



REPORT TO THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

DATE ISSUED: November 13, 2017

REPORT NO: HAR17-031

ATTENTION: Chair and Members of the Housing Authority of the City of San Diego
For the Agenda of December 11, 2017

SUBJECT: Preliminary Bond Authorization for Playa del Sol

COUNCIL DISTRICT: 8

REQUESTED ACTION

That the Housing Authority of the City of San Diego (Housing Authority) take initial steps to issue tax-exempt Multifamily Housing Revenue Bonds to facilitate the new construction of 42 affordable rental housing units for low-income families, to be located on a vacant site at Ocean View Hills Parkway, San Diego, 92154, which will remain affordable for 55 years.

STAFF RECOMMENDATIONS

That the Housing Authority of the City of San Diego (Housing Authority) approve initial steps to issue Housing Authority tax-exempt Multifamily Housing Revenue Bonds for this development, including:

- a) Issue a bond inducement resolution (Declaration of Official Intent) for up to \$11,500,000 in tax-exempt Multifamily Housing Revenue Bonds for new construction of Playa del Sol (Playa), 42 affordable rental housing units for low-income families, to be located on a vacant site at Ocean View Hills Parkway, San Diego, 92154, which will remain affordable for 55 years;
- b) Authorize an application (and subsequent applications if necessary) to the California Debt Limit Allocation Committee (CDLAC) for an allocation of authority to issue tax-exempt Multifamily Housing Revenue Bonds in an amount of up to \$11,500,000 for Playa; and
- c) Approve a bond financing team of Jones Hall as bond counsel, and CSG Advisors as bond financial advisor.

SUMMARY

A Development Summary is at Attachment 1.

Table 1 –Development Details

Address	To be located at Ocean View Hills Parkway, south of Del Sol Boulevard, near the intersection of Sea Fire Point, north of State Route 905, San Diego, CA, 92154 (parcel #645-040-75)
Council District	8
Community Plan Area	Otay Mesa
Development Type	New Construction (3 buildings with three floors each)
Construction Type	Type V
Parking Type	84 spaces (including 42 garage spaces)
Housing Type	Multifamily
Lot Size	1.8 acres, 78,408 square feet
Units	42 (including one affordable manager’s unit)
Density	23.33 dwelling units per acre (42 units ÷ 1.8 acres)
Unit Mix	3 one-bedroom units, 15 two-bedroom units, and 24 three-bedroom units
Gross Building Area	48,563 square feet
Net Rentable Area	38,850 square feet
Common Area	9,713 square feet

The Development

Playa is a proposed new construction affordable multifamily rental housing development of 42 units that will be located in the Ocean View Hills master planned community. Playa will fulfill certain affordability requirements for an off-site, unrelated property owned by Pardee Homes.

The Playa development will be on a vacant parcel located at Ocean View Hills Parkway, San Diego, CA (Attachment 2 - Site Map). Playa is composed of three buildings, each with 14 units, in a three story configuration. There will be 84 parking spaces. Playa will provide 42 affordable rental units including: three one-bedroom, 15 two-bedroom, and 23 three-bedroom units for families with incomes ranging from 50 percent to 60 percent of San Diego’s Area Median Income (AMI). These units will include one manager’s unit restricted at 65 percent of AMI.

Site amenities will include a barbecue area, community area and recreational facilities. Unit amenities will include: Energy Star appliances, air conditioning, window coverings, laminate flooring and garages.

Sustainability Features

The Playa development will be constructed in conformance with the California Tax Credit Allocation Committee (TCAC) minimum energy efficiency standards. It will exceed, by 10 percent, California’s Title 24 Code of Regulations Building Standards that govern the construction of California buildings. Water conservation will be promoted via drought-tolerant landscaping, and low-flow water fixtures in the kitchens and bathrooms.

The Property

The property is currently vacant land. To the property’s north and east, there are single-family residential uses. To the west and south is vacant land for future buildout of the Ocean View Hills master planned community. The location is near access to Interstates 805 and 905.

Acquisition Price

The acquisition price includes land at \$1 and \$3,388,492 for seller (Pardee) infrastructure and off-site costs.

Prevailing Wages

Because Playa proposes no State-source funds and no Federal-source funds, prevailing wages will not apply to the proposed development.

Relocation

Because the site is vacant, there is no relocation.

