

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
March 16, 2016
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A
QUALIFIED RESIDENTIAL RENTAL PROJECT

Prepared by: Sarah Lester

Applicant: California Statewide Communities Development Authority

Allocation Amount Requested:
Tax-exempt: \$22,000,000

Project Information:
Name: Esencia Norte Apartments
Project Address: East side of Esencia Drive Btwn Cow Camp & Andaza Street
Project City, County, Zip Code: Rancho Mission Viejo, Orange, 92694

Project Sponsor Information:
Name: Esencia Norte Affordable Apartments, LP (Ranch Plan Apartments IV, LLC; Hearthstone CA Properties I, LLC)
Principals: Michael K. Hayde, Rex F. Delong, Anthony R. Moiso & Jeffrey R. Scott for Ranch Plan Apartments IV, LLC; Socorro Vasquez, Velma de la Rosa, Eugenia O. Guzman, Juan Maldonado & Carl Domiguez for Hearthstone CA Properties I, LLC
Property Management Company: Western National Properties Management

Project Financing Information:
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: Citibank, N.A.
TEFRA Noticing Date: December 28, 2015
TEFRA Adoption Date: January 12, 2016

Description of Proposed Project:
State Ceiling Pool: General
Total Number of Units: 111, plus 1 manager unit
Type: New Construction
Type of Units: Family

The proposed project is a new construction development that will be situated on approximately 3.09 acres which was previously agricultural land in an unincorporated area of Orange County. The project will consist of a 2 two-story and 5 three-story residential buildings. They will be wood-frame on a post-tension concrete slab construction with a stucco exterior and composite roof. A single-story community building and leasing office will be central to the community. Included are a total of 209 parking spaces - 147 open parking spaces serving the residents and guests and 62 tuck-under carports. The site provides 9 accessible parking stalls. The unit configuration will consist of 20 one-bedroom units, 57 two-bedroom units, 34 three-bedroom units and 1 manager's unit. All units will be restricted to families with households incomes no greater than 60% of the Area Median Income (AMI) as follows: 34 units @ 50% AMI and 77 units @ 60% AMI. The units will feature central air conditioning, a dishwasher, a refrigerator, a gas range, patios/balconies, garbage disposal, storage closets, carpet flooring, and walk-in closets in some of the floor plans. The financing will close mid June with a construction start of mid July. All units will be completed September 2017.

Description of Public Benefits:

Percent of Restricted Rental Units in the Project: 100%

31% (34 units) restricted to 50% or less of area median income households.

69% (77 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.

Term of Restrictions:

Income and Rent Restrictions: 55 years

Details of Project Financing:

| | | |
|---|---------------|--------------------------------------|
| Estimated Total Development Cost: | \$ 29,199,322 | |
| Estimated Hard Costs per Unit: | \$ 139,115 | (\$15,441,813 /111 units) |
| Estimated per Unit Cost: | \$ 263,057 | (\$29,199,322 /111 units) |
| Allocation per Unit: | \$ 198,198 | (\$22,000,000 /111 units) |
| Allocation per Restricted Rental Unit: | \$ 198,198 | (\$22,000,000 /111 restricted units) |

| Sources of Funds: | Construction | Permanent |
|--------------------------|----------------------|----------------------|
| Tax-Exempt Bond Proceeds | \$ 22,000,000 | \$ 14,450,000 |
| Taxable Bond Proceeds | \$ 0 | \$ 540,000 |
| LIH Tax Credit Equity | \$ 1,896,414 | \$ 12,642,756 |
| Def. Dev. Fee | \$ 5,302,908 | \$ 1,566,566 |
| Total Sources | \$ 29,199,322 | \$ 29,199,322 |

| Uses of Funds: | |
|---|----------------------|
| New Construction | \$ 16,048,057 |
| Architectural Fees | \$ 410,000 |
| Survey & Engineering | \$ 623,685 |
| Construction Interest & Fees | \$ 1,527,625 |
| Permanent Financing | \$ 80,000 |
| Legal Fees | \$ 110,000 |
| Reserves | \$ 339,617 |
| Appraisal | \$ 16,000 |
| Contingency Cost | \$ 1,372,091 |
| Local Development Impact Fees | \$ 2,078,355 |
| Other Project Costs (Soft Costs, Marketing, etc.) | \$ 2,938,725 |
| Developer Costs | \$ 3,655,167 |
| Total Uses | \$ 29,199,322 |

Description of Financial Structure and Bond Issuance:

The financial structure for the proposed project will be a private placement transaction provided by Citibank, N.A. (the "Bank") for both construction and permanent financing. During the construction financing phase the loan will be in the amount of \$22,000,000 with a loan term of 24 months (with one 6-month possible extension period) with a underwritten interest rate of 3% . A subordinate loan from the Bank totaling \$540,000 (interest rate 1%, term 55 years) will pay down a portion of the construction period bonds. This will be a cash flow based loan with non-accruing interest. During the permanent financing phase, the loan will be in the amount of \$14,450,000 with a loan term of 30 years with an amortization period of 35 years at a estimated fixed rate of 4.45%. The bonds will be issued by the California Statewide Communities Development Authority.

Analyst Comments:

None

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: 66.1 out of 140

[See Attachment A]

Recommendation:

Staff recommends that the Committee approve \$22,000,000 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 | 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 | 1.1 |
| Community Revitalization Area | 5 | 5 | 0 |
| Site Amenities | 10 | 10 | 0 |
| 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 | 66.1 |

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.