SAN DIEGO HOUSING COMMISSION

EXECUTIVE SUMMARY

HOUSING COMMISSION
EXECUTIVE SUMMARY SHEET

DATE: November 16, 2017 HCR17-090

COUNCIL DISTRICT(S): Citywide

ORIGINATING DEPARTMENT: Real Estate Division

CONTACT/PHONE NUMBER: Ted Miyahara (619) 578-7548

REQUESTED ACTION:

That the San Diego Housing Commission recommend that the Housing Authority of the City of San Diego (Housing Authority) approve the proposed changes to the Multifamily Mortgage Revenue Bond Program Policy PO300.301, attached to the Board report, which is required to bring the Housing Authority's policy into conformance with applicable law.

EXECUTIVE SUMMARY OF KEY FACTORS:

- Proposed amendments to the Multifamily Mortgage Revenue Bond Program Policy (Bond Policy), as described in this report, will bring the Housing Authority's policy into conformance with applicable law.
- As of June 2017, approximately $558,707,819 of Multifamily Mortgage Revenue Bonds are outstanding and provide financing for 59 developments with a total of 8,202 units; 6,751 of these units are restricted at various levels of affordability.
- The Housing Commission's Bond Program policy was originally adopted in 1989, and subsequently revised in 1992, 1994, 1996, 1999, 2008, and 2013.
- Although the Housing Authority acts as the issuer of the bonds, there is no financial liability to the City, the Housing Authority, and the Housing Commission in connection with the issuance or repayment of bonds.
- Proposed major changes in this report include: (1) Sections 1.7(A) and 1.7(B) – Changes to initial and ongoing administrate fee calculation; (2) Add Section 1.9 – Identification and notification to Housing Commission when a contractor services on behalf of the project proponent; (3) Add Sections 2.5(D) and (E) – Include references to the applicable California Health and Safety Code provisions outlining the minimum term of affordability, tenant noticing requirements and notice requirements for the intent to sell an affordable property; (4) Add Section 2.6 – Documenting non-recourse of bond projects and noting that Housing Commission, Housing Authority or the City are not responsible for the repayment of the debt and budgets should not be impacted by bond financing of projects; (5) Section 3.2 – The methodology for calculating the household size and gross rent has been updated to what is permitted pursuant to California Health & Safety Code; (6) Add Sections 10.1 and 10.2 - requirements for post-issuance compliance monitoring; and (7) Section 10.4 – Additional language regarding responsibilities to ensure compliance with the annual State monitoring and reporting process and the project owner responsibilities related to IRS reporting during the qualified residential rental project term.

SAN DIEGO HOUSING COMMISSION
SDHC

ITEM 103

REPORT

DATE ISSUED: November 16, 2017 **REPORT NO**: HCR17-090

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of November 17, 2017

SUBJECT: Multifamily Mortgage Revenue Bond Program Policy Amendments

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

That the San Diego Housing Commission recommend that the Housing Authority of the City of San Diego (Housing Authority) approve the proposed changes to the Multifamily Mortgage Revenue Bond Program Policy PO300.301, attached to the Board report, which is required to bring the Housing Authority's policy into conformance with applicable law.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) recommend that the Housing Authority of the City of San Diego (Housing Authority) take the following actions, as described in this report.

1. Approve the proposed amendments to the Multifamily Mortgage Revenue Bond Program Policy (Bond Policy) as described in this report to bring the Housing Authority's policy into conformance with applicable law. Changes to the policy will apply only to bond issuances in progress and new bond applications received after the Housing Authority's proposed approval; and

2. Authorize the President and Chief Executive Officer of the Housing Commission, or his designee, to perform such acts as necessary or appropriate to implement the revised Bond Policy and administer the Housing Commission's Bond Program.

SUMMARY

The Housing Commission's Multifamily Mortgage Revenue Bond Program (Bond Program) has been utilized since 1982 to support the development of affordable housing in the City of San Diego (City). Since inception, the Bond Program has issued more than $1 billion in tax-exempt Multifamily Mortgage Revenue Bonds (also knowns as Multifamily Housing Revenue Bonds) to provide below-market rate financing for affordable housing developments.

As of June 2017, approximately $558,707,819 of Multifamily Mortgage Revenue Bonds are outstanding and provide financing for 59 developments with a total of 8,202 units, 6,751 of these units are restricted at various levels of affordability. A summary of current bond financed developments is provided as Attachment 1.

State and local governmental agencies and joint powers authorities can issue taxable and tax-exempt Multifamily Mortgage Revenue Bonds (Bonds). The Housing Authority is the local governmental agency responsible for issuing Bonds for multifamily rental housing developments located in the City of San Diego.

The Housing Commission established and administers the program (Attachment 2), which allows the Housing Authority to issue Bonds. The Housing Authority issues Bonds on behalf of private businesses for the purpose of acquiring, rehabilitating and developing multifamily rental housing. The Bond Program provides developers with favorable financing rates and access to non-competitive low-income housing tax credits. Interest earnings on tax-exempt Bonds are excluded from federal gross income and therefore are exempt from federal income taxation. The Bonds lower the interest rate paid by the developers of multifamily rental housing.

Under federal and state law, to be eligible for bond financing, multifamily housing developments must set aside at least 20 percent of their units for occupancy by households earning no more than 50 percent of Area Median Income (AMI) (currently $45,450 for a family of four). Alternatively, a minimum of 10 percent of the units may be restricted at 50 percent of AMI with an additional 30 percent of the units restricted at 60 percent of AMI (currently $54,540 for a family of four). Due to the combined requirements of state, local, and federal funding sources, projects financed under the Bond Program are affordable for 55 years and often provide deeper affordability levels than the minimum levels required under the Bond Program.

Developments that utilize tax-exempt Bonds are eligible for an allocation of non-competitive low-income housing tax credits. Equity from the sale of low-income housing tax credits can provide a significant portion of the financing necessary to develop affordable housing (approximately 30-40 percent of the total development costs).

Although the Housing Authority acts as the issuer of the bonds, there is no financial liability to the City, the Housing Authority, and the Housing Commission in connection with the issuance or repayment of bonds. The bonds are special, limited obligations of the Housing Authority, payable solely from private revenue sources, such as project cash flows and equity payments.

The Bond Program policy has been periodically updated to respond to changes in the regulatory environment and to remain a useful incentive to produce affordable housing within the City. The Housing Commission's Bond Program policy was originally adopted in 1989, and subsequently revised in 1992, 1994, 1996, 1999, 2008, and 2013.

<u>Recommended Major Changes</u>
The following material changes to the bond policy are recommended:

1. Change the Policy Title to Bond Issuance and Post-Issuance Compliance Policy.

2. Amend Sections 1.7(A) and 1.7(B) – Clarifying language regarding the calculation of the initial and ongoing administrative fee calculation. An amount equal to 25 basis points (0.25 percent) of the initial principal amount of bonds issued will be due on the closing. The annual ongoing administrative fee will be an amount equal to (a) prior to conversion to permanent financing, 0.125 percent of the maximum authorized principal amount of the bonds as of the closing date for the bonds, and (b) after conversion to permanent financing, if applicable, 0.125 percent of the outstanding principal amount of the bonds immediately after conversion to permanent financing; however, the annual ongoing fee in any event will not be less than $10,000. The annual fee will be charged each year during the compliance period under the Bond Regulatory Agreement for the project (see Section 3.1) to recover administrative and monitoring costs of the Housing Commission, which will be charged to all projects for such compliance period, including projects where bonds are fully repaid prior to the end of the compliance period. The ongoing annual fee will be due and payable without the requirement

for any invoice to be delivered to the project owner, on the first day of the month in which the anniversary of the bond closing occurs based on the facts in existence as of such first day of such month.

3. Add Section 1.9 – Contractor services on behalf of the project proponent requires that the project proponent provide to the Housing Commission, in writing, a statement describing their relationship with the contractor and any rights the contractor has to income and obligations generated from any proposed bond issuance activity.

4. Add Sections 2.5(D) and (E) – Include references to the applicable California Health and Safety Code provisions outlining the minimum term of affordability (Section 52080(g), tenant noticing requirements (Section 65863.10), and notice requirements for the intent to sell an affordable property (Section 65863.11).

5. Add Section 2.6 – Documenting non-recourse of bond projects and noting that Housing Commission, Housing Authority or the City are not responsible for the repayment of the debt and budgets should not be impacted by bond financing of projects.

6. Section 3.2 – The methodology for calculating the household size and gross rent has been updated pursuant to recent changes to Sections 34312.3(c)(1)(B) and (c)(2)(B) of the California Health and Safety Code. The State updated California Health and Safety Code to be consistent with Section 42(g)(2)(C) of the Internal Revenue Code.

7. Add Section 4.6 – Including language on indemnification in the policy.

8. Section 6.4 and 6.5 – Adjusting the distribution of work for the Municipal Advisor and Bond Counsel based on past performance, experience with similar transactions, and capacity to meet the project deadlines.

9. Section 7.2 – Clarifying the time of releasing the Housing Commission application deposit.

10. Add Sections 10.1 and 10.2 – To insure compliance with current law, additional guidance is included in the Housing Commission Bond Policy documenting the requirements for post-issuance compliance monitoring. This includes a section on project owner responsibilities, outlining the term in which all documents are required to be retained, identifying the types of documents to be kept, and describing the process for projects out of compliance. This also adds to the policy information on the Housing Commission staff responsibilities, outlining the frequency of reviewing responsibilities and documenting Housing Commission staff's role in post-issuance compliance monitoring.

11. Section 10.4 – Including additional language on the Housing Commission staff's responsibilities to ensure compliance with the annual California Debt Limit Allocation Committee (CDLAC) monitoring and reporting process and the project owner responsibilities related to IRS reporting during the qualified residential rental project term.

FISCAL CONSIDERATIONS:
Approving this action will not change the Housing Authority-Approved Fiscal Year 2018 budget.

Approving this action will result in revenue changes from bond issuance and application fees for Fiscal Years 2019 and thereafter.

PREVIOUS COUNCIL and/or COMMITTEE ACTION
The Housing Commission's Bond Program policy was originally adopted by the Housing Authority in 1989, and subsequently revised in 1992, 1994, 1996, 1999, 2008, and 2013.

KEY STAKEHOLDERS and PROJECTED IMPACTS
Key stakeholders include: affordable housing developers, the Housing Commission, the Housing Authority and prospective low-income tenants. It is projected that the proposed changes will make the Bond Program administration more efficient, bring it into compliance with CDLAC and IRF requirements, and provide program clarity to staff and the public.

ENVIRONMENTAL REVIEW
This activity is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(4), as it is a government administrative activity that will not result in direct or indirect physical changes in the environment. This activity is also exempt from review under the National Environmental Policy Act as no federal funding is involved in this action.

Respectfully submitted,	Approved by,
Ted Miyahara	*Deborah N. Ruane*
Ted Miyahara Vice President, Multifamily Housing Finance Real Estate Division	Deborah N. Ruane Executive Vice President & Chief Strategy Officer San Diego Housing Commission

Attachments:
1) Summary of Bond Projects
2) Bond Program Summary
3) Strikeout and Underline Bond Policy with proposed changed
4) Draft Bond Policy Amendments

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.

