



Good Neighbors

San Diego  
Housing Commission

# REPORT

**DATE:** For the Agenda of June 22, 2001

**ITEM 105**

**REPORT NO:** HCR01-075

**SUBJECT:** Final Authorization to Issue Multifamily Housing Revenue Bonds for Torrey Highlands Apartments (Council District 1)

## SUMMARY

**Issue #1:** Should the Housing Commission recommend that the Housing Authority take the final steps to issue tax-exempt housing revenue bonds for Torrey Highlands Apartments?

**Recommendation #1:** That the Housing Commission recommend the Housing Authority authorize:

- (a) the issuance of tax-exempt and taxable housing revenue bonds in an amount not to exceed \$4,780,000 to a development partnership formed by Chelsea Investment Corporation to finance the construction of Torrey Highlands Apartments to be located at the intersection of State Route 56 and Camino Ruiz (Council District 1); and,
- (b) the Executive Director of the Housing Authority or the Chief of Staff 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 would not financially obligate the City, the Housing Authority or the Housing Commission because 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 origination fee as well as the annual administrative fee under the financing would be up to \$10,994 (0.23 percent of the bond amount).

**Housing Affordability Impact:** The project will restrict 23 units (30%) of the apartments for occupancy by families earning no greater than 50% of the median area income (MAI), or \$28,450 for a family of four, and the remaining 53 units (70%) for families earning no greater than 60% MAI, or \$34,140 for a family of four.



**Previous Related Actions:** A Bond Inducement resolution, a TEFRA resolution and an application for the allocation of bond issuing authority for the project was recommended by the Housing Commission on January 19, 2001 (Report No. HCR 01-014) and approved by the Housing Authority and City Council on February 13, 2001 (Resolution No. R-1085 and Resolution No. R-294605).

**Future Related Actions:** Final approval will be sought at the next available Housing Authority meeting (June 26, 2001).

## **BACKGROUND**

On February 21, 2001, the Housing Authority, on behalf of the developer, submitted an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation in the amount of \$4,780,000. On May 8, 2001, 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 August 6, 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**

The applicant and developer for Torrey Highlands Apartments, Chelsea Investment Corporation (Chelsea), is requesting that the Housing Authority take the final steps to issue approximately \$4,780,000 in multifamily housing revenue bonds for new construction of the 76-unit Torrey Highlands Apartments to be located within the new Torrey Highlands master planned community in the future urbanizing area at the intersection of State Route 56 and Camino Ruiz. The location map is included as *Attachment 2*.

The Torrey Highlands Apartments project, which fulfills the affordable housing requirements of Greystone Homes (master developer for a large market rate development in the Future Urbanizing Area), will consist of 40 two-bedroom, two-bath apartments and 36 three-bedroom, two-bath apartments in four three-story buildings. The units will be air-conditioned and include refrigerators, dishwashers, gas ranges, microwave ovens, walk-in closets, and balconies or patios. The project features a 1,800 square foot community center, tot lot, active play area, and laundry room. The project site is situated across the street (north) from Westview High School, a new high school (scheduled to hold its first class in Fall 2002) in the highly regarded Poway Unified School District.

The entire 76 units in the project will be set-aside for occupancy by low-income renters. Twenty-three of the units (30%) will be affordable to households earning 50 percent of MAI (\$28,450 for a family of four); the remaining 53 units (70%) will

be affordable at 60 percent of MAI (\$34,140 for a family of four). The restricted rents will also apply if Section 8 tenants occupy the units. The Regulatory Agreement that determines the level of affordability for the project will be in existence for 55 years. The project rents and affordability restrictions by unit type are outlined in the chart below.

Type	Square Footage	MAI	Number of Units	Average Current Rents	Proposed Restricted Rent (Minus utility allowance)	Market Rate	Savings
2 Bedroom	910	50% MAI	12	N/A	\$558	\$1,375	\$ 817
2 Bedroom	910	60% MAI	28	N/A	\$686	\$1,375	\$ 689
3 Bedroom	1,120	50% MAI	11	N/A	\$609	\$1,620	\$1,011
3 Bedroom *	1,120	60% MAI	25	N/A	\$752	\$1,620	\$ 868
<b>Total</b>			<b>76</b>				<b>\$61,917</b>

\*Includes one manager's unit.

