



Good Neighbors

San Diego  
Housing Commission

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# REPORT

**DATE ISSUED:** September 9, 2005

**ITEM 102**

**REPORT NO.:** HCR05-86  
For the Agenda of September 16, 2005

**SUBJECT:** Supplemental Multifamily Housing Revenue Bonds and Loan for Rancho del Norte Apartments (Council District 1)

## SUMMARY

**Issue:** Should the Housing Commission recommend that the Housing Authority take the final steps to issue supplemental tax-exempt multifamily housing revenue bonds for Rancho del Norte and approve a \$500,000 loan to Santaluz Family Apartments, LP for permanent financing of this development?

**Recommendation #1:** Recommend that the Housing Authority authorize the issuance of supplemental tax-exempt multifamily housing revenue bonds in an amount not to exceed \$400,000 to finance the Rancho del Norte Apartments, a 119-unit multifamily housing development in the North City Future Urbanizing Area (NCFUA).

**Recommendation #2:** Recommend that the Housing Authority approve a loan of up to \$500,000 to Santaluz Family Apartments, LP for permanent financing of Rancho del Norte Apartments.

**Recommendation #3:** Recommend that the City Council approve the use of up to \$150,000 in Carmel Valley Community Planning Area Inclusionary Housing Funds to be used to fund this loan (\$350,000 would be funded from NCFUA fees).

**Fiscal Impact:** The issuance and sale of 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. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the developer. Approval of loan would result in the expenditure of up to \$500,000 in Housing Commission funds.



**Certificate of Funding Availability:**

Certificate No.:	FY06-041
Amount:	\$500,000
Revenue Source:	NCFUA, various
Division:	Housing Finance and Development
Line Item:	Loans

**Affordable Housing Impact:** To comply with NCFUA affordability requirements, all 119 units (one restricted three-bedroom unit will be occupied rent-free by a resident manager) are rent and occupancy restricted at 60 percent or less of Area Median Income (AMI) (currently \$41,400 for a family of four) for 30 years and 65 percent or less of AMI (currently \$44,850 for a family of four) for the following 25 years for a total of 55 years of affordability. The Housing Commission would extend the affordability period ten years by recording rent and occupancy restrictions of 65 years against the property to restrict rents and occupancy of 82 of the units at 60 percent or less of AMI and 37 of the units at 50 percent or less of AMI (currently \$34,500 for a family of four).

**Environmental Review:** This activity is covered under EIR No. 96-7902 and addendum No. 40-0528. The activity is adequately addressed in the environmental document and there is no change in circumstance, additional information, or project changes to warrant additional environmental review. Because the prior environmental documents adequately covered this activity as part of the previously approved project, the activity is not a separate project for purposes of CEQA review per CEQA Guidelines Section §15060(C)(3).

**Previous Related Actions:** On November 14, 2003, the Housing Authority approved the issuance of up to \$9,825,000 in Multifamily Housing Revenue Bonds for this project. On January 14, 2005, 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 February 15, 2005:

- Housing Authority Bond inducement resolution number 1259 declaring the Housing Authority's "Official Intent" to issue up to \$12,000,000 in tax-exempt bonds;
- City Council resolution R-300142 approving the Housing Authority's issuance of tax-exempt bonds.

**Future Related Action:** If recommended by the Housing Commission, the Housing Authority will be asked to authorize the issuance of bonds for the project. The recommended \$500,000 loan exceeds the Housing Commission's approval limit of \$250,000 and also requires Housing Authority approval.

## **BACKGROUND**

On May 20, 2005, the Housing Authority, on behalf of the developer, submitted an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation in the amount of \$400,000 for Rancho del Norte Apartments. On July 20, 2005, CDLAC awarded the requested bond allocation to the project. The project's bond allocation will automatically revert to CDLAC unless the bonds are issued by October 18, 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 7.

