\$ 7,250,000	\$ 860,000
LIH Tax Credit Equity	\$ 105,067	\$ 5,367,067
Deferred Developer Fee	\$ 0	\$ 843,000
City of Solana Beach	\$ 700,000	\$ 2,057,000
Total Sources	\$ 8,055,067 *	\$ 9,127,067 *

Uses of Funds:	
Land Cost/Acquisition	\$ 225,000
New Construction	\$ 4,868,112
Contractor Overhead & Profit	\$ 346,528
Architectural Fees	\$ 531,800
Survey and Engineering	\$ 165,000
Construction Interest and Fees	\$ 573,000
Permanent Financing	\$ 19,750
Legal Fees	\$ 350,000
Reserves	\$ 50,000
Appraisal	\$ 5,000
Hard Cost Contingency	\$ 428,000
Local Development Impact Fees	\$ 292,060
Other Project Costs (Soft Costs, Marketing, etc.)	\$ 272,817
Developer Costs	\$ 1,000,000
Total Uses	\$ 9,127,067

* This difference between the totals are the legal closing costs and the Developer fee.

Analyst Comments:

This is a High Cost Per Unit Project. According to the Project Sponsor, the primary reason is because the project is only 10 units and the following fixed costs would be the same for a 10 or 50 or 100 unit project. The project was required to be redesigned 3 times in order to meet the community's desired design requirements and then had to endure 2 CEQA lawsuits at the Superior Court level and 1 CEQA lawsuit at the Appellate Court level. All of those costs are divided by 10 which makes the per unit costs seem extraordinarily high. The site is also extremely small and requires two levels of subterranean parking. The per square foot construction costs are in line with other prevailing wage projects that have two levels of subterranean parking. Please note: this project would have cost even more if the land was not provided by the City in the form of a below market, long term ground lease.

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:

55 out of 120 [See Attachment A]

Recommendation:

Staff recommends that the Committee approves \$7,250,000 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
Preservation Project	20	20	0
Exceeding Minimum Income Restrictions:	35	15	15
Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Preservation Project]	[10]	[10]	10
Large Family Units	5	5	5
Leveraging	10	10	10
Community Revitalization Area	5	5	0
Site Amenities	10	10	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	N/A
Minimum Term of Restrictions (Competitive Allocation Process Only)	10	10	N/A
Negative Points (No Maximum)	-10	-10	0
Total Points	140	120	55