



Good Neighbors

San Diego  
Housing Commission

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# REPORT

**DATE ISSUED:** February 18, 2005

**ITEM 104**

**REPORT NO.:** HCR05-20  
For the Agenda of February 25, 2005

**SUBJECT:** Preliminary Actions Pursuant to Issuing Multifamily Housing Revenue Bonds for Delta Village Apartments (Council District 8)

## SUMMARY

**Issue #1:** Should the Housing Authority take the initial steps to issue multifamily housing revenue bonds to finance the acquisition and rehabilitation of the Delta Village Apartments, located at 4316-4388 Delta Street, by Community HousingWorks?

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

- A. Housing Authority approve a bond inducement resolution in an amount up to \$20 million to finance the acquisition and rehabilitation of the 135-unit Delta Village 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 Delta Village 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 \$20 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 Joe C. Litten of Public Financial Management as financial advisor and Quint & Thimmig 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 Delta Village Apartments. The issuance and sale of multifamily housing revenue bonds will not financially impact 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. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the developer.

**Housing Affordability Impact:** The project will set aside at least 14 units for occupancy by households earning no more than 50 percent of the area median income (AMI) (\$34,250 for a family of four) with the remaining 121 set aside for households earning no more than 60 percent 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 Delta Village Apartments will be sought from the Housing Authority at a future date (Refer to Attachment 1, Section 4 “Final Bond Approval”). Community HousingWorks has also submitted an application for funding under the Housing Commission’s current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. A commitment of funds under the NOFA would require future approvals by the Housing Commission and Housing Authority.

## **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 Community HousingWorks. Community HousingWorks was formed by the 2002 merger of Community Housing of North County (founded in 1988) and San Diego NHS (founded in 1982), and is a member of the federally-funded NeighborWorks® network. Community HousingWorks has a successful history as a multifamily developer in urban, suburban and rural communities, with over 1,000 rental and cooperative apartments completed in 23 complexes, and some 300 units in the development pipeline. The developer's Statement for Public Disclosure and audited financials are included as Attachment 2.

### **The Project**

Delta Village is an acquisition and rehabilitation project that will provide a total of 135 units. The development is currently composed of three adjacent multi-family projects, located at 4316-4388 Delta Street, which will be consolidated under the ownership of Community HousingWorks. The location map is included as Attachment 3.

Delta Village will include 13 two-story residential buildings, a community room, mature landscaping, off-street parking, and appropriate security features. Select units will have either a balcony (upstairs units) or private-fenced patios (downstairs units).

The 13 residential buildings will consist of five one-bedroom units, 92 two-bedroom units, and 38 three-bedroom units. At a minimum, the project will restrict 10% of the units to households earning no greater than 50% AMI (\$34,250 for a family of four) and 90% of the units to households earning no greater than 60% AMI (\$41,100 for a family of four). 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	Maximum Restricted Rent (Incl. utility allowance)
1 Bedroom	600	50% AMI	1	\$642
1 Bedroom	600	60% AMI	4	\$771
2 Bedroom	800	50% AMI	9	\$771
2 Bedroom	800	60% AMI	83	\$925
3 Bedroom	1,000	50% AMI	4	\$856
3 Bedroom	1,000	60% AMI	34	\$1,028
<b>Total:</b>			<b>135</b>	<b>N/A</b>

### Financing Structure

The allocation that will be sought from CDLAC, \$20 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. The ultimate bond amount will be based upon estimated project revenues and interest rates at the time of bond issuance, and will be subject to approval by the Housing Commission and the Housing Authority.

It is anticipated that approximately \$9 million of the estimated bond amount will be paid off at conversion to permanent financing, resulting in a permanent bond of approximately \$11 million.

It is anticipated that the bonds will be sold through a public offering and will bear interest at a fixed rate. The bonds will be credit enhanced by Fannie Mae and should receive a rating of "AAA."

Pursuant to Housing Authority approval, staff will submit, on behalf of Community HousingWorks, 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,

Approved by,

Cissy Fisher  
Director of Housing Finance & Development

**Signature on File  
With Original Document**

Elizabeth C. Morris  
President & Chief Executive Officer

**ATTACHMENTS:**

1. Description of Multifamily Bond Program
2. Developer Disclosure and Financial Statements\*
3. 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, 2<sup>nd</sup> 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.

