Good Neighbors
San Diego
Housing Commission

- 1625 Newton Avenue
- San Diego, California 92113-1038
- 619/231 9400
- FAX: 619/544 9193

REPORT

DATE ISSUED: February 18, 2005 **ITEM 103**

REPORT NO.: HCR05-19
For the Agenda of February 25, 2005

SUBJECT: Preliminary Items Pursuant to Issuing Multifamily Housing Revenue Bonds for Fairbanks Ridge Apartments (Council District 1)

SUMMARY

Issue #1: Should the Housing Authority take the initial steps to issue multifamily housing revenue bonds to finance the acquisition and construction of Fairbanks Ridge Apartments, located in the Black Mountain Ranch Planning subarea of the North City Future Urbanizing Area (NCFUA)?

Recommendation #1: That the Housing Commission recommend the following preliminary actions:

A. Housing Authority approve a bond inducement resolution in an amount up to $37 million to finance the acquisition and construction of the 204-unit Fairbanks Ridge Apartments;

B. Housing Authority approve an application (and subsequent applications if necessary) to the California Debt Limit Allocation Committee for an allocation of authority to issue tax-exempt "private activity bonds" for the Fairbanks Ridge 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 $37 million by the Housing Authority.

Issue #2: Should the Housing Commission approve a financing team to work on preparing the proposed bond issuance?

Recommendation # 2: That the Housing Commission approve CSG Advisors, Inc. as financial advisor and Stradling, Yocca, Carlson & Rauth as bond counsel to begin work on the project.

Fiscal Impact: The approval of these preliminary items will not obligate the Housing Authority to issue bonds for Fairbanks Ridge. The issuance and sale of multifamily housing revenue bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for repayment of the bonds will be limited to specific private revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the developer.

Housing Affordability Impact: Because the development is being financed by bonds, tax credits, and State Multifamily Housing Program (MHP) funds, very deep affordability can be achieved. The project will restrict 34% of the apartments for occupancy by families earning between 25% and 35% of Area Median Income (AMI) (between $17,125 and $24,000 for a family of four) and 66% of the apartments for families earning no greater than 60% AMI ($41,100 for a family of four). The affordability restrictions will remain in place for 55 years. The restricted rents would also apply if Section 8 tenants occupy the units.

Future Related Action(s): Specific authorization to issue bonds for Fairbanks Ridge Apartments will be sought from the Housing Authority at a future date (Refer to Attachment 1, Section 4 "Final Bond Approval").

BACKGROUND

There are two primary ways the Housing Commission provides financial assistance for development of affordable housing: 1) direct lending of Housing Commission HOME and other monies; and 2) issuance of tax-exempt multifamily housing revenue bonds through the Housing Commission's multifamily bond program. The Housing Commission 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. Most projects require both forms of assistance. This report pertains specifically to the issuance of tax-exempt multifamily housing revenue bonds.

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 the California Debt Limit Allocation Committee (CDLAC) for a bond allocation. Prior to submitting applications to CDLAC, projects are brought before the Housing Commission, Housing Authority, and City Council for approvals. Bond inducement resolutions must be obtained prior to application submittal and TEFRA resolutions must be secured no later than 30 days after application submittal.

A general description of the Housing Commission's Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize the proposed financing are described in Attachment 1.

DISCUSSION

The Developer

The applicant and developer for the proposed project is Chelsea Investment Corporation (Chelsea), which is headquartered in Encinitas. Mr. James Schmid is President and 100% shareholder of the corporation. Formed in 1986, Chelsea is involved in the acquisition, development, and management of multifamily housing projects in California and Arizona. Chelsea currently manages 17 apartment communities, including 1,514 multifamily units located in San Luis, Arizona and in San Diego, Carlsbad, Chula Vista, and in six Imperial Valley communities. In addition to the proposed project, Chelsea and its affiliates own, have developed, or are now developing 35 apartment projects comprising a total of 4,299 units located in Southern California and Arizona. The Developer's Statement for Public Disclosure and audited financials are included as Attachment 2.

