



Good Neighbors

San Diego  
Housing Commission

# REPORT

**DATE:** For the Agenda of May 11, 2001

**ITEM 104**

**REPORT NO:** HCR01- 061

**SUBJECT:** Issuance of Multifamily Housing Revenue Bonds for Park Haven Court Apartments and Logan Square Apartments (District 4)

## SUMMARY

**Issue No. 1:** Should the Housing Commission recommend that the Housing Authority take the initial steps to issue tax-exempt and taxable housing revenue bonds to finance the acquisition and rehabilitation of two projects located in Council District 4?

**Recommendation: No. 1:** That the Housing Commission approvals are forwarded to the:

A. Housing Authority for approval of ***bond inducement resolutions*** for:

1. Acquisition and rehabilitation of the 40-unit Park Haven Court Apartments located at 4010-4050 Park Haven Court by Southern California Housing Development Corporation for the approximate amount of \$1.8 million in housing revenue bonds (Council District 4); and,
2. Acquisition and rehabilitation of the 170-unit Logan Square Apartments located at 4742 Solola Avenue by Avalon Communities, LLC for the approximate amount of \$11 million in housing revenue bonds (Council District 4).

B. Housing Authority for approval of ***applications*** to Round II of the State's 2001 allocation round and, if necessary, Round I of the State's 2002 allocation round for bond issuing authority for both projects; and,

C. City Council to hold ***public hearings*** (known as a ***TEFRA hearings*** – Tax Equity and Fiscal Responsibility Act) and to adopt resolutions approving the issuance of bonds by the Housing Authority for both projects.



**Issue No. 2:** Should the Housing Commission approve the financing teams to begin work on preparing the proposed bond issuances?

**Recommendation No. 2:** Approve the following *financing teams*:

- A. Dain Rauscher, Inc. as financial advisor and Orrick, Herrington & Sutcliffe, LLP as bond counsel for Park Haven Court Apartments.
- B. CSG Advisors, Inc. as financial advisor and Quint & Thimmig, LLP as bond counsel for Logan Square Apartments.

**Fiscal Impact:** Approval of the bond inducement resolutions does not commit the Housing Authority to issue bonds. Each developer is responsible for the payment of all costs under the financing of their project.

**Housing Affordability Impact:** Park Haven Court Apartments will restrict approximately 53% (21) of the apartments for occupancy by families earning no greater than 50% Median Area Income (MAI), which is \$26,850 for a family of four; and the remaining 19 units (approximately 47% of the total) for families earning no greater than 60% MAI, which is \$32,220 for a family of four.

Logan Square Apartments will restrict 10% (17) of the apartments for occupancy by families earning no greater than 50% MAI; and the remaining 153 units (90%) for families earning no greater than 60% MAI.

The affordability restrictions for both projects will remain in place for 55 years.

**Community Planning Group Review:** The Park Haven Court Apartments project was presented to the Southeast San Diego Development Committee Projects Review Subcommittee on April 23, 2001. The subcommittee will recommend its support of the project when it is presented to the full Committee on May 14, 2001.

The Logan Square Apartments project will be presented to the Encanto Neighborhood Planning Group on May 21, 2001.

**Previous Related Actions:** No previous actions. However, included in a companion report (HCR01-057) currently under consideration for Park Haven Court Apartments is a request for a Housing Commission 3%-residual-receipts loan secured by a second trust deed in the amount of \$1,418,838.

**Future Related Action(s):** Specific authorization to issue bonds for both projects will be sought from both the Housing Commission and the Housing Authority at future dates.

## **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. The Park Haven Court development has applied, and the Loan Square development intends to apply, for direct Housing Commission loans in addition to the bonds. This report pertains specifically to the issuance of tax-exempt multifamily revenue bonds.

The authority to issue bonds is limited under the US Internal Revenue Code. The California Debt Limit Allocation Committee (CDLAC) accepts applications generally twice 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 this year and \$75 in 2002.

The Housing Authority benefited from this increase, as evidenced by its recent receipt of bond allocation authority from CDLAC for six of seven first round applications submitted on February 21, 2001.

Prior to the CDLAC funding rounds, projects are grouped and brought to the Housing Commission, 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 on June 1, 2001.

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 financings are described in *Attachment 1*.

## **PROJECT NARRATIVE**

### **Park Haven Court Apartments**

The applicant and developer for Park Haven Court Apartments, Southern California Housing Development Corporation (SCHDC), is requesting that the Housing Authority take the initial steps to issue approximately \$1.8 million in multifamily revenue bonds for

the acquisition and rehabilitation of the 40-unit Park Haven Court Apartments located at 4010-4050 Park Haven Court. The location map is included as *Attachment 3*.

