



Good Neighbors

San Diego
Housing Commission

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

REPORT

DATE ISSUED: May 13, 2005

ITEM 103

REPORT NO.: HCR05-46
For the Agenda of May 20, 2005

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Delta Village (Council District 4)

SUMMARY

Issue: Should the Housing Commission recommend that the Housing Authority take the final steps to finance the acquisition and rehabilitation of Delta Village by Community HousingWorks?

Recommendation No. 1: That the Housing Commission recommend Housing Authority authorization of the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed \$9,000,000 for the acquisition and rehabilitation of 106 units of multifamily housing located at 4316 - 4368 Delta Street.

Recommendation No. 2: That the Housing Commission approve a total development cost increase of \$1.1 million for the project and approve combining the two properties to create one project under one ownership entity, which are estimated to delay commencement of annual residual receipts payments on the \$6.1 million Housing Commission loan from year-3 to year-12.

Recommendation No. 3: That the Housing Commission approve elimination of the option to reduce the amount of the Housing Commission loan on a dollar-for-dollar basis to the extent the bond loans exceed \$7,480,000 or the tax credit investment exceeds \$1,974,813.

Fiscal Impact: 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. The Housing Commission's origination fee, as well as the annual administration fee under the financing, will be up to \$20,700 (0.23 percent of the bond amount). Approval of these recommendations would not increase a \$6.1 million Housing Commission loan previously approved for the project. However, it is estimated that the increased cost of development and payment of the deferred developer fee will not allow a fixed payment on the Housing Commission loan and will delay commencement of annual residual receipts payments on the Housing Commission loan until year-12. The borrower's obligation to repay all principal and accrued interest at the end of year-31 will not change. Also, the Housing Commission loan will not be reduced to the extent the bond loans exceed \$7,480,000 or the tax credit investment exceeds \$1,974,813 because the full \$6.1 million Housing Commission loan is needed to fund the project and pay down any deferred developer fee to the greatest extent possible.

Housing Affordability Impact: The project will set aside at least 11 units for occupancy by households earning no more than 50 percent of the area median income (AMI) (\$34,500 for a family of four), 94 units for households earning no more than 60 percent AMI (\$41,400 for a family of four), and one unit will be reserved for an on-site manager. The affordability restrictions will remain in place for 55 years. The restricted rents would also apply if Section 8 tenants occupy the units.

Environmental Review: The City of San Diego, as the Responsible Entity, on February 16, 2005, 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) and, 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). Further the acquisition and rehabilitation of existing facilities is categorically exempt from the provisions of CEQA under the provisions of 14 California Code of Regulations Sections 15301, 15302 and 15332 among others. A Notice of Exemption has been issued for this project by the environmental review staff of the City of San Diego. The Notice of Exemption is included as Attachment 7.

Previous Related Actions: On February 25, 2005, HCR05-20, the Housing Commission approved the project's financing team (Bond Counsel and Financial Advisor) and recommended the following actions, which were approved by the Housing Authority and City Council on March 15, 2005:

- Housing Authority Bond inducement resolution number 1263 declaring the Housing Authority's "Official Intent" to issue up to \$20,000,000 in tax-exempt bonds;
- City Council resolution R-300255 approving the Housing Authority's issuance of tax-exempt bonds.

On April 8, 2005, the Housing Commission recommended that the Housing Authority approve a loan in the amount of \$6.1 million for the project. On April 19, 2005, the Housing Authority authorized the loan by approving resolution number 1265.

Future Related Action: If recommended by the Housing Commission, the Housing Authority will be asked to authorize the issuance of bonds for the project on June 14, 2005.

BACKGROUND

On March 18, 2005, the Housing Authority, on behalf of the developer, submitted an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation to Delta Village. On May 18, 2005, CDLAC awarded a \$9 million bond allocation to the project. The bond allocation will automatically revert to CDLAC unless the bonds are issued by August 16, 2005.

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 (CHW). CHW 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.

CHW's mission is the revitalization of neighborhoods through creation of affordable housing with services for residents. CHW builds new housing and acquires and rehabilitates existing housing for families, seniors, and households with special housing needs. Delta Village will have a full-time Residential Services Coordinator on staff whose primary goal will be to empower and support Delta Village residents in their efforts to maintain their housing and enhance their quality of life. The Residential Services Coordinator will work in close cooperation with the property management company and community-based organizations and will be responsible for identifying agencies that provide services to the residents and establish working relationships with them. The Residential Services Coordinator will be responsible for

developing and supervising the activities of an on-site computer lab and learning center, educating residents on how to access resources such as benefits provided by social service agencies, and working with the Resident Manager and local law enforcement to promote security of the complex and the safety of the residents.