Chelsea, through its 100% owned affiliate, CIC Fairbanks, L.P. will act as co-general partner in a limited partnership to be formed to own and operate the project. Pacific Southwest Community Development Corporation, an experienced California nonprofit public benefit corporation with which Chelsea has partnered on several projects, will serve as the managing general partner. An organizational profile is included as Attachment 3.

The San Diego Housing Commission and Housing Authority have worked successfully with Chelsea over the past several years to issue a total of $29,752,000 in multifamily housing revenue bonds for six developments totaling 445 units:

Project Name	Council District	Year Bonds Issued	Bond Amount	# Of Units
Regency Centre Apts.	4	2000	$4,100,000	100
Torrey Highlands	1	2001	$4,780,000	76
Villa Andalucia	1	2002	$2,231,000	32
Villa Glen	1	2002	$2,048,000	26
Windwood Village Apts.	1	2002	$6,768,000	92
Rancho del Norte	1	2003	$9,825,000	119

The Project

Fairbanks Ridge is a new construction project that will provide a total of 204 units. The development will be located in the northern portion of Black Mountain Ranch (Subarea I) approximately two miles west of Chelsea's Rancho del Norte project. The location map is included as Attachment 4.

The development of Fairbanks Ridge will partially fulfill the affordable housing requirements for the master planned community of the North Village at Black Mountain Ranch. At build-out, the North Village project will include 2,314 market rate dwelling units, 469 affordable units, and a mixture of commercial, employment, and public services.

Fairbanks Ridge will include 13 three-story residential buildings, a community facility of approximately 3,200 square feet, two tot lots, a basketball court, and a swimming pool.

The 13 residential buildings will consist of 48 one-bedroom, one-bath apartments; 72 two-bedroom, two-bath apartments; and 84 three-bedroom, two-bath apartments. The project will restrict approximately 34% of the units to households earning between 25% and 35% AMI and 66% of the units to households earning no greater than 60% AMI. The restricted rents for the project will also apply if Section 8 tenants occupy the units. The Regulatory Agreement that determines the level of affordability for the project will be in existence for 55 years.

Rent and Income restrictions for the project are outlined in the chart below:

Type	**Square Footage**	**AMI**	**Number of Units**	**Restricted Rent (Incl. utility allowance)**	**Market Rate**	**Savings per unit**
1 Bedroom	693	25% AMI	4	$321	$1,049	$728
1 Bedroom	693	30% AMI	6	$385	$1,049	$664
1 Bedroom	693	35% AMI	6	$449	$1,049	$600
1 Bedroom	693	60% AMI	32	$771	$1,049	$278
2 Bedroom	880	25% AMI	6	$385	$1,369	$984
2 Bedroom	880	30% AMI	11	$462	$1,369	$907
2 Bedroom	880	35% AMI	8	$539	$1,369	$830
2 Bedroom	880	60% AMI	47	$925	$1,369	$444
3 Bedroom	1,125	25% AMI	10	$428	$1,557	$1,129
3 Bedroom	1,125	30% AMI	10	$514	$1,557	$1,043
3 Bedroom	1,125	35% AMI	8	$600	$1,557	$957
3 Bedroom	1,125	60% AMI	56*	$1,027	$1,557	$530
Total:			**204**	**N/A**	**N/A**	**$121,837**

*** Includes one manager's unit**

Selection of the Financing Team Members

Staff recommends assigning CSG Advisors, Inc. as financial advisor and Stradling, 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.

Financing Structure

The allocation that will be sought from CDLAC, $37 million, is approximately 10% higher than the amount for which the project is currently being underwritten. The developer has requested this cushion to account for possible increases in construction costs or increases in the bond amount resulting from decreases in interest rates. It is anticipated that approximately $23.7 million of the estimated bond amount will be paid off at conversion to permanent financing, resulting in a permanent bond of approximately $13.3 million. The large amount of bonds to be retired at conversion to permanent financing is due to the fact that approximately $22 million in tax credit equity and MHP loan proceeds only become available at conversion.

