

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
September 19, 2018
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Richard Fischer

Applicant: Housing Authority of the City of Sacramento

Allocation Amount Requested: Tax-exempt: \$22,186,052

Project Information:

Name: 700 Block of K Apartments
Project Address: 700 K Street
Project City, County, Zip Code: Sacramento, Sacramento, 95814

Project Sponsor Information:

Name: 700 Block Investors, L.P. (Community Revitalization and Development Corporation & 700 Block, LLC)
Principals: David Rutledge for Community Revitalization and Development Corporation; Cyrus Youseffi, Estate of Ali Youseffi, Behroze Miryabianeh, David Miryabianeh and Steve Lebastchi for 700 Block Investors, L.P.
Property Management Company: C.F.Y. Development, Inc.

Project Financing Information:

Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Private Placement Purchaser: JPMorgan Chase Bank, N.A./Barings, LLC
Cash Flow Permanent Bond: Not Applicable
Public Sale: Not Applicable
Underwriter: Not Applicable
Credit Enhancement Provider: Not Applicable
Rating: Not Applicable
TEFRA Noticing Date: June 6, 2018
TEFRA Adoption Date: June 26, 2018

Description of Proposed Project:

State Ceiling Pool: General
Total Number of Units: 137
Manager's Units: 1 Restricted
Type: New Construction
Population Served: Family

700 Block is a mixed-income property in Sacramento, located on an 1.18 acre site. The property contains 42 studio units, 83 one-bedroom units, and 12 two-bedroom units totaling 138 units. It also includes a 5,000 sf second floor roof garden atop the adjacent commercial space and a rooftop deck on the 6th floor of the residential tower. There is a laundry room, fitness center and recreation room complete with pool table, TV lounge, library and kitchen. Some units in the single-story units have 9 foot ceilings and double height spaces in certain loft units. All units have balconies and fully equipped kitchens. The garage provides shelter for bicycle and motorcycle parking and a trash and recyclables area connected by refuse chutes from each of the apartment levels above. 700 Block will be a transit-oriented development (TOD). Construction was completed.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 62%
10% (14 units) restricted to 50% or less of area median income households.
52% (71 units) restricted to 60% or less of area median income households.
Unit Mix: Studio, 1 & 2 bedroom

The project will include after school programs of an ongoing nature (tutoring, mentoring, homework club, and art and recreation activities) and the project will provide instructor-led educational health and wellness or skill building classes (such as financial literacy, computer training, home-buyer education, GED, resume building, ESL, nutrition, exercise, health info/awareness, parenting, onsite food cultivation and preparation and smoking cessation)

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

Estimated Total Development Cost: \$ 39,275,375
Estimated Hard Costs per Unit: \$ 210,218 (\$28,799,853 /137 units including mgr. units)
Estimated per Unit Cost: \$ 286,682 (\$39,275,375 /137 units including mgr. units)
Allocation per Unit: \$ 161,942 (\$22,186,052 /137 units including mgr. units)
Allocation per Restricted Rental Unit: \$ 261,012 (\$22,186,052 /85 restricted units)

Sources of Funds:	<u>Construction</u>	<u>Permanent</u>
Tax-Exempt Bond Proceeds	\$ 22,186,052	\$ 14,485,200
LIH Tax Credit Equity	\$ 3,670,654	\$ 9,333,754
Deferred Developer Fee	\$ 2,500,000	\$ 1,856,420
Deferred Reserves	\$ 478,406	\$ 0
Grant to GP	\$ 900,000	\$ 900,000
SHRA Soft Loan	\$ 3,120,524	\$ 6,280,262
DSRC/SHRA Soft Loan	\$ 3,159,738	\$ 3,159,738
DSCR/City Loan	\$ 1,760,000	\$ 1,760,000
City Land Equity Contrib.	\$ 1	\$ 1
General Partner Loan	\$ 1,500,000	\$ 1,500,000
Total Sources	\$ 39,275,375	\$ 39,275,375

Uses of Funds:	
Land Cost/Acquisition	\$ 1
New Construction	\$ 26,783,270
Contractor Overhead & Profit	\$ 2,016,583
Architectural Fees	\$ 865,337
Survey and Engineering	\$ 386,799
Construction Interest and Fees	\$ 2,779,135
Permanent Financing	\$ 497,067
Legal Fees	\$ 595,000
Reserves	\$ 434,916
Appraisal	\$ 25,050
Hard Cost Contingency	\$ 0
Local Development Impact Fees	\$ 1,331,739
Other Project Costs (Soft Costs, Marketing, etc.)	\$ 1,060,478
Developer Costs	\$ 2,500,000
Total Uses	\$ 39,275,375

Analyst Comments:

The original allocation awarded for this Project was on December 10, 2014 (Please see the original Staff Report for Application 14-309 that is attached.) The Project failed to completely spend enough of the bond proceeds by the IRS set deadline. This resulted in the loss of the Tax-Exempt status for the bonds. Failure to meet the 50% Test jeopardized the tax-exemption. Simply defined, the 50% Test is that the allocated and issued Tax-Exempt bonds expended must be greater than 50% of the total eligible development costs for the project. In this case the \$14 million already expended did not qualify the bonds for the tax-exemption since the Project development costs exceed 50%. Since the Tax-Exempt status was lost, the Tax -Credit investor lost their tax credits which in turn again jeopardized the financing of the Project (over \$9 million would be withdrawn from the financing of the Project.) Then the Project would be forced to obtain higher cost conventional financing and the affordable units would be lost. CDLAC Regulations 5230 (o)(1)C state "Ten (10) points will be deducted for each failure to spend the proceeds of Bonds issued pursuant to an Allocation in full." CDLAC has assessed 10 negative points to the Project and 10 negative points to the Project Sponsor for the next 3 calendar years.

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:

60 out of 140 [See Attachment A]

Recommendation:

Staff recommends that the Committee approves \$22,186,052 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	17.5
Exceeding Minimum Rent Restrictions [Allowed if 10 pts not awarded above in Preservation Project]	[10]	[10]	10
Large Family Units	5	5	0
Leveraging	10	10	10
Community Revitalization Area	5	5	0
Site Amenities	10	10	7.5
Service Amenities	10	10	10
New Construction or Substantial Renovation	10	10	10
Sustainable Building Methods	10	10	5
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	-10
Total Points	140	120	60