Accessibility

As required by TCAC, there will be wheelchair accessibility in 10 percent of the units (four units), and 5 percent of the units (two units) will be accessible to residents with visual and/or hearing impairment.

Development Team

The developer is Chelsea Investment Corporation (Chelsea). Chelsea is an award-winning, for-profit corporation headquartered in Carlsbad, California. Established in 1992, Chelsea specializes in the financing and development of affordable housing. Chelsea has more than 9,000 rental units under ownership in four states, including 6,700 rental units in Southern California. Playa will be owned by a Playa del Sol CIC, L.P., (a single-asset California limited partnership) that will include: CIC Playa del Sol LLC, an affiliate of Chelsea, as the administrative general partner; Southern California Housing Collaborative as nonprofit managing general partner; and a to-be-determined tax-credit investor limited partner. Chelsea has substantial development experience in a wide range of housing developments. Along with its affiliates, Chelsea provides financial, engineering, development, asset management, construction, and property management services. Chelsea has developed multiple affordable rental housing developments in the City of San Diego and previously has received Housing Commission loan funds. Chelsea is in full compliance on its previous San Diego Housing Commission (Housing Commission) funded loans. Based upon the developer’s past experience and performance, Housing Commission staff has determined that the developer has the capacity to successfully complete the proposed Playa development.

Property Management

Playa will be managed by Chelsea’s affiliate, CIC Management (CICM). CICM is highly qualified, having managed more than 4,000 units located in San Diego County, Imperial County, Sacramento, and Yuma, Arizona. Daily management activities will be subcontracted to ConAm Management Corporation. ConAm was founded in 1975, based in San Diego, and has substantial experience managing approximately 50,000 apartment homes nationwide.

Table 2 Development Team Summary

ROLE	FIRM/CONTACT
Developer	Chelsea Investment Corporation`
Owner	Playa del Sol CIC, L.P.
Administrative General Partner	CIC Playa del Sol, L.L.C.
Managing General Partner	Southern California Housing Collaborative (California nonprofit)
Tax Credit Investor Partner	To be selected
Architect	Bassenian Lagoni (Newport Beach)
General Contractor	Emmerson Construction Inc., (a Chelsea affiliate)
Property Management	CIC Management, Inc.
Construction and Permanent Lender	To be selected

STATEMENT FOR PUBLIC DISCLOSURE

The developer’s Statement for Public Disclosure is at Attachment 3.

FINANCING STRUCTURE

Permanent Sources and Uses of Financing

The estimated total development cost and sources and uses of funds are detailed in the pro forma attached to this report (Attachment 4) and summarized below.

Table 3 – Estimated Permanent Sources and Uses

Financing Sources	Amounts	Financing Uses	Amounts
Permanent loan (multifamily housing mortgage revenue bonds)	\$4,692,000	Acquisition of land	\$ 3,388,493
Accrued interest	127,068	Hard costs (with contingency)	7,828,483
Master developer note	3,388,492	Soft Costs	
			2,973,255
Developer Fee/Equity Contribution	800,000	Developer Fee	2,169,545
Deferred Developer Fee	869,545	Financing costs	800,035
Deferred Contactor’s Fee	259,585		
Master developer (seller) contribution	638,073		
Four percent tax credit equity	6,502,028	Reserves	116,980
Total Development Cost	\$17,276,791	Total Development Cost (TDC)	\$17,276,791

Development Cost Key Performance Indicators

Housing Commission staff has identified development cost performance indicators which were used to evaluate the proposed development and make a funding recommendation. The key performance indicators listed in Table 4 are commonly used by real estate industry professionals and affordable housing developers.

Table 4 - Key Performance Indicators

Development Cost Per Unit	$\$17,276,791 \div 42 \text{ units} =$	\$411,351
Housing Commission Subsidy Per Unit	$\$0 \div 42 \text{ units} =$	\$0
Acquisition Cost Per Unit	$\$3,388,493 \div 42 \text{ units} =$	\$80,678
Gross Building Square Foot Hard Cost	$\$7,828,483 \div 48,563 \text{ sq. ft.} =$	\$161
Net Rentable Square Foot Hard Cost	$\$7,828,483 \div 38,850 \text{ sq. ft.} =$	\$202

Project Comparison Chart

There are multiple factors and variables that influence the cost of developing multifamily affordable housing, including but not limited to project location, site conditions, environmental factors, land use approval process, community involvement, construction type, design requirements/constraints, economies of scale, City fees, developer experience and capacity, and the mission and goals of the organization developing the project. Similar construction-type developments (completed or approved) over recent years are listed in Table 5. These developments are similar in terms of new construction, target population, and construction type and are provided as a comparison to Playa.