ATTACHMENT 1
SUMMARY OF BOND FINANCED PROJECTS
THROUGH JUNE 30, 2017

Project	Address	Council District	Community	Issue Date	Principal Amount	Total Units	Restricted Units	Project Type
16th and Market	640 16th Street	3	Downtown	6/26/07	$ 2,945,214	136	134	New Construction
Alabama Manor	3822-3866 Alabama Street	3	Greater North Park	4/19/07	$ 928,036	67	66	Acq/Rehab
Bay Vista Methodist Heights	4888 Logan Avenue	4	Encanto	2/7/08	$ 24,190,000	268	267	Acq/Rehab
Beyer Courtyard Apartments	920 Beyer Boulevard	8	Otay Mesa-Nestor	10/22/04	$ 4,321,359	60	59	New Construction
Boulevard Apartments	3137 El Cajon Blvd	3	Greater North Park	5/9/08	$ -	24	23	New Construction
Bridgeport Properties	Scattered sites		(multiple sites)	10/15/98	$ -	421	421	Acq/Rehab
Canyon Rim Apartments	10931 Gerana Street	5	Rancho Penasquitos	6/21/00	$ 32,440,000	504	352	Acq/Rehab
Casa Colina del Sol Apts	5207 52nd Place	9	Mid-City City Heights	11/21/03	$ 3,125,000	75	74	Acq/Rehab
City Scene Apartments (2010)	4105 Georgia Street	3	Greater North Park	11/23/10	$ 5,400,000	31	30	New Construction
Colina Park North	4333 Dawson Avenue	9	Mid-City City Heights	12/20/07	$ -	64	63	Acq/Rehab
Creekside Village Apartments	4685 Nogal Street	4	Encanto	6/24/99	$ 6,000,000	144	43	Acq/Rehab
Del Sol Apartments	3606-3690 Del Sol Boulevard	8	Otay Mesa-Nestor	9/1/06	$ 4,623,524	91	90	Acq/Rehab
Delta Village Apartments	4368 Delta Street	9	Southeastern San Diego	6/29/05	$ 6,400,000	108	107	Acq/Rehab
Fairbanks Ridge	16016 Babcock Street	5	Black Mountain Ranch	6/28/05	$ 12,360,228	204	203	New Construction
Harbor View Villas Apartments	404 North 47th Street	4	Encanto	11/28/01	$ 2,710,000	60	59	Acq/Rehab
Hillside Gardens Apartments	5802 University Avenue	9	Mid-City Eastern	12/24/04	$ 37,510,000	380	76	Acq/Rehab
Hollywood Palms	4366 Home Avenue	9	Mid-City City Heights	8/7/01	$ 5,005,000	94	94	New Construction
Island Village Apartments	1245 Market Street	3	Downtown	12/31/01	$ 9,790,000	281	280	New Construction
President John Adams Manor Apartments	5471 Bayview Heights Place	4	Mid-City Eastern	9/21/98	$ 7,484,000	300	300	Acq/Rehab
Kalos Apartments (2011)	3783-3825 Florida Street	3	Greater North Park	7/20/11	$ 14,588,000	83	82	New Construction
Logan Square Apartments (Bella Vista)	4742 Solola Avenue	4	Skyline - Paradise Hills	7/11/02	$ 8,907,995	170	169	Acq/Rehab
Mariner's Cove Apartments	4392 W.Point Loma Blvd	2	Ocean Beach	8/20/93	$ 4,655,000	500	100	New Construction
Market Street Square Apts.	606 Third Avenue	3	Downtown	10/7/96	$ 6,085,000	192	40	New Construction
Maya Apartments	10101 Maya Linda Road	6	Mira Mesa	6/17/05	$ 4,490,500	132	41	Acq/Rehab
Mirada Apartments	7568 Charmant Drive	1	University	8/12/96	$ 39,601,440	444	89	New Construction
Mission Apts (2011)	1815-1875 Hancock Street	2	Midway - Pacific Highway	5/27/11	$ 8,276,180	85	84	New Construction
Mountain View Estates Apts	4066 Messina Drive	4	Southeastern San Diego	4/24/98	$ 35,975,000	145	97	Acq/Rehab
North Park Properties	4238 54th Pl. & 4501 Logan Ave	9	Mid-City Eastern & Southeastern San Diego	5/26/99	$ 8,610,000	166	165	Acq/Rehab
Parkside Apartments	4010-4050 Park Haven Court	4	Southeastern San Diego	11/21/01	$ 887,932	40	39	Acq/Rehab
Parkside Terrace	505 13th Street	3	Downtown	3/3/08	$ 4,647,096	77	76	New Construction
Rancho del Norte	16775 Saintsbury Glen	5	Black Mountain Ranch	12/5/03 & 10/3/05	$ 5,985,000	119	118	New Construction
Redwood Villa	3060 53rd Street	4	Mid-City Eastern	9/14/07	$ 2,370,000	92	90	Acq/Rehab
Regency Centre Apartments	4765 Home Avenue	9	Mid-City City Heights	7/14/00	$ 3,418,372	100	99	Acq/Rehab
Sorrento Tower Apts (2011)	2875 Cowley Way	2	Clairemont Mesa	4/29/11	$ 14,260,000	198	197	Acq/Rehab
Stratton Apartments	5765 Mount Alifan Drive	6	Clairemont Mesa	6/21/00	$ 19,825,000	312	218	Acq/Rehab
Studio 15 Apartments	1475 Imperial Avenue	3	Downtown	10/25/06	$ 8,330,000	275	273	New Construction
Ten Fifty B	1050 B Street	3	Downtown	5/9/08	$ 9,590,446	229	226	New Construction
Terramar Apartments (2011)	13481-13483 Silver Ivy Lane	5	Torrey Highlands	7/27/11	$ 3,963,000	21	20	New Construction
Torrey Highlands Apartments	13370 Torrey Meadows Drive	5	Torrey Highlands	7/20/01	$ -	76	75	New Construction
Villa Andalucia Apartments	6587-6595 Rancho Del Sol Way	1	Pacific Highlands Ranch	6/27/02	$ 1,565,000	32	31	New Construction
Villa Glen Apartments	6984-6996 Torrey Santa Fe Rd.	5	Torrey Highlands	6/27/02	$ 1,195,000	26	25	New Construction
Villa Nueva	3604 Beyer Blvd.	8	San Ysidro	9/13/07	$ 37,500,000	398	395	Acq/Rehab
Village Green Apartments	4140 Bonillo Drive	4	Mid-City Eastern	10/1/09	$ 6,461,493	93	92	Acq/Rehab
Windwood Village Apartments	12730-12770 Briarcrest Place	1	Pacific Highlands Ranch	9/25/02	$ 3,780,000	92	91	New Construction
Knox Glen Apartments (2012)	4754 Logan Avenue	4	Encanto	11/7/12	$ 5,025,000	54	53	Acq/Rehab
Fairbanks Commons (2012)	15870 Camino San Bernardo	5	Black Mountain Ranch	12/12/12	$ 35,900,000	165	163	New Construction
Celadon (2013)	929 Broadway	3	Downtown	2/1/13	$ 21,600,000	121	120	New Construction
COMM 22 Family Housing (2013)	2225 and 2325 Commercial St.	8	Logan Heights	2/27/13 & 5/30/13	$ 28,700,000	130	129	New Construction
COMM 22 Senior Housing (2013)	690 Beardsley Street	8	Logan Heights	10/8/13	$ 15,500,000	70	69	New Construction
Fairbanks Square (2013)	16050 Potomac Ridge Road	5	Black Mountain Ranch	11/27/13	$ 15,364,000	100	98	New Construction
City Heights Scattered Sites (2014)	Scattered sites	9	Mid-City City Heights	2/12/14	$ 8,000,000	132	129	Acq/Rehab
Alpha Square (2014)	550 14th Street	3	Downtown	3/13/14	$ 6,200,000	53	53	New Construction
Independence Point (Willie James Jones) (2014)	327-405 South Willie James Jones Avenue	4	Encanto	7/18/14	$ 7,525,000	32	31	New Construction
Westminster Manor (2014)	1730 Third Avenue	3	Uptown	11/18/14	$ 27,300,791	152	150	Acq/Rehab
San Diego Square (2014)	1055 Ninth Avenue	3	Downtown	11/25/14	$ 17,825,000	156	154	Acq/Rehab
Rancho del Sol (2015)	6711 Torenia Trail	1	Pacific Highlands Ranch	1/14/15	$ 17,363,000	96	95	New Construction
Cielo Carmel I (2015)	6050 Camino San Fermin	1	Pacific Highlands Ranch	3/11/15	$ 16,322,822	107	106	New Construction
Cielo Carmel II (2015)	6050 Camino San Fermin	1	Pacific Highlands Ranch	3/11/15	$ 13,862,772	90	89	New Construction
Atmosphere II (2015)	1453 Fourth Avenue	3	Downtown	3/20/15	$ 25,687,989	105	103	New Construction
Trolley Residential (2015)	4981 Market Street	4	Encanto	6/26/15	$ 15,000,000	52	51	New Construction
Mayberry Townhomes (2015)	4328-70 & 4490 Mayberry Street	9	Southeastern San Diego	9/1/15	$ 9,959,732	70	69	Acq/Rehab
Torrey Vale - Elms & Ivy (2016)	6525 Rancho Del Sol Way	1	Pacific Highlands Ranch	1/15/16	$ 6,200,000	28	28	New Construction
Mesa Verde Apartments (2016)	7785 Mission Gorge Road	7	Navajo	4/7/16	$ 22,378,000	90	89	New Construction
Fairbanks Terrace (2016)	16325 Paseo Del Sur	5	Black Mountain Ranch	4/13/16	$ 15,300,000	83	82	New Construction
Vista La Rosa (2016)	2002 Rimbey Ave	8	Otay Mesa-Nestor	6/20/16	$ 48,756,000	240	238	Acq/Rehab
North Park Seniors LGBT (2016)	4200 Texas Street	3	North Park	7/27/16	$ 15,000,000	76	75	New Construction
Vista Terrace Hills (2016)	1790 Del Sur Boulevard	8	San Ysidro	9/30/16	$ 96,690,556	262	260	Acq/Rehab
	Subtotal				$ 911,660,477	9,873	8,107	
Park & Market (2017)	Park & Market Street	3	Downtown	6/20/17	$ 216,500,000	426	85	New Construction
	Subtotal				$ 216,500,000	426	85	
		Totals:			**$ 1,128,160,477**	**10,299**	**8,192**	

Affordable Units Project Type	
3,619	New Construction
+ 4,573	Acq/Rehabilitation
8,192	Total Affordable Units

ATTACHMENT 2

HOUSING COMMISSION
MULTIFAMILY HOUSING REVENUE
BOND PROGRAM SUMMARY

General Description: The multifamily housing bond program provides below-market financing (based on bond interest being exempt from income tax) for developers willing to set aside a percentage of project units as affordable housing. Multifamily housing revenue bonds are also known as "private activity bonds" because the projects are owned by private entities, often including nonprofit sponsors and for-profit investors.

Bond Issuer: Housing Authority of the City of San Diego. There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds. There is no pledge of the City's faith, credit or taxing power nor of the Housing Authority's faith and credit. The bonds do not constitute a general obligation of the issuer because security for repayment of the bonds is limited to specific private revenue sources, such as project revenues. The developer is responsible for the payment of costs of issuance and all other costs under each financing.

Affordability: Minimum requirement is that at least 20% of the units are affordable at 50% of Area Median Income (AMI). Alternatively, a minimum of 10% of the units may be affordable at 50% AMI with an additional 30% of the units affordable at 60% AMI. The Housing Commission requires that the affordability restriction be in place for a minimum of 15 years. Due to the combined requirements of state, local, and federal funding sources, projects financed under the Bond Program are normally affordable for 30-55 years and often provide deeper affordability levels than the minimum levels required under the Bond Program.

Rating: Generally "AAA" or its equivalent with a minimum rating of "A" or, under conditions that meet IRS and Housing Commission requirements, bonds may be unrated for private placement with institutional investors (typically, large banks). Additional security is normally achieved through the provision of outside credit support ("credit enhancement") by participating financial institutions that underwrite the project loans and guarantee the repayment of the bonds. The credit rating on the bonds reflects the credit quality of the credit enhancement provider.

Approval Process:

- Inducement Resolution: The bond process is initiated when the issuer (Housing Authority) adopts an "Inducement Resolution" to establish the date from which project costs may be reimbursable from bond proceeds (if bonds are later issued) and to authorize staff to work with the financing team to perform a due diligence process. The Inducement Resolution does not represent any commitment by the Housing Commission, Housing Authority, or the developer to proceed with the financing.

- TEFRA Hearing and Resolution (Tax Equity and Fiscal Responsibility Act of 1982):

To assure that projects making use of tax-exempt financing meet appropriate governmental purposes and provide reasonable public benefits, the IRS Code requires that a public hearing be held and that the issuance of bonds be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located (City Council). This process does not make the City financially or legally liable for the bonds or for the project.

> [Note: It is uncommon for the members of the City Council to be asked to take two actions at this stage in the bond process---one in their capacity as the City Council (TEFRA hearing and resolution) and another as the Housing Authority (bond inducement). Were the issuer (Housing Authority) a more remote entity, the TEFRA hearing and resolution would be the only opportunity for local elected officials to weigh in on the project.]

- Application for Bond Allocation: The issuance of these "private activity bonds" (bonds for projects owned by private developers, including projects with nonprofit sponsors and for-profit investors) requires an allocation of bond issuing authority from the State of California. To apply for an allocation, an application approved by the Housing Authority and supported by an adopted inducement resolution and by proof of credit enhancement (or bond rating) must be filed with the California Debt Limit Allocation Committee (CDLAC). In addition, evidence of a TEFRA hearing and approval must be submitted prior to the CDLAC meeting.

- Final Bond Approval: The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Prior to final consideration of the proposed bond issuance, the project must comply with all applicable financing, affordability, and legal requirements and undergo all required planning procedures/reviews by local planning groups, etc.