SCHDC is a non-profit public benefit corporation that was formed in 1992. It specializes in creating affordable housing developments through new construction, acquisition and rehabilitation. Since it's founding, the corporation has acquired and rehabilitated or constructed over 3,300 housing units. This includes two properties in San Diego County – 136 units in San Marcos and 132 units in National City – that received similar financing as proposed for the subject development. All of their properties have been acquired and developed with public agency low-interest loans and grants, private institution loans, tax credits, and bonds. The proposed acquisition and rehabilitation of the subject property would be the first development performed by the developer within the City of San Diego.

SCHDC currently employs approximately 150 people, 25 of which are located in the County of San Diego. SCHDC has its own construction, property management, accounting, and social services/resident programs departments. SCHDC would be responsible for the construction oversight (as general contractor) and the day-to-day management of the development. It is the developer's intent and experience to hire all local subcontractors and tradespersons for the performance of the rehabilitation work. The Developer's Statement for Public Disclosure is included as *Attachment 4*.

The project consists of 5 one-bedroom units, 30 two-bedroom units, and 5 three-bedroom units. The entire 40 units in the project would be set-aside for occupancy by low-income renters. Fifty-three percent of the units (21 units) would be affordable to households earning 50 percent of MAI (\$26,850 for a family of four); the remaining forty-seven percent (19 units) would be affordable at 60 percent of MAI (\$32,220 for a family of four). The restricted rents would also apply if Section 8 tenants occupy the units. The Regulatory Agreement that determines the level of affordability for the project would be in existence for 55 years. A chart outlining the project's rent structure is included as *Attachment 2*.

Park Haven Court Apartments is 14 years old. The 40-unit property consists of five 2-story wood-frame structures located in the Southcrest area. Property amenities include a laundry facility, a playground, and 65 open parking spaces. The site has good access to public transportation, freeways, and shopping. It is located within walking distance from the Imperial Marketplace, a major retail commercial redevelopment project that is currently under construction by Southeastern Economic Development Corporation.

The acquisition price is \$2,205,000. The rehabilitation estimate of \$615,280 (\$15,382 per unit) involves interior and exterior work including the development of an on-site, 650 square foot, multi-purpose community room for resident resource service programs such as employment development, financial planning, after school tutoring, adult education, homeownership education, pre-school and other age group activities that would be targeted to the residents' needs. There will also be computers equipped with software to provide self-paced learning with an emphasis on literacy and mathematics comprehension for children and adults.

The applicant is discussing the project with Pacific Relocation Consultants to determine if a relocation plan is appropriate. The plan would include relocation of any affected and eligible residents within the existing project. Initial information received reflects that a number of residents are between 60 and 80% of the AMI. At least one resident is over-income.

The seller of the property is WVC, a California limited partnership. The partners are Trabajadores de la Raza, Maurice Correia, Elden Vanover, Walsh Partners, Kevin Walsh and Patrick Diedrich.

### **Logan Square Apartments**

The applicant and developer for Logan Square Apartments, Avalon Communities, LLC, is requesting that the Housing Authority take the initial steps to issue approximately \$11 million in multifamily revenue bonds for the acquisition and rehabilitation of the 170-unit Logan Square Apartments located at 4742 Solola Avenue. The location map is included as *Attachment 5*.

Avalon Communities, LLC is a development company that seeks to provide affordable housing throughout the Western United States. Leo Puig, a co-founder of the firm, heads Avalon. Since its inception in 1997, Avalon has developed six properties totaling 511 units. The Developer's Statement for Public Disclosure is included as *Attachment 6*.

The project consists of 52 one-bedroom units, 94 two-bedroom units, and 24 three-bedroom units. The entire 170 units in the project would be set-aside for occupancy by low-income renters. Ten percent of the units (17 units) would be affordable to households earning 50 percent of MAI; the remaining ninety percent (153 units) would be affordable at 60 percent of MAI. The restricted rents would also apply if Section 8 tenants occupy the units. The Regulatory Agreement that determines the level of affordability for the project would be in existence for 55 years. A chart outlining the project's rent structure is included as *Attachment 2*.

