



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Agenda of October 12, 2001

ITEM 104

REPORT NO: HCR01-107

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Summit Crest Apartments (Council District 4)

SUMMARY

Issue #1: Should the Housing Commission recommend that the Housing Authority take the final steps to issue tax-exempt and taxable housing revenue Bonds for Summit Crest Apartments?

Recommendation #1: That the Housing Commission recommend Housing Authority authorization of:

(a) the issuance of up to \$3,060,000 in tax-exempt housing revenue Bonds to Southwest Affordable Housing, LLC to replace interim financing for the 70-unit property located at 4328-4490 Mayberry Street (Council District 4); 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 \$7,038 (0.23 percent of the total bond amount).

Housing Affordability Impact: The project will restrict 28 of the 70 units in the complex for occupancy by low-income renters. Of that total, 21 units will be reserved for households earning 60 percent or less of the median area income (MAI), or \$34,140 for a family of four. The other 7 restricted units will be reserved for households earning 50 percent of the MAI, or \$28,450 for a family of four.

Previous Related Actions: On January 22, 1999, the Housing Commission recommended Housing Authority approval of a \$670,000 loan to finance a portion of the acquisition cost of Summit Crest Apartments and, at that time, also recommended Housing Authority approval of the Bond inducement Resolution and the City Council's approval of the tax-exempt financing through a public hearing -- known as a TEFRA hearing -Tax Equity and Fiscal Responsibility Act -- (Report No. HCR99-002). The Housing Authority and City Council convened on February 16, 1999 and approved the Housing Commission's recommendations (Housing Authority Resolution Number R-00985 and R-00986, and City Council Resolution Number R-291309).

On January 19, 2001, the Housing Commission recommended a second TEFRA resolution and application for allocation of bond issuing authority for the project (Report No. HCR 01-016), which was approved by the Housing Authority on February 13, 2001 (Resolution No. 1088) and by the City Council on February 27, 2001 (R-294603). On March 23, 2001, the Housing Commission voted to continue to a future meeting a discussion of a proposal to sell the property for conversion to for-sale condominiums (Report No. HCR 01-043).

Future Related Actions: Final approval to issue the Bonds will be sought at the Housing Authority meeting of October 30, 2001.

BACKGROUND

At the Housing Commission and Housing Authority meetings of January 22, 1999 and February 16, 1999, respectively, initial steps to provide a \$670,000 Housing Commission loan, and to issue Bonds, for the Summit Crest Apartments were approved.

In March of 1999, the project's developers borrowed the Housing Commission funds to cover a portion of the acquisition cost.

The Housing Authority's initial application to the State, on behalf of the developer, for Bond allocation was successful. That application contained within it a proposed financing structure that involved credit enhancement in the form of a guaranty by the Department of Housing and Urban Development (HUD) to create an AAA-rated loan. As the financing team was finalizing the Bonds' credit enhancement structure, HUD published a new policy that explicitly restricted certain lender rights. This new policy made the proposed structure infeasible since it removed from the Housing Commission essential lender rights, such as the ability to foreclose in the event of a default. Given those circumstances, the developer requested that the Authority return the allocation to the State with the intention of reapplying once a feasible financing structure was identified.

At the Housing Commission and Housing Authority meetings of January 19, 2001 and February 13, 2001, respectively, renewed steps towards the allocation of Bonds for the Summit Crest Apartments were approved. As an alternative to Bond financing, the developer also considered selling the property to a nonprofit developer for conversion to

for-sale condominiums under a proposal that would have earmarked 28 of the 70 units for sale to first time homebuyers earning a maximum of 65% of median area income (Housing Commission meeting on March 23, 2001). Unable to reach an agreement with the potential purchaser, the developer abandoned those negotiations to continue its pursuit of a Bond allocation. On May 22, 2001, the Housing Authority, on behalf of the developer, submitted a new application to the California Debt Limit Allocation Committee (CDLAC) for a Bond allocation in the amount of \$3,060,000. On August 22, 2001, CDLAC awarded the requested allocation to the project. The project's allocation will automatically revert to CDLAC unless the Bonds are issued by November 20, 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 financing is described in Attachment 1.

PROJECT NARRATIVE

The applicant for Summit Crest apartments (formerly known as Mayberry Apartments) is Southwest Affordable Housing, LLC (Southwest). The principals of Southwest are William J. Zures and Michael A. Cassiola, each having a 50% interest in this limited liability company. The nonprofit Managing General Partner is Merit Housing, Inc. The Chief Executive Office of Merit Housing, Inc. is Eunice Bobert. The Developer's Statement for Public Disclosure is included as Attachment 2, and a profile of the Managing General Partner is included as Attachment 3.

