



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: February 3, 2006

ITEM 102

REPORT NO.: HCR06-10
For the Agenda of February 10, 2006

SUBJECT: Preliminary Bond Items and Loan to Del Sol Apartments Limited Partnership for Del Sol Apartments (Council District 8)

SUMMARY

Issue #1: Should the Housing Commission approve a loan of \$4,126,000 for the acquisition, rehabilitation, and preservation of 91 units of affordable multi-family rental housing?

Recommendation #1: That the Housing Commission recommend Housing Authority approval for:

- a) a residual receipts loan of up to \$4,126,000 to Del Sol Apartments, L.P. to fund acquisition and rehabilitation of Del Sol Apartments, located at 3606 - 3690 Del Sol Boulevard;
- b) the President and Chief Executive Officer to execute any and all documents necessary to make the approved loan; and
- c) revision of the FY 2006 Housing Commission budget to add \$1,216,072 of unanticipated Coastal Housing funds to the Loans and Grants line item in the Rental Housing Production budget to partially fund this loan.

Issue #2: Should the Housing Commission recommend that the Housing Authority and City Council take the initial steps to issue multifamily housing revenue bonds to finance the acquisition and rehabilitation of the project?



Recommendation #2: That the Housing Commission recommend the:

- a) Housing Authority approve a bond inducement resolution (a “declaration of official intent”) for up to \$14,400,000 in multifamily housing revenue bonds for the acquisition and rehabilitation of the 91-unit Del Sol Apartments;
- b) Housing Authority approve an application (and subsequent applications if necessary) to the California Debt Limit Allocation Committee (“CDLAC”) for an allocation of authority to issue tax-exempt “private activity bonds” for the Del Sol Apartments; and,
- c) City Council hold a public hearing (*known as a TEFRA hearing -Tax Equity and Fiscal Responsibility Act*) and adopt a resolution approving the issuance of tax-exempt bonds in an amount up to \$14,400,000 by the Housing Authority.

Issue #3: Should the Housing Commission approve a financing team from the previously approved list of Financial Advisors and Bond Counsels to work on preparing the proposed bond issuance?

Recommendation #3: That the Housing Commission approve Joe Litten of Public Financial Management as financial advisor and Stradling Yocca Carlson & Rauth as bond counsel to begin work on the project.

Fiscal Impact: Approval of these recommendations would result in the expenditure of up to \$4,126,000 in Housing Commission funds. Since the Housing Commission’s FY06 budget was finalized, \$1,216,072 in additional Coastal Housing funds have been received. The Housing Commission’s budget must be amended to use these funds on the project.

Approval of the bond inducement and TEFRA resolutions do not commit the Housing Authority to issue bonds. If bonds are ultimately issued for the project, the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources.

Certificate of Funding Availability:

Certificate No.:	FY06-083
Amount:	\$4,126,000
Revenue Sources:	HOME / Coastal / HTF
Division:	Housing Finance and Development
Line Item:	Loans

Affordable Housing Impact: A total of 90 units would be rent and occupancy-restricted (one unit will be occupied by a resident manager). The project will apply for Proposition 46 funding from the state’s Multifamily Housing Program (MHP). Due to MHP program requirements, 32 units would be restricted at 30% of the Area Median Income (AMI) (\$20,700 for a family of four). In addition, under bond and tax credit requirements, 17 units would be restricted at 50%

AMI (\$34,500 for a family of four) and 41 units would be at 60% AMI (\$41,400 for a family of four).

Environmental Review: The City of San Diego, as the Responsible Entity, on February 1, 2006, issued a Certification of Categorical Exclusion pursuant to the applicable provisions of the National Environmental Policy Act (NEPA) 24CFR part 58, Section 58.35(a)(3). Further, in accordance with the Statutory Worksheet, the Responsible Entity has determined that the project is exempt per 24CFR 58.34(a)(12) and funds may be drawn down for an Exempt Project without the processing of a Request for Release of Funds (RROF). In addition, the acquisition and rehabilitation of existing facilities is categorically exempt from the provisions of the California Environment Quality Act (CEQA) pursuant to section 15301 of the CEQA guidelines. On January 19, 2006, the City as lead agency under CEQA issued a determination of environmental exemption for the project.