The sponsor of the development, Chelsea Investment Corporation (Chelsea), submitted a loan application on behalf of Santaluz Family Apartments, LP (SFA) for gap financing of development costs under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. Rancho del Norte Apartments received its construction financing in December 2003; construction of the complex was complete and the units were fully occupied in April 2005.

## **DISCUSSION**

### The Borrower

SFA, a limited partnership formed by Chelsea, is the owner and the borrower. Chelsea is a San Diego County-based for-profit corporation organized in 1986 with the mission of developing affordable housing. Chelsea has developed approximately 4,800 affordable rental housing units in California and Arizona. Rancho del Norte Apartments is one of seven housing developments (491 rental units) undertaken by the organization within the NCFUA. In February 2005, the Housing Commission approved a \$400,000 loan to a Chelsea-affiliated entity for gap financing of The Crossings, 108 rent-restricted multi-family units located in the Pacific Highlands Ranch subarea.

The project development team for SFA is the staff of Chelsea. Chelsea's Chief Executive Officer is Mr. James J. Schmid; the primary contact person for this loan will be its Chief Financial Officer, Mr. Wally Dieckmann. The architect for Rancho del Norte Apartments was William Hedenkamp. An affiliate of Chelsea, Chelsea Management, Inc., provides property management services for the completed development.

The managing general partner of SFA is Pacific Southwest Community Development Corporation (PSCDC), a tax-exempt 501(c)(3) nonprofit organization working in California and Arizona to provide affordable housing and economic opportunities to low-income families. CIC Santaluz, LLC, a California limited liability company established by Chelsea, is a co-general

partner. Rancho del Norte Apartments is the partnership's sole asset. Chelsea's financial statements were reviewed by Housing Commission staff and found to be satisfactory (see Attachment 6 – Financial Statements).

### The Development

Located on a 5.4-acre parcel, Rancho del Norte Apartments is part of the 3,800-acre community of Black Mountain Ranch and is immediately adjacent to a development of 46 single-family detached homes selling for approximately \$500,000. The site address is 16775 Saintsbury Glen, which is on the northwest corner of the intersection of Camino del Norte and Rancho Bernardo Road approximately 2.5 miles west of Interstate 15 (see Attachment 1 – Location Map). There is an open space corridor with walking trails adjacent to the property that acts as a buffer zone from traffic on Camino del Norte.

Construction of Rancho del Norte Apartments fulfills a City of San Diego inclusionary housing requirement for the master developer and builder, Santaluz, LLC, who provided the land. With 24 one-bedroom apartments, 47 two-bedroom apartments, and 48 three-bedroom apartments, the development provides 119 rent and occupancy-restricted units, including three-bedroom apartments suitable for large families. The complex consists of four residential buildings and a 2,073 square foot community center outfitted with a kitchen and a classroom with computer stations. Other on-site amenities include a picnic area, a covered patio, and a children's playground. Parking is provided on surface lots. PSCDC coordinates tenant services by providing computer training and English language instruction.

Day-care, shopping, and other services for Rancho del Norte Apartments can be found nearby in the 4S Commons commercial area, which lies east of the site across Rancho Bernardo Road. A 25-acre community park and an elementary school, slated for completion in 2007, will be approximately 2.5 miles from the site. A new high school, scheduled to open in 2005, is within walking distance. Children will attend schools in the Poway Unified School District.

### The Funding Request

The proposed Housing Commission loan would be part of the permanent financing and would fund upon conversion from construction financing scheduled for October 1, 2005. The total development cost is \$23,528,500 (\$197,718 per unit) which includes capitalized operating reserves. The source of construction financing is a \$13,325,000 loan from Bank of America.

Ordinarily, the Housing Commission would not invest \$500,000 in affordable housing built to meet inclusionary housing requirements. However, as it did in the case of the previous \$400,000 loan made to Chelsea for The Crossings, the Housing Commission proposes funding for a relatively modest gap in permanent financing, caused by unusual increases in construction costs, in exchange for the developer's extension of affordability restrictions from 55 years to 65 years. This loan would leverage \$23,028,500 from other sources and restrict rents and occupancy for 119 rental housing units for ten years at a cost to the Housing Commission of \$4,202 per unit.