In May of 2000, CHW borrowed \$2,100,000 from the Housing Commission and successfully utilized those funds to purchase and rehabilitate Bandar Salaam, a 68-unit apartment complex located on Winona Avenue. CHW is currently in compliance with Housing Commission monitoring requirements for the Bandar Salaam development. The developer's Statement for Public Disclosure and audited financials are included as Attachment 2.

The Project

As previously approved, the project would be the acquisition and rehabilitation of two adjacent properties to be operated by CHW under a single property manager. Approval of these recommendations would allow the developer to combine the 72-unit, 1.6-acre Delta Village Apartments and the 36-unit, 1.2-acre Villa Serena Apartments into a single project under one ownership entity. The location map is included as Attachment 3.

Both properties suffer from deferred maintenance and a lack of amenities, and could become a significant detriment to the surrounding neighborhood if not renovated in the near future.

The project will consist of two one-bedroom units, 78 two-bedroom units, and 25 three-bedroom units, and a community room. The properties have good access to neighborhood shopping and services, with public transportation, recreation, retail areas, and schools located approximately one mile or less from the site.

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. Please note that the initial rents for some units will be below the corresponding AMI in order to meet the minimum requirements of CDLAC and the California Tax Credit Allocation Committee.

Type	No. of Units	Square Footage	Housing Cost	Utility Allowance	Initial Rent	Current Market Rent	% of AMI of Eligible Tenants	Annual Rent Savings
1br/1ba	2	574	676	\$28	\$648	\$720	50%	\$1,728
2br/1ba	5	750	775	\$35	\$740	\$900	50%	\$9,600
2br/1ba	3	756	775	\$35	\$740	\$967	50%	\$8,172
2br/1ba	36	750	845	\$35	\$810	\$900	60%	\$38,880
2br/1ba	26	756	905	\$35	\$870	\$967	60%	\$30,264
2br/1ba	5	750	845	\$35	\$810	\$900	60%	\$5,400
2br/1ba	3	756	905	\$35	\$870	\$967	60%	\$3,492
3br/1.5ba	2	950	895	\$43	\$852	\$1,050	50%	\$4,752
3br/1.5ba	19	950	988	\$43	\$945	\$1,050	60%	\$23,940
3br/1ba	2	1064	988	\$43	\$945	\$1,050	60%	\$2,520
3br/1.5ba	2	950	988	\$43	\$945	\$1,050	60%	\$2,520
3br/1.5ba	1	950	Manager					
Total	106							\$131,268

Financial Structure

The project has an estimated total development cost of \$16,577,806. In addition to bonds, tax credits, and the Housing Commission loan, other financing sources include a Neighborhood Reinvestment Corporation Grant of \$300,000 and a deferred developer fee of \$446,212. Sources and uses of the funds are shown in Exhibit A of Attachment 5.

Up to \$9 million in bonds will be issued for the project during the rehabilitation period. Upon permanent financing, the bond financing will reduce to \$6.8 million. The bonds will be sold through a public offering; credit enhancement will be provided by Citibank. At a minimum the bonds will be rated "A" by Standard & Poor's and bear interest at a variable rate.

The bonds will not constitute a general 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 provided by the Citibank credit enhancement during the life of the bonds and is limited to the value of the property and its revenue sources following project completion. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee; the credit enhancer is obligated to meet the developer's obligation if there is a shortfall.

Community HousingWorks updated its development cost and cash flow projections to reflect cost increases since the initial application. The most significant increases are for rehabilitation and relocation. An increase of approximately \$1 million in tax credits, gained from combining the two properties into a single project, would fund a large portion of the cost increase (see the applicant's

pro forma in Attachment 6). The following table compares the increased development costs with the previously approved development costs:

	Previous	Proposed	Adjustment
Rehabilitation	\$1,620,000	\$1,800,000	\$180,000
Relocation	\$150,000	\$500,000	\$350,000
Permanent Loan Fees	\$74,800	\$90,000	\$15,200
Reserves	\$359,000	\$512,920	\$153,920
Developer Fee	\$649,782	\$1,029,363	\$379,581
Bond Fees and Costs	\$207,877	\$236,400	\$28,523
Other Fees and Soft Costs	\$207,800	\$160,656	(\$47,144)
TOTAL			\$1,060,080

Acquisition of Villa Serena is ineligible for tax credits because the seller has not owned the property for at least ten years. To obtain tax credit financing for the cost of rehabilitation of Villa Serena, it would be combined with Delta Village Apartments to form a single project owned by the same limited partnership. Tax credit financing would increase from \$1,974,813 to \$2,931,594. Because the developer will need the entire amount of the tax credits and the Housing Commission's \$6.1 million loan to complete the project, it is recommended that the Housing Commission not maintain the option to reduce the amount of the Housing Commission loan on a dollar-for-dollar basis to the extent the bond loans exceed \$7,480,000 or the tax credit investment exceeds \$1,974,813.