- Funding and Bond Administration: All monies are held and accounted for by a third party trustee. The trustee disburses proceeds from bond sales to the developer in order to acquire and/or construct the housing project. Rental income used to make bond payments is collected from the developer by the trustee and disbursed to bond holders. If rents are insufficient to make bond payments, the trustee obtains funds from the credit enhancement provider. No monies are transferred through the Housing Commission or Housing Authority, and the trustee has no standing to ask the issuer for funds.

Bond Disclosure: The offering document (typically a Preliminary Offering Statement or bond placement memorandum) discloses relevant information regarding the project, the developer, and the credit enhancement provider. Since the Housing Authority is not responsible in any way for bond repayment, there are no financial statements or summaries about the Housing Authority or the City that are included as part of the offering document. The offering document includes a paragraph that states that the Housing Authority is a legal entity with the authority to issue multifamily housing bonds and that the Housing Commission acts on behalf of the Housing Authority to issue the bonds. The offering document also includes a paragraph that details that there is no pending or threatened litigation that would affect the validity of the bonds or curtail the ability of the Housing Authority to issue bonds. This is the extent of the disclosure required of the Housing Authority, Housing Commission, or the City. However, it is the obligation of members of the Housing Authority to disclose any material facts known about the project, not available to the general public, which might have an impact on the viability of the project.

1. SUMMARY

1.1 Federal, state and local legislation authorize the issuance of mortgage revenue bonds by local governments to finance the development, acquisition, construction and rehabilitation of multifamily rental projects. The interest on the bonds can be exempt from federal and state taxation, and provide below market rate financing for qualified project. In addition, the tax-exempt mortgage revenue bonds can qualify projects for allocations of federal low-income housing tax credits, which may provide a significant portion of the funding necessary to develop affordable housing. The San Diego Housing Commission (“Housing Commission”) has established a program (the “Program”) to issue mortgage revenue bonds for qualified multifamily rental projects within the City of San Diego (the “City”). The Housing Commission’s Program uses tax-exempt and taxable mortgage revenue bonds (including notes and other debt instruments) issued by the Housing Authority of the City of San Diego (the "Housing Authority") to subsidize the development of affordable rental housing within the City.

1.2 There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City's or the Housing Authority's faith, credit or taxing power and the bonds do not constitute general obligations of the issuer because the security for repayment of bonds is limited to project revenue and other sources specified in the documentation for ~~under~~ each financing. ~~The b~~Bonds ~~issuances~~ for affordable housing projects are often effectively structured as real estate loans, and the obligation to repay the bonds is secured by a first deed of trust on the bond-financed property. The Program is completely self-supporting; developers must secure funding to pay for costs of issuance of the bonds and all other costs ~~under~~of each financing.

1.3 Bonds issued under the ~~p~~Program should generally be privately placed with a financial institution ~~or rated "AAA", or its equivalent~~or publicly issued, with a minimum rating ~~being~~ of "A", or its equivalent, by one or more of the nationally recognized rating agencies listed in Section 4.1. ~~The~~Proceeds of the bonds may be used for both costs of construction or rehabilitation and permanent financing. The effective mortgage rate is the aggregate of the applicable bond rate and the add-on fees charged under the program, such as lender, trustee, issuer's fee, etc. The bond rate, for fixed rate bonds, is determined at the time of a bond sale and the resulting mortgage rate is typically below conventional mortgage rates. The project loans generally have a 30-year amortization schedule although the bond maturity may be shorter.

1.4 The goals of the Program include: increase and preserve the supply of affordable rental housing; encourage economic integration within residential communities; maintain a quality living environment for residents of assisted projects and surrounding properties; and, in the event of provision of public funds towards the project, optimize the effectiveness of Housing Commission, or other public funding by maximizing the leveraging of private sector funds.

1.5 ~~There is no limit on the maximum loan amount; however, the minimum loan amount is determined by the overall cost effectiveness of the financing, which includes payment for the costs of issuance, services of the financing team members, rating fees, etc.~~ The bond issuance and related loan amount for individual projects is based upon project costs, interest rates, revenues available to pay debt service, and the appraised value of the project being financed. The Housing Authority will consider multiple properties as part of a single bond financing on a case by case basis. If a tax-exempt financing is involved, bond and related loan amounts will be subject to the procedures of the California Debt Limit Allocation Committee ("CDLAC"), as described in Section 2.3 below.

1.6 Projects must consist of complete rental units, including kitchens and bathrooms. Bond proceeds may be used for costs of ~~property~~land acquisition (up to 25% of tax-exempt bond proceeds), construction, rehabilitation, improvements, architectural and engineering services, construction interest, loan fees and other capital costs of the project incurred after the date sixty days before the bond inducement date specified in Section 7.3. ~~Bond~~Tax-exempt bond proceeds cannot be used to acquire property from a party related to the buyer. No more than 2% of tax-exempt bond proceeds can be used to finance costs of issuance, such as the services of the financing team members, rating and printing of bonds, cost related to bond allocation, etc. Pursuant to federal tax-exempt bond requirements, if bonds are used for acquisition and rehabilitation, an amount equal to at least 15 percent of the portion of the acquisition cost of the building and related equipment financed with the proceeds of bonds must be used for rehabilitation of the project. The loans are assumable upon transfer of the project with the approval of the credit enhancement provider or bond purchaser, and the President and Chief Executive Officer of the ~~San Diego~~ Housing Commission (~~the "President and CEO"~~ "CEO") or his designee.

1.7 The Housing Commission receives compensation for its services in preparing bond issuances by charging an up-front administrative fee payable at the bond closing. In addition, the Housing Commission also receives ongoing, annual fees for compliance monitoring of regulatory restrictions and administrative oversight of outstanding bond ~~issuances~~issues.

A. The ~~up-front~~ administrative fee due on the bond closing date, is an amount equal to 25 basis points (0.25%) of the initial principal amount of bonds issued (or in the case of draw-down bonds [a bond structure with multiple draws over time]) the initial maximum authorized principal amount of bonds), not to exceed for tax-exempt bonds the amount otherwise ~~or as~~ allowed by the Internal Revenue Service ("IRS").

~~B. The annual ongoing administrative fee upon conversion to permanent financing is equal to 12.5 basis points (0.125%) of the amount of bonds outstanding immediately upon conversion to permanent financing or as allowed by the IRS. For projects fully paying down the bonds upon conversion to permanent financing, and for small projects, a minimum ongoing annual fee of $10,000 shall be charged to recover administrative and monitoring costs.~~

B. The annual ongoing administrative fee will be an amount equal to (a) prior to conversion to permanent financing, 0.125% of the maximum authorized principal amount of the bonds as of the closing date for the bonds, and (b) after conversion to permanent financing, if applicable, 0.125% of the outstanding principal amount of the bonds immediately after conversion to permanent financing; however, the annual ongoing fee in any event will not be less than $10,000. The annual fee will be charged each year during the compliance period under the Bond Regulatory Agreement for the project (see Section 3.1), to recover administrative and monitoring costs of the Housing Commission, which will be charged to all projects for such compliance period, including projects where bonds are fully repaid prior to the end of the compliance period. The ongoing annual fee will be due and payable without the requirement for any invoice to be delivered to the project owner, on the first day of the month in which the anniversary of the bond closing occurs based on the facts in existence as of such first day of such month.

C. The annual ongoing administrative fee will remain fixed based on using the principal amount of bonds outstanding at permanent financing conversion regardless of any later reductions ~~on~~of the outstanding principal of the bonds.

D. Additional monitoring fees may be charged for monitoring affordable housing units not governed by regulatory agreements in addition to the Bond Regulatory Agreement or for projects with more than 50 units.

E. At the time of the application, ~~the developer~~ the project proponent must pay a $3,000 non-refundable application fee to the Housing Commission.

1.8 Due to IRS limitations ~~on bond issuances~~ applicable to fees charged by issuers of tax-exempt bonds where the bond purchaser and the tax credit investor are the same or related entities, the Housing Authority ~~shall~~ will not ~~allow~~ issue bond issuances for projects where the tax credit investor is also the same or a related entity to the bond purchaser. Exceptions may be granted on a case-by-case basis, in the ~~sole reasonable~~ discretion of the Housing Authority's Executive Director or his designee.

1.9 To the extent that contractors will be providing services on behalf of a project proponent or a project owner related to the requirements of these Policies, the project proponent or project owner, as applicable, shall provide the Housing Commission with a written statement describing their relationship with the contractor and any rights the contractor has to income and obligations generated from any proposed bond issuance activity.

2. TYPES OF BONDS

2.1 The Housing Authority may issue either tax-exempt or taxable bonds (which includes notes or other debt instruments), or both. Taxable bonds would generally be issued only in combination with tax-exempt bonds. Taxable bonds do not require an allocation of tax-exempt bond ~~authority from the California Debt Limit Allocation Committee ("~~CDLAC~~")~~ but still require compliance with ~~s~~State law requirements governing the Housing Authority's ability to issue bonds.

2.2 The interest paid on taxable bonds is not exempt from federal taxation. These bonds are not subject to federal volume "cap" limitations and therefore do not require allocation authority from CDLAC. Taxable bond issues must meet all applicable requirements of this Policy (including rating requirements), ~~s~~State law requirements and any additional regulations that may be promulgated, from time to time, by the Housing Commission.

2.3 ~~Tax-Exempt Bonds (Non-Refunding)~~ Bond interest which is tax-exempt under federal tax law (other than refunding bonds and 501(c)(3) bonds described below), requires an allocation of bond authority from CDLAC. To obtain the allocation, the Housing Authority must submit an application to CDLAC on behalf of the ~~developer~~ project proponent. Submittal of the application is at the discretion of the Housing Authority, not the ~~developer~~ project proponent. The ~~developer~~ project proponent must provide all deposits and pay all fees required by CDLAC ~~fees~~ when due.

2.4 The Housing Authority may issue bonds described in section 145 of the federal tax code ~~501(c) (3) bonds~~ on behalf of qualified nonprofit organizations. The interest on these 501(c) (3) bonds ~~are~~ is tax-exempt and these bonds do not require an allocation from CDLAC, but cannot be used with the Low Income Housing Tax Credit Program.

2.5 The Housing Authority will ~~allow~~ consider ~~refunding of bond issues that meet~~ the issuance of bonds to refund outstanding bonds subject to the following conditions:

A. The project ~~sponsor~~ proponent agrees to cover all costs of the issuer, including costs for the issuer's ~~financial~~municipal advisor, bond counsel, and trustee (if applicable).

~~B. Projects originally financed by tax-exempt bonds prior to the 1986 Tax Act will have to make a minimum ten percent of the units affordable to persons earning 50 percent of median area income with the rents affordable at the same level.~~

~~C~~B. The affordability restrictions of the existing bond regulatory agreement are subject to extension. The Housing Commission reserves the right to impose additional requirements on a case by case basis. All specifics of refunding proposals must be approved by the Housing Authority.

C. The provisions of Section 52080(g) of the California Health and Safety Code shall apply to projects financed under the Program, which requires that low-income units remain affordable, except in certain circumstances, until thirty (30) years after the commencement of the qualified project period (as referred to therein).

D. Except in limited circumstances, the provisions of Sections 65863.10 and 65863.11 of the California Government Code shall apply to projects financed under the Program, and project proponents are advised to review the requirements of such Sections.

~~D.~~E. Default refunding applications require a default refunding analysis (to determine the eligibility for a default refunding).The Housing Commission shall choose the firm to conduct the analysis. The project applicant will deposit the cost for the study with the Housing Commission before the study begins.

2.6 Bonds for projects are intended to be non-recourse conduit financing in which none of the Housing Commission, the Housing Authority or the City will be responsible for the repayment of the debt. The Housing Authority's own capital improvement plans and budgets should not be impacted by the bond financing of projects

3. AFFORDABILITY REQUIREMENTS

3.1 Term of Rental and Affordability Restrictions—The project must remain as rental housing and continuously meet the affordability requirements as provided in Sections 3.2, 3.3 and 3.4 for the longer of

(a) ~~15 years as measured from the date that ten percent (10%) of the affordable Units are occupied (or date of refunding, as applicable),~~the Qualified Project Period (as defined in Internal Revenue Code of 1986), (b) as long as the bonds remain outstanding, (c) such period as may be required in the opinion of Bond Counsel to satisfy applicable federal or State law, or (d) such period as may be required by CDLAC (typically 55 years). Additional affordability may be required as described in 2.5(C) above. The rent of "in-place" tenants at the conclusion of the required affordability period will continue to be governed by the applicable affordability restriction, so long as those tenants continue to live in the development. The Housing Authority reserves the right to impose additional affordability restrictions.