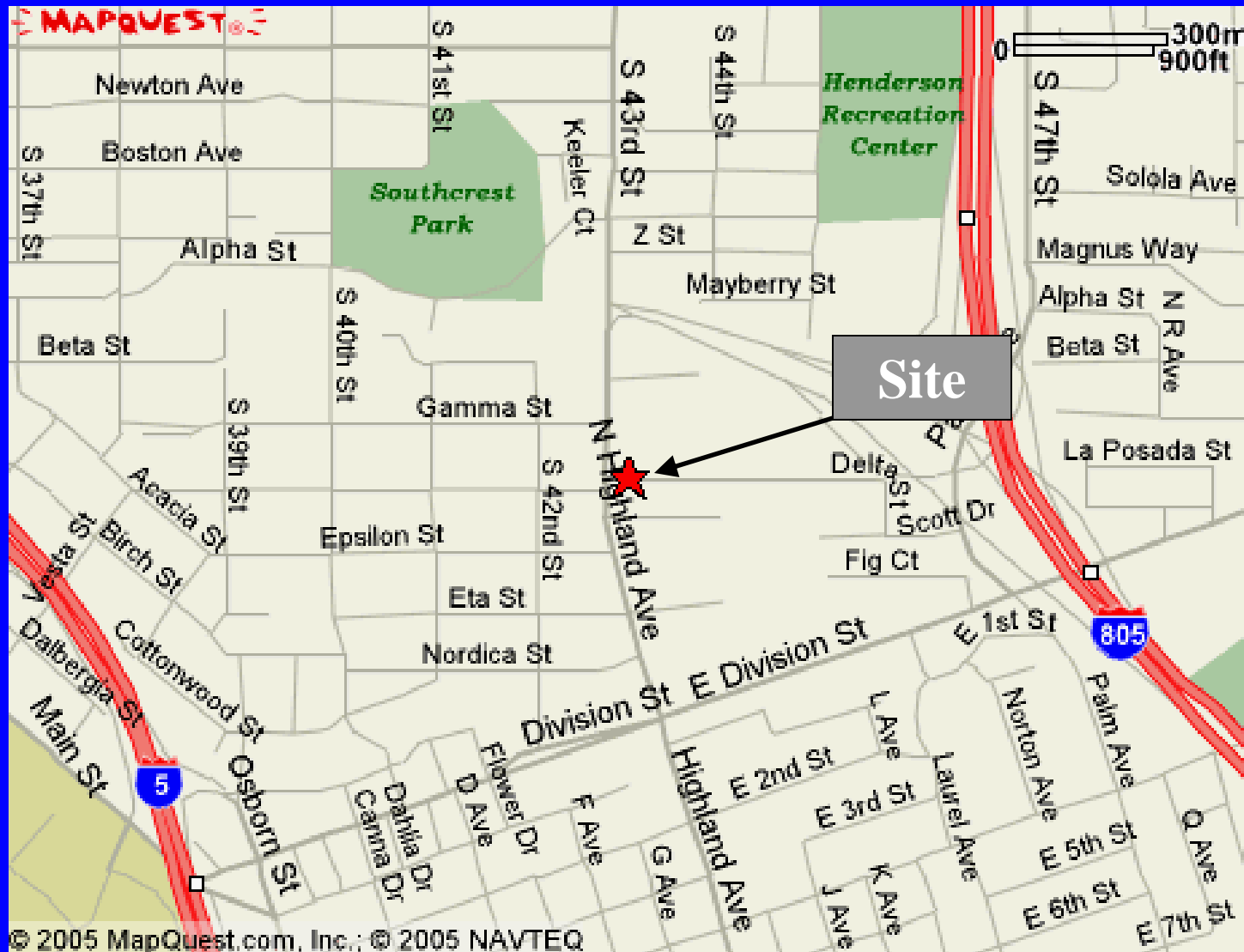
#### **3. Bond Allocation**

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.

# Delta Village



## Council District 8