Public Disclosure and Bond Authorization

If the bond issuance is authorized, the following primary documents will be executed on behalf of the Housing Authority: Official Statement, Trust Indenture, Loan Agreement, Regulatory Agreement, Intercreditor Agreement, and Bond Purchase Agreement. At the time of docketing, all bond documents in substantially final form will be presented to members of the Housing Authority.

An Official Statement in preliminary form will be used to market the bonds to investors. The official statement will contain limited information about the Housing Authority as the issuer. This information verifies that the Housing Authority is an appropriate issuer of the bonds and that there is no existing or threatened litigation that would jeopardize the validity of the bonds. Furthermore, it is necessary for members of the Housing Authority to disclose any knowledge, not available to the general public, about the feasibility of the project. Attachment 4 contains the language regarding the Housing Authority that will be used in the Official Statement.

The bonds will be issued pursuant to a Trust Indenture between the Housing Authority and the trustee. Based upon instructions contained in the Trust Indenture, the trustee will hold all bond funds and other collateral to secure payment of the bonds.

Under the terms of the Loan Agreement, the Housing Authority will loan the proceeds of the bonds to the borrower in order to acquire and rehabilitate the project. The Loan Agreement sets out the terms of repayment and the security for the loan, and the Housing Authority assigns its rights to receive repayments under the loan to the trustee.

The Regulatory Agreement will be recorded against the property in order to ensure the long-term use of the project as affordable housing. The Regulatory Agreement will also ensure that the project complies with all applicable federal and state laws.

The Bond Purchase Agreement outlines the terms under which the Housing Authority will issue and the underwriter will purchase the bonds. The Bond Purchase Agreement is executed and delivered by the Housing Authority, the developer, and the underwriter.

Since the bonds will not be repaid using any City or Housing Authority revenues, it is not appropriate to provide any information about the City's finances. In addition, the bonds will not be subject to continuing disclosure requirements.

Staff has been working with Public Financial Management, the Housing Commission's Financial Advisor, to perform due diligence concerning the proposed financing and to formulate a recommendation for the Housing Authority. After evaluating the terms of the proposed financing and the public benefits to be achieved, it is the Financial Advisor's recommendation that the bond issuance for the project be authorized. The Financial Advisor's analysis and recommendation to proceed is included as Attachment 5.

Staff is also working with the City's Disclosure Practices Working Group to assure that the issuance of Housing Authority bonds is in conformance with the City's requirements.

ALTERNATIVE

Do not authorize the issuance of the bonds at this time. If the Housing Authority decides to not issue bonds, the bond allocation would automatically revert to the State, or the developer could ask CSCDA to issue bonds. This would diminish local control of a project which has a major loan from the Housing Commission.

Respectfully submitted,

Cissy Fisher
Director of Housing Finance & Development

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
President & Chief Executive Officer

ATTACHMENTS:

1. Description of Multifamily Bond Program
2. Developer Disclosure and Financial Statements*
3. Project Location Map
4. Issuer Disclosure Statement
5. Financial Advisor's Letter
6. General Application Form
7. Notice of Exemption

*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

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: The 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 the affordability restriction to 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 the 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 a commitment by the Housing Commission, the 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 the project.

[Note: It is uncommon for 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.
- **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 the 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. Because the Housing Authority is not responsible for bond repayment, there are no financial statements or summaries about the Housing Authority or the City 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 stating 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 the bonds. This is the extent of disclosure required of the Housing Authority, the 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 may have an impact on the viability of the project.

ATTACHMENT 4

Issuer Disclosure Statement

The Issuer of the Bonds is the Housing Authority of the City of San Diego, a public body corporate and politic, organized and operating under the laws of the State. The Issuer is authorized to issue the Bonds and to loan the proceeds thereof to the Borrower for the purpose of financing the Project. The Issuer was created on October 3, 1968, by resolution of the City Council of the City of San Diego (the "City Council"). Members of the City Council serve as members of the Issuer.

In January 1979, a seven-member commission (the "San Diego Housing Commission") took office to administer the functions of the Issuer. The San Diego Housing Commission is responsible for the development of low income rental projects, implementation of financing to promote low income housing production, management of many public housing projects, operation of rent subsidy programs and rehabilitation of existing housing stock. Unless otherwise required, the San Diego Housing Commission will take all actions with respect to the Project and the Indenture, Financing Agreement, Regulatory Agreement and related documents on behalf of the Issuer.

The members of the San Diego Housing Commission are appointed by the Mayor and approved by the City Council. Sal Salas currently serves as Chair of the San Diego Housing Commission. Oversight of the San Diego Housing Commission is provided by the Issuer.

NO LITIGATION

The Issuer

There is not now pending or, to the knowledge of the Issuer, threatened any proceeding or litigation against the Issuer seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence nor the title of the present officers of the Issuer to their respective offices is being contested.