A Bond Regulatory Agreement containing the rental and affordability restrictions will be recorded against the project property and must be complied with by subsequent owners. The Bond Regulatory Agreement ~~will~~ may be terminated upon expiration of restrictions or in the event of casualty loss or foreclosure, and the subsequent retirement of bonds as a result of foreclosure.

State law requires advance notice and other requirements upon termination of affordability requirements, some of which also place restrictions on the sale of previously affordable housing projects~~.~~, pursuant to the provisions described in 2.5(D) above

3.2 Income Restrictions—To be eligible for tax-exempt bond financing, federal law requires that the project meet one of the following conditions:

A. A minimum of 20% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size; or

B. A minimum of 40% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 60% of area median income, as adjusted by family size.

In any event, State law requires that a minimum of 10% of the units in the project be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size, at specified rent levels.

Project owners must certify their tenant's eligibility semi-annually or as otherwise required by the Housing Commission in the applicable Bond Regulatory Agreement. If a tenant is no longer eligible, the next available unit in the project (if federal tax credits apply to the project, in the building in which the unit was located) must be rented to a new eligible tenant and the current tenant's rent can be raised to a market level. A unit occupied only by full time students does not count towards the very low and low income unit set-aside requirements.

Affordability definitions are based on the area median income for the County of San Diego as established by the US Department of Housing and Urban Development. The median income is subject to change annually. Household size is determined ~~by adding one person to the bedroom size of the unit.~~ under Section 34312.3(c)(1)(B) and (c)(2)(B) of the California Health and Safety Code consistent with Section 42(g)(2)(C) of the Internal Revenue Code. Section 42(g)(2)(C) requires that, in calculating rents, occupancy of units is assumed to be one person per studio unit, two people per one-bedroom unit, three people per two-bedroom unit, four people per three-bedroom unit and five people per four-bedroom unit.

3.3 Rent Restrictions—The maximum rent for the affordable set-aside units shall not exceed 30% of one-twelfth of 50% of area median income, or 30% of one-twelfth of 60% of area median income (as the case may be, depending on the selected set-aside). The maximum rent amounts are further reduced by a utility allowance for tenant-paid utilities in the amounts determined by the Housing Commission's ~~President and~~ CEO or his designee. In the event tax-exempt bonds are used with Low Income Housing Tax Credits, or any other public funds, the most restrictive rents of the applicable programs shall apply. The affordability of restricted units in relation to the project's market rents will be considered as part of the Housing Commission's approval of the financing. The maximum rent amounts will also apply if the set-aside units are occupied by Section 8 tenants (tenant based vouchers).

In calculating restricted rents, household size/occupancy shall be as described in the last paragraph of Section 3.2 above.

3.4 Unit Distribution—The set-aside units must proportionately reflect the mix of all units in the project, be distributed throughout the project and have the same floor area, amenities, and access to project facilities as market-rate units. The objective of the program is to provide a set-aside of units with lower rents, not to create special "low-income sections" within larger developments.

3.5 Additional Affordability Restrictions under Restructuring of Existing Bond Issues—Additional public benefit in the form of deeper income targeting; additional rent restrictions; extension of the term of restrictions; additional number of restricted units; or any combination thereof, will be negotiated in connection with refundings or debt restructurings of existing bond issues. The level of additional restrictions will be determined in the context of the overall financial feasibility of each financing. Should the bond restructuring result in an extension of the maturity of the bonds, a minimum of 10% of the units in the project will be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size, with rents set at the corresponding affordability level, for the term of the restructured bond.

4. CREDIT CONSIDERATIONS

4.1 Required Rating on the Bonds—Any bonds issued under the ~~p~~Program that are sold to the public should generally be rated "A", or its equivalent, or better from one or more of the following nationally recognized rating agencies: Moody's Investors Service, ~~Standard & Poors Corporation~~ S&P Global Ratings, or Fitch Ratings. The same rating requirement applies in the case of a substitution of existing credit facility for bonds that are outstanding.

4.2 Credit Enhancement—A preferred way of obtaining the required rating on the bonds in accordance with Section 4.1 is through the provision of additional, outside credit support for the bond issue provided by rated, financially strong private institutions, such as government sponsored entities (including the Federal National Mortgage Association [Fannie Mae] or the Federal Home Loan Mortgage Corporation [Freddie Mac]), other government insured mortgage programs, or other qualified credit enhancement providers as long as the minimum bond rating is obtained. The rating on such bonds is determined based on the credit worthiness of the participating credit enhancement provider. The ~~applicant~~ project proponent is required to identify and obtain any such credit enhancement ~~for each bond issuance~~. As the primary source of security for the repayment of bonds, the credit enhancement provider reviews and approves the borrower (credit, financial capability, experience, etc.) and the project and its feasibility, including the size of the loan and the terms of repayment, using their own underwriting criteria.

4.3 Rated Bonds Without Credit Enhancement—Fixed rate bonds~~, or their portion,~~ can be issued without credit enhancement if the proposed financing structure results in the required minimum rating on the bonds by a rating agency as provided in Section 4.1. However, ~~B~~bonds issued without credit enhancement will only be sold to qualified institutional ~~investors~~ buyer ~~("QIIs")~~ ("QIBs) as defined under Rule 144A of the Securities Act of 1933 and, in minimum $100,000 denominations, unless waived by the CEO in his sole discretion.

4.4 Privately Placed Bonds—The rating requirement specified in Section 4.1 is waived under the following conditions:

A. The bonds are privately placed with ~~"qualified institutional buyers"~~ QIBs ~~as defined under Rule 144A of the Securities Act of 1933,~~ or institutional "accredited investors," as ~~generally~~ defined ~~under~~ in Sections 501(a)(1), (2), (3) or (7) of Regulation D promulgated under ~~of~~ the Securities Act of 1933, or any entity in which all of the equity owners meet the requirements of at least one such subsection.

B. The bonds must be sold in minimum $100,000 denominations.

C. All initial and subsequent purchasers (including purchasers of participation interests in the bonds) must ~~be willing to~~ sign a sophisticated investor letter (Investor Letter) in a form approved by the Housing Commission. While the bonds remain unrated, their transferability will be restricted to ~~qualified institutional buyers~~ QIBs or institutional accredited investors who sign an Investor Letter.

D. Unless otherwise approved by the Housing Commission Board, the bonds may not be held at any time by more than 15 ~~or fewer~~ investors.

E. Upon terms acceptable to the Housing Commission, bonds may be placed in a trust or custodial arrangement with participations sold to investors.

F. The Housing Authority as issuer reserves the right to require that a trustee or fiscal agent participate in privately placed bond ~~or loan~~ transactions.

The purpose of these conditions is to assure that the bonds are placed with investors who are experienced in investing in unrated municipal securities ~~investing~~ and can conduct their own analysis or real estate credit underwriting. Bond funds and affordable lending ~~banks~~ financial institutions are the types of entities this condition anticipates.

4.5 Bonds with Hedges/SWAPs. The ~~Developer~~ project proponent shall disclose to the ~~Issuer~~ Housing Commission at the time of application of its intention to purchase an interest rate cap, hedge or swap, and such instrument shall be ~~placed~~ obtained in an arm's length transaction. Under no circumstances shall the Housing Commission or Housing Authority be a party to such swaps or hedges.

4.6 Indemnification. The project owner shall agree to defend and indemnify the Housing Authority against liability related to the bond financing and the project, and agree to reimburse the Housing Authority for all expenses incurred by the Housing Authority in issuing the bonds and monitoring the project. The Housing Authority reserves the right to require a parent company or personal guaranty of such indemnification and expense reimbursement obligations.

5. OTHER ISSUERS

The Housing Authority, in very limited situations, will allow issuers other than the Housing Authority to issue bonds for multifamily housing projects located within the City of San Diego. Any ~~applicant~~ project proponent considering the use of any issuers other than the Housing Authority should contact Housing Commission staff prior to proceeding with the project. The required City approvals of bond issuances by issuers other than the Housing Authority will be recommended only if the financing proposal is part of a pooled issuance involving projects located in multiple jurisdictions and the project proponent can demonstrate that a pooled issuance is required for the projects to be financial viable ~~the overall cost effectiveness of the financing proposal is increased~~. All Housing Authority affordability requirements, procedures and requirements will apply to projects using "outside issuers," including an issuance fee of 0.25 percent of the bond issuance amount to be paid to the Housing Authority upon issuance of the bonds as described in Section 1.7 ~~herein~~ above. A TEFRA hearing and approval by the City Council of the City ("City Council"), as described in Section 7.4, on behalf of another issuer will include a provision that the owner, operator or manager of the project considered for financing by tax-exempt debt will not change without the prior approval of the Housing Commission's ~~President and~~ CEO or his designee. Units governed by the applicable Bond Regulatory Agreement using tax-exempt financing shall be monitored by Housing Commission staff for compliance with the terms and conditions of the applicable CDLAC resolution annually or as otherwise determined by the Housing Authority and are subject to annual Housing Commission monitoring fees in accordance with the existing Housing Commission fee schedule.

6. SELECTION OF THE FINANCING TEAM

6.1 Through separate Requests for Qualifications ("RFQ"), a pool of bond counsels, and a pool of ~~financial~~ municipal advisors, will be established to serve as financing team participants on individual bond transactions. The RFQ process is a fair and competitive process which includes advertising, a competitive selection process and interviewing, if necessary. Firms will be selected in accordance with the Housing Commission's applicable equal opportunity policies.

6.2 The establishment of each pool will be made by a selection committee with the approval of the Housing Commission Board. The selection committee will consist of Housing Commission staff and representatives from other City departments, such as the City Attorney's Office, City Auditor, and Debt Management. Generally, the selection will be made for a one -year period. The term may be extended for four additional one-year periods by the ~~President and~~ CEO or his designee.

6.3 The bond counsel and ~~financial~~ municipal advisor specifically represent the interests and concerns of the Housing Commission, the Housing Authority and the City in ensuring the integrity of the bond transaction. The project sponsor may, at its own expense, add additional members to the finance team to represent its interests.

6.4 The ~~Financial Advisor~~ municipal advisor for each transaction will be designated by the ~~President and~~ CEO ~~or his designee~~ from the selected pool for approval by the Housing Commission Board ~~on a rotating basis~~ based on past performance, experience with similar transactions, and capacity to meet the project deadlines. The ~~Financial Advisor~~ municipal advisor will prepare a feasibility study on whether it is economically advisable to proceed with the financing, including: evaluation of the financial strength of the project; assumptions regarding income and expenses; sources of security for bonds in addition to a mortgage on the project; ~~developer's~~ the borrower's financial situation and experience in operating and managing multifamily rental projects; marketability of the bonds; rights and resources of parties to the transaction in the event of default; and the municipal advisor will provide financial advice on all relevant issues to best protect the interests of the City and the Housing Authority. The compensation for ~~financial~~ municipal advisory services to determine whether it is advisable to proceed with a financing will not be payable by the project proponent and will not be contingent on the sale of the bonds.

6.5 Bond ~~C~~counsel will be designated for each financing by the ~~President and~~ CEO or his designee from the selected pool based on past performance, experience with similar transactions, and capacity to meet the project deadlines, ~~on a rotating basis~~ subject to approval by the Housing Commission Board. Bond Counsel will prepare the necessary legal documentation for the bonds, including provisions regarding compliance with any applicable continuing disclosure requirements, provide an opinion regarding the validity of the bonds and their tax ~~exemption~~ exempt status (if applicable), and provide legal advice on all relevant issues to best protect the interests of the Housing Commission, the City and the Housing Authority, including but not limited to the project monitoring requirements for federal tax State Law and CDLAC purposes.

6.6 Bond Underwriter/Remarketing Agent/Private Placement Purchaser—The ~~developer~~ project proponent shall select the construction and permanent lender/bond purchaser and method of selling the bonds for a given transaction subject to the requirements set forth herein and the approval of the Housing Commission. ~~However, as referenced~~ Except as provided in Section 1.8 ~~(herein)~~ above, the Housing Authority ~~shall~~ will not allow a bond transaction where the tax credit investor is also the bond purchaser or a related party thereto. The practice of allowing the developer project proponent to propose the lender and bond structure is intended to create an incentive for qualified financial firms to actively work with ~~developers~~ borrowers to structure and present feasible financing proposals that meet ~~p~~Program requirements.

6.7 In the event the ~~developer~~ project proponent has not identified a proposed financing structure for a given transaction, the Housing Commission will select an underwriter, lender, or private placement purchaser through a request for proposals process.

6.8 ~~The~~ Any ~~B~~bond ~~T~~trustee or fiscal agent (a ~~bank~~ financial institution designated by the Housing Authority as the custodian of funds and official representative of bondholders), if required by the bond structure for the financing, will be approved by the Housing Commission or the ~~President and~~ CEO based upon a ~~R~~request for ~~P~~proposals process.