It is anticipated that the bonds will be sold through a private placement with US Bank. As part of proposed financing, US Bank will be required to sign an investor letter certifying that they are a sophisticated investor and understand the risk associated with the purchase of the bonds. The transfer of the bonds by US Bank or any subsequent bondholder will be restricted to transferees who would take all of the bonds (to maintain ownership by a single bondholder), and who would represent to the Authority and the Commission that they are sophisticated investors, are buying for investment and not for resale, and have made due investigation of the information they would deem material in connection with the purchase of the bonds. Finally, US Bank must agree that should a mortgage default occur, there would not be a bond default.

Pursuant to Housing Authority approval, staff will submit, on behalf of Chelsea, an application for private activity bond allocation to CDLAC. If successful, the bond financing will qualify the project for an allocation of 4% low-income housing tax credits, which will be sold to a tax credit partner. These proceeds will serve as a contribution of project equity. If the application is unsuccessful, at the request of the developer, staff will resubmit the application for a subsequent round.

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 the City, or the Housing Commission. 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.

ALTERNATIVE

Do not recommend approval of the bond inducement and TEFRA resolutions. If the recommended actions are not taken, the project will not be able to benefit from tax-exempt below-market financing.

Respectfully submitted,

Signature on File With Original Document

Cissy Fisher
Director of Housing Finance & Development

Approved by,

Elizabeth C. Morris
President & Chief Executive Officer

ATTACHMENTS:

1. Description of Multifamily Bond Program
2. Developer Disclosure and Financial Statements*
3. Profile of Nonprofit Managing General Partner
4. Project Location Map

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

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ATTACHMENT 1

MULTIFAMILY BOND PROGRAM

General Description

The Multifamily Bond Program provides below market financing (based on tax exemption of bond interest) for developers willing to set aside a portion of the units in their projects as affordable housing. The issuer of these bonds is the Housing Authority. At the present time, more than $535 million in outstanding bonds provides permanent financing for more than 8,700 multifamily rental units in the City, of which 4,200 units are restricted at various levels of affordability.

The following actions must be taken by the Housing Authority and by the City Council to initiate a bond financing:

1. Bond Inducement

The adoption of an "inducement resolution" is an initial step required by the Internal Revenue Service to initiate a possible new-money bond issuance. It does not represent any commitment by the Housing Authority or the applicant to proceed with the financing. Rather, it establishes, through public record, the date from which project costs incurred may be determined to be reimbursable from bond proceeds. Generally, the bond inducement amount is higher than the estimated bond amount to reflect a 10-15 percent contingency. The adoption also authorizes staff to work with the selected financing team to perform a due diligence process to determine the feasibility of the financing, the level of affordability of the set-aside units and structure a resulting proposal for the issuance of bonds.

2. 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, 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 was given. Therefore, federal regulations require that the issuance of bonds by the Housing Authority be approved by the City Council, as the elected legislative body of the City. A notice of public hearing to be held by the City Council with respect to the proposed issuance of bonds will be published in the San Diego Daily Transcript at least fourteen days prior to the scheduled meeting. The purpose of such 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.

3. Bond Allocation

The issuance of bonds for projects owned by private developers (i.e., projects owned by private developers or by nonprofit sponsors with for profit investor participation - "private activity bonds") requires an allocation of a bond issuing authority from the State of California. In order to apply for the bond 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.

4. Final Bond Approval

The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Initially, the information about the proposed tax-exempt financing of the project is preliminary. If the inducement resolutions are approved, a due diligence process conducted by staff and financing team members will generate additional information and analysis. Prior to final consideration of the proposed bond issuance by the Housing Authority, the project will have to comply with all the program's financing and affordability requirements, and undergo all required planning procedures/reviews by local planning groups, etc.

PSCDC PROJECT LIST

Brawley Family Apartments
PSCDC is a general partner and sponsor of the Brawley Family Apartment community located in Brawley, California. The project is a low-income housing complex consisting of 81 units. Completion of Brawley Family Apartments was December of 2002. The project was financed through low-income tax credits and other sources.

Brawley Elks
PSCDC is a general partner and sponsor of Brawley Elks, located in Brawley, CA. The project is a low-income senior housing complex consisting of 81 units and will be completed in June, 2005. The project was financed through low-income tax credits and other sources.

