



Good Neighbors

San Diego
Housing Commission

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REPORT

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ITEM 106

REPORT NO.: HCR04-47
For the Agenda of June 4, 2004

SUBJECT: Increase in Loan and Bond Financing for the Beyer Courtyard Apartments
(Council District 8)

SUMMARY

Issue: Should the Housing Commission recommend increasing its previously committed loan and bond amounts for construction of the Beyer Courtyard Apartments, a 60-unit multi-family apartment complex in San Ysidro?

Recommendation No. 1: That the Housing Commission recommend approval of a \$1,200,000 addition to the loan, increasing the amount from \$3,000,000 to \$4,200,000, to pay for bond program fees and additional costs of construction. The terms of the Housing Commission loan would remain the same.

Recommendation No. 2: That the Housing Commission recommend that the Housing Authority and City Council take the initial steps to issue tax-exempt and taxable multifamily housing revenue bonds, and increase its previous commitment by \$1,400,000, to finance the construction of the Beyer Courtyard Apartments by:

- (a) Housing Authority approval of an Official Intent Resolution to issue up to \$7,400,000 in multifamily housing revenue bonds;
- (b) Housing Authority approval of an application to the second round of the State's 2004 allocation and, if necessary, subsequent rounds for bond issuing authority; and,
- (c) City Council conduct a public hearing (*known as a TEFRA hearing - Tax Equity and Fiscal Responsibility Act*) and adopt a resolution approving the issuance of bonds by the Housing Authority.

Fiscal Impact: Approval of these recommendations would result in the expenditure of up to an additional \$1,200,000 in Housing Commission loan funds. Issuance and sale of the bonds would not financially obligate the City, the Housing Authority, or the Housing Commission because



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security for the repayment of the bonds would be limited to specific private revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds, would be borne by the developer. The Housing Commission's annual fee for administering the bonds would be approximately \$17,200 (.0023 percent of the total bond amount). The \$1,200,000 Housing Commission loan would increase the previously approved \$3,000,000 loan for the project. If the Housing Commission exercises an option to take title to the property at the end of year fifteen, the Housing Commission would forego developer repayment of the Housing Commission loan and accrued interest (three percent interest for fifteen years equals \$1,890,000) and assume the first position loan of approximately \$3,171,000 in remaining principal and accrued interest.

Certificate of Funding Availability:

Certificate No.: FY04-148
 Amount: \$1,200,000
 Revenue Source: HOME / Housing Trust Fund
 Division: Housing Finance and Development
 Line Item: Loans

Affordable Housing Impact: The increased loan amount would not affect affordability. Of the sixty units, fourteen would be affordable and restricted to households with incomes at or below fifty percent of Area Median Income (\$34,250 for a four-person household) and forty-five would be affordable and restricted to households with incomes at or below sixty percent of Area Median Income (\$41,100 for a four-person household). One two-bedroom unit would be set aside for occupancy by a resident manager. The following table shows a breakdown of the proposed rents by unit size and affordability level:

Unit Type	Unit Size (sq. ft.)	No. of Units	Rent Levels @ Percent of AMI	Proposed Initial Monthly Rent	Average Monthly Market Rent	Annual Rent Savings Over Market Rate
2br/1ba	835	8	50%	\$731	\$1,200	\$45,024
2br/1ba	835	21	60%	\$886	\$1,200	\$79,128
3br/2ba	1,106	6	50%	\$806	\$1,400	\$42,768
3br/2ba	1,106	24	60%	\$978	\$1,400	\$121,536
2br/1ba	835	1				
Total		60				\$288,456

Environmental Review: The City completed an environmental review of the project under the California Environmental Quality Act (CEQA), which resulted in a Mitigated Negative Declaration, and under the National Environmental Policy Act (NEPA), which resulted in a Finding Of No Significant Impact (FONSI) which was certified by HUD.

Home Program Compliance: A loan for new construction, to develop rental housing for low-income families, is an eligible activity under the HOME Program. Twenty-five of the units would be HOME-assisted and HOME-funded.

Equal Opportunity Statement: Wakeland Housing and Development Corporation (“Wakeland”) is in compliance with the Housing Commission Equal Opportunity Program. Wakeland is not certified as a Disadvantaged Business Enterprise, and its “Report of San Diego County Workforce” is on file.

Previous Related Actions: On October 24, 2003, the Housing Commission approved a recommendation to the Housing Authority to take the initial steps to issue up to \$6,000,000 in Multifamily Housing Revenue Bonds and make a loan of \$3,000,000 to Beyer Boulevard Apartments, LP (the “Partnership”) for the development (see Attachment 4 – Housing Commission Report No. HCR03-079). The prior recommendation included a provision giving the Housing Commission an option to take possession of the property at the end of the fifteenth year in lieu of loan repayment. The Housing Authority approved the Housing Commission recommendations on December 2, 2003.