Previous Related Actions: The Loan Committee approved this loan recommendation on January 24, 2006.

Future Related Action: The recommended Housing Commission loan exceeds the Housing Commission's approval limit of \$250,000 and requires Housing Authority approval. If the requested bond items are approved by the Housing Commission, Housing Authority, and City Council, an application to CDLAC will be submitted in March of 2006 for consideration by CDLAC at its May 17, 2006 meeting. Specific authorization to issue bonds for Del Sol Apartments will be sought from the Housing Commission and Housing Authority at a future date (Refer to Attachment 8, Section 4 "Final Bond Approval").

Community Planning Group Review: At its regular meeting on January 11, 2006, the Otay-Nestor Planning Group voted to approve this development.

BACKGROUND

Del Sol Apartments is a 30-year old project that has been operating under a federal affordable housing program. The original affordability restrictions expire at the end of 2006.

The nonprofit sponsor and development limited partner, Wakeland Housing and Development Corporation (Wakeland), submitted a loan application for gap financing of acquisition and rehabilitation under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. This gap loan will leverage State Proposition 46 funds. Funding of this development with Coastal Housing funds requires an amendment to the Fiscal Year 2006 Housing Commission Budget (see Attachment 7 for budget revision details).

The Housing Commission also utilizes the Housing Authority's tax-exempt borrowing status to pass on lower interest rate financing (and make federal tax credits available) to developers of affordable housing. The Housing Authority's ability to issue bonds is limited under the U.S. Internal Revenue Code. To issue bonds for a project, the Housing Authority must first submit an application to CDLAC for a bond allocation. Prior to submitting applications to CDLAC, projects are brought before the Housing Commission, Housing Authority, and City Council. Housing Authority bond inducement resolutions must be obtained prior to application submittal and City Council TEFRA resolutions must be secured no later than 15 days after application submittal.

The developer has requested that the Housing Authority submit an application to CDLAC in March to meet the application deadline for CDLAC's May allocation meeting. It is anticipated that the project will receive a bond allocation at the May meeting; however, if necessary, staff will submit up to three additional applications to CDLAC during 2006 to secure a bond allocation for the project. A general description of the Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize proposed financings are described in Attachment 8.

DISCUSSION

The Borrower

The owner and the borrower would be Del Sol Apartments, LP. Wakeland Del Sol LLC, an affiliated limited liability corporation formed by Wakeland, would be the managing general partner and Wakeland would be the initial limited partner. A tax credit investor would replace Wakeland as the limited partner subsequent to an allocation of four percent tax credits and tax-exempt bonds. Del Sol Apartments would be the borrower's sole asset. Wakeland's financial statements were reviewed by Housing Commission staff and found to be satisfactory (see Attachment 5 – Financial Statements).

Wakeland is a California 501(c)(3) nonprofit corporation established in 1998 with the mission of developing affordable housing. The project team would be the staff of Wakeland. Wakeland's executive director is Mr. Ken Sauder; its project manager for the proposed development is Mr. Barry Getzel. The borrower would contract with John Stewart Company to provide property management services for Del Sol Apartments.

Wakeland has participated in the development of over 1,900 affordable rental housing units in San Diego, including approximately 300 units of new construction. In March of 2006, Wakeland will complete construction of the 60-unit Beyer Courtyard Apartments, an affordable rental housing complex located on Beyer Boulevard in San Ysidro. Beyer Courtyard Apartments was financed in part with a \$4,200,000 loan from the Housing Commission. In September of 2002, the Housing Commission provided a \$1,200,000 loan for Wakeland's

acquisition and rehabilitation of Vista Terrace Hills. Vista Terrace Hills is 262 units of affordable rental housing located on the parcel immediately adjacent to Beyer Courtyard Apartments. Beyer Courtyard Apartments and Vista Terrace Hills are within walking distance of the proposed development. Wakeland is currently in compliance with the terms of its previous loans from the Housing Commission.