7. THE FINANCING PROCESS

7.1 Application—A ~~developer~~ project proponent interested in new-money financing must submit an application for bond financing or, in the case of an existing financing, a request for bond refunding or restructuring to the Housing Commission. Part of the required information is a disclosure statement, on each of the parties involved in the developer/ownership entity. Housing Commission staff will review the application for feasibility.

7.2 Deposit—At the time of the application, the ~~developer~~ project proponent must ~~pay~~ post a $10,000 application deposit to cover the preliminary costs of the Housing Commission related to the proposed bond issuance, reissuance or restructuring. If the financing ~~goes ahead~~ proceeds to closing, the deposit ~~will~~ may be subject to ~~reimbursement at the~~ return after bond closing. If the bond issue does not proceed to closing, then the $10,000 application deposit will become non refundable and will be retained by the Housing Commission for payment toward the preliminary costs incurred by the Housing Commission and its consultants'. The $10,000 application deposit may be waived by the ~~President and~~ CEO or his designee.

7.3 Inducement/Reimbursement Resolution—In conjunction with the City Attorney's Office and ~~B~~bond ~~C~~counsel, a bond inducement/reimbursement resolution (hereafter an "inducement resolution") will be drafted and ~~approved~~ adopted by the Housing Authority. All new-money projects must be ~~induced~~ the subject of an inducement resolution. An inducement resolution is a conditional expression of the Housing Authority's "official intent" to issue bonds for a given project and is required for tax exempt financing under Treasury Regulation Section ~~1.150-2(e)~~ 1.150-2(e). ~~Approval~~ Adoption of the inducement resolution establishes, through the public record, the date from which project costs incurred may be determined to be eligible for financing under the ~~p~~Program with proceeds of tax-exempt bonds. Therefore, applicants are encouraged to induce their projects as soon as practicable to clearly identify the project, its location, maximum number of units, the maximum amount of financing, and the proposed ownership entity.

A. Application to CDLAC—The inducement resolution also authorizes Housing Commission staff to submit an application to CDLAC, on behalf of the ~~developer/~~project ~~sponsor~~ proponent, for a private activity bond allocation if the bonds are to be tax exempt.

B. No Binding Financial Commitment—Adoption of the inducement resolution does not represent any commitment by the Housing Commission, Housing Authority, or the ~~developer~~ project proponent to proceed with the financing. The ~~approval~~ adoption by the Housing Authority of

~~the~~ an inducement resolution, by itself, does not authorize any subordinate financing by the Housing Authority or any other entity of the City. The Housing ~~Authority~~ Commission retains absolute discretion over the issuance of bonds through adoption of a required resolution authorizing such issuance and approving related bond documents.

C. No Land Use or Building Code Approval~~— Approval~~ Adoption of the inducement resolution shall not be construed to signify that the project complies with the planning, zoning, subdivision and building laws and ordinances of the City or suggest that the Housing Authority, the City, or any officer or agent of the Housing Authority or the City will grant any such approval, consent or permit that may be required in connection with the development of a given project.

7.4 TEFRA Hearing and Approval—In order for interest on the bonds to be tax-exempt and in accordance with the Tax Equity and Fiscal Responsibility Act ~~(TEFRA)~~ of 1982 (TEFRA),,and Section 147(f) of the Internal Revenue Code of 1986, the issuance of bonds must be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located, after a public hearing for which a ~~reasonable~~ public notice adequately describing the proposed location of the project, the number of units, and proposed bond issuance amount~~ was~~ is given. As the legislative body for the City of San Diego, ~~federal regulations require that~~ the issuance of any tax-exempt bonds by the Housing Authority must be approved by the City Council. The purpose of the public hearing is to provide an opportunity for interested persons to provide their views on the proposed bond issuance and on the nature and location of the project. The TEFRA hearing will be conducted by City Council at the date and time specified in the TEFRA notice. The TEFRA notice shall be published in a newspaper of general circulation within the City at least 14 days in advance of the TEFRA hearing.

7.5 Bond Allocation—Prior to the issuance of ~~private activity~~, tax exempt bonds (other than 501(c)(3) bonds), the Housing Authority must apply for, and receive an allocation of bond issuing authority from CDLAC. To receive such an allocation, the Housing Authority and the ~~developer~~ project proponent must document their readiness to proceed with the bond financing and must comply with all applicable CDLAC regulations.

7.6 Performance Deposit—At the time of the application to CDLAC, the ~~developer~~ project proponent must deposit with the Housing Authority an amount equal to one half of one percent of the requested allocation amount (or such other amount as may be required by CDLAC) as a performance deposit. The deposit will be returned to the ~~developer according to the~~ project proponent only in accordance with CDLAC procedures; and the deposit is subject to reversion to ~~the~~ CDLAC if the financing does not close ~~according to~~ under applicable ~~the~~ CDLAC ~~procedures~~ regulations.

7.7 Local Review—All projects must be in compliance with the City's zoning requirements and adopted community plans. Prior to requesting the Housing Authority approval of a new-money bond issuance, the project must undergo all planning procedures and land use approvals, including discretionary review, community planning group review, and environmental analysis, as required. All projects must be reviewed by the applicable community planning group(s) prior to final bond authorization recommendation by the Housing ~~Authority~~ Commission Board of Commissioners.

7.8 Coordination with City Finance Representatives—Housing Commission staff will work with the City Attorney's Office, the City's Debt Management Department, and other City departments, as necessary, in preparing bond issuances for affordable housing projects.

~~A.~~7.9Compliance with City's Disclosure Ordinance—As a related entity of the City, the Housing Commission will adhere to the City disclosure ordinance (O-19320) as it may be amended from time to time~~.~~, which applies to publicly offered bonds The Housing Commission will present offering statements and disclosure documents for review and approval, as appropriate, by the City's Disclosure Practices Working Group.

7.~~9~~10 Housing Commission/Housing Authority Final Approval—Housing Commission staff recommendations to proceed with a proposed bond issuance, reissuance, or bond restructuring will be presented for approval by the Housing Commission. If approved, staff will work with the approved financing team to structure the financing and to prepare the necessary bond documents. The resulting bond documents, authorizing resolution, staff report, and other relevant docket materials will be submitted for final approval by the Housing Authority, a minimum of four weeks prior to the Housing Authority meeting date, at which the adoption by the Housing Authority of a resolution authorizing the issuance of the bonds is to be considered.

8. TENANT RELOCATION

8.1 As required by CDLAC regulations (Section 5211 "Tenant Relocation") if low-income tenants will receive a rent increase exceeding five percent (5%) of their current rent, then a relocation plan is required to address economic displacement. Where applicable, the ~~applicant~~ project proponent shall provide evidence that the relocation plan is consistent with the Uniform Relocation Assistance and Real Property Acquisition Policy Act (42 U.S.C. 61).

9. PROHIBITION OF CERTAIN "SUBSTANTIAL USERS"

9.1 The Housing Commission and Housing Authority, each in its sole and absolute discretion, reserves the right to reject and not issue bonds for proposed projects where, in the proposed financial structure, the proposed bond purchaser is the same entity or a related entity as the project owner (including, but not limited to, tax credit investor limited partners) or involves any other arrangement which may limit the Housing Commission or Housing Authority's ability to charge administrative fees in the amounts detailed in Section 1.7 ~~herein~~ above, including but not limited to the circumstances described in Section 1.8 above.

10. POST ISSUANCE COMPLIANCE

10.1 Use of Bond Proceeds and Bond-Financed or Refinanced Assets. It is the Housing Commission's policy that the project owner shall be responsible for:

A. Monitoring the use of bond proceeds and the use of bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the bonds to ensure compliance with covenants and restrictions set forth in the documents relating to the bonds;

B. Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of bonds, including a final allocation of bond proceeds;

C. Consulting with bond counsel and other legal counsel and advisers in the review of any contracts or arrangements involving use of bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the documents relating to the bonds;

D. Maintaining records for any contracts or arrangements involving the use of bond-financed or refinanced assets as described in 10.2 below;

E. Conferring at least annually with personnel responsible for bond-financed or refinanced assets to identify and discuss any existing or planned use of bond-financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the bond documents; and

F. To the extent that the project owner discovers that any applicable tax restrictions regarding use of bond proceeds and bond-financed or refinanced assets will or may be violated, consult promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

10.2. Record Keeping Requirement. It is the Housing Commission's policy that the project owner shall be responsible for maintaining the following documents for the term of each issue of bonds (including refunding bonds, if any), plus at least three years:

A. A copy of the bond closing transcript(s) and other relevant documentation delivered to the project owner at or in connection with closing of the bond issue;

B. A copy of all material documents relating to capital expenditures financed or refinanced by bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, draw requests for bond proceeds and evidence as to the amount and date for each expenditure of bond proceeds, as well as documents relating to costs paid or reimbursed with bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with bond proceeds, including a final allocation of bond proceeds;

C. A copy of all contracts and arrangements involving the use of bond-financed or refinanced assets; and

D. In respect of any investment of bond proceeds or collateral securing the repayemt of the bonds, a copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee or fiscal agent statements, in connection with any investment agreements, and copies of all bidding documents, if any.

For housing bond financings subject to the requirements of Section 142(d) of the Internal Revenue Code of 1986, as amended (the "Code"), it is the Housing Commission's policy that the project owner shall be responsible for maintaining until the end of the "qualified project period" within the meaning of Section 142(d)(2)(A) of the Code, plus at least three years, a copy of all records evidencing compliance with the requirement of Section 142(d) of the Code, including tenant income verifications, leases and tenant records.

The project owner, in the documents relating to the bonds and/or other documents finalized at or before the issuance of the bonds, shall agree to the foregoing records retention requirements and procedures.

10.~~1~~3 At completion of the new construction or rehabilitation work, the ~~developer~~ project proponent shall provide to the Housing Commission staff a certification from the project's architect that the project includes all design elements that formed the basis for CDLAC's award of bond allocation points (including but not limited to sustainable building methods and/or energy efficiency elements). Additionally, at or before completion of the new construction or rehabilitation of the project, and in any event prior to conversion of bonds to permanent financing, the ~~developer~~ project owner shall provide the Housing Commission with the final actual sources and uses of funds in the form of an independent cost certification and shall confirm to the Housing Commission staff that such sources and expenditures comply with all state and federal ~~law~~ legal requirements, including the requirements set forth in the tax or arbitrage certificate with respect to ~~the~~ tax-exempt bonds.

10.~~2~~ 4 Annual Certification of Public Benefits and On-going Compliance
As required by CDLAC regulations, all projects that receive a CDLAC bond allocation and are within an existing regulatory period and/or compliance period, shall be monitored by the Housing Commission staff for compliance with the terms and conditions of the CDLAC allocation resolution. The Housing Commission may choose to hire an outside compliance monitoring firm to assist with such requirements. It is acknowledged that the Housing Authority is required to collect, review and submit to CDLAC the Certification of Compliance I, Certification of Compliance II, and CDLAC Completion Certificate, for each issuance of bonds, when applicable.

A. Annually, on or before ~~January~~ February 1 of each year until the expiration of the later of the qualified project period or compliance period under the applicable CDLAC Resolution and Bond Regulatory Agreement, the ~~developer~~ project owner shall provide a written certification of compliance, to the Housing Commission, to confirm that the completed project meets the terms and conditions stated in the CDLAC Resolution.

B. The Housing Commission shall review the ~~developer's~~ project owner's certification of compliance and may request supporting documents that evidence ~~of~~ compliance ~~including supporting documentation~~ as necessary in the sole reasonable discretion of the Housing Commission.

C. Annually, no later than March 1 of each year until the expiration of the qualified project period or compliance period under the CDLAC Resolution and Bond Regulatory Agreement ~~(or such other date as required by CDLAC)~~, the Housing Commission shall complete and submit to CDLAC the ~~"Annual Applicant Public Benefits and On-going~~ Certificate of Compliance II for Qulaified Residential Rental Projects ~~Self Certification~~" in such format as required by CDLAC, indicating that the completed project meets the terms and conditions stated in the applicable CDLAC Resolution.

D. The project owner is also required to submit IRS Form 8703 annually to the IRS on or before each March 31 as long as the bond are outstanding. Form 8703 provides annual information to the IRS to help them determine whether a project continues to be a qualified residential rental project under section 142(d) of the Internal Revenue Code of 1986, as amended.

E. For projects receiving allocation of bond authority from CDLAC after December 31, 2016, CDLAC requires that a review of 20% of all management files associated with federally bond-restricted units either on site or electronically be performed upon project completion and every 3 years thereafter.