Brawley Gardens
PSCDC is a general partner and sponsor of Brawley Gardens, located in Brawley, CA. The project is a low-income housing complex consisting of 81 units and will be completed in May, 2005. The project was financed through low-income tax credits and other sources.

Calexico Family Apartments
PSCDC is the sponsor of the Calexico Family Apartments, an 80-unit new construction project in Calexico, California. The project is 100% low-income housing and was completed in December 2002. The Calexico Family Apartments were financed through low-income housing tax credits and other means.

Chatham Village
PSCDC serves as Managing General Partner of H.S.A. L.P. which rehabilitated, owns, and operates the Hampton Square Apartments in Tustin, California, a 350-unit mixed-income housing complex. The Hampton Square Apartments were financed by tax-exempt bonds issued by the California Home Financing Authority, a loan from the administrative general partner and low-income housing tax credits. PSCDC is responsible for sponsoring and overseeing social services at the complex, advising on low-income housing issues and working with the community to provide quality affordable housing.

Countryside Apartments
PSCDC is a general partner and sponsor of Countryside Apartments, located in El Centro, CA. The project is a low-income housing complex consisting of 73 units, and was completed in November, 2004. The project was financed through low-income tax credits and other sources.

De Anza Hotel
PSCDC is a general partner in De Anza Hotel Limited Partnership. Completed in January 1998, the De Anza Hotel Project involved the conversion and rehabilitation of a three-story, 80-room hotel built in 1930 into 94 studio apartments for low-income seniors in Calexico, California. The De Anza Hotel also features commercial on the ground floor.

The De Anza Hotel rehabilitation project received financing from CHRP-R (California Housing Rehabilitation Program – Rental) funds. Other financing sources for the project included a loan from the City of Calexico Redevelopment agency, a CDGB Grant and low-income housing tax credits.

Heber Family Apartments

PSCDC is a general partner and sponsor of Heber Family Apartments, located in Heber, CA. The project is a low-income housing complex consisting of 81 units, and will be completed in June, 2005. The project was financed through low-income tax credits and other sources.

Holtville Gardens

PSCDC is a general partner and sponsor of Holtville Gardens, located in Holtville, CA. The project is a low-income housing complex consisting of 81 units, and was completed in November, 2004. The project was financed through low-income tax credits and other sources.

Hotel San Carlos

PSCDC is a general partner in the Hotel San Carlos Limited Partnership, which has restored and rehabilitated the historic Hotel San Carlos in Yuma, Arizona. The Hotel San Carlos is on the Secretary of the Interior's National Register of Historic Buildings. The Hotel San Carlos construction rehabilitation was completed December 31, 1996 and provides 60 units of affordable housing to qualified low-income residents, and several thousand square feet of office space. This project helped to catalyze the redevelopment of historic downtown Yuma.

The Hotel San Carlos project involved many sources of financing, including low-income housing tax credits, historic rehabilitation tax credits, a CDBG loan from the city of Yuma, an Affordable Housing Program loan, a loan and a grant from the Arizona Housing Trust Fund, and an Arizona State Parks Heritage Grant.

Imperial Gardens

PSCDC is a general partner and sponsor of Imperial Gardens, located in Imperial, CA. The project is a low-income housing complex consisting of 81 units, and was completed in November, 2004. The project was financed through low-income tax credits and other sources.

Las Casitas Family Apartments

PSCDC is the sponsor of a 76 unit large family affordable housing project in San Luis, Arizona that provides low-income housing for farm worker families. Currently there are only 92 other multifamily units in San Luis, a community with a population of over 9,000 experiencing an average annual growth rate of 25%. Construction of the apartments was completed in the fall of 1998.

The Las Casitas project was awarded an Affordable Housing Program grant and an Arizona Housing Trust Fund Grant. PSCDC also secured additional financing for the Las

Casitas project, including HOME funds and low-income housing tax credits, from the Arizona Department of Commerce.

Mariposa Apartments
PSCDC is the sponsor and a general partner of Mariposa Apartments, a 106 unit low income project in Carlsbad, CA. It was completed in August of 2004. The project was financed through low-income tax credits and other sources.