The Development

Built in 1975, Del Sol Apartments is located in the community of Nestor near the intersection of highways 5 and 905. The complex consists of 93 townhome style apartment units in 16 two-story wood frame and stucco buildings on approximately six acres (see Attachment 1 – Location Map). Laundry facilities are provided on-site. The property is within walking distance of a bus stop and trolley stop, and the complex provides convenient access to schools, parks, supermarkets and other retail establishments. Although the existing improvements have been maintained, the complex is suffering the effects of age and could become a detriment to the neighborhood if it is not renovated in the near future.

Planned improvements to the property include upgraded laundry facilities, a new outdoor play area for children, and a new community room. To increase the number of units suitable for families, the complex would be reconfigured with two studio apartments combined to create a two-bedroom unit and two small one-bedroom apartments combined to create a three-bedroom unit. Rehabilitation will include landscaping, site drainage, walkway repairs, kitchen and bathroom remodeling, roofing, door and window replacements, floorcoverings, interior and exterior painting, plumbing, and electrical work. Parking is provided by 191 spaces in a central courtyard area.

Upon completion of rehabilitation, the reconfigured complex would provide two one-bedroom apartments, 11 two-bedroom apartments, 66 three-bedroom apartments, 11 four-bedroom apartments, and one resident manager's unit. Of the 91 units, 90 would be occupancy and rent restricted for 55 years by a Housing Commission regulatory agreement recorded against the property. Wakeland would work with the residents of Del Sol Apartments to tailor a package of tenant services that may include such activities as computer training, financial fitness classes, homeownership education, English language instruction, and after-school programs.

The following table describes the units by size and proposed initial rents:

Unit Type	Unit Size (sq. ft.)	No. of Units	Initial Monthly Rent	Maximum Percent of Area Median Income of Eligible Households	Monthly Utility Allowance	Monthly Housing Cost	Monthly Market Rent	Annual Rent Savings Over Market Rate
2br/1.5ba	921	5	\$ 430	30%	\$35	\$ 465	\$1,075	\$ 38,700
3br/1.5ba	995	23	\$ 475	30%	\$43	\$ 518	\$1,280	\$ 222,180
4br/1.5ba	1076	4	\$ 505	30%	\$54	\$ 559	\$1,440	\$ 44,880
1br/1.0ba	507	2	\$ 618	50%	\$28	\$ 646	\$ 865	\$ 5,928
2br/1.5ba	921	2	\$ 741	50%	\$35	\$ 776	\$1,075	\$ 8,016
3br/1.5ba	995	10	\$ 820	50%	\$43	\$ 863	\$1,280	\$ 55,200
4br/1.5ba	1076	3	\$ 877	50%	\$54	\$ 931	\$1,440	\$ 20,268
2br/1.5ba	921	4	\$ 896	60%	\$35	\$ 931	\$1,075	\$ 8,592
3br/1.5ba	995	33	\$ 992	60%	\$43	\$1,035	\$1,280	\$ 114,048
4br/1.5ba	1076	4	\$1,064	60%	\$54	\$1,118	\$1,440	\$ 18,048
2br/1.5ba	921	1	MGR					
Total		91						\$535,860

Of the existing units, 88 are currently affordable under a Section 8 Moderate Rehabilitation contract, which is renewable on an annual basis by the owner (88 units are rented at 30% of adjusted household gross income and four units are rented at market rates). This contract would not be continued after the required noticing period expires on December 31, 2006, because federal regulations preclude implementation of tax credit financing when Section 8 Moderate Rehabilitation contracts are in place.