~~D~~.F. For projects which are not ~~meeting~~ satisfying the terms and conditions stated in the CDLAC Resolution, the Housing Commission will work with CDLAC staff and Housing Commission legal counsel~~, for~~ to institute remedial action, as necessary, including an action for specific performance or other available remedy. The Housing Commission may disqualify a bond application from any ~~developer~~ project owner or member of the development partnership who is not in compliance with CDLAC's Post Issuance Compliance requirements, as determined by the Housing Commission and/or by CDLAC.

10.~~3~~5 Transfer of Ownership. The Housing Commission reserves the right to approve any voluntary change in ownership of a bond-financed project (i) to another owner, (ii) that results in a transfer of 50% or more of the total equity interests in a ~~developer~~ project owner or (iii) that results in a transfer of any general partner or managing member interest in the ~~developer~~ project owner. Such approval ~~to~~ of transfer ownership shall be at the discretion of the Housing Commission subject to any additional requirements set forth in the applicable tax certificate or Bond Regulatory Agreement. The Housing Commission shall review management practices of the proposed transferee's current and previously owned multifamily housing rental properties. Any proposed transferee (including individuals within an ownership) whose currently owned multifamily housing rental properties have been found by the Housing Commission to have deficiencies that have not been resolved within the time frame prescribed by the City, Housing Authority or Housing Commission or other local government authority, may not assume ownership of, or an ownership interest in, any bond financed project. The Housing Commission may initiate additional inspections to verify findings.

10.~~4~~ 6 Carryforward Election. With respect to each ~~bond~~ allocation of tax-exempt private activity bond issue authority to the Housing Authority in a given calendar year for which less than all of the allocation ~~of private activity~~ volume cap was used, the Housing Commission staff shall contact CDLAC requesting confirmation of the amount, if any, of carryforward election the Housing Authority shall make under section 146(f) of the Internal Revenue Code and the Housing Authority will timely file a Form 8328 with the IRS.

10.~~5~~7 Arbitrage Rebate Compliance. The d~~eveloper~~ project owner shall comply with all applicable federal tax laws set forth in the tax or arbitrage certificate and bond documents, including arbitrage rebate compliance. Upon request, ~~The developer~~ the project owner shall provide the Housing Commission with documentation that verifies the developer's compliance with federal tax laws set forth in the tax or arbitrage certificate and bond documents, including rebate compliance reports.

10.~~6~~8 Other Required Disclosures. The ~~developer/~~ project owner shall be solely responsible for any and all continuing disclosures under ~~the Municipal Securities Rulemaking Board (MSRB)~~ any applicable Securities and Exchange Commission and any Municipal Securities Rulemaking Board (MSRB) rules, requirements and regulations (including but not limited to fixed rate bond issuances with Fannie Mae and/or Freddie Mac involvement).

~~**[Supersedes PO300.301, effective July 30, 2013]**~~

Authorized:

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Date

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1. SUMMARY

1.1 Federal, state and local legislation authorize the issuance of mortgage revenue bonds by local governments to finance the development, acquisition, construction and rehabilitation of multifamily rental projects. The interest on the bonds can be exempt from federal and state income taxation, and provide below market rate financing for qualified projects. In addition, properly-structured tax-exempt mortgage revenue bonds can qualify projects for allocations of federal low-income housing tax credits, which may provide a significant portion of the funding necessary to develop affordable housing. The San Diego Housing Commission ("Housing Commission") has established a program (the "Program") to issue mortgage revenue bonds for qualified multifamily rental projects within the City of San Diego (the "City"). The Housing Commission's Program uses tax-exempt and taxable mortgage revenue bonds (including notes and other debt instruments) issued by the Housing Authority of the City of San Diego (the "Housing Authority") to subsidize the development of affordable rental housing within the City.

1.2 There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City's or the Housing Authority's faith, credit or taxing power and the bonds do not constitute general obligations of the issuer because the security for repayment of bonds is limited to project revenue and other sources specified in the documentation for each financing. Bonds for affordable housing projects are often effectively structured as real estate loans, and the obligation to repay the bonds is secured by a first deed of trust on the bond-financed property. The Program is completely self-supporting; developers must secure funding to pay for costs of issuance of the bonds and all other costs of each financing.

1.3 Bonds issued under the Program should generally be privately placed with a financial institution, or publicly issued with a minimum rating of "A", or its equivalent, by one or more of the nationally recognized rating agencies listed in Section 4.1.Proceeds of the bonds may be used for both costs of construction or rehabilitation and permanent financing. The effective mortgage rate is the aggregate of the applicable bond rate and the add-on fees charged under the program, such as lender, trustee, issuer's fee, etc. The bond rate, for fixed rate bonds, is determined at the time of a bond sale and the resulting mortgage rate is typically below conventional mortgage rates. The project loans generally have a 30-year amortization schedule although the bond maturity may be shorter.

1.4 The goals of the Program include: increase and preserve the supply of affordable rental housing; encourage economic integration within residential communities; maintain a quality living environment for residents of assisted projects and surrounding properties; and, in the event of provision of public funds towards the project, optimize the effectiveness of Housing Commission, or other public funding by maximizing the leveraging of private sector funds.

1.5 The bond issuance and related loan amount for individual projects is based upon project costs, interest rates, revenues available to pay debt service, and the appraised value of the project being financed. The Housing Authority will consider multiple properties as part of a single bond financing on a case by case basis. If a tax-exempt financing is involved, bond and related loan amounts will be subject to the procedures of the California Debt Limit Allocation Committee ("CDLAC"), as described in Section 2.3 below.

1.6 Projects must consist of complete rental units, including kitchens and bathrooms. Bond proceeds may be used for costs of land acquisition (up to 25% of tax-exempt bond proceeds), construction, rehabilitation, improvements, architectural and engineering services, construction interest, loan fees and other capital costs of the project incurred after the date sixty days before the bond inducement date specified in Section 7.3.Tax-exempt bond proceeds cannot be used to acquire property from a party related to the buyer. No more than 2% of tax-exempt bond proceeds can be used to finance costs of issuance, such as the services of the financing team members, rating and printing of bonds, cost related to bond allocation, etc. Pursuant to federal tax-exempt bond requirements, if bonds are used for acquisition and rehabilitation, an amount equal to at least 15 percent of the portion of the acquisition cost of the building and related equipment financed with the proceeds of bonds must be used for rehabilitation of the project. The loans are assumable upon transfer of the project with the approval of the credit enhancement provider or bond purchaser, and the President and Chief Executive Officer of the Housing Commission ("CEO") or his designee.

1.7 The Housing Commission receives compensation for its services in preparing bond issuances by charging an up-front administrative fee payable at the bond closing. In addition, the Housing Commission also receives ongoing, annual fees for compliance monitoring of regulatory restrictions and administrative oversight of outstanding bond issues.

A. The administrative fee due on the bond closing date, is an amount equal to 25 basis points (0.25%) of the initial principal amount of bonds issued (or in the case of draw-down bonds [a bond structure with multiple draws over time]) the initial maximum authorized principal amount of bonds), not to exceed for tax-exempt bonds the amount otherwise allowed by the Internal Revenue Service ("IRS").

B. The annual ongoing administrative fee will be an amount equal to (a) prior to conversion to permanent financing, 0.125% of the maximum authorized principal amount of the bonds as of the closing date for the bonds, and (b) after conversion to permanent financing, if applicable, 0.125% of the outstanding principal amount of the bonds immediately after conversion to permanent financing; however, the annual ongoing fee in any event will not be less than $10,000. The annual fee will be charged each year during the compliance period under the Bond Regulatory Agreement for the project (see Section 3.1), to recover administrative and monitoring costs of the Housing Commission, which will be charged to all projects for such compliance period, including projects where bonds are fully repaid prior to the end of the compliance period. The ongoing annual fee will be due and payable without the requirement for any invoice to be delivered to the project owner, on the first day of the month in which the anniversary of the bond closing occurs based on the facts in existence as of such first day of such month.

C. The annual ongoing administrative fee will remain fixed based on using the principal amount of bonds outstanding at permanent financing conversion regardless of any later reductions of the outstanding principal of the bonds.

D. Additional monitoring fees may be charged for monitoring affordable housing units governed by regulatory agreements in addition to the Bond Regulatory Agreement, or for projects with more than 50 units.

E. At the time of the application, the project proponent must pay a $3,000 non-refundable application fee to the Housing Commission.

1.8 Due to IRS limitations applicable to fees charged by issuers of tax-exempt bonds where the bond purchaser and the tax credit investor are the same or related entities, the Housing Authority will not issue bonds for projects where the tax credit investor is also the same or a related entity to the bond purchaser. Exceptions may be granted on a case-by-case basis, in the discretion of the Housing Authority's Executive Director or his designee.

1.9 To the extent that contractors will be providing services on behalf of a project proponent or a project owner related to the requirements of these Policies, the project proponent or project owner, as applicable, shall provide the Housing Commission with a written statement describing their relationship with the contractor and any rights the contractor has to income and obligations generated from any proposed bond issuance activity.

2. TYPES OF BONDS

2.1 The Housing Authority may issue either tax-exempt or taxable bonds (which include notes or other debt instruments), or both. Taxable bonds would generally be issued only in combination with tax-exempt bonds. Taxable bonds do not require an allocation of tax-exempt bond authority from CDLAC but still require compliance with State law requirements governing the Housing Authority's ability to issue bonds.

2.2 The interest paid on taxable bonds is not exempt from federal taxation. These bonds are not subject to federal volume "cap" limitations and therefore do not require allocation authority from CDLAC. Taxable bond issues must meet all applicable requirements of this Policy (including rating requirements), State law requirements and any additional regulations that may be promulgated, from time to time, by the Housing Commission.

2.3 Bond interest on which is tax-exempt under federal tax law (other than refunding bonds and 501(c)(3) bonds described below), require an allocation of bond authority from CDLAC. To obtain the allocation, the Housing Authority must submit an application to CDLAC on behalf of the project proponent. Submittal of the application is at the discretion of the Housing Authority, not the project proponent. The project proponent must provide all deposits and pay all fees required by CDLAC when due.

2.4 The Housing Authority may issue bonds described in section 145©of the federal tax code on behalf of qualified nonprofit organizations. The interest on these 501(c)(3)bonds is tax-exempt and these bonds do not require an allocation from CDLAC, but cannot be used with the Low Income Housing Tax Credit Program.

2.5 The Housing Authority will consider the issuance of bonds to refund outstanding bonds subject to the following conditions:

A. The project proponent agrees to cover all costs of the issuer, including costs for the issuer's municipal advisor, bond counsel, and trustee (if applicable).

B. The affordability restrictions of the existing bond regulatory agreement are subject to extension. The Housing Commission reserves the right to impose additional requirements on a case by case basis. All specifics of refunding proposals must be approved by the Housing Authority.

C. The provisions of Section 52080(g) of the California Health and Safety Code shall apply to projects financed under the Program, which requires that low-income units remain affordable, except in certain circumstances, until thirty (30) years after the commencement of the qualified project period (as referred to therein).

D. Except in limited circumstances, the provisions of Sections 65863.10 and 65863.11 of the California Government Code shall apply to projects financed under the Program, and project proponents are advised to review the requirements of such Sections.

E. Default refunding applications require a default refunding analysis (to determine the eligibility for a default refunding).The Housing Commission shall choose the firm to conduct the analysis. The project applicant will deposit the cost for the study with the Housing Commission before the study begins.

2.6 Bonds for projects are intended to be non-recourse conduit financing in which none of the Housing Commission, the Housing Authority or the City will be responsible for the repayment of the debt. The Housing Authority's own capital improvement plans and budgets should not be impacted by the bond financing of projects

3. AFFORDABILITY REQUIREMENTS

3.1 <u>Term of Rental and Affordability Restrictions</u> – The project must remain as rental housing and continuously meet the affordability requirements as provided in Sections 3.2, 3.3 and 3.4 for the longer of (a) the Qualified Project Period (as defined in Internal Revenue Code of 1986), (b) as long as the bonds remain outstanding, (c) such period as may be required in the opinion of Bond Counsel to satisfy applicable federal or State law, or (d) such period as may be required by CDLAC (typically 55 years). Additional affordability may be required as described in 2.5(C) above. The rent of "in-place" tenants at the conclusion of the required affordability period will continue to be governed by the applicable affordability restriction, so long as those tenants continue to live in the development. The Housing Authority reserves the right to impose additional affordability restrictions.

A Bond Regulatory Agreement containing the rental and affordability restrictions will be recorded against the project property and must be complied with by subsequent owners. The Bond Regulatory Agreement may be terminated upon expiration of restrictions or in the event of casualty loss or foreclosure, and the subsequent retirement of bonds as a result of foreclosure.