Currently the complex is encumbered by a HUD loan with rent restrictions. Based on preliminary information provided by Avalon, currently 144 of the units are covered by a Section 8 housing assistance payment (“HAP”) contract that pays the difference between 30% of the tenant’s income and the HUD-established contract rent. Rents on the remaining 26 units also appear to be restricted for low-income households (50% MAI). Avalon and Housing Commission staff are awaiting receipt of documents from the seller that will better clarify the terms of the HUD restrictions. Nevertheless, Avalon does not foresee any issues complying with these restrictions as they anticipate that the proposed financing will impose similar, if not more stringent, rent restrictions. Working with the project’s financing team identified below, staff will complete its due diligence prior to submitting an application to CDLAC to ensure that this is the case.

The 170-unit Logan Square Apartment complex was built in 1975. In recent years, the property has been marred by criminal activity, deferred maintenance, and a strong need for rehabilitation and updating. This property is located in the Southeastern Economic Development Corporation (SEDC) redevelopment area. It is situated within a residential area with close proximity to I-805 to the West. The area is best described as “in transition” as much effort has taken place to improve the area. The rehabilitation of this project will play a pivotal role in the improvement of the neighborhood.

The property offers plenty of open space, recreation facilities, laundry facilities, and ample parking. Working closely with its co-managing general partner (the Historic San Diego Community Development Corporation is under consideration for this role), Avalon would provide after-school programs, computer labs, and job placement for the tenants. The non-profit partner would also work closely with tenants to further ensure that their needs are being met.

In addition to other rehabilitation needs of the property that the development team is in the process of identifying, they intend to add security perimeter fencing, new flooring, appliances, window coverings, new paint, updated electrical systems, and a modern community recreation room. The cost to rehabilitate this complex has not yet been determined. However, it is anticipated that a minimum of \$7,500 per unit will be spent on construction costs.

The acquisition price is \$9.5 million. The seller of the property is San Diego-Logan Square Gardens Company, a California Limited Partnership represented by Michael D. Colt of Roar Company, the General Partner based in Dallas, Texas.

## **SELECTION OF THE FINANCING TEAM MEMBERS**

The financing team members for the proposed financings 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.

Staff recommends the following assignments:

Park Haven Court Apartments - Dain Rauscher (financial advisor) and Orrick, Herrington & Sutcliffe, LLP (bond counsel); and

Logan Square Apartments - CSG Advisors, Inc. (financial advisor) and Quint & Thimmig, LLP (bond counsel).

## **FINANCING STRUCTURE**

The developers of both projects are considering a financing structure that would involve either publicly offered credit enhanced bonds or private sale of the bonds to an institutional investor. Prior to submitting an application to CDLAC for bond allocation, staff will work with each developer and the aforementioned financing team to determine the most appropriate financing structure for each transaction.

Should a public offering structure be pursued, the bond financed loans would be underwritten utilizing Federal National Mortgage Association ("Fannie Mae") or Federal Home Loan Mortgage Corporation ("Freddie Mac") credit enhancement resulting in a AAA rating of the bonds.

Should a private offering structure be pursued, staff and the financing team will ensure that it conforms to the Housing Commission's Bond policy. Under private placement, the minimum rating requirement of "A" or its equivalent by recognized rating agencies would be waived if the entire bond issue is privately placed with an institutional investor who would be required to sign an investor letter ("Investor Letter") certifying the investor's sophistication to understand the risk associated with the purchase of the debt instrument. While the note for the bonds remains unrated, its transferability would be restricted to an institutional investor who signs the Investor Letter. The holder of the tax-exempt note would agree that, should a mortgage default occur, there would not be a bond default. A default under the mortgage loan (including default due to non-payment) would not result in a bond default. In case of default under the mortgage loan, the bondholder would have the ability to accelerate and "redeem" the bonds in exchange for the ownership of the project.

Subsequent to Housing Commission and Housing Authority approvals, staff would, on behalf of the developer, submit an application for private activity bond allocation to CDLAC on June 1, 2001. If successful, the bond financing would automatically qualify the projects for 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 one or both of the applications is unsuccessful, the TEFRA resolution allows staff, up to one year from the date of the public hearing, the option of resubmitting, at the request of the developer, another application for bond allocation at the subsequent allocation round. Once projects receive an allocation, they return to the Housing Commission and Housing Authority for approval to issue the bonds.

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 is limited to the value of the subject property and project revenue sources. The developers are responsible for the payment of all costs under the financing, including the Housing Commission's annual fees.

### **Park Haven Court Apartments**

The developer, SCHDC, will act as the Managing General Partner of the tax credit limited partnership, Bolt Housing Partners. A tax credit investor will comprise the limited partner.