The property, which is located at 4328-4490 Mayberry Street in Council District 4 (a location map is included as Attachment 4) consists of 70 units (35 2-br/1.5-ba and 35 3-br/1.5-ba) located in 18 two-story buildings and is situated on a 3.02-acre site. All units have been rehabilitated and provide refrigerators, washer & dryer hook-ups and a fenced patio. The property is located close to downtown, major highways, buses, shopping and hospitals. It also is situated a few blocks away from the Educational Cultural Complex (ECC), which provides job training, and also serves as a sports park complex and senior center.

Twenty-eight units in the projects have been set-aside for occupancy by low-income renters. Twenty-one of the set-aside units will be reserved for households earning 60 percent or less of the median area income (\$34,140 for a family of four). The remaining 7 set-aside units will be reserved for households earning 50 percent or less of the median area income (\$28,450 for a family of four). The affordability restrictions will remain in place for 55 years. The restricted rents would also apply if Section 8 tenants occupy the units.

Unit Type	Square Footage	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
2 Bedroom @ 50% MAI (HOME)	840	4	\$574	\$875	\$301
2 Bedroom @ 60% MAI (HOME)	840	2	\$616	\$875	\$259
2 Bedroom @ 60% MAI	840	1	\$616	\$875	\$259
2 Bedroom @ 60% MAI	840	7	\$670	\$875	\$205
2 Bedroom @ Market	840	21	N/A	\$875	N/A
3 Bedroom @ 50% MAI (HOME)	1009	3	\$631	\$975	\$344
3 Bedroom @ 60% MAI (HOME)	1009	2	\$709	\$975	\$266
3 Bedroom @ 60% MAI	1009	2	\$709	\$975	\$266
3 Bedroom @ 60% MAI	1009	7	\$774	\$975	\$201
3 Bedroom @ Market*	1009	21	N/A	\$975	N/A
Total:		70			

* Includes one manager's unit.

FINANCING STRUCTURE

To replace interim financing and cover the costs of issuing Bonds for the project, Kinsell, Newcomb & De Dios, Inc. is underwriting \$3,060,000 in tax-exempt Bonds, which would be guaranteed by the Federal National Mortgage Association ("Fannie Mae"), which should result in a AAA rating by Standard & Poor's Corporation. The underwriter expects to privately place the Bonds with Fannie Mae. In addition to the purchasing the Bonds, Fannie Mae is expected to provide the project with a taxable loan of \$340,000. The tax credit investor is expected to provide approximately \$377,000 in equity. The Housing Commission's \$670,000 loan brings the total project financing to approximately \$4,447,000.

The Bonds will 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 will 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. In addition, the institutional investor that will purchase the Bonds will agree that, should a mortgage default occur, it (the institutional investor) would have the ability to redeem the Bonds in exchange for ownership of the project. The developers are responsible for the payment of all costs under the financing, including the Housing Commission's annual fees.

BENEFITS AND RISKS TO THE HOUSING COMMISSION

Staff has been working with Dain Rauscher Inc., the Housing Commission's Financial Advisor on 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 financings 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 is authorized, the following primary documents will be executed on behalf of the Housing Authority: Indenture of Trust, Financing 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 November 20, 2001. Without the benefit of the tax-exempt Bonds, the project would not have the requisite permanent financing to sustain its financial feasibility and preserve 28 affordable units for low-income renters.

Respectfully submitted,

Approved by,

**Signature on File
With Original Document**

Pat Duplechan
Director, Housing Programs

Elizabeth C. Morris
Chief Executive Officer

Attachments:

1. Housing Commission's Multifamily Bond Program
2. Developer's Statement for Public Disclosure*
3. Information on the Non-Profit Managing General Partner
4. Project Location Map
5. Financial Advisor's Letter
6. Financial Statements*

*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, 2nd 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 the Bonds is the Housing Authority. At the present time, nearly \$480 million in outstanding Bonds provide permanent financing for over 8,000 multifamily rental units in the City, of which more than 3,400 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"). The state's bonding capacity is \$62.50 per capita this year and will increase to \$75 per capita 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 to 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 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 for-profit developers or 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, information about the proposed tax-exempt financing of the project is preliminary. After the inducement resolution is approved, a due diligence process conducted by staff and financing team members generates 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.