It is assumed that the majority of the existing households have incomes at or below 60% AMI, which would allow them to continue living in the restricted units following project completion. With HUD approval, eligible tenants would receive tenant-based rental assistance vouchers from the Housing Commission. This would expand the supply of Section 8 vouchers in the City. Tenants could use these vouchers to continue to reside at Del Sol both during and after rehabilitation. Tenants could also use their vouchers to secure housing at any other rental project that accepts Section 8. Any vacancies caused when tenants use their vouchers to secure housing elsewhere are expected to be filled quickly because of the high demand for affordable rental housing in San Ysidro.

Wakeland has a record of successfully completing affordable housing developments that improve living conditions in the neighborhoods they serve. It is Wakeland's intent to consult with development residents to structure a tenant services program for Del Sol Apartments that may include such activities as computer training, financial fitness classes, homeownership education, English language instruction, and after-school programs. These opportunities will

enhance the lives of project residents and improve conditions in the community beyond the benefit of preserving the affordable units.

The Funding Request

The estimated total development cost is \$21,361,410 (\$237,349 for each unit of 90 affordable units) which includes capitalized reserves. The borrower will acquire the property prior to permanent financing with 24-month bridge loans from Washington Mutual and the Low Income Investment Fund (LIIF).

Proposed permanent financing would consist of a first position amortized loan of \$4,432,375 from Washington Mutual to secure the tax-exempt bonds, a second position \$5,445,169 MHP loan from the California Department of Housing and Community Development, a \$4,126,000 third position loan from the San Diego Housing Commission, \$6,637,866 from four-percent tax credits, and \$720,000 in development income.

For the purpose of repayment, the Housing Commission would be in a junior position to \$9,877,544 in other permanent debt consisting of the Washington Mutual bond loan and the MHP loan. Debt service beginning after conversion to permanent financing would consist of payments on the 30-year amortized bond loan and a required minimum annual payment to MHP equal to .42% of its loan amount (\$22,870). Required minimum annual payments would be made on the 55-year MHP loan for 30 years; after 30 years it converts to a three percent interest amortized loan for the remaining 25 years.

The borrower would receive 50 percent of residual receipts. With the approval of the senior lenders, the Housing Commission and MHP would split the remaining 50 percent of residual cash flow based on a pro-rata share of each agency's loan. Currently it is estimated that MHP will receive 28 percent of total residual receipts with the Housing Commission receiving 22 percent; 22 percent of residual receipts in year one is estimated to be \$6,593. Total principal and accrued interest of the Housing Commission loan would be due and payable at the earlier of 55 years or when all senior financing is paid off or refinanced.

Residual receipts payments to the Housing Commission would begin after completion of the rehabilitation of the project and following the end of the first 12 months of operation that coincide with the end of the borrower's fiscal year. Residual receipts payments to the Housing Commission would be made to the extent of the availability of residual cash flow. Allowing Del Sol Apartments, L.P. to retain a portion of the residual receipts strengthens the organization's ability to maintain the building and provide tenant services with rent revenues.

Any unpaid principal and accrued interest of the Housing Commission loan would be due and payable in a balloon payment at the earlier of the end of the 55-year loan term or when the development is refinanced. Payments on the permanent loans are summarized in the following table:

Preliminary Bond Items and Loan for Del Sol Apartments
 For the Housing Commission Agenda of February 10, 2006

Lien Priority	Lender	Beginning Loan Balance	Required Annual Payments	Interest Rate	Projected Payoff Date	Loan Terms
1	WaMu	\$ 4,432,375	\$ 336,188	6.5	09/15/36	30-year /amortized
2	MHP	\$ 5,445,169	\$ 22,870	3.0	09/15/61	55-years / amortized from year-30
3	SDHC	\$ 4,126,000	\$ 0	3.0	09/15/61	55-years / residual receipts
Total		\$14,003,544	\$ 359,058			

The Housing Commission's per-unit cost to restrict rents and occupancy for 90 units would be \$45,844. The permanent loans would be secured by the value of the rehabilitated property. A Housing Commission Declaration of Covenants, Conditions, and Restrictions would be recorded against the property restricting rents and occupancy for 55 years. The loan terms and payment procedures are included in the following summary:

The Financial Plan

Total Development Cost: The estimated total development cost is \$21,361,410 including rehabilitation, interest costs, contractor overhead and profit, and a \$1,057,500 developer fee.