Permanent financing would consist of: a first position amortized Federal National Mortgage Association (Fannie Mae) loan to secure \$6,200,000 of tax-exempt bonds; a second position supplemental issuance of \$400,000 in tax-exempt bonds (as discussed in this report); \$5,928,000 residual receipts loan from the California Department of Housing and Community Development's Multifamily Housing Program (MHP); a fourth position deferred loan from PSCDC of \$2,520,000; a fifth position residual receipts loan of \$500,000 from the San Diego Housing Commission; deferral of \$303,500 of the developer fee; \$7,427,000 in four percent Low Income Housing Tax Credits; and a cash contribution from SFA of \$250,000.

For the purpose of repayment, the Housing Commission would be in a junior position to approximately \$15.3 million in other debt consisting of the bond loan, the MHP loan, the PSCDC loan, and the deferred developer fee. Payments in the first year include disbursement of the entire residual cash flow towards repayment of the deferred developer fee after a required annual payment to MHP equal to .42 percent of its loan amount (\$24,898) and a required minimum annual payment of \$1,000 on the loan from PSCDC. It is anticipated that repayment of the deferred developer fee will be achieved in the sixth year.

After the deferred developer fee payments and minimum payments to MHP and PSCDC, SFA will use its 50 percent share of residual cash flow first to make principal and interest payments to PSCDC; the co-general partners would split the remainder of the partnership's share. Until the earlier of fifty-five years or repayment of the MHP loan, the Housing Commission and MHP would split the remaining 50 percent of residual cash flow in amounts equal to the proportion each of the loans bears to the combined amount of the MHP and Housing Commission loans (7.778 percent to the Housing Commission is an estimated annual payment of \$8,090 in the seventh year).

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; 65-year affordability restrictions would remain in effect. Payments on the permanent loans are summarized in the following table:

<b>Lien Priority</b>	<b>Lender</b>	<b>Beginning Loan Balance</b>	<b>Required Annual Payments</b>	<b>Interest Rate</b>	<b>Projected Payoff Date</b>	<b>Loan Terms</b>
1	Fannie Mae	\$ 6,200,000	\$ 487,133	6.4	10/01/35	30-year /amortized
2	Fannie Mae	\$ 400,000	TBD	TBD	10/01/35	30-year/amortized
3	MHP	\$ 5,928,000	\$ 24,898	3.0	10/01/60	55-year / residual receipts
4	PSCDC	\$ 2,520,000	\$ 1,000	3.0	10/01/60	55-year / annual compound
5	SDHC	\$ 500,000	\$ 0	3.0	10/01/60	55-year / residual receipts
<b>Total</b>		\$15,548,000	\$ 513,031			

All permanent financing of this development, including the Housing Commission loan, will be subordinate to an NCFUA Master Affordable Housing Agreement recorded as a senior

encumbrance against the parcel. This land use agreement will assure the continued life of the affordability restrictions should a foreclosure or default occur.

In general, the Housing Commission uses the unrestricted “as-built” market value to determine the security of its loan by comparing the total amount of loans against the market value of the property. The “unrestricted” value of the property in December 2003 was estimated to be approximately \$15 million; local market values have continued to increase steadily since that time. The loans will now total approximately \$15.5 million.

However, because the NCFUA Agreement will survive a foreclosure, the unrestricted market value of the property will not be achieved during the 55-year lifetime of the Agreement. In effect, the Housing Commission loan will not be secured by the property value (which, with rent restrictions, was recently appraised at approximately \$9.9 million) because of the terms of the NCFUA Agreement.

