Good Neighbors
San Diego
Housing Commission

REPORT

DATE: For the Agenda of March 22, 2002 **ITEM 106**

REPORT NO: HCR02-019

SUBJECT: Multifamily Housing Revenue Bonds for Stonewood Garden Apartments (Council District 2)

SUMMARY

Issue No. 1: Should the Housing Commission recommend that the Housing Authority and City Council take the initial steps to issue tax-exempt and taxable housing revenue bonds to finance the acquisition and rehabilitation of Stonewood Garden Apartments, located in Council District 2, by Fairfield Residential LLC?

Recommendation: No. 1: That Housing Commission recommend:

A. the Housing Authority approve a bond inducement resolution for acquisition and rehabilitation of the 255 unit Stonewood Garden Apartment complex located at 3839 Midway Drive for up to $23 million in housing revenue bonds;

B. the Housing Authority approve applications to Round II and, if necessary, subsequent rounds of the State's allocation rounds for bond issuing authority; and,

C. the City Council hold 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.

Issue No. 2: Should the Housing Commission approve a financing team from the previously approved list of Financial Advisors and Bond Counsels to work on preparing the proposed bond issuance?

Recommendation No. 2: That the Housing Authority approve Litten Financial Consulting as financial advisor and Stradling Yocca Carlson Rauth as bond counsel to begin work on the project.

Fiscal Impact: Approval of the bond inducement 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: The project will restrict 10% of the apartments (26 units) for occupancy by families earning no greater than 50% Median Area Income (MAI) ($30,050 for a family of four) and 45% (114) of the apartments for families earning no greater than 60% MAI ($36,060 for a family of four). The affordability restrictions will remain in place for 55 years.

Previous Related Action(s): None.

Future Related Action(s): Specific authorization to issue bonds for the project will be sought from the Housing Authority at a future date (Refer to Attachment 1, Section 4 "Final Bond Approval").

BACKGROUND

There are two primary ways the Housing Commission provides financial assistance for development of affordable housing: 1) direct lending of Housing Commission HOME and Housing Trust Fund monies; and 2) issuance of tax-exempt multifamily revenue bonds through the Housing Commission's multifamily bond program. The Housing Commission utilizes the Housing Authority's tax-exempt borrowing status to pass on lower interest rate financing to developers of affordable housing. Some projects require both forms of assistance. It is not clear at this time if this project will require a loan of Housing Commission funds in addition to bond financing. If a loan is requested, it will be the subject of a future report. This report pertains specifically to the issuance of tax-exempt multifamily revenue bonds.

The authority to issue bonds is limited under the U.S. Internal Revenue Code. The California Debt Limit Allocation Committee (CDLAC) accepts applications generally two to three times during the year (funding "rounds"), and typically receives more applications for bonding authority than it has available. Prior to the CDLAC funding rounds, projects are brought to the Housing Authority and City Council. Bond inducement resolutions must be obtained prior to application submittal and TEFRA resolutions must be secured no later than 30 days after application submittal. The next CDLAC application submittal date is April 17, 2002.

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

The applicant and developer for the proposed project is Fairfield Residential LLC, which is headquartered both in San Diego and in Dallas, Texas. In addition, Fairfield maintains 11 regional offices nationwide. Fairfield is a fully integrated multifamily housing company with more than 25 years of experience in the development, acquisition, rehabilitation, construction and management of both conventional and affordable multifamily housing. Fairfield manages a diverse multifamily portfolio valued at more than $2.5 billion and encompassing more than 55,000 apartment units.

The Affordable Housing Group within FF Development L.P. (Fairfield's Development Arm) has in the past five years acquired and rehabilitated 2,801 units through the utilization of tax credit equity and tax-exempt private activity municipal bond financing. Since 1976, Fairfield has sponsored the acquisition of $293 million in apartment properties in San Diego County. This total includes the following:

- Canyon Rim Apartments, 504 units
- The Stratton Apartments, 312 units
- La Cima Apartments, 514 units
- Nobel Court Apartments, 685 units
- Paseo Point Apartments, 250 units

These properties were financed with the same programs that are proposed for Stonewood Garden Apartments. The Developer's Statement for Public Disclosure is included as Attachment 2.

The ownership entity for Stonewood Gardens will consist of a "to be formed limited liability company" with FF Properties, Inc as its administrative general manager. Wakeland Housing and Development Corporation, a California nonprofit public benefit corporation, will serve as the managing general partner, and tax credit investors will be the limited partners of the partnership.

The Stonewood Garden Apartments are located on leased, City owned land at 3839 Midway Drive in the Midway Community Planning Area of the City of San Diego. The property is located on the southwest corner of Sports Arena Boulevard and Midway Drive, at West Point Loma Boulevard. The property location is one block south of the Sports Arena Boulevard exit from the I-8 freeway and one and one-half blocks north of the Sports Arena complex. The location map is included as Attachment 3. The property consists of 11 two and three story buildings, containing a total of 255 apartment units.

