



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: July 11, 2003

ITEM 102

REPORT NO: HCR03-048
For the Agenda of July 18, 2003

SUBJECT: Multifamily Housing Revenue Bonds for Rancho del Norte Apartments:
Second TEFRA Hearing For Increased Bond Amount (Council District 1)

SUMMARY

Issue: Should the Housing Commission recommend that the City Council hold a second 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 in the new amount of \$9.825 million (\$525,000 more than previously approved), to finance the new construction by Chelsea Investment Corporation of the Rancho del Norte Apartments located in Subarea I of Council District 1 in the North City Future Urbanizing Area (NCFUA)?

Recommendation: That the City Council hold a TEFRA hearing and adopt a resolution approving the issuance of bonds by the Housing Authority in the new amount of \$9.825 million.

Fiscal Impact: Approval of the bond resolution does not commit the Housing Authority to issue bonds. The developer is responsible for the payment of all costs under the financing for the proposed project.

Housing Affordability Impact: This change produces greater affordability. The project will now restrict 31% (37) of the apartments for occupancy by families earning no greater than 30% Area Median Income (AMI) (\$19,150 for a family of four) and 69% (82) of the apartments for families earning no greater than 60% AMI (\$36,060 for a family of four). Previously, the project would have restricted 10% (12) of the apartments for occupancy by families earning no greater than 50% Area Median Income (AMI) (\$30,050 for a family of four) and 90% (107) of the apartments for families earning no greater than 60% AMI (\$36,060 for a family of four). The affordability restrictions will remain in place for 55 years.

Previous Related Action(s): On November 15, 2002, the Housing Commission recommended that the Housing Authority and City Council approve the initial steps to issue tax-exempt and taxable housing revenue bonds for Rancho del Norte (HCR02-101); on December 10, 2002, the Housing Authority approved a bond inducement resolution for up



to \$9.3 million in multifamily housing revenue bonds (Resolution No. 1177), and the City Council held a TEFRA hearing and adopted a resolution approving the issuance of bonds by the Housing Authority (Resolution No. R-297502).

Future Related Action(s): Specific authorization to issue bonds for Rancho del Norte Apartments will be sought from the Housing Authority at a future date (Refer to Attachment 1, Section 4 “Final Bond Approval” of HCR02-101).

BACKGROUND

On December 10, 2002, the Housing Authority and City Council took the initial steps necessary to issue bonds for the Rancho del Norte Apartments based on a recommendation from the Housing Commission. An application requesting tax-exempt bond allocation was submitted to the California Debt Limit Allocation Committee (“CDLAC”) for the January 2003 round. Prior to a decision by CDLAC, the application was withdrawn by Housing Commission staff, at the request of the developer, Chelsea Investment Corporation, because it became clear that the project would likely receive a Multifamily Housing Program (“MHP”) loan from the California Department of Housing and Community Development. The addition of MHP funds will improve the financial position of the project while deepening the affordability of the units.

Due to a number of factors, the total development cost of the project and the required bond amount has increased since staff first analyzed the project. The addition of MHP funding requires the use of prevailing wage rates for the project, which increases both the hard and soft costs associated with the construction of the project. The MHP underwriting standards also require larger operating reserves that must be capitalized during construction. In addition, the project is being required to contribute an additional \$2.5 million for infrastructure improvements.

The project has now received a commitment for MHP funding, and the developer is ready to submit a revised application to CDLAC for a bond allocation. However, the additional expenses, discussed above, have increased the total amount of bonds needed from \$8.5 million to \$9.825 million. The original TEFRA notice, bond inducement and application approval passed by the Housing Authority and City Council included a not to exceed amount of bonds of \$9.3 million to include room for contingency above the \$8.5 million estimated need. To accommodate the increased bond issuance amount of \$9.825 million, only the TEFRA hearing must be re-noticed and re-heard. All other aspects of the prior approval are within 10% of the original bond amount and do not need to be re-heard.

Although the total amount of bonds to be issued by the Housing Authority is increasing to \$9.825 million, \$3.6 million of the bonds will be short-term, outstanding only during construction, and will be paid off at conversion from the proceeds of the MHP loan. As a result, the permanent bond amount will be \$6.2 million under the revised financial structure.

Except for the increase in the bond issuance size for the project, there are no other outstanding financial issues. All other aspects of the project remain unchanged. The previous report outlining the project details is included as Attachment 1 to this report.

ALTERNATIVE

Do not recommend approval of the TEFRA hearing and resolution. This would require that the revised application to CDLAC be withdrawn. If the recommended action is not taken the project will not be able to benefit from tax-exempt below-market financing, and the proposed low levels of affordability will not be achieved.

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

Type	Square Footage	AMI	Number of Units	Average Current Rents	Restricted Rent (Minus utility Allow)	Market Rate	Savings per unit
1 Bedroom	682	20% AMI	2	N/A	\$214	\$1,215	\$ 1,001
1 Bedroom	682	30% AMI	7	N/A	\$312	\$1,215	\$ 903
1 Bedroom	682	60% AMI	15	N/A	\$690	\$1,215	\$ 525
2 Bedroom	880	20% AMI	4	N/A	\$237	\$1,561	\$ 1,324
2 Bedroom	880	30% AMI	10	N/A	\$373	\$1,561	\$ 1,188
2 Bedroom	880	60% AMI	33	N/A	\$827	\$1,561	\$ 734
3 Bedroom	1,122	20% AMI	4	N/A	\$296	\$2,250	\$ 1,954
3 Bedroom	1,122	30% AMI	10	N/A	\$427	\$2,250	\$ 1,823
3 Bedroom	1,122	60% AMI	34*	N/A	\$861	\$2,250	\$ 1,389
Total:			119				

* Includes one manager's unit

Respectfully submitted,

Approved by,

Signature on File with Original Document

Jack D. Farris
 Manager, Housing Finance & Development

Elizabeth C. Morris
 Chief Executive Officer

ATTACHMENTS:

1. Housing Commission Report 02-101

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