Table 5 - Comparable Development Projects

Project Name	Year	Construction Type	Units	Prevailing Wages	Total Development Cost	Cost Per Unit	HC Subsidy Per Unit	Gross Hard Cost Sq. Ft.
Subject – Playa del Sol	2017	V	42	No	\$17,276,791	\$411,351	\$0	\$161
Torrey Vale	2015	V	28	No	\$11,163,101	\$398,682	\$0	\$157
Independence Point	2014	V	32	No	\$13,595,880	\$424,871	\$178,125	\$183

Developer Fee

\$2,169,545 - gross developer fee
 - 800,000 - minus developer’s fee contribution to the development
 - 869,545 - minus deferred developer’s fee
 \$ 500,000 - net cash developer fee

The fee proposed is consistent with the Request for Approval of Updated Developer Fees (HAR17-011) approved by the Housing Authority on April 25, 2017.

TAX-EXEMPT MULTIFAMILY HOUSING REVENUE BONDS

Proposed Housing Bonds

The Housing Commission utilizes the Housing Authority’s tax-exempt borrowing status to pass on lower interest rate financing (and make federal 4 percent tax credits available) to developers of affordable rental housing. The Housing Authority’s ability to issue bonds is limited under the U.S. Internal Revenue Code. To issue bonds for a development, the Housing Authority must first submit an application to CDLAC for a tax-exempt Multifamily Housing Revenue Bonds allocation. Prior to submitting applications to CDLAC, developments are brought before the Housing Commission, Housing Authority, and San Diego City Council. Housing Authority bond inducement resolutions must be obtained prior to application submittal, and City Council TEFRA resolutions must be secured no later than 30 days after application submittal. These actions do not obligate the Housing Authority to issue bonds.

The Playa developer plans to submit a bond allocation application to CDLAC for its March 2018 bond allocation meeting; however, if necessary, staff will submit additional applications to CDLAC to secure a bond allocation for the development. The developer will be seeking a CDLAC bond allocation of up to \$11,500,000. The developer proposes to issue the bonds through a tax-exempt private placement bond issuance. The bonds will meet all requirements of the Housing Commission’s Multifamily Housing Revenue Bond Program policy and will fully comply with the City of San Diego’s (City) ordinance on bond disclosure. The \$11,500,000 bond allocation that will be sought from CDLAC is the amount for which the Playa development is currently being underwritten. The bond amount that is ultimately issued will be based upon project costs, revenues, and interest rates prevailing at the time of bond issuance. The developer proposes that the bonds will be used for acquisition, new construction, and permanent financing. The Housing Commission staff will later return to both the Housing Commission and Housing Authority for approval of the final bond amount. A general description of the Multifamily Housing Revenue Bond Program and the actions that must be taken by the Housing Authority and by the City Council to initiate and finalize proposed financings are described in Attachment 5. Staff recommends assigning Jones Hall as Bond Counsel and CSG Advisors as Financial Advisor. These proposed financing team members have been selected in accordance with existing policy. Financial Advisors and Bond Counsels are designated on a rotating basis from firms selected under the program through a competitive Request for Proposal process.

AFFORDABLE HOUSING IMPACT

The development will be subject to applicable tax credit and bond regulatory agreements that will restrict affordability of 42 units for 55 years. The development’s 42 units will be affordable to tenants with income levels ranging from 50 percent to 60 percent of San Diego’s Area Median Income (AMI).

Table 6 Affordability and Monthly Estimated Rent Table

Unit Type	AMI	Number of Units	Gross Rents	Estimated Market Rents *
1 Bedroom	50%	1	\$852	\$1,650
1 Bedroom	60%	2	\$1,023	\$1,650
2 Bedroom	50%	2	\$1,023	\$1,925
2 Bedroom	60%	13	\$1,227	\$1,925
3 Bedroom	50%	2	\$1,136	\$2,350
3 Bedroom	60%	21	\$1,364	\$2,350
3 Bedroom (manager’s unit)	65%	1	\$0	\$2,350
Total		42		

* November 6, 2017 estimated market rents from MAI appraiser Lea & Company.

