



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Housing Authority Agenda of November 27, 2001

REPORT NO: HCR01-110 (Supplemental)

SUBJECT: Issuance of Multifamily Housing Revenue Tax-Exempt Notes for Logan Square Apartments (Council District 4)

SUMMARY

Issue: Should the Housing Authority facilitate the preservation of 170 rent restricted apartments by taking steps to issue interim tax-exempt Notes?

Recommendation: That the:

- (a) Housing Authority authorize the issuance of tax-exempt Notes in an amount not to exceed \$10,500,000 to serve as interim financing for the 170-unit Logan Square Apartments located at 4742 Solola Avenue; and that the
- (b) Housing Authority authorize the Executive Director of the Housing Authority or the Housing Finance and Development Manager of the Housing Commission, or their designee, to execute all documents necessary to facilitate the financing.

BACKGROUND

On October 30, 2001, the Housing Authority approved bond financing and a Housing Commission loan to the Logan Square Apartments.

Subsequent to the Authority's meeting, the project's mortgage banker, ARCS Commercial Mortgage Co., informed the developer of their discomfort with the developer's budget for utility costs and plans to ameliorate the existing crime problem at the property. ARCS' discomfort with these issues prevents Fannie Mae (Federal National Mortgage Association), the proposed source of credit enhancement for the bonds, from issuing its guaranty.

Unless the bonds are issued by November 28, 2001, the deadline date imposed by the California Debt Limit Allocation Committee (CDLAC), the bond allocation will automatically revert to the State.

DISCUSSION

To preserve the bond allocation and, with it, our opportunity to preserve 170 affordable units, the project's financing team has restructured the financing to allow for an interim, short-term (up to eight months) issuance of \$10.5 million in tax-exempt Notes. The interim financing would provide the developer sufficient time to work with a new mortgage banker to secure the requisite credit enhancement for the bonds. Toward this end, the developer has already received a preliminary commitment from TRI Capital Company to provide credit enhancement under the HUD 221 (d) 4 insurance program to guaranty up to \$10.5 million in tax-exempt bonds. As mortgage bankers differ in their underwriting criteria, TRI seems to accept the developer's utility budget and plans for improved security of the property.

All proceeds from the interim financing would be deposited with the trustee at the closing and would be secured by a Guaranteed Investment Contract (GIC). The GIC would be issued in accordance with the Housing Authority's bond requirements. At, or prior to the maturity date, the interim Notes would be refinanced with FHA/GNMA enhanced bonds with an accompanying "AAA" rating.

All costs of the interim financing, including compensation for staff efforts in preparing the Notes would be borne by the developer; no proceeds from the issuance of the Notes would be used to pay these costs.

Construction on the project, and release of the Commission's \$1.0 million loan would not occur until the Notes are refinanced, and funds from all other sources of permanent financing, as well as credit enhancement, are in place. Prior to the refinancing, staff would seek authorization from the Housing Authority to issue up to \$10.5 million in permanent tax-exempt bonds.

Staff has been working with the Housing Commission's financial advisor, CSG Advisors and bond counsel, Quint & Thimmig, to ensure that the proposed issuance of Notes is properly structured to ensure a successful permanent financing of the project. However, should the permanent financing not occur, the Notes would be redeemed at maturity from proceeds of the Notes held by the trustee. The project might then proceed with private financing (less rehabilitation would be feasible and the preservation of 170 affordable units would be jeopardized).

The updated information contained in this supplemental report is reflected in the financing documents and Housing Authority resolution.

Submitted by,

Approved by,

Pat Duplechan
Director, Housing Programs

Elizabeth C. Morris
Chief Executive Officer

Attachment: HCR01- 110

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