In addition to the NCFUA restriction, to compete favorably for MHP funding, the developer further restricted the rents on approximately one-third of the units to between 20 percent and 30 percent of State Median Income (the equivalent of 18 to 28 percent of AMI) for 55 years (see Rental Income – page 3 of Attachment 6). Payoff of the Fannie Mae loan in 30 years, and higher rents following expiration of the initial 55-year affordability period, would provide additional cash flow to service the Housing Commission loan while continuing to restrict 37 units at 50 percent or less of AMI and 82 units at 60 percent or less of AMI.

### The Financial Plan

Total Development Cost:	The total development cost is \$23,528,500 (\$197,718 per unit) including construction, interest costs, builder overhead and profit, builder fees, capitalized operating reserves, and a developer fee.
Appraised Value:	In 2003 the market value at completion was appraised at \$15,100,000. Restricted value is currently appraised at \$9,905,000.
Loan-To-Value:	Not applicable due to NCFUA Agreement.
Developer Equity:	A cash contribution of \$250,000.
Housing Commission Loan Amount:	A \$500,000 loan would leverage \$23,028,500 from other sources.
Housing Commission Cost per Unit:	Estimated total per-unit cost of \$4,202 for 119 units.

Security:	The Housing Commission loan would be in fifth position; loans will total \$15,548,000.
Recourse:	The Housing Commission loan would be a non-recourse loan because of tax credit rules.
Cure Rights:	The Housing Commission would obtain the right to cure defaults in accordance with the requirements of the senior lenders.
Housing Commission Loan Payments:	Payments to the Housing Commission would be from residual receipts. Residual receipts would be split between MHP and the Housing Commission in an amount equal to the proportion each of the loans bears to the combined amount of the MHP and Housing Commission loans, which would be 7.778 percent ( $\$500,000/\$6,428,000$ ) of 50 percent of residual receipts for the Housing Commission. An annual payment to the Housing Commission in the seventh year is estimated at \$8,090. Unpaid principal and accrued interest on the Housing Commission loan would be due as a balloon payment at the earlier of 55 years, when senior loans are paid off, or when the development is refinanced.
Minimum Debt Service:	1.20
Affordability Restrictions:	A Housing Commission Declaration of Covenants, Conditions, and Restrictions with a 65-year term recorded against the property restricting rents and occupancy for 37 units at 50 percent or less of AMI and 82 units at 60 percent or less of AMI. These restrictions would be applied proportionately to each unit size.
First Deed of Trust:	A 30-year fixed, fully amortized bond loan of \$6,200,000 at the interest rate of 6.4 percent.
Second Deed of Trust:	A 30-year fixed, fully amortized bond loan of \$400,000.
Third Deed of Trust:	A \$5,928,000 55-year loan from MHP; three percent simple interest; a fixed annual payment of

.42 percent of the loan amount (\$24,898); payment of principal and interest from residual receipts.

Fourth Deed of Trust: A \$2,520,000 55-year loan from PSCDC; three percent interest compounded annually; a fixed annual payment of \$1,000; payment of principal and interest from residual receipts.

Fifth Deed of Trust: A \$500,000 55-year loan from the Housing Commission; three percent simple interest; no fixed payment; payment of principal and interest from residual receipts.

Sixth Deed of Trust: To secure the Master Affordable Housing Agreement recorded as the senior encumbrance against the property.

Management Plan: A Management Plan was reviewed and approved by Housing Commission staff. The Management Plan is subject to periodic review and approval by the Housing Commission in its reasonable discretion.

Operating Expense: Operating expenses for the development are estimated to be \$33,916 per month (\$285 per unit for 119 units).

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: An annual \$23,800 replacement reserve is included in the operating expenses. Use of this reserve would be subject to the reasonable approval of the Chief Executive Officer of the San Diego Housing Commission.

#### Housing Commission Loan Funding

In general, staff endeavors to fund NCFUA projects from NCFUA fees; however, at this time, the cash balance of this sub account is approximately \$350,000, leaving a shortfall of \$150,000 (collection of more funds is anticipated during the fiscal year).