Future Related Action: The requested increases to the bond and loan amounts require Housing Authority approval, and the City Council must hold a TEFRA hearing. In addition, specific authorization to issue bonds for the project will be sought from the Housing Commission and Housing Authority at a future date (Refer to Attachment 5, Section 4 “Final Bond Approval”).

DISCUSSION

Summary

The developer is a limited partnership with Beyer Courtyard Apartments as its sole asset. Wakeland is the managing general partner and Red Capital is the limited partner and tax credit investor. On October 24, 2003, the Housing Commission approved a loan of \$3,000,000 to the partnership for development of a sixty-unit, rental housing complex for very low-income and low-income families. The partnership is requesting an additional \$1,200,000 in Housing Commission loan funds to pay for increases in development costs resulting from a recent upsurge in the costs of construction, to pay approximately \$125,000 in bond program fees inadvertently excluded from its previous development budget, and to pay for additional financing fees associated with an increased bond amount.

Although increases in construction costs are not unusual during a time period between development conception and completion of financing of a project, the last twelve months have seen an extraordinary rise in prices for steel, petroleum, and wood products. The cost increase in petroleum is particularly burdensome, because this effects prices for transportation as well as oil-based building products such as plastic pipe, roofing, solvent-based paints and other coating materials. In addition to material and transportation price increases, the costs of insurance have risen by as much as thirty percent for some types of coverage.

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Although the Partnership's original development budget included a cost contingency of twenty percent, larger than anticipated cost increases have produced a budget shortfall of approximately \$3,100,000. The budget shortfall will be reduced by approximately \$1,300,000 in additional permanent bond and tax credit proceeds, an additional \$450,000 in deferred developer fee, and \$150,000 from the contribution of additional project revenues during construction. This leaves a \$1,200,000 deficit to be filled by the proposed loan increase.

On December 2, 2003, the Housing Authority and City Council took the initial steps to issue tax-exempt multifamily housing revenue bonds for the project. On April 21, 2004, the California Debt Limit Allocation Committee ("CDLAC") approved a bond allocation of \$6,000,000 for the project.

The project's need for additional bond funds will require that the prior bond allocation be returned to CDLAC. Subsequently, an application for \$7,400,000 in bonds will be submitted to CDLAC in early July. Given the strength of the project's attributes and the relatively low number of bond projects in the current year, staff is confident that the project will receive an allocation for the increased bond amount. In addition, due to the statewide increase in construction costs and the large number of projects with budget shortfalls, CDLAC's Executive Director has indicated that neither the project nor Wakeland will be assessed any negative points due to the return of the prior bond allocation.

The Financial Plan

Total Development Cost:	Total development cost, including the value of the land, construction costs, financing costs, and a developer fee, increased from \$11,405,432 to \$14,464,534.
Cost Per Unit:	Total development cost increased from \$190,091 to \$244,109 per unit. The Housing Commission cost per unit would increase from \$50,000 to \$70,000.
Appraised Value:	The vacant parcel was appraised at \$1,080,000 in March 2004. The "as built" market rate appraisal for the project is \$6,400,000.
Loan Amount:	A \$4,200,000 Housing Commission loan leverages \$10,264,534 from other sources.
Security:	The Housing Commission loan would be secured by a Second Trust Deed recorded against the property.

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Loan to Value: The loan to value ratio on hard debt is .67; including the Housing Commission loan, the loan to value ratio is 1.33.

Payment Plan: If the Housing Commission does not exercise its option to take possession of the property at the end of the fifteenth year, payments on the Housing Commission loan and accrued interest would be amortized at three percent simple interest per year. Over the remaining 40-year term, principal and interest payments would be approximately \$262,000 per year.

Operating Expense: First year operating expenses increased from \$205,592 to \$214,024 (\$297 per unit estimated monthly operating costs).

Risks and Mitigations

There is the risk of loss of funds loaned for construction should the partnership fail to complete the project. Developer assets other than real estate would not provide long-term security because loans for tax credit developments become non-recourse after the timely completion of the project. Internal Revenue Service regulations make these investments undesirable if structured otherwise. However, this risk would be somewhat mitigated by the cure rights of the Housing Commission and the fact that the land would provide the Housing Commission with security because it is worth approximately \$450,000 more than the developer paid to acquire it due to the predevelopment work completed by Wakeland.