The unit mix consists of 129 one-bedroom units, 62 two-bedroom units and 64 three-bedroom units. The property amenities include a pool, spa, tennis court and playground.

The Stonewood Garden Apartments were built in 1979 and have not been substantially rehabilitated since then. The interior plumbing will be significantly upgraded to include low flow toilets and all bathtubs will be refinished. All electrical fixtures and HVAC units will be enhanced, or replaced if necessary; all unit interiors will be painted, cabinets painted and carpet and vinyl floors will be replaced. The majority of the appliances will be replaced and the blinds and windows will be replaced on an as needed basis. The elevators in the 3-story buildings will be completely serviced.

Exterior improvements will include: a re-pavement of the driveway throughout the property, painting all building exteriors, wood replacement, roof reinforcement, balcony and railing reinforcement and major upgrades to the landscape and signage along Midway Drive, West Point Loma and Sports Arena Boulevard. In the common areas, the rehabilitation plan calls for the refurbishing of the pool, pool furniture, the decking around the pool and all of the fencing around the pool areas. Fairfield also plans to convert a significant portion of the sizable rental office into a resident services and recreation area.

The project will restrict 10% of the units to households earning no greater than 50% of MAI, and will restrict 45% of the units to households earning no greater than 60% of MAI. The Regulatory Agreement that determines the level of affordability for the project will be in existence for 55 years.

Rent and Income Restrictions

Type	**Square Footage**	**MAI**	**Number of Units**	**Average Current Rents**	**Proposed Restricted Rent** (minus utility allowance)	**Market Rate**	**Savings per unit**
1 Br	650	50% MAI	13	750	$582	$795	$211
1 Br	650	60% MAI	58	750	$703	$795	$ 92
1 Br	650	Market	58	750	N/A	$795	N/A
2 Br	850	50% MAI	6	850	$652	$950	$298
2 Br	850	60% MAI	28	850	$788	$950	$162
2 Br	850	Market	28*	850	N/A	$950	N/A
3 Br	1,050	50% MAI	7	1150	$751	$1,100	$349
3 Br	1,050	60% MAI	28	1150	$902	$1,100	$198
3 Br	1,050	Market	29	1150	N/A	$1,100	N/A
Total:			**255**				

***** Includes one manager's unit

SELECTION OF THE FINANCING TEAM MEMBERS

Staff recommends assigning Litten Financial Consulting as financial advisor and Stradling Yocca Carlson Rauth as bond counsel to work on the project. The proposed financing team members have been selected in accordance with the existing policy for the issuance of bonds. Financial advisors and bond counsels are designated on a rotating basis from the firms selected under the program through a competitive RFP process.

FINANCING STRUCTURE

It is anticipated that the bond financed loan of up to $23 million will be underwritten utilizing Federal National Mortgage Association ("Fannie Mae") credit enhancement resulting in a AAA rating of the bonds with equity provided by a tax credit partner.

Subsequent to Housing Authority approval, staff would submit, on behalf of Fairfield, an application for private activity bond allocation to the California Debt Limit Advisory Committee (CDLAC). If successful, the bond financing would qualify the project for the allocation of 4% low-income housing tax credits, which would be sold to a tax credit partner. These proceeds would serve as a contribution of project equity. If the application were unsuccessful, at the request of the developer, staff would resubmit the application for a subsequent round.

In the future, should the Housing Authority, under a separate action, authorize the issuance of bonds for the project, the bonds would 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 repayments would be 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 fee.

It should be noted that the City holds a ground lease on the property. The City lease requires that 20% of the units be rented to Section 8 households. Bond financing requires that affordability restrictions be placed on 55% of the units as outlined in the report, for a term of 55 years. There are approximately 32 years remaining on the City lease. Fairfield is currently in discussions with the City's Real Estate Assets Department to extend the term of the lease so that it would match the 55-year term of the affordable housing restrictions. Housing Commission staff will not submit an application to CDLAC until the disposition of the lease has been settled.

RISKS AND MITIGATIONS

Approval of the bond inducement resolution does not commit the Housing Authority to issue bonds. The recommended actions do not represent any commitment by the Housing Authority or the applicant to proceed with the tax-exempt or taxable financing of the project. When eventually issued, the financing risks associated with the project would be minimal since repayment of the bonds would be guaranteed by a third party.

ALTERNATIVE

Do not recommend approval of the bond inducement and TEFRA resolutions. If the recommended actions are not taken, the project will not be able to benefit from tax-exempt below-market financing.

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. Multifamily Bond Program
2. Developer Disclosure Statement and Financial Statements*
3. Project Location Map

*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

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, nearly $500 million in outstanding bonds provides permanent financing for more than 8,590 multifamily rental units in the City, of which 3,778 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. Recent congressional action increased the state’s bonding capacity from $50 to $62.50 per capita in 2001 and $75 in 2002.

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

1. Bond Inducement

The adoption of an "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 Commission, 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 bond inducement 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 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 will be 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 a public hearing to be held by the City Council with respect to the proposed issuance of bonds is 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 bonding 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 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.

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 inducement 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.