A secondary source of funds would be Inclusionary In-Lieu fees. The Inclusionary Ordinance states that the priority for expenditure of In-Lieu fees is in the same community planning area

from which they were collected. While the Black Mountain community account has a zero balance, the account for the adjacent community planning area of Carmel Valley has a substantial balance with no indication of any other qualifying projects to be funded in the near future. For this transaction, staff recommends approval by City Council to spend Carmel Valley Inclusionary funds on this project if sufficient NCFUA fees are not collected prior to loan closing.

### **Bond Structure**

The supplemental multifamily housing revenue bonds are being issued to preserve the \$7,427,000 in four percent Low Income Housing Tax Credits that have been awarded to the project. Section 42 of the Internal Revenue Code requires that bonds fund no less than 50 percent of the total development cost of projects financed with four percent tax credits. Due to increases in construction costs, the \$9,825,000 in bonds originally issued for the project in November 2003 would compose only 48.5 percent of the development costs for the project. As a result, unless the supplemental bonds are issued, the project will lose approximately \$3.6 million in tax credit equity. No additional sources of funds are available to compensate the project for such a loss of equity.

The \$400,000 in supplemental bonds will be credit enhanced and purchased by Fannie Mae through its Tax-Exempt Direct Bond Purchase Program (as were the \$6.2 million in bonds issued in December 2003). This program provides significant savings to the developer through elimination of an underwriter's fee and their related legal, marketing, and publication expenses. The bonds are expected to receive a rating of "AAA" from Standard & Poor's and bear interest at a fixed rate.

### **Public Disclosure and Bond Authorization**

The bonds will also be subject to the continuing disclosure requirements of SEC Rule 15c2-12. The borrower as the obligated person under Rule 15c2-12 is responsible for all necessary continuing disclosure and will be required to sign a Continuing Disclosure Agreement acknowledging this responsibility. The Housing Authority is not responsible for any continuing disclosure and is not a party to the Continuing Disclosure Agreement.

As part of its authorizing resolution, the Housing Authority will be asked to approve a Placement Memorandum, Trust Indenture, Bond Purchase Agreement, Financing Agreement, Regulatory Agreement, and any other document as may be necessary or advisable in consultation with General Counsel to the Authority and Bond Counsel to document the transaction.

At the time of docketing, all bond documents in substantially final form will be presented to members of the Housing Authority.

Fannie Mae has represented to the Housing Authority that it is purchasing the bonds for its own account with the present intent of holding the bonds for investment, it is not purchasing the

bonds with a present view toward resale or other distribution, and it does not intend to divide its interests with others or to resell or otherwise dispose of the bonds. However, as long as the bonds are credit enhanced, transfer of the bonds is not prohibited. As a result, a Placement Memorandum will be approved by the Housing Authority in order to provide disclosure to any future purchasers of the bonds. The Placement Memorandum will contain very 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. Attachment 8 contains the language regarding the Housing Authority that will be used in the Placement Memorandum. In addition, 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.

The bonds will be issued pursuant to a Trust Indenture between the Housing Authority and the trustee. The Trustee holds the funds and other collateral pledged under the Trust Indenture to secure payment of the bonds based upon instructions contained in the Trust Indenture.

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

Under the terms of the Financing Agreement, the Housing Authority will loan the proceeds of the bonds to the borrower in order to complete permanent financing of the project. The Financing Agreement sets out the terms of repayment and the security for the loan. 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 issuance of bonds will 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.

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 9. 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.

### Risks and Mitigations

Loans to tax credit developments become non-recourse upon the creation of limited partnerships for tax credit syndication because Internal Revenue Service regulations make the investments undesirable if structured otherwise. This would limit the Housing Commission's ability to recover funds 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 mitigated by conservative underwriting assumptions and the equity contribution provided by tax credit financing.