Appraised Value: An appraisal dated November 28, 2005, estimates the “as-is” market value at \$13,950,000, which is \$450,000 more than the \$13,500,000 purchase price.

Loans-to-Value: Loans-to-value based on the as-is valuation is approximately 101 percent. The loans-to-value ratio would be a less favorable 142 percent based on the appraiser’s hypothetical after-rehabilitation valuation of \$9,870,000 on a rent-restricted property following an estimated \$3.5 million in rehabilitation costs.

Housing Commission Loan Amount: The proposed \$4,126,000 Housing Commission loan would leverage \$17,235,410 from other sources.

Housing Commission Loan Terms: A 55-year residual receipts loan at three percent simple interest per year.

Housing Commission Cost Per Unit: Estimated total per-unit cost of \$45,341 for 91 units.

Security: The Housing Commission loan would be subordinate to the first and second position liens and secured by the value of the rehabilitated property.

Recourse: Prior to completion of rehabilitation, this would be a recourse loan to Wakeland Del Sol, LLC, a single asset entity, after which it would become a non-recourse loan to comply with tax credit rules.

Preliminary Bond Items and Loan for Del Sol Apartments
For the Housing Commission Agenda of February 10, 2006

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Housing Commission Loan Payments:	The borrower would begin making annual residual receipts payments after completion of rehabilitation and following the end of the first 12 months of operation that coincide with the end of the borrower's fiscal year. The borrower would retain 50 percent of the residual receipts. With the approval of the senior lenders, there would be an annual residual receipts payment to the Housing Commission estimated to be 22 percent of the total residual cash flow. Should the size of the MHP loan change prior to closing, the Housing Commission's share of residual cash flow would be adjusted. Any unpaid principal and accrued interest would be due in a balloon payment at the earlier of the end of the 55-year loan term or upon project refinancing.
Debt Service:	Combined annual payments on the first and second loans would be \$359,058.
Debt Service Coverage:	A debt service ratio of 1.14 in year one on the first position loan. The second position loan would have a minimum annual payment of .42 percent of its loan amount (\$22,870) through Year 30, after which it becomes an amortizing loan.
Affordability Restrictions:	A Housing Commission Declarations of Covenants, Conditions, and Restrictions with a 55-year term of affordability recorded against the property.
First Deed of Trust:	An estimated 30-year tax-exempt bond loan of \$4,432,375 would be in first position at the bond market interest rate at the time of closing (estimated at 6.5 percent).
Second Deed of Trust:	A 55-year, three percent simple interest residual receipts loan of \$5,445,169 from MHP.
Third Deed of Trust:	A 55-year, three percent simple interest residual receipts loan of \$4,126,000 from the Housing Commission.
Management Plan:	The management plan was reviewed and approved by Housing Commission staff. The management plan is subject to periodic review and approval by the Housing Commission.
Operating Expense:	Per-unit operating expenses are estimated to be \$335 per month (\$4,019 per year).

Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; operating expenses at 3.5 percent per year; vacancy rate at 5 percent per year.
Reserves:	A total annual replacement reserve of \$36,400 (\$400 per unit) included in the pro forma is subject to the approval of the senior lenders. Use of the replacement reserve would be subject to the reasonable approval of the President and Chief Executive Officer of the Housing Commission. In addition, a capitalized operating reserve of \$189,549 is included in the development budget.