The increased bond amount for the project is acceptable because the credit enhancement provider will guarantee the repayment of the bonds. In addition, the permanent bond amount for the project will only increase by approximately \$300,000. The remaining \$1,100,000 in additional bond funds will be retired with tax credit proceeds when the project converts to permanent financing.

The Beyer Courtyard Apartments has already completed a number of milestones in the development process. The project has completed all of its environmental requirements and has received its land use entitlements from the City of San Diego. The project is 100% designed and expects to receive its building permits by October. Finally, the developer has already purchased the land and has been working diligently to complete the financing structure for the project.

Given the advanced stage of development achieved to date and the experience of the developer, staff believes that the proposed loan is a reasonable investment. In addition, the Housing

Commission loan would be contingent upon the developer obtaining all additional financing for the development.

Conclusion

The recommended bond amount and the increase in the Housing Commission loan would allow the developer to proceed with construction of the Beyer Courtyard Apartments in a timely manner.

ALTERNATIVE

The Housing Commission could deny approval of the increased bond and/or loan amounts. Since it is unlikely that an equivalent source of funding is available, a denial of the increased funding could delay or jeopardize the completion of the project.

This loan could be structured as a residual receipts loan, with the Housing Commission receiving payments from residual cash flow after lease up and stabilization of the complex. However, cash flow for repayment of a residual receipts loan would be superseded by repayment of the deferred developer fee, which in this case is a very significant amount. Repayment of the deferred fee is projected to take fourteen years.

Submitted by,

Cissy Fisher
Housing Finance & Development Manager

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
Chief Executive Officer

- Attachments:
1. Development Summary
 2. Development Timeline
 3. HC Development Form
 4. Previous Report HCR02-035*
 5. Description of Bond Program and Actions to be Taken

*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, 2nd floor, 202 "C" Street.

Information: Mr. Peter Armstrong (619) 578-7556

ATTACHMENT 1

DEVELOPMENT SUMMARY JUNE 4, 2004

Name: Beyer Courtyard Apartments
Location: Beyer Boulevard and Precision Park Lane
Description: Rental housing for very low-income and low-income families
Sponsor: Beyer Boulevard Apartments, LP

Unit Affordability

Total # of units: 60
Assisted units: 59
Restricted rents: 8 two-bedroom @ \$731
6 three-bedroom @ \$806
21 two-bedroom @ \$886
24 three-bedroom @ \$978
Market rent: two-bedroom units rent for approximately \$1,200 per month
three-bedroom units rent for approximately \$1,400 per month
Percent of AMI: occupancy restricted at 60 percent or less of Area Median Income
Affordability: 55 years

Development Cost

Total development cost: \$14,464,534
HC development cost: \$ 4,200,000
Total development cost per unit: \$ 241,076
HC cost per unit: \$ 70,000
HC subsidy per bedroom (150 br's): \$ 28,000

Sources of Funds

Tax-exempt Bonds (Permanent) \$ 4,332,920
Housing Commission Loan \$ 4,200,000
4% Tax Credits \$ 4,873,712
Deferred Developer Fee \$ 850,000
Borrower Equity \$ 207,902

Pro Forma Summary

Estimated annual income: \$ 611,747 (year 1)
Estimated annual expense: \$ 214,024 (year 1)
Annual debt service: \$ 328,644

ATTACHMENT 2

**BEYER COURTYARD APARTMENTS
DEVELOPMENT TIMELINE**

June 4, 2004	Loan and Bond Inducement to the Housing Commission for approval.
June 29, 2004	Loan and Bond Inducement to the Housing Authority for approval.
October 1, 2004	Closing of Construction Financing
October 21, 2004	Start of Construction
November 11, 2005	Completion of Construction
April 21, 2006	Closing of Permanent Financing

ATTACHMENT 5

SAN DIEGO HOUSING COMMISSION 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, \$515 million in outstanding bonds provides permanent financing for more than 8,900 multifamily rental units in the City, of which 4,081 units are restricted at various levels of affordability.

Bonds issued by the Housing Authority require a minimum "A" rating, which is typically achieved through the provision of an outside credit enhancement by participating financial institutions that underwrite the project loans and guarantee the repayment of bonds.

The authority to issue bonds is limited under the US Internal Revenue Code. The California Debt Limit Allocation Committee (CDLAC) accepts applications generally two to three times a year (funding "rounds"), and typically receives more applications than is available under its financing authority. The state has a \$75 per capita bonding capacity.

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

1. Official Intent (Bond Inducement)

The adoption of an Official Intent (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 Official Intent 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 Official Intent 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 Official Intent and TEFRA 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.