Chelsea, which is headquartered in Solana Beach, is 100% owned by its President, James Schmid. Formed in 1986, Chelsea has been involved in the development, management, and acquisition of approximately 20 multifamily housing projects in California and Arizona totaling nearly 3,000 units. Chelsea, which currently manages nine properties totaling 1,171 units, will serve as the property manager of this development. Chelsea also owns and operates approximately 400 affordable apartment units in four projects, including the 100-unit Regency Center project for which the Housing Authority issued \$4,100,000 in tax-exempt and taxable bonds in 2000. Chelsea has an ownership interest in an additional 440 units. The Developer's Statement for Public Disclosure is included as *Attachment 3*.

## FINANCING STRUCTURE

Chelsea will act as the administrative general partner with a 0.5% ownership interest in THA, LP, the limited partnership that will be formed to own Torrey Highlands Apartments. Pacific Southwest Community Development Corporate (PSCDC), a California tax-exempt non-profit public benefit corporation, will serve as the managing general partner with a 0.5% ownership interest in the partnership. Based in San Diego, PSCDC has worked with Chelsea on a number of projects (information on PSCDC is included as *Attachment 4*). The limited partnership will also consist of Lend Lease Real Estate Investments, Inc. serving as the limited partner with a 99.9% ownership interest.

The permanent source of financing for the project, which will total approximately \$9.5 million includes: \$4.4 million dollars from bond proceeds; \$3.3 million in tax credit equity (the bond financing will automatically qualify the project for an allocation of

four percent low-income housing tax credits); \$1.1 million dollar contribution from Greystone Homes (in addition to the land donation; to ensure the financial feasibility of the project, Greystone Homes is selling the 4.07-acre project site -- valued at \$1.9 million -- for \$1 to the general partner of the limited partnership); and \$670,000 in deferred developer fees.

Newman and Associates is underwriting \$4.78 million in bonds for a public sale with credit enhancement provide by Fannie Mae. The bonds are expected to receive the highest possible rating of AAA.

### **BENEFITS AND RISKS TO THE HOUSING COMMISSION**

Staff has been working with CSG Advisors Incorporated, the Housing Commission's financial advisors, to perform due diligence under the proposed financing and in formulating the resulting recommendation for the Housing Authority. After evaluating the projects' financial circumstances, the terms of the proposed financings and public benefits to be achieved, it is the financial advisor's recommendation that the bond issuance for the project be authorized subject to the following two conditions:

- The bonds not be issued without the funding commitments necessary for project completion; and,
- The project receives a firm commitment from Greystone Homes for its anticipated contributions to the project in excess of \$750,000 (\$1.1 million, or an additional \$350,000, is needed to complete the financing).

Staff will work with the Financial Advisor to ensure that these conditions are met prior to the bond issuance. The Financial Advisor's analysis and recommendation to proceed is included as *Attachment 5*.

If the bond issuance is authorized, the following primary documents will be executed on behalf of the Housing Authority: Indenture of Trust, Loan Agreement, Regulatory Agreement and Bond Purchase Agreement. All bond documents in a substantially final form will be on file in the Housing Commission offices and City Clerk at the time of docketing for consideration by the Housing Authority.

## **ALTERNATIVE**

Do not authorize the issuance of the bonds at this time. The project's bond allocation will automatically revert to the State unless the bonds are issued by August 6, 2001. Without the benefit of the tax-exempt bonds and the accompanying four percent tax credits, the project will become financially infeasible and an opportunity would be lost to work collaboratively with the private sector to create and preserve 76 affordable units for low-income renters.

Respectfully submitted,

Approved by,

Pat Duplechan  
Director, Housing Programs

Elizabeth C. Morris  
Chief Executive Officer

**Signature on File  
With Original Document**

### **Attachments:**

1. Description Bond Program and Actions to be Taken
2. Project Location Map
3. Developer's Statement for Public Disclosure\*
4. Information on the Non-profit\*
5. Financial Advisor's Letter

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission's 1625 Newton Avenue office and office of the City Clerk, 2<sup>nd</sup> floor, 200 "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.

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 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.

**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.