This is a relatively low-risk loan for the Housing Commission because the developer has secured its other financing and significant developer equity, in the form of donated land and tax credits, which results in a favorable loans-to-market value ratio. Risk is further mitigated because construction of the development is complete and the units are occupied.

### 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. Findings show that cost factors dissuade builders from producing units with large numbers of bedrooms, resulting in a shortage of three-bedroom apartments. Because the high cost of single-family housing excludes most low-income families from home ownership, those households are overpaying for scarce rental units with three or more bedrooms or living in overcrowded conditions. Rancho del Norte Apartments is specifically targeted to serve low-income working families who need large apartments and cannot afford the high rents in the northern area of the City.

Eligible uses of NCFUA Inclusionary and City Inclusionary Housing Fund monies include construction of new housing units. Funding Rancho del Norte Apartments with a loan of \$500,000 from in-lieu fees helps the City meet this objective.

### **ALTERNATIVE**

SFA proposes to defer \$303,500 of its \$1,200,000 developer fee. Should the Housing Commission deny approval of the proposed loan for gap financing, the partnership would owe the builder \$500,000 in cash, which it could only obtain by deferring additional developer fee. This could jeopardize the financial health of the partnership.

A decision to not approve the loan would result in the loss of an opportunity to extend the affordability of 119 units for ten years.

The Housing Commission could recommend the use of an alternative funding source because an expenditure of NCFUA funds would not produce additional housing units. However, few options exist for the use of NCFUA in-lieu fees.

Submitted by,

**Signature on File  
With Original Document**

Approved by,

Cissy Fisher  
Director of Housing Finance and Development

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 Form
  7. Description of Multifamily Bond Program
  8. Issuer Disclosure Statement
  9. Financial Advisor's Letter

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

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

cady:f:\HCreportRANCHO DEL NORTE Sept. 16, 2005.doc(09/16/05)

## ATTACHMENT 2

### DEVELOPMENT SUMMARY

September 16, 2005

Name: Rancho del Norte Apartments  
Location: 16775 Saintsbury Glen  
Description: Rental housing for extremely low-income and very low-income families  
Sponsor: Pacific Southwest Community Development Corporation

#### Unit Affordability

Total # of units: 119  
Assisted units: 119  
Restricted rents: 24 one-bedroom @ \$218 to \$739  
47 two-bedroom @ \$245 to \$885  
48 three-bedroom @ \$312 to \$978  
Market rent: one-bedroom units rent for approximately \$1,025 per month  
two-bedroom units rent for approximately \$1,377 per month  
three-bedroom units rent for approximately \$1,579 per month  
Percent of AMI: occupancy restricted at 60 percent or less of Area Median Income  
Affordability: 65 years

#### Development Cost

Total development cost: \$23,528,500  
HC development cost: \$ 500,000  
Total development cost per unit: \$ 197,718  
HC cost per unit (119 units): \$ 4,202  
HC subsidy per bedroom (262 br's): \$ 1,916

#### Sources of Funds

Tax-exempt Bonds \$ 6,600,000  
MHP Loan \$ 5,928,000  
PSCDC Loan \$ 2,520,000  
Housing Commission Loan \$ 500,000  
Deferred Developer Fee \$ 303,500  
4% Tax Credits \$ 7,427,000  
Partnership Equity \$ 250,000

#### Pro Forma Summary

Estimated annual income: \$ 990,181 (year 1)  
Estimated annual expense: \$ 406,993 (year 1)  
Annual debt service: \$ 513,031 (year 1)  
Estimated residual receipts: \$ 104,013 (year 7)

ATTACHMENT 3

**RANCHO DEL NORTE APARTMENTS  
ESTIMATED DEVELOPMENT TIMELINE**

September 27, 2005

Loan to the Housing Authority for approval

October 1, 2005

Closing of permanent financing

## Attachment 7

### **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 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.

**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.

F: Bond Program\*Summary\*Mar2005

## ATTACHMENT 8

### **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.*