Agenda Item No. 8.7
Application No. 18-369

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: Ruben Barcelo

Applicant: **City of San Jose**

Allocation Amount Requested:

Tax-exempt:	$318,000,000

Project Information:

Name:	**El Rancho Verde Apartments**
Project Address:	300 and 303 Checkers Drive
Project City, County, Zip Code:	San Jose, Santa Clara, 95133

Project Sponsor Information:

Name:	ERV Community Partners, LP (FFAH V El Rancho Verde, LLC and ERV Partners GP, LLC)
Principals:	Deborrah A. Willard for FFAH V El Rancho Verde, LLC; Anand Kannan and Wilfred N. Cooper, Jr. for ERV Partners, LLC
Property Management Company:	FPI Management, Inc.

Project Financing Information:

Bond Counsel:	Jones Hall, A Professional Law Corporation
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:	May 24, 2018
TEFRA Adoption Date:	June 13, 2018

Description of Proposed Project:

State Ceiling Pool:	General
Total Number of Units:	700
Manager's Units:	4 Unrestricted
Type:	Acquisition and Rehabilitation
Population Served:	Family

El Rancho Verde Apartments is an existing project located in San Jose on a 37-acre site. The project consists of 696 restricted rental units and 4 unrestricted manager units distributed as 556 two-bedroom units and 144 three-bedroom units. Building exterior renovations consist of stucco repairs, roof replacement, window replacement, stair and railing replacement and fresh paint. Interior renovations include upgrades to the laundry rooms, recreation building and day-care center. Individual apartment units will be updated with new kitchen appliances, countertops, cabinets, plumbing fixtures, flooring, heating/AC units, attic insulation, electrical upgrades and fresh paint. Site area renovations consist of ADA upgrades, parking lot re-sealing and re-striping, pool area upgrades and improvements to the playgrounds and landscape. Project work is expected to begin in September 2018 and be completed in December 2019.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

80% (557 units) restricted to 50% or less of area median income households.
20% (139 units) restricted to 60% or less of area median income households.

Unit Mix: 2 & 3 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:	$	513,271,843		
Estimated Hard Costs per Unit:	$	57,674	($40,371,500	/700 units including mgr. units)
Estimated per Unit Cost:	$	733,245	($513,271,843	/700 units including mgr. units)
Allocation per Unit:	$	454,286	($318,000,000	/700 units including mgr. units)
Allocation per Restricted Rental Unit:	$	456,897	($318,000,000	/696 restricted units)

Sources of Funds:		Construction		Permanent
Tax-Exempt Bond Proceeds	$	318,000,000	$	272,647,000
Taxable Loan Proceeds	$	32,000,000	$	0
LIH Tax Credit Equity	$	97,353,000	$	160,807,666
Deferred Developer Fee	$	41,902,931	$	55,801,266
Seller Credit	$	4,500,000	$	4,500,000
Net Income From Operations	$	19,515,911	$	19,515,911
Total Sources	$	513,271,842	$	513,271,843

Uses of Funds:		
Land Cost/Acquisition	$	374,500,000
Rehabilitation	$	44,872,922
Relocation	$	700,000
Contractor Overhead & Profit	$	1,614,860
Architectural Fees	$	345,000
Survey and Engineering	$	262,900
Construction Interest and Fees	$	18,148,121
Permanent Financing	$	788,100
Legal Fees	$	350,000
Reserves	$	4,788,000
Appraisal	$	9,500
Hard Cost Contingency	$	4,695,205
Local Development Impact Fees	$	350,000
Other Project Costs (Soft Costs, Marketing, etc.)	$	1,058,199
Developer Costs	$	60,789,036
Total Uses	$	513,271,843

Analyst Comments:

The developer cited the high appraisal valuation and very active bidding as the primary reasons for the high cost per unit. The acquisition cost alone exceeded the CDLAC threshold at $535,000 per unit. The developer explained that the high acquisition cost drove up other related costs, especially interest expense, reserves and the deferred developer fee.

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:

68 out of 140 **[**See Attachment A**]**

Recommendation:

Staff recommends that the Committee approves $318,000,000 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	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
Large Family Units	5	5	0
Leveraging	10	10	3
Community Revitalization Area	5	5	0
Site Amenities	10	10	10
Service Amenities	10	10	0
New Construction or Substantial Renovation	10	10	0
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**	**110**	**68**