Selection of the Financing Team Members

Staff recommends assigning Public Financial Management as financial advisor and Strading Yocca Carlson & Rauth as bond counsel to work on the project. The proposed financing team members have been selected in accordance with the existing policy for the issuance of bonds. Financial advisors and bond counsels are designated on a rotating basis from the firms selected under the program through a competitive RFP process.

Bond Allocation Amount and Structure

The \$14,400,000 million allocation that will be sought from CDLAC is approximately 20% higher than the amount for which the project is currently being underwritten. The developer has requested this cushion to account for possible increases in the bond amount due to increases in construction costs or decreases in the assumed interest rate. Of the total \$14,400,000 million bond allocation, approximately \$10 million in housing revenue bonds will be used to finance the construction of the project and will be paid off at conversion to permanent financing. The permanent bond amount is estimated to be approximately \$4.4 million.

The developer has proposed that the bonds be sold through a private placement with Washington Mutual. The sale of the bonds will have to comply with the Housing Commission's Multifamily Housing Revenue Bond Program policy.

In the future, should the Housing Authority, under a separate action, authorize the issuance of bonds for the project, the bonds would not constitute a debt or liability of the Housing Authority or the City of San Diego. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the bonds because security for bond payments is limited to the value of the property and its revenue sources. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

Risks and Mitigations

The Housing Commission loan becomes non-recourse upon project completion because Internal Revenue Service regulations make these tax credit investments undesirable if structured otherwise. This would limit the Housing Commission's ability to recover funds upon default because the encumbrance would be on the property and not the other assets of the developer. This risk is typically taken by the Housing Commission for tax credit-financed developments and is deemed mitigated by conservative underwriting assumptions and the equity contribution provided by tax credit financing.

The Housing Commission would be making a loan for a development with a total cost at completion likely exceeding the market value. This is an acceptable risk because the developer is experienced and will extend the service life of the improvements for at least fifteen years while preserving 91 units of "at risk" affordable housing. Risk to the Housing Commission investment in this project is further mitigated by \$6,637,866 of equity provided through low-income housing tax credits.

Approval of the bond inducement and TEFRA resolutions do not commit the Housing Authority to issue bonds. If bonds are eventually issued, the risk associated with the financing will be minimal because the security for the bond repayment is limited to the value of the subject property and its revenue sources.

Conclusion

In its Housing Needs Assessment of the rental housing market, the City's Consolidated Plan identifies large families as an under-served tenant population. Assessment findings show that cost factors result in incentives for developers to produce primarily one-bedroom and two-bedroom units, resulting in a shortage of three-bedroom and four-bedroom apartments.

The City's Draft Housing Element for 2005 to 2010 identifies over 4,000 affordable housing units at risk of conversion to market rates. The Draft Housing Element specifically lists the Del Sol Apartments as an "at risk" affordable housing project. The City's stated goal is to preserve 100 "at risk" housing units each year between 2005 and 2010.

Therefore, if approved, the recommended actions for this project will provide 66 affordable three-bedroom units and 11 four-bedroom units, preserve the affordability of 91 "at risk" housing units, and benefit the community by improving the appearance of the property. In addition, up to 88 Section 8 tenant-based housing vouchers would be added to the City's current allotment of approximately 12,000 vouchers.

ALTERNATIVE

The Housing Commission could deny approval of these recommendations. A Housing Commission decision to not approve the loan could result in the apartment complex being sold to a for-profit buyer who would likely increase the rents after performing only requisite rehabilitation work.