The more stringent of the funding sources’ affordability/rent restrictions will take precedence during the term of their applicability.

FISCAL CONSIDERATIONS

The proposed funding sources and uses to be approved by this action are included in the Housing Authority approved Fiscal Year (FY) 2018 Housing Commission Budget. Approving this action will not increase the FY 2018 total budget.

Funding sources approved by this action will be as follows:

Bond Issuance Fees - \$28,750

Funding uses approved by this action will be as follows:

Administrative Costs - up to \$28,750

There are no fiscal impacts to the Housing Commission, the City of San Diego, or the Housing Authority associated with the requested bond actions. Approval of the bond inducement and TEFRA resolutions do not commit the Housing Authority to issue bonds. The bonds will not constitute a debt of the City of San Diego. If bonds are ultimately issued for the development, the bonds will not financially obligate the City, the Housing Authority, or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources. Neither the faith and credit nor the taxing power of the City, nor the faith and credit of the Housing Authority will be pledged to the payment of the bonds. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's .0025 bond amount issuer fee (estimated at \$28,750 with a \$11,500,000 bond issue) and the Housing Commission’s ongoing annual bonds administrative fee (estimated as \$10,000 at permanent financing conversion).

Development Schedule

The estimated development timeline is as follows:

Milestones	Estimated Dates
• Housing Authority for preliminary approval	• December 11, 2017
• City Council IRS-required TEFRA hearing	• December 11, 2017
• Applications to TCAC (tax credit) and CDLAC (bond)	• January 18, 2018
• Allocation meetings at TCAC and CDLAC	• March 18, 2018
• Housing Commission final bond authorization	• April , 2018
• Housing Authority final bond authorization	• April, 2018
• Estimated bond issuance and escrow closing	• May 2018
• Start of construction	• May 2018
• Completion of construction	• Summer 2019

PREVIOUS COUNCIL and/or COMMITTEE ACTION

- Planning Commission report No. PC-08-151, dated November 13, 2008, approved Tentative Map No. 551809, Easement Vacation No. 580203, and Planned Development Permit No. 8075.
- San Diego City Council (Report No. 16-097, issued November 18, 2016) approval of Inclusionary Affordable Housing Regulations Variance No.1633600 by Ordinance allowing Pardee Homes to satisfy its inclusionary affordable housing obligation for the Castlerock Project (No.10046 and 388889) by providing off-site affordable housing within Pardee Homes Playa del Sol project.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS

Planning Commission report No. PC-08-151, dated November 13, 2008, referenced that on August 16, 2006 the Otay Mesa Planning Group voted 14 to 2 to support the overall master development.

KEY STAKEHOLDERS & PROJECTED IMPACTS

Stakeholders include Chelsea as the developer, Pardee Homes as the master developer, the Housing Authority as bond issuer, and the Otay Mesa neighborhood. The project is anticipated to have a positive impact on the community as it will contribute to the quality of the surrounding neighborhood and create 42 new affordable rental apartments for low-income persons.

ENVIRONMENTAL REVIEW.

This activity is not a "project" and is therefore not subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15060(c)(3). This determination is predicated on Section 15004 of the Guidelines, which provides direction to lead agencies on the appropriate timing for environmental review. This action does not constitute approval of a project. Approval will occur once the environmental review has been completed in accordance with CEQA Section 15004. This action will not foreclose review of alternatives or mitigation measures by the public as part of the CEQA process. The proposed actions are approval of preliminary steps to issue bonds and do not constitute approval of the development activity or authorization for the issuance of bonds. Future actions to consider and approve development entitlement approvals related to the future development of the site will require additional review under the provisions of CEQA by the lead agency. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,



J.P. Correia
Senior Real Estate Project Manager
Real Estate Department

Approved by,



Deborah N. Ruane
Executive Vice President & Chief Strategy Officer
San Diego Housing Commission

- Attachments:
1. Development Summary
 2. Site Maps
 3. Developer Disclosure Statement
 4. Project Pro forma
 5. Multifamily Bond Program Summary

Hard copies are available for review during business hours at the security information desk in the main lobby and at the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the "Public Meetings" section of the San Diego Housing Commission website at www.sdhc.org