State law requires advance notice and other requirements upon termination of affordability requirements, some of which also place restrictions on the sale of previously affordable housing projects, pursuant to the provisions described in 2.5(D) above.

3.2 Income Restrictions – To be eligible for tax-exempt bond financing, federal law requires that the project meet one of the following conditions:

A. A minimum of 20% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size; or

B. A minimum of 40% of the units in the project must be set aside for occupancy by households whose incomes do not exceed 60% of area median income, as adjusted by family size.

In any event, State law requires that a minimum of10% of the units in the project be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size, at specified rent levels.

Project owners must certify their tenant's eligibility semi-annually or as otherwise required by the Housing Commission in the applicable Bond Regulatory Agreement. If a tenant is no longer eligible, the next available unit in the project (if federal tax credits apply to the project, in the building in which the unit was located) must be rented to a new eligible tenant and the current tenant's rent can be raised to a market level. A unit occupied only by full time students does not count towards the very low and low income unit set-aside requirements.

Affordability definitions are based on the area median income for the County of San Diego as established by the US Department of Housing and Urban Development. The median income is subject to change annually. Household size is determined under Section 34312.3(c)(1)(B) and (c)(2)(B) of the California Health and Safety Code consistent with Section 42(g)(2)(C) of the Internal Revenue Code. Section 42(g)(2)(C) requires that, in calculating rents, occupancy of units is assumed to be one person per studio unit, two people per one-bedroom unit, three people per two-bedroom unit, four people per three-bedroom unit and five people per four-bedroom unit.

3.3 Rent Restrictions – The maximum rent for the affordable set-aside units shall not exceed30% of one-twelfthof50% of area median income, or 30% of one-twelfth of 60% of area median income (as the case may be, depending on the selected set-aside).The maximum rent amounts are further reduced by a utility allowance for tenant-paid utilities in the amounts determined by the Housing Commission's CEO or his designee. In the event tax-exempt bonds are used with Low Income Housing Tax Credits, or any other public funds, the most restrictive rents of the applicable programs shall apply. The affordability of restricted units in relation to the project's market rents will be considered as part of the Housing Commission's approval of the financing. The maximum rent amounts will also apply if the set-aside units are occupied by Section 8 tenants (tenant based vouchers).

In calculating restricted rents, household size/occupancy shall be as described in the last paragraph of Section 3.2 above.

3.4 Unit Distribution – The set-aside units must proportionately reflect the mix of all units in the project, be distributed throughout the project and have the same floor area, amenities, and access to project facilities as market-rate units. The objective of the program is to provide a set-aside of units with lower rents, not to create special "low-income sections" within larger developments.

3.5 Additional Affordability Restrictions under Restructuring of Existing Bond Issues– Additional public benefit in the form of deeper income targeting; additional rent restrictions; extension of the term of restrictions; additional number of restricted units; or any combination thereof, will be negotiated in connection with refundings or debt restructurings of existing bond issues. The level of additional restrictions will be determined in the context of the overall financial feasibility of each financing. Should the bond restructuring result in an extension of the maturity of the bonds, a minimum of 10% of the units in the project will be set aside for occupancy by households whose incomes do not exceed 50% of area median income, as adjusted for family size, with rents set at the corresponding affordability level, for the term of the restructured bond.

4. CREDIT CONSIDERATIONS

4.1 Required Rating on the Bonds – Any bonds issued under the Program that are sold to the public should generally be rated "A", or its equivalent, or better from one or more of the following nationally recognized rating agencies: Moody's Investors Service, S&P Global Ratings, or Fitch Ratings. The same rating requirement applies in the case of a substitution of existing credit facility for bonds that are outstanding.

4.2 Credit Enhancement– A preferred way of obtaining the required rating on the bonds in accordance with Section 4.1 is through the provision of additional, outside credit support for the bond issue provided by rated, financially strong private institutions, such as government sponsored entities (including the Federal National Mortgage Association [Fannie Mae] or the Federal Home Loan Mortgage Corporation [Freddie Mac]), other government insured mortgage programs, or other qualified credit enhancement providers as long as the minimum bond rating is obtained. The rating on such bonds is determined based on the credit worthiness of the participating credit enhancement provider. The project proponent is required to identify and obtain any such credit enhancement. As the primary source of security for the repayment of bonds, the credit enhancement provider reviews and approves the borrower (credit, financial capability, experience, etc.) and the project and its feasibility, including the size of the loan and the terms of repayment, using their own underwriting criteria.

4.3 Rated Bonds Without Credit Enhancement– Fixed rate bonds can be issued without credit enhancement if the proposed financing structure results in the required minimum rating on the bonds by a rating agency as provided in Section 4.1. However, bonds issued without credit enhancement will only be sold to qualified institutional buyers ("QIBs") as defined under Rule 144A of the Securities Act of 1933 and in minimum $100,000 denominations, unless waived by the CEO in his sole discretion.

4.4 Privately Placed Bonds – The rating requirement specified in Section 4.1 is waived under the following conditions:

A. The bonds are privately placed with QIBs, or institutional "accredited investors," as defined in Sections 501(a)(1), (2), (3) or (7) of Regulation D promulgated under the

Securities Act of 1933, or any entity in which all of the equity owners meet the requirements of at least one such subsection.

B. The bonds must be sold in minimum$100,000 denominations.

C. All initial and subsequent purchasers (including purchasers of participation interests in the bonds) must sign a sophisticated investor letter (Investor Letter) in a form approved by the Housing Commission. While the bonds remain unrated, their transferability will be restricted to QIBs or institutional accredited investors who sign an Investor Letter.

D. Unless otherwise approved by the Housing Commission Board, the bonds may not be held at any time by more than15 investors.

E. Upon terms acceptable to the Housing Commission, bonds may be placed in a trust or custodial arrangement with participations sold to investors.

F. The Housing Authority as issuer reserves the right to require that a trustee or fiscal agent participate in privately placed bond transactions.

The purpose of these conditions is to assure that the bonds are placed with investors who are experienced in investing in unrated municipal securities and can conduct their own analysis or real estate credit underwriting. Bond funds and affordable lending financial institutions are the types of entities this condition anticipates.

4.5 Bonds with Hedges/SWAPs. The project proponent shall disclose to the Housing Commission at the time of application of its intention to purchase an interest rate cap, hedge or swap, and such instrument shall be obtained in an arm's length transaction. Under no circumstances shall the Housing Commission or Housing Authority be a party to such swaps or hedges.

4.6 Indemnification. The project owner shall agree to defend and indemnify the Housing Authority against liability related to the bond financing and the project, and agree to reimburse the Housing Authority for all expenses incurred by the Housing Authority in issuing the bonds and monitoring the project. The Housing Authority reserves the right to require a parent company or personal guaranty of such indemnification and expense reimbursement obligations.

5. OTHER ISSUERS

5.1 The Housing Authority, in very limited situations, will allow issuers other than the Housing Authority to issue bonds for multifamily housing projects located within the City of San Diego. Any project proponent considering the use of any issuer other than the Housing Authority should contact Housing Commission staff prior to proceeding with the project. The required City approvals of bond issuances by issuers other than the Housing Authority will be recommended only if the financing proposal is part of a pooled issuance involving projects located in multiple jurisdictions and the project proponent can demonstrate that a pooled issuance is required for the projects to be financial viable. All Housing Authority affordability requirements, procedures and requirements will apply to projects using “outside issuers,” including an issuance fee of 0.25 percent of the bond issuance amount to be paid to the Housing Authority upon issuance of the bonds as described in

Section 1.7 above. A TEFRA hearing and approval by the City Council of the City ("City Council"), as described in Section 7.4, on behalf of another issuer will include a provision that the owner, operator or manager of the project considered for financing by tax-exempt debt will not change without the prior approval of the Housing Commission's CEO or his designee. Units governed by the applicable Bond Regulatory Agreement using tax-exempt financing shall be monitored by Housing Commission staff for compliance with the terms and conditions of the applicable CDLAC resolution annually or as otherwise determined by the Housing Authority and are subject to annual Housing Commission monitoring fees in accordance with the existing Housing Commission fee schedule.

6. SELECTIONOF THEFINANCINGTEAM

6.1 Through separate Requests for Qualifications ("RFQ"), a pool of bond counsels, and a pool of municipal advisors, will be established to serve as financing team participants on individual bond transactions. The RFQ process is a fair and competitive process which includes advertising, a competitive selection process and interviewing, if necessary. Firms will be selected in accordance with the Housing Commission's applicable equal opportunity policies.

6.2 The establishment of each pool will be made by a selection committee with the approval of the Housing Commission Board. The selection committee will consist of Housing Commission staff and representatives from other City departments, such as the City Attorney's Office, City Auditor, and Debt Management. Generally, the selection will be made for a one -year period. The term may be extended for four additional one-year periods by the CEO or his designee.

6.3 The bond counsel and municipal advisor specifically represent the interests and concerns of the Housing Commission, the Housing Authority and the City in ensuring the integrity of the bond transaction. The project sponsor may, at its own expense, add additional members to the finance team to represent its interests.

6.4 The municipal advisor for each transaction will be designated by the CEO or his designee from the selected pool for approval by the Housing Commission Board based on past performance, experience with similar transactions, and capacity to meet the project deadlines. The municipal advisor will prepare a feasibility study on whether it is economically advisable to proceed with the financing, including: evaluation of the financial strength of the project; assumptions regarding income and expenses; sources of security for bonds in addition to a mortgage on the project; the borrower's financial situation and experience in operating and managing multifamily rental projects; marketability of the bonds; rights and resources of parties to the transaction in the event of default. The municipal advisor will provide financial advice on all relevant issues to best protect the interests of the City and the Housing Authority. The compensation for municipal advisory services to determine whether it is advisable to proceed with a financing will not be payable by the project proponent and will not be contingent on the sale of the bonds.

6.5 Bond counsel will be designated for each financing by the CEO or his designee from the selected pool based on past performance, experience with similar transactions, and capacity to meet the project deadlines, subject to approval by the Housing Commission Board. Bond counsel will prepare the necessary legal documentation for the bonds, including provisions regarding compliance with any applicable continuing disclosure requirements, provide an opinion regarding the validity of the bonds and their tax exempt status (if applicable), and provide legal advice on all relevant issues to best protect the interests of the Housing Commission, the City and the Housing Authority, including but not limited to the project monitoring requirements for federal tax State law and CDLAC purposes.

6.6 Bond Underwriter /Remarketing Agent/Private Placement Purchaser -The project proponent shall select the construction and permanent lender/bond purchaser and method of selling the bonds for a given transaction, subject to the requirements set forth herein and the approval of the Housing Commission. Except as provided in Section1.8 above, the Housing Authority will not allow a bond transaction where the tax credit investor is also the bond purchaser or a related party thereto. The practice of allowing the project proponent to propose the lender and bond structure is intended to create an incentive for qualified financial firms to actively work with borrowers to structure and present feasible financing proposals that meet Program requirements.

6.7 In the event the project proponent has not identified a proposed financing structure for a given transaction, the Housing Commission will select an underwriter, lender, or private placement purchaser through a request for proposals process.

6.8 Any bond trustee or fiscal agent (a financial institution designated by the Housing Authority as the custodian of funds and official representative of bondholders), if required by the Housing Commission as the bond structure for the financing, will be approved by the CEO or his designee based upon a request for proposals process.

7. THE FINANCING PROCESS

7.1 <u>Application</u> – A project proponent interested in new-money financing must submit an application for bond financing, or in the case of an existing financing a request for bond refunding or restructuring, to the Housing Commission .Part of the required information is a disclosure statement, on each of the parties involved in the developer /ownership entity. Housing Commission staff will review the application for feasibility.

7.2 <u>Deposit</u>–At the time of the application, the project proponent must post a $10,000 application deposit to cover the preliminary costs of the Housing Commission related to the proposed bond issuance, reissuance or restructuring. If the financing proceeds to closing, the deposit may be subject to return after the bond closing. If the bond issue does not proceed to closing, then the $10,000 application deposit will become nonrefundable, and will be retained by the Housing Commission for payment toward the preliminary costs incurred by the Housing Commission and its consultants. The $10,000 application deposit may be waived by the CEO or his designee.

7.3 <u>Inducement/Reimbursement Resolution</u>– In conjunction with the City Attorney's Office and bond counsel, a bond inducement/reimbursement resolution (hereafter an “inducement resolution”) will be drafted and adopted by the Housing Authority. All new money projects must be the subject of an inducement resolution. An inducement resolution is a conditional expression of the Housing Authority's “official intent “to issue bonds for a given project and is required for tax-exempt financing under Treasury Regulation Section 1.150-2(e).Adoption of the inducement resolution establishes, through the public record, the date from which project costs incurred may be determined to be eligible for financing under the Program with proceeds of tax-exempt bonds.