Submitted by,

Cissy Fisher
Director of Housing Finance and Development

**Signature on File
With Original Document**

Approved by,

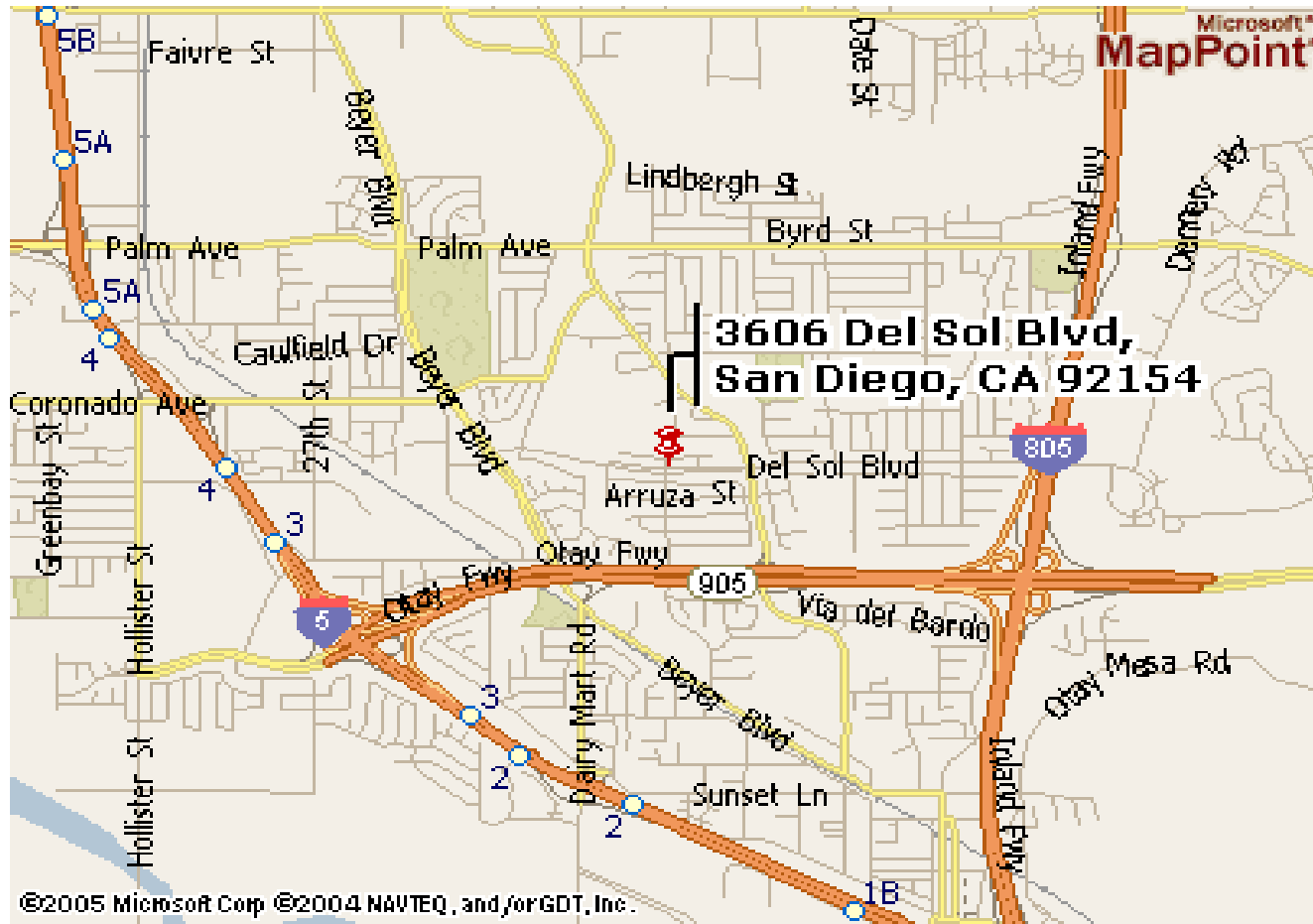
Elizabeth C. Morris
President and Chief Executive Officer

- Attachments:
1. Location Map
 2. Development Summary
 3. Development Timeline
 4. Disclosure Statement *
 5. Financial Statements *
 6. General Application Forms
 7. Summary of FY 2006 Rental Housing Expenditures Budget Revision
 8. Multifamily Bond Program Summary

*Distribution of this attachment is limited. A copy is available for review at the Housing Commission at 1625 Newton Ave. and the office of the City Clerk, 2nd floor, 202 "C" Street.