The total proposed development costs for the project is approximately \$3.6 million. The first position funding will be tax-exempt permanent bond financing in the amount of \$1.8 million. Of that total, \$600,000 will serve as construction-bridge financing to be taken out by equity from the sale of tax credits leaving a permanent bond of approximately \$1.2 million. The project assumes a 4% tax credit issued by the California Tax Credit Allocation Committee (CTCAC) in the approximate amount of \$1 million.

In conjunction with its efforts to secure bond financing, SCHDC also has submitted an application for a \$1.4 million loan from the Housing Commission. A Housing Commission loan is necessary if the project is to proceed; the loan request is being considered by the Housing Commission and Housing Authority on the same track as this bond-financing proposal.

### **Logan Square Apartments**

The developer, Avalon, and its nonprofit partner will act as co-managing general partners of a yet to be formed tax credit limited partnership. A tax credit investor will comprise the limited partner.

The total proposed development costs for the project is approximately \$14,000,000. The first position funding will be tax-exempt permanent bond financing for the approximate amount of \$9.5 million (lower than amount sought for bond inducement). The project assumes equity from the sale of 4% tax credit in the approximate amount of \$3.8 million. The developer has also expressed a desire to seek a loan from the Housing Commission for up to \$850,000.

### **RISKS AND MITIGATIONS**

Approval of the bond inducement resolutions does not commit the Housing Authority to issue bonds. The recommended actions do not represent any commitment by the Housing Commission, Housing Authority or the applicant to proceed with the tax-exempt 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, or would be privately placed with a sophisticated institutional investor.

### **ALTERNATIVE**

Do not recommend Housing Authority approval of the bond inducement resolutions and City Council TEFRA resolution. If the recommended actions are not taken, the project will not be able to benefit from tax-exempt below-market financing and the applicant would have to seek alternative financing sources. In most cases, projects do not proceed without tax-exempt financing or some other form of subsidized financing. For those that do proceed, below market rents would not be feasible.

Respectfully submitted,

Approved by,

Pat Duplechan  
Director, Housing Programs

Elizabeth C. Morris  
Chief Executive Officer

### **ATTACHMENTS:**

1. Description Bond Program and Actions to be Taken
2. Affordability Restrictions and Rents

**Signature on File  
With Original Document**

**Park Haven Court Apartments**

3. Project Location Map
4. Developer's Statement for Public Disclosure\*

**Logan Square Apartments**

5. Project Location Map
6. Developer's Statement for Public Disclosure\*

\* Limited distribution. Copies are available for review at the San Diego Housing Commission office located at 1625 Newton Avenue and at the Office of the City Clerk, 2nd Floor, 202 C Street.

## **ATTACHMENT 1**

### **HOUSING COMMISSION'S MULTIFAMILY BOND PROGRAM**

#### **General Description**

The Housing Commission's 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 actual issuer of these bonds is the Housing Authority. At the present time, nearly \$470 million in outstanding bonds provides permanent financing for more than 7,900 multifamily rental units in the City, of which 3,203 units are restricted at various levels of affordability.

The Housing Commission's policy for the issuance of bonds requires 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 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 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 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.

## ATTACHMENT 2

### AFFORDABILITY REQUIREMENTS AND RENT STRUCTURE

#### **A. Park Haven Court Apartments**

Type	MAI	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
One Bedroom	50% MAI	576	3	\$476	\$650	\$174
One Bedroom	60% MAI	576	2	\$582	\$650	\$68
Two Bedroom	50% MAI	768	15	\$568	\$750	\$182
Two Bedroom	60% MAI	768	14	\$696	\$750	\$54
Two Bedroom *	N.A.	768	1	\$0	N.A.	N.A.
Three Bedroom	50% MAI	960	3	\$621	\$875	\$254
Three Bedroom	60% MAI	960	2	\$764	\$875	\$111
Total Units			40			

\*Indicates Manager's unit

#### **B. Logan Square Apartments**

Type	MAI	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
One Bedroom	50% MAI	629	5	\$491	\$750	\$259
One Bedroom	60% MAI	629	47	\$598	\$750	\$152
Two Bedroom	50% MAI	825	10	\$576	\$850	\$274
Two Bedroom	60% MAI	825	83	\$704	\$850	\$146
Two Bedroom *	N.A.	825	1	\$0	N.A.	\$259
Three Bedroom	50% MAI	1,016	2	\$663	\$950	\$287
Three Bedroom	60% MAI	1,016	22	\$811	\$950	\$159
Total Units			170			

\*Indicates Manager's unit