Rancho Buena Vista
PSCDC is the sponsor and a general partner of Rancho Buena Vista Apartments, a 150 unit low income project located in Chula Vista, CA. It will be completed March, 2005. The project was financed through low-income tax credits and other sources.

Rancho Del Norte
PSCDC is the sponsor and a general partner of Rancho Del Norte, a 120 unit low income apartment project in San Diego, CA. It will be completed in February, 2005. The project was financed through low-income tax credits and other sources.

Regency Centre Apartments
PSCDC is the sponsor and general partner of the Regency Centre Apartments. The rehabilitation of this 100-unit low-income family apartment community in San Diego was completed in March 2001. The financing for Regency Centre was accomplished though a variety of means, including low-income tax credits and tax-exempt bond financing as well as others.

Seabreeze Farms Apartments
PSCDC is a general partner and sponsor of development for Longacres at Seabreeze Farms Apartments, located within a large upscale multifamily community. Longacres' 38 units are rent-restricted for low-income families. The San Diego apartment community was completed in May of 2001. The financing was accomplished with the use of low-income tax credits.

St. Regis Park Apartments
PSCDC is a general partner of St. Regis Apartments, a 118-unit community located in Chula Vista, California. The 100% low-income St. Regis Apartments were acquired and rehabilitated by PSCDC, who currently monitors management of the project. The St. Regis Apartments were financed through low-income tax credits, tax-exempt bonds and other means.

Teresina at Lomas Verdes
PSCDC is the sponsor of Teresina at Lomas Verdes, a 440-unit mixed-income luxury garden apartment complex in Chula Vista, California. The large new-construction project was completed in September 1999, and was financed through a variety of means including bonds and low-income housing tax credits. Total project costs were in excess of $40 million. Project was sold in 2002.

Torrey Highlands Apartments
PSCDC is the sponsor of the Torrey Highlands project, a 100% low-income housing project located in San Diego, California. The 76-unit family community was completed in October of 2002. Torrey Highlands was financed through low-income housing tax credits and tax-exempt bond financing.

Villa Andalucia Apartments
PSCDC is the sponsor of the Villa Andalucia project, a 100% low-income housing project located in Carmel Valley area of San Diego, California. The 32-unit family community was completed in April of 2003. Torrey Villa Andalucia was financed through low-income housing tax credits and tax-exempt bond financing.

Villa De Las Flores Apartments
PSCDC is the sponsor and general partner of the Villa De Las Flores Apartments, an 80-unit low-income housing project in Calexico, CA. The newly constructed project was completed in September 2001. The financing for Villa De Las Flores Apartments included low-income tax credits, as well as other methods.

Villa Glen Apartments
PSCDC is the sponsor of the Villa Glen project, a 100% low-income housing project located in Carmel Valley area of San Diego, California. The 26-unit family community was completed in March of 2003. Villa Glenn was financed through low-income housing tax credits and tax-exempt bond financing.

Villa Lara Apartments
PSCDC is a general partner of the Villa Lara Apartments in Imperial, California. The new apartment project will provide Imperial County residents with an additional 80 units of low-income housing. The project, financed through low-income tax credits and other sources was completed in December of 2002.

Villa Serena Apartments
PSCDC is the sponsor and a general partner of the Villa Serena Apartments in Chula Vista, California. Villa Serena is a 100% low-income senior community. The 132-unit community was completed in July of 2000 and has seen 100% occupancy since opening. PSCDC financed the new construction of Villa Serena through the use of low-income housing tax credits and tax-exempt bond financing.

Windwood Village
PSCDC is a general partner and sponsor of the Windwood Village Apartments located in the Carmel Valley area of San Diego, California. The low-income housing complex consists of 92 units. The project was completed in June 2003. The project was financed through low-income tax credits, bonds and the Multi-family Housing Program.

