Good Neighbors
San Diego
Housing Commission

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REPORT

DATE ISSUED: September 5, 2003 **Item 104**

REPORT NO: HCR03-077
For the Agenda of September 12, 2003

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds For Broadway Square (formerly 9th & Broadway) (Council District 2)

SUMMARY

Issue: Should the Housing Commission recommend that the Housing Authority take the final steps to issue tax-exempt multifamily housing revenue bonds to finance a new construction multifamily development by SJS, LLC and Leafs Investments II, LP to be located at 917 9th Avenue in downtown San Diego?

Recommendation: That the Housing Authority authorize the:

A. Issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed $29.5 million for the construction of the 393-unit Broadway Square (Council District 2); and

B. Executive Director of the Housing Authority or the Chief Operating Officer of the Housing Commission, or their designee, to execute all documents necessary to facilitate the financing.

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. The Housing Commission's origination fee as well as the annual administrative fee under the financings will be up to $67,850 (0.23 percent of the bond amounts).

Housing Affordability Impact: Based on 2003 San Diego Area Median Income (AMI), approximately 20 percent (82) of the units will be restricted for households earning up to 50 percent AMI; approximately two percent (nine) of the units will be restricted for households earning up to 60 percent AMI; and approximately 51 percent (202) of the units will restricted for households earning up to 100 percent AMI, with rents restricted at 80% AMI. The affordability restrictions will remain in place for 55 years. The remaining 25 percent (100) of units will be rented at fair market value.

Affordable Restriction/Impact Chart

Unit Size	50%AMI	60% AMI	100% AMI*
293 Restricted Units	82 units	9 units	202 units
Living Unit	$22,350	[redacted]	$41,950
One Bedroom	$25,500	$30,600	$47,900
Two Bedrooms	$28,700	[redacted]	$53,900

* Rents affordable at 80% AMI.

Previous Related Action(s): On February 21, 2003, HCR03-019, 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 25, 2003 (HAR03-001):

- Housing Authority Bond inducement resolution number 1185 declaring the Housing Authority's "Official Intent" to issue up to $30 million in tax-exempt bonds;
- City Council resolution R-2977844 approving the Housing Authority's issuance of tax-exempt bonds;
- On March 25, 2003, the Redevelopment Agency approved resolution number 03604 authorizing a $6 million loan to the project.

Future Related Action(s): If the Housing Commission approves the recommendations, final approval to issue the bonds would be sought at the next available Housing Authority meeting.

BACKGROUND

On April 14, 2003, the Housing Authority, on behalf of the developer, SJS, LLC and Leafs Investments II, LP, submitted an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation in the amount of $29.5 million for Broadway Square. On July 9, 2003, 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 November 17, 2003. The bonds are tentatively scheduled to be issued on November 6, 2003.

A general description of the Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize the proposed financings are described in Attachment 1.

PROJECT NARRATIVE

SJS, LLC (Arnold G. "Bud" Fischer and Fischer Family Members) and Leafs Investments II, LP (Frank Goldberg and Goldberg Family Members), is the current owner of the project site, a 0.57 acre paved vacant parcel located at 917 9th Avenue in downtown San Diego. They have formed Broadway & 9th LP, a California limited partnership, which will own and operate the property, a newly constructed twelve-story, 393-unit affordable housing project. Broadway Square LLC, a California limited liability company, will be the General Partner to the partnership. Arnold G. "Bud" Fischer and Frank Goldberg will be the managers of the General Partner.

The proposed development will include 267 "living units", 96 one-bedroom units, 30 two-bedroom units, 2,000 sq. ft. of commercial/retail space, and two levels of underground parking. Approximately 75 percent of the units will be restricted to provide affordable rents to persons of low and moderate incomes. Amenities include rooftop gym, meeting rooms, and a laundry room.

The principals of SJS, LLC and Leafs Investments II, LP specialize in real estate development, acquisition, and rehabilitation. They have extensive experience with multifamily housing and own interests in approximately 1,800 multifamily units. The developer is knowledgeable of the downtown market, currently operating over 700 living units/SRO rooms. The developer's Statement for Public Disclosure is included as Attachment 2.

The project site is currently being utilized as a surface parking lot. Directly south of the site is the Library Lofts, adjacent to that is the Church Lofts, to the east of the site are two buildings of three and four-stories which are potentially historically significant, and across Broadway is the Senior Community Centers facility. The location map is included as Attachment 3.

The project addresses a critical need for housing for individuals and small households. In addition, it advances other objectives such as providing affordable housing in Centre City, workforce housing, and SRO replacement housing.

Of the 393 units, a total of 91 units (approximately 23 percent) of the units are restricted to households earning 60 percent of AMI or less. Two hundred and two units (approximately 51 percent) of the units are restricted to households earning 100 percent of AMI or less. However, rents on these units are capped at 80% AMI. These 293 units (approximately 75 percent of the total) will carry 55-year affordability restrictions. The restricted rents for the project (outlined below) will also apply if Section 8 tenants occupy the units.

