

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 16, 2018

**Consideration of Requests for a Waiver of the Forfeiture of Performance Deposit
And/or Negative Points for Various Qualified Residential Rental Projects (QRRP)**
(Agenda Item No. 4)

ACTION:

Consider the approval of a Waiver of the Forfeiture of Performance Deposit and/or Negative Points for various Qualified Residential Rental Projects (QRRP).

BACKGROUND:

Approval of a carryforward extension requires forfeiture of a project's performance deposit. Using less than 80% of the allocation requires a pro-rata forfeiture of a portion of the performance deposit. In addition, the full reversion of an award of allocation requires both the forfeiture of the project's performance deposit and the assessment of negative points against the Project Sponsor. The Committee may grant a waiver of each upon a satisfactory showing that: (1) the issue or event that prevented the issuance of the bonds was unforeseen; and (2) the issue or event was wholly outside the control of the Applicant and Project Sponsor. A waiver request must meet both parts of the test.

Posada De Colores Apartments, Application No. 17-316

The Posada De Colores Apartments ("Project") received an allocation on March 15, 2017 with a bond issuance expiration date of September 25, 2017. Upon the Applicant's request, the Executive Director granted issuance extensions to December 26, 2017 and to March 26, 2018. The performance deposit forfeiture in support of the project was waived at the March 21, 2018 Committee Meeting. The Applicant requested and was granted an additional 90 day extension to June 25, 2018. The performance deposit in support of the project was forfeited to the Committee in accordance with Section 5052 of the Committee's Regulations.

The original delay was the result of the Project's Phase 2 Environmental Report showing evidence of ground water and vapor contamination. The results of a second round of testing were received and were encouraging, but not conclusive, resulting in a necessary third round of testing, plus additional reviews and approvals by Alameda County. The third round of testing is now complete and if results come back that the contamination is coming from offsite, Alameda County will require no further action. If the results come back that the contamination is on-site, the remediation plan can be carried out in time for closing in early June 2018.

The Applicant requests a waiver of the performance deposit forfeiture, based upon the additional testing and reviews required by Alameda County, resulting in unforeseen delays that were outside of the Applicant's and Sponsor's control.

Maple and Main Apartments, Application No. 17-373

Maple and Main Apartments ("Project") received an allocation on July 19, 2017 with an expiration date of January 29, 2018. Upon the Applicant's request, the Executive Director granted a 90-day extension to April 30, 2018. The performance deposit forfeiture in support of the project was waived at the Committee meeting on March 21, 2018. The Applicant requested and was granted

a 5 day hardship extension to May 7, 2018, and an additional 90 day extension to August 6, 2018. The performance deposit in support of the project was forfeited to the Committee in accordance with Section 5052 of the Committee's Regulations.

The Project was delayed in closing due to the abrupt and unexpected withdrawal of the construction lender, Deutsche Bank in mid-April, a few weeks prior to the scheduled bond closing. The Sponsor had been working with Deutsche Bank for over a year and had the commitment of Deutsche Bank to provide project financing. Deutsche Bank recently replaced its CEO and announced a restructuring plan to reduce its operations in North America and focus on its operations in Europe. The Sponsor is discussing alternate financing with other banks and is confident that a new commitment will be secured and project financing finalized by July 2018.

The Applicant requests a waiver of the performance deposit forfeiture, based upon the factors noted above, resulting in unforeseen delays that were outside of the Applicant's and Sponsor's control.

Cottages at Mission Trail Apartments, Application No. 17-378

The Cottages at Mission Trail Apartments ("Project") received an allocation on September 20, 2017 with a bond issuance expiration date of April 2, 2018. Upon the Applicant's request, the Executive Director granted a 90-day extension to July 2, 2018 and the performance deposit in support of the project was forfeited to the Committee in accordance with Section 5052 of the Committee's Regulations.

This project was impacted by the new tax credit pricing due to the tax reform activity at the end of 2017. First, the tax credits dropped in price resulting in lower equity in the projects and, in addition, construction costs increased. To accommodate these changes, the project made some value engineering changes including redesigning and reducing the size of the recreation center, reconfiguring 39 two-bedroom, one and one-half bathroom units into two-bedroom, one-bath units, and merging 26 units with other existing units in one of the buildings, eliminating the need for an extra outside wall. These changes caused project delays which then required additional land carry payments, modifications to architecture and engineering plans and the re-engagement of the City of Lake Elsinore's planning process. The bond is expected to close by the end of June 2018.

The Applicant requests a waiver of the performance deposit forfeiture based upon the factors noted above resulting in the unforeseen delays that were outside of the Applicant's and Sponsor's control.

RECOMMENDATION:

In light of the circumstances described above, staff recommends the approval of the Waiver of Forfeiture of the Performance Deposit and/or Negative Points for the three (3) projects noted above: Posada de Colores Apartments, Maple and Main Apartments, and Cottages at Mission Trail Apartments.