Projects Under Development for 2005
Calipatria Apartments – 81 Units
Calipatria, CA

Calexico Family Apartments II – 81 Units

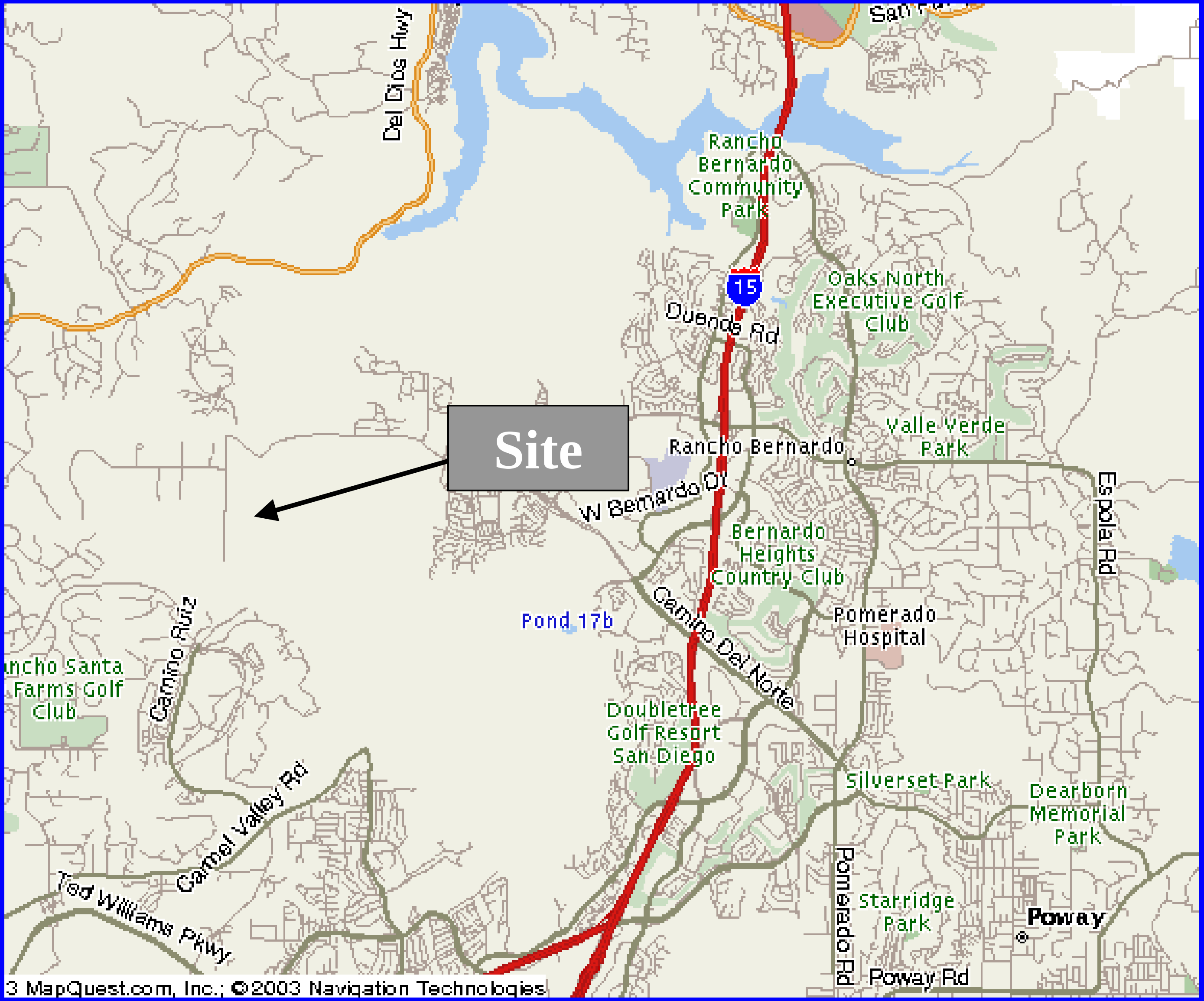
Calexico, CA
Heber Family Apartments II – 81 Units
Heber, CA

The Crossings - 108 units
San Diego, CA

Hunters Pointe – 168 units
Carlsbad, CA

Fairbanks Ridge – 204 units
San Diego, CA

Fairbanks Ridge



Council District 1