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

Type	**Square Footage**	**AMI**	**Number of Units**	**Restricted Rent (Minus utility Allowance)**	**Market Rate**	**Annual Savings per unit**
Living Unit	266	50 %	55	$544	$930	$254,760
Living Unit *	266	100%	187	$880	$930	$112,200
Living Unit	266	Market	25	$930	$930	N/A
1 Bedroom	532	50%	20	$578	$1,075	$119,280
1 Bedroom	532	60%	9	$745	$1,075	$35,640
1 Bedroom *	532	100%	9	1,001	$1,075	$7,992
1 Bedroom	532	Market	58	$1,075	$1,075	N/A
2 Bedroom	798	50/%	7	$692	$1,275	$48,972
2 Bedroom *	798	100%	6	$1,124	$1,275	$10,872
2 Bedroom **	798	Market	17	$1,275	$1,275	N/A
Total:			**393**			$**589,716**

***** Rent restricted at 80% AMI; Income restricted at 100 % AMI
** May include one Manager's Unit

FINANCING STRUCTURE

The total cost for development and construction of the project is $43,383,432. The bond-financed loan of $29,500,000 will be issued as variable rate bonds. Newman & Associates, Inc. will serve as the project's underwriter to market and sell the bonds. The bonds will be credit enhanced by the Federal National Mortgage Association ("Fannie Mae") and are expected to generate the highest long -and short- term ratings ("AAA/A-1+") by Standard and Poor's, the national rating agency.

The Centre City Development Corporation (CCDC) has committed to make a loan to the developer in an amount not to exceed $6,000,000. The developer's equity contribution is $3,945,000. The developer will also defer its total developer fee of $2,500,000. Since the project is not expected to obtain all of its required building permits until approximately four months after the bonds are issued, the developer will use bond proceeds to purchase a Guaranteed Investment Contract ("GIC") to pay interest on the bonds during this period. The GIC is expected to generate $1,438,432 in interest. A Sources and Uses budget is included as Attachment 4.

RISKS AND MITIGATIONS

The issuance of bonds for the project does not constitute a debt or liability of the Housing Authority or the City of San Diego. 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 the security for the bond repayment is limited to the value of the subject 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 fees.

The project has several positive attributes that effectively minimize development and operating risks, including:

- Excellent debt coverage ratio of 1.36;
- A large equity contribution by the developer of $3,945,000;
- Full deferral of the Developer's Fees;
- Third party guarantees
    - Bank of America Letter of Credit guaranteeing construction completion;
    - Fannie Mae credit enhancement guaranteeing repayment of the bonds to event of a default by the borrower.

Staff has been working with CSG Advisors, Inc., the Housing Commission's financial advisor for this project, to perform due diligence under the proposed financing and in formulating the resulting recommendation for the Housing Authority. After evaluating the project's financial circumstances, the terms of the proposed financing and 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.

If the bond issuance were authorized, the following primary documents would be executed on behalf of the Housing Authority: Indenture of Trust, Financing Agreement, Regulatory Agreement and Bond Purchase Agreement. These documents, in a substantially final form, will be on file at the Housing Commission at the time of docketing for consideration by the Housing Authority.

ALTERNATIVE

Do not authorize the issuance of the bonds at this time. If the bonds are not issued, the bond allocation will automatically revert to the CDLAC after November 17, 2003. Without tax-exempt below-market financing, the developer would not be able to make up to 20% of the units in the project available to very low-income households (50% AMI).

Respectfully submitted, Approved by,

Signature on File with Original Document

Jack D. Farris
Manager, Housing Finance & Development

Elizabeth C. Morris
Chief Executive Officer

Information: J. AKOBUNDU: (619) 578-7592

ATTACHMENTS:

1. Description of Bond Program and Actions to be Taken
2. Developer Disclosure Statement and Financial Statements*
3. Project Location Map
4. Sources and Uses
5. Financial Advisor Recommendation

*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.

ATTACHMENT 1

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 4,081units 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.

ATTACHMENT 4

PRELIMINARY SOURCES & USES BUDGET
9th & Broadway

Sources

Tax Exempt Bond Loan	$29,500,000
Developer Equity – Deferred Fee	$ 2,500,000
Developer Equity – Land	$ 3,500,000
Developer Equity – Cash	$ 445,000
CCDC Loan	$ 6,000,000
Investment Income	$ 1,438,432
	$43,383,432

Uses

Land Costs	$ 3,500,000
Construction Costs	$26,101,203
Developer Fee	$ 2,500,000
Operating Reserves	$ 512,243
Other Hard & Soft Costs	$10,769,986
	$43,383,432