



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Agenda of October 12, 2001

ITEM 103

REPORT NO: HCR01-108

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Parkside Apartments (fka Park Haven Court Apartments) (Council District 4)

SUMMARY

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

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

- (a) the issuance of tax-exempt housing revenue Bonds in an amount not to exceed \$1,800,000 to Southern California Housing Development Corporation (SCHDC) to finance the acquisition and rehabilitation of the 40-unit Parkside Apartments located at 4010-4050 Park Haven Court (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 \$4,140 (0.23 percent of the bond amount).

Housing Affordability Impact: The project would restrict 21 units for occupancy by families earning no greater than 50% of the median area income (MAI), or \$28,450 for a family of four, 18 units for families earning no greater than 60% MAI, or \$34,140 for a family of four, and the remaining unit would be unrestricted and set aside for a resident manager.



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 May 11, 2001 (Report No. HCR 01-061) and approved by the Housing Authority and City Council on May 29, 2001 (Resolution No. 1097 and R-294944). In addition, a Housing Commission loan of up to \$1,418, 838 in HOME and Housing Trust Funds was recommended by the Housing Commission on May 11, 2001 (Report No. HCR 01-057) and approved by the Housing Authority on May 15, 2001 (Resolution No. 1095).

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

BACKGROUND

On May 11, 2001, the Housing Commission recommended that the Housing Authority approve a loan of up to \$1,418, 838 and also take the initial steps to issue Bonds for Parkside Apartments. At the Housing Authority's meetings on May 15, 2001 and May 29, 2001, the Housing Commission's recommendations were approved. Release of Housing Commission loan funds is subject to the Housing Authority's final approval of the Bond issuance.

On May 31, 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 \$1,800,000. On August 22, 2001, CDLAC awarded the requested allocation to the project. The project's Bond allocation will automatically revert to CDLAC unless the Bonds are issued by November 30, 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 Parkside Apartments, Southern California Housing Development Corporation (SCHDC), is requesting that the Housing Authority take the final steps to issue approximately \$1,800,000 in multifamily housing revenue Bonds for the acquisition and rehabilitation of the 40-unit Parkside Apartments located at 4010-4050 Park Haven Court. The location map is included as Attachment 2.

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 its 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 SCHDC's 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 will be SCHDC's first development within the City of San Diego.

SCHDC currently employs approximately 150 people, 25 of whom are located in the County of San Diego. SCHDC has its own construction, property management, accounting, and social services/resident programs departments. SCHDC will 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 3.

The project consists of 5 one-bedroom units, 30 two-bedroom units, and 5 three-bedroom units. Thirty-nine (39) of the 40 units in the project would be set-aside for occupancy by low-income renters. The remaining unit would set aside for use by a resident manager. Fifty-three percent of the units (21 units) would be affordable to households earning 50 percent of MAI (\$28,450 for a family of four); 45% (18 units) would be affordable at 60 percent of MAI (\$34,140 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.

Type	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
1br@50%	576	3	\$476	\$650	\$174
1br@60%	576	2	\$582	\$650	\$68
2br@50%	768	15	\$568	\$775	\$207
2br@60%	768	14	\$696	\$775	\$79
2br@0%*	768	1	\$0	N.A.	N.A.
3br@50%	960	3	\$621	\$850	\$229
3br@60%	960	2	\$764	\$850	\$86
Total Units		40			

*Indicates Manager's unit

Parkside 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 the Southeastern Economic Development Corporation (SEDC).

The acquisition price is \$2,206,000. The rehabilitation estimate of \$629,508 (\$15,738 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 group activities that would be targeted to the residents' needs. There would 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 working with Pacific Relocation Consultants to determine the project's relocation needs. If possible, affected and eligible residents will be relocated within the existing project. Preliminary information indicates that up to six tenants may require relocation assistance. There is sufficient funding in the budget should relocation assistance be necessary.

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.

FINANCING STRUCTURE

The developer is pursuing a private offering structure under which the Bonds will be purchased by an institutional investor, the California Community Reinvestment Corporation (CCRC). In accordance with the Housing Commission's Bond policy, CCRC will sign an Investor Letter certifying its understanding of the risks associated with the purchase of the debt instrument. Under this structure, the Commission's minimum rating requirement of "A," or its equivalent, by a recognized rating agency will be waived.

While the note for the Bonds remains unrated, its transferability will 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.

The project's sources of financing include: \$1,800,000 in tax-exempt Bonds; a Housing Commission loan of \$1,418,838, which received final approval on May 15, 2001 and will close simultaneously with the sale of the Bonds; and approximately \$992,148 from Related Capital Company, the tax credit equity investor. Approximately \$630,000 of the tax-exempt Bonds will be retired following completion of the rehabilitation, leaving in place a total permanent financing of approximately \$3,580,986.

BENEFITS AND RISKS TO THE HOUSING COMMISSION

Although the Bonds are expected to be unrated, the Investor letter the bond purchaser will be required to sign and other provisions of the Bond documents are consistent with Housing Commission policy on unrated Bonds, as described above.

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, 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 the office of 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 30, 2001. Without the benefit of the tax-exempt Bonds and the accompanying four percent tax credits, the proposed project would become financially infeasible and an opportunity would be lost to work collaboratively with the private sector to create 39 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. Housing Commission's Multifamily bond Program
2. Project Location Map
3. Developer's Statement for Public Disclosure*
4. Financial Statements*
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, 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.