Therefore, applicants are encouraged to induce their projects as soon as practicable to clearly identify the project, its location, maximum number of units, the maximum amount of financing, and the proposed ownership entity.

A. Application to CDLAC – The inducement resolution also authorizes Housing Commission staff to submit an application to CDLAC, on behalf of the project proponent, for a private activity bond allocation if the bonds are to be tax-exempt.

B. No Binding Financial Commitment – Adoption of the inducement resolution does not represent any commitment by the Housing Commission, Housing Authority, or the project proponent to proceed with the financing. The adoption by the Housing Authority of an inducement resolution, by itself, does not authorize any subordinate financing by the Housing Commission or any other entity of the City. The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a required resolution authorizing such issuance and approving related bond documents.

C. No Land Use or Building Code Approval – Adoption of the inducement resolution shall not be construed to signify that the project complies with the planning, zoning, subdivision and building laws and ordinances of the City or suggest that the Housing Authority, the City, or any officer or agent of the Housing Authority or the City will grant any such approval, consent or permit that may be required in connection with the development of a given project.

7.4 TEFRA Hearing and Approval – In order for interest on the bonds to be tax-exempt and in accordance with the Tax Equity and Fiscal Responsibility Act of1982 (TEFRA), and Section 147(f) of the Internal Revenue Code of1986, the issuance of bonds must be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located, after a public hearing for which a public notice (describing the proposed location of the project, the number of units, and proposed bond issuance amount)is given. As the legislative body for the City of San Diego, the issuance of any tax-exempt bonds by the Housing Authority must be approved by the City Council. The purpose of the public hearing is to provide an opportunity for interested persons to provide their views on the proposed bond issuance and on the nature and location of the project. The TEFRA hearing will be conducted by City Council at the date and time specified in the TEFRA notice. The TEFRA notice shall be published in a newspaper of general circulation within the City at least 14 days in advance of the TEFRA hearing.

7.5 Bond Allocation – Prior to the issuance of tax exempt bonds (other than 501(c)(3) bonds), the Housing Authority must apply for, and receive an allocation of bond issuing authority from CDLAC. To receive such an allocation, the Housing Authority and the project proponent must document their readiness to proceed with the bond financing, and must comply with all applicable CDLAC regulations.

7.6 Performance Deposit – At the time of the application to CDLAC, the project proponent must deposit with the Housing Authority an amount equal to one half of one percent of the requested allocation amount (or such other amount as may be required by CDLAC) as a performance deposit. The deposit will be returned to the project proponent only in accordance with CDLAC procedures;

and the deposit is subject to reversion to CDLAC if the financing does not close under applicable CDLAC regulations.

7.7 Local Review– All projects must be in compliance with the City's zoning requirements and adopted community plans. Prior to requesting the Housing Authority approval of a new-money bond issuance, the project must undergo all planning procedures and land use approvals, including discretionary review, community planning group review, and environmental analysis, as required. All projects must be reviewed by the applicable community planning group(s) prior to final bond authorization recommendation by the Housing Commission Board of Commissioners.

7.8 Coordination with City Finance Representatives– Housing Commission staff will work with the City Attorney's Office, the City’s Debt Management Department, and other City departments, as necessary, in preparing bond issuances for affordable housing projects.

7.9 Compliance with City's Disclosure Ordinance – As a related entity of the City, the Housing Commission will adhere to the City disclosure ordinance (0-19320) as it may be amended from time to time, which applies to publicly offered bonds. The Housing Commission will present offering statements and disclosure documents for review and approval, as appropriate, by the City's Disclosure Practices Working Group.

7.10 Housing Commission/Housing Authority – Final Approval- Housing Commission staff recommendations to proceed with a proposed bond issuance, reissuance, or bond restructuring will be presented for approval by the Housing Commission. If approved, staff will work with the approved financing team to structure the financing and to prepare the necessary bond documents. The resulting bond documents, authorizing resolution, staff report, and other relevant docket materials will be submitted for final approval by the Housing Authority, a minimum of four weeks prior to the Housing Authority meeting date, at which the adoption by the Housing Authority of a resolution authorizing the issuance of the bonds is to be considered.

8. TENANTRELOCATION

8.1 As required by CDLAC regulations (Section5211“TenantRelocation”) if low-income tenants will receive a rent increase exceeding five percent (5%) of their current rent, then a relocation plan is required to address economic displacement. Where applicable, the project proponent shall provide evidence that there location plan is consistent with the Uniform Relocation Assistance and Real Property Acquisition Policy Act (42 U.S.C.61).

9. PROHIBITION OF CERTAIN “SUBSTANTIAL USERS”

9.1 The Housing Commission and Housing Authority, each in its sole and absolute discretion, reserves the right to reject and not issue bonds for proposed projects where, in the proposed financial structure, the proposed bond purchaser is the same entity or a related entity as the project owner(including, but not limited to, tax credit investor limited partners) or involves any other arrangement which may limit the Housing Commission or Housing Authority's ability to charge administrative fees in the amounts detailed in Section 1.7 above, including but not limited to the circumstances described in Section 1.8 above.

10. POST ISSUANCECOMPLIANCE

10.1 Use of Bond Proceeds and Bond-Financed or Refinanced Assets. It is the Housing Commission's policy that the project owner shall be responsible for:

A. Monitoring the use of bond proceeds and the use of bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the bonds to ensure compliance with covenants and restrictions set forth in the documents relating to the bonds;

B. Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of bonds, including a final allocation of bond proceeds;

C. Consulting with bond counsel and other legal counsel and advisers in the review of any contracts or arrangements involving use of bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the documents relating to the bonds;

D. Maintaining records for any contracts or arrangements involving the use of bond-financed or refinanced assets as described in 10.2 below;

E. Conferring at least annually with personnel responsible for bond-financed or refinanced assets to identify and discuss any existing or planned use of bond-financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the bond documents; and

F. To the extent that the project owner discovers that any applicable tax restrictions regarding use of bond proceeds and bond-financed or refinanced assets will or may be violated, consult promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

10.2. Record Keeping Requirement. It is the Housing Commission's policy that the project owner shall be responsible for maintaining the following documents for the term of each issue of bonds (including refunding bonds, if any), plus at least three years:

A. A copy of the bond closing transcript(s) and other relevant documentation delivered to the project owner at or in connection with closing of the bond issue;

B. A copy of all material documents relating to capital expenditures financed or refinanced by bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, draw requests for bond proceeds and evidence as to the amount and date for each expenditure of bond proceeds, as well as documents relating to costs paid or reimbursed with bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with bond proceeds, including a final allocation of bond proceeds;

C. A copy of all contracts and arrangements involving the use of bond-financed or refinanced assets; and

D. In respect of any investment of bond proceeds or collateral securing the repayment of the bonds, a copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee or fiscal agent statements, in connection with any investment agreements, and copies of all bidding documents, if any.

For housing bond financings subject to the requirements of Section 142(d) of the Internal Revenue Code of 1986, as amended (the "Code"), it is the Housing Commission's policy that the project owner shall be responsible for maintaining until the end of the "qualified project period" within the meaning of Section 142(d)(2)(A) of the Code, plus at least three years, a copy of all records evidencing compliance with the requirement of Section 142(d) of the Code, including tenant income verifications, leases and tenant records.

The project owner, in the documents relating to the bonds and/or other documents finalized at or before the issuance of the bonds, shall agree to the foregoing records retention requirements and procedures.

10.3 At completion of the new construction or rehabilitation work, the project owner shall provide to the Housing Commission staff a certification from the project's architect that the project includes all design elements that formed the basis for CDLAC's award of bond allocation points (including but not limited to sustainable building methods and/or energy efficiency elements). Additionally, at or before completion of the new construction or rehabilitation of the project, and in any event prior to conversion of bonds to permanent financing, the project owner shall provide the Housing Commission with the final actual sources and uses of funds in the form of an independent cost certification and shall confirm to the Housing Commission staff that such sources and expenditures comply with all state and federal legal requirements, including the requirements set forth in the tax or arbitrage certificate with respect to tax-exempt bonds.

10.4 <u>Annual Certification of Public Benefits and On-going</u> Compliance – As required by CDLAC regulations, all projects that receive a CDLAC bond allocation and are within an existing regulatory period and/or compliance period, shall be monitored by the Housing Commission staff for compliance with the terms and conditions of the CDLAC allocation resolution. The Housing Commission may choose to hire an outside compliance monitoring firm to assist with such requirements. It is acknowledged that the Housing Authority is required to collect, review and submit to CDLAC the Certification of Compliance I, Certification of Compliance II, and CDLAC Completion Certificate, for each issuance of bonds, when applicable.

A. Annually, on or before February1 of each year until the expiration of the later of the qualified project period or compliance period under the applicable CDLAC Resolution and Bond Regulatory Agreement, the project owner shall provide a written certification of compliance to the Housing Commission, to confirm that the completed project meets the terms and conditions stated in the CDLAC Resolution.

B. The Housing Commission shall review the project owner's certification of compliance and may request supporting documents that evidence compliance as necessary in the sole reasonable discretion of the Housing Commission.

C. Annually, no later than March 1 of each year until the expiration of the qualified project period or compliance period under the CDLAC Resolution and Bond Regulatory Agreement, the Housing Commission shall complete and submit to CDLAC the Certification of Compliance II For Qualified Residential Rental Projects in such format as required by CDLAC, indicating that the completed project meets the terms and conditions stated in the applicable CDLAC Resolution.

D. The project owner is also required to submit IRS Form 8703 annually to the IRS on or before each March 31 as long as the bond are outstanding. Form 8703 provides annual information to the IRS to help them determine whether a project continues to be a qualified residential rental project under section 142(d) of the Internal Revenue Code of 1986, as amended.

E. For projects receiving allocation of bond authority from CDLAC after December 31, 2016, CDLAC requires that a review of 20% of all management files associated with federally bond-restricted units either on site or electronically be performed upon project completion and every 3 years thereafter.

F. For projects which are not satisfying the terms and conditions stated in the CDLAC Resolution, the Housing Commission will work with CDLAC staff and Housing Commission legal counsel to institute remedial action, as necessary, including an action for specific performance or other available remedy. The Housing Commission may disqualify a bond application from any project owner or member of the development partnership who is not in compliance with CDLAC's Post Issuance Compliance requirements, as determined by the Housing Commission and/or by CDLAC.

10.5 Transfer of Ownership. The Housing Commission reserves the right to approve any voluntary change in ownership of a bond-financed project (i) to another owner, (ii) that results in a transfer of 50% or more of the total equity interests in a project owner, or(iii) that results in a transfer of any general partner or managing member interest in the project owner. Such approval of transfer ownership shall be at the discretion of the Housing Commission subject to any additional requirements set forth in the applicable tax certificate or Bond Regulatory Agreement. The Housing Commission shall review management practices of the proposed transferee's current and previously owned multifamily housing rental properties. Any proposed transferee (including individuals within an ownership) whose currently-owned multifamily housing rental properties have been found by the Housing Commission to have deficiencies that have not been resolved within the time frame prescribed by the City, Housing Authority or Housing Commission or other local government authority, may not assume ownership of, or an ownership interest in, any bond financed project. The Housing Commission may initiate additional inspections to verify findings.

10.6 Carryforward Election. With respect to each allocation of tax-exempt private activity bond issue authority to the Housing Authority in a given calendar year for which less than all of the allocation of volume cap was used, the Housing Commission staff shall contact CDLAC requesting confirmation of the amount, if any, of carryforward election the Housing Authority shall make under section 146(f) of the Internal Revenue Code and the Housing Authority will timely file a Form 8328 with the IRS.

10.7 Arbitrage Rebate Compliance. The project owner shall comply with all applicable federal tax laws set forth in the tax or arbitrage certificate and bond documents, including arbitrage rebate compliance. Upon request, the project owner shall provide the Housing Commission with documentation that verifies compliance with federal tax laws set forth in the tax or arbitrage certificate and bond documents, including rebate compliance reports.

10.8 Other Required Disclosures. The project owner shall be solely responsible for any and all continuing disclosures under any applicable Securities and Exchange Commission and any Municipal Securities Rulemaking Board (MSRB) rules, requirements and regulations (including but not limited to fixed rate bond issuances with Fannie Mae and/or Freddie Mac involvement).

Authorized:

Deborah N. Ruane Executive Vice President, Chief Strategy Officer San Diego Housing Commission	Ted Miyahara Vice President, Multifamily Housing Finance Real Estate Division
Date	Date

History:

Adopted:	10/16/1989
Revised:	6/23/1992
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