Information: Mr. Dan Cady (619) 578-7594

The Development Site



Del Sol Apartments is located on Del Sol Boulevard in the San Ysidro Planning Area

ATTACHMENT 2

DEVELOPMENT SUMMARY

Name: Del Sol Apartments
Location: 3606 – 3690 Del Sol Boulevard
Description: Rental housing for very low-income and low-income families
Sponsor: Wakeland Housing and Development Corporation

Unit Affordability

Total # of units: 91
Assisted units: 90
Restricted rents: 2 one-bedroom @ \$618
11 two-bedroom @ \$430 to \$896
66 three-bedroom @ \$475 to \$992
11 four-bedroom @ \$505 to \$1,064
Market rent: one-bedroom units rent for approximately \$865 per month
two-bedroom units rent for approximately \$1,065 per month
three-bedroom units rent for approximately \$1,280 per month
four-bedroom units rent for approximately \$1,440 per month
Percent of AMI: 32 units at 30%, 17 units at 50%, and 41 units at 60% or less of Area Median Income
Affordability: 55 years

Development Cost

Total development cost: \$21,361,410
HC development cost: \$ 4,126,000
Per-unit development cost for 91 units: \$ 234,741
HC cost for 91 units: \$ 45,341
HC subsidy per bedroom (268 br's): \$ 15,396

Sources of Funds

Washington Mutual \$ 4,432,375
Multifamily Housing Program (MHP) \$ 5,445,169
Housing Commission Loan \$ 4,126,000
4% Tax Credits \$ 6,637,866
Project Income \$ 720,000

Pro Forma Summary

Estimated annual income: \$ 808,625 (year 1)
Estimated annual expense: \$ 365,701 (year 1)
Annual first loan debt service: \$ 336,188 (1.14 ratio / year 1)
Estimated residual cash flow: \$ 29,966 (year 1)

ATTACHMENT 3

**DEL SOL APARTMENTS
ESTIMATED DEVELOPMENT TIMELINE**

February 10, 2006	Loan to the Housing Commission for approval
February 21, 2006	Loan to the Housing Authority for approval
September 15, 2006	Loan closing
October 1, 2006	Start of rehabilitation
May 31, 2007	Project completion

Attachment - 7

Budget Revision
Summary of Expenditures for
Rental Housing Production

	Current Budget	Proposed Revision	Proposed Budget
Salaries & Benefits	1,222,508	0	1,222,508
Services & Supplies			
Legal	200,000		200,000
Training	5,445		5,445
Travel	5,000		5,000
Audit	4,758		4,758
Contract/Consultant	210,000		210,000
Office Rent	54,864		54,864
Data Processing	1,750		1,750
Sundry	25,974		25,974
Office Equipment	1,600		1,600
Total Services & Supplies	509,391	0	509,391
Housing Programs			
PILOT & Property Taxes	6,200		6,200
Mortgage	75,750		75,750
Loans & Grants	19,914,081	1,216,072	21,130,153
Relocation			0
Site Acquisition & Hsing Development	12,665,845		12,665,845
Total Housing Programs	32,661,876	1,216,072	33,877,948
Total Budget	34,393,775	1,216,072	35,609,847

**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” 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 or the Housing Authority’s faith, credit or taxing power. 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. In practice, projects financed by multifamily housing bonds are affordable for a minimum of 30 years. Bonds may also be combined with other financing sources to create deeper affordability and longer terms of restriction.

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 financing team to perform a due diligence process. The Inducement Resolution does not represent any

Attachment 8

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, 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.

Attachment 8

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 the 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.

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