



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE: For the Agenda of October 12, 2001

ITEM 106

REPORT NO: HCR01-115

SUBJECT: Loan and Final Authorization to Issue Multifamily Housing Revenue Bonds for Harbor View Apartments (Council District 4)

SUMMARY

Issue: Should the Housing Commission recommend that the Housing Authority approve a loan and take the final steps to issue tax-exempt housing revenue Bonds to Harbor View Housing Partners, LP for the acquisition and rehabilitation of a 60-unit property located at 404 North 47th Street in Council District 4?

Recommendation: That the Housing Commission recommend that the Housing Authority:

- approve a Housing Commission 31-year, 3% residual receipts, rental rehabilitation loan of up to \$900,000 amortized over 55 years and secured by a second trust deed; and,
- authorize the issuance of up to \$4,400,000 in tax-exempt housing revenue Bonds; and,
- authorize 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 project's financing.

Fiscal Impact: Approval of the loan would result in the expenditure of up to \$900,000 in HOME Program and Housing Trust Funds.

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 bond origination fee as well as the annual administrative fee under the financing would be up to \$10,120 (0.23 percent of the total bond amount).



A state agency authorized by the City of San Diego

Home Program Compliance: An acquisition and rehabilitation loan is an eligible activity under HOME rules. Of the 60 units, 8 would be HOME funded and subject to HOME rent restrictions. The designated HOME units would consist of (3) two-bedroom units (one - HOME "Low Income" rent and two - HOME "High Income" rents) and (5) three-bedroom units (one - HOME "Low Income" and four - HOME "High Income" rents). The lower of the HOME or the Housing Commission rents would apply to of the affordability categories (i.e., 50% or 60% or the median area income). Housing Commission rent restrictions would apply to the remaining units.

Affordable Housing Impact: Approval of the recommendation will provide 59 units affordable to families earning no more than 60 per cent of the area median income. Six (10%) of the apartments will be restricted for occupancy by families earning no greater than 50% MAI.

Environmental Review: An Environmental Review Request has been submitted to the City's Environmental Analysis Section. It is typically determined that such a proposed project is exempt from review pursuant to Section 15061(b)(3) of the California Environmental Quality Act (CEQA) Guidelines, and under the National Environmental Policy Act (NEPA) pursuant to 24CFR58, Section 58.34(a).

Community Planning Group Review: The project was presented to the Encanto Neighborhoods Community Planning Group on May 21, 2001, and at their Special Meeting of June 18, 2001 where it was approved.

Previous Related Actions: On June 1, 2001, the Housing Commission recommended City Council approval of the tax-exempt financing through a public hearing -- known as a TEFRA hearing -Tax Equity and Fiscal Responsibility Act -- (Report No. HCR01-069). The City Council convened on June 26, 2001 and approved the Housing Commission's recommendations (City Council Resolution Number R-295989).

Future Related Action(s): Final approval to issue the Bonds and provide the loan will be sought at the Housing Authority meeting of October 30, 2001.

BACKGROUND

In order to meet the June 1st CDLAC application deadline, the developer requested that the California Statewide Communities Development Authority (CSCDA), a statewide joint powers authority, issue the inducement resolution and serve as the applicant to CDLAC for a Bond allocation in the amount of \$4,400,000.

On June 1st, the Housing Commission recommended that the City Council support CSCDA's CDLAC application by approving a TEFRA resolution. At the City Council's meeting on June 26, 2001, the Housing Commission's recommendation was approved.

On August 22, 2001, CDLAC awarded the requested allocation to the project. CSCDA has since requested that CDLAC transfer that allocation to the Housing Authority. The project's Bond allocation will automatically revert to CDLAC unless the Bonds are issued by November 20, 2001.

Harbor View Housing Partners, LP subsequently submitted an application for a \$900,000 loan under the Housing Commission's Rental Rehabilitation Loan Program.

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.

DISCUSSION

The Borrower

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. This includes two properties in San Diego County – 122 units in San Diego (Island Gardens Apartments, acquired in September 2000) and 120 units in El Cajon – that received similar financing as proposed for the subject development. All of Avalon's properties have been acquired and rehabilitated with public agency low-interest loans and grants, private institution loans, tax credits and bonds. The Developer's Statement for Public Disclosure is included as Attachment 2.

The developer, Avalon, and its nonprofit partner, Historic San Diego Community Development Corporation, will act as co-managing general partners of Harbor View Housing Partners, LP. (A profile of the non-profit managing general partner is included at Attachment 3). Alliant Capital, is expected to be the tax credit investor and would comprise the limited partner.

It is the developer's intention to hire a still-to-be identified general contractor for the performance of the rehabilitation work. A private management company will perform property management with oversight provided by the local non-profit partner. These entities would be subject to Housing Commission approval.

The Property

Harbor View Villas is a 60-unit apartment complex that was built in 1985 and is located at 404 North 47th Street in the Chollas View section of the City of San Diego. The immediate neighborhood consists primarily of single and multifamily residences. To the North are multifamily apartments; a trolley stop to the immediate South; single-family residences and mobile homes are located to the East; and to the West is a canyon providing open space. The property is located near schools, parks, and medical facilities. The location map is included as Attachment 4.

The project is situated on 3.1 acres and consists of 10 two-story residential buildings and 1 office/community building. The apartment complex consists of: 24 two-bedroom, one-bathroom apartments; 24 three-bedroom, two-bathroom apartments; and 12 three-bedroom, two and one-half bathroom, townhouse units. Unit amenities include refrigerators, stoves, ovens, garbage disposals, forced air heating, window coverings and patios/balconies. Site amenities include a computer lab, tot lot, security gates and lighting, on-site laundry facilities, and picnic areas.

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

Rent and Income Restrictions

The composition of the 60 units is: 24 two bedroom/one bathroom units; 24 three bedroom/two bathroom units; and 12 three bedroom/two-and-a-half bathroom units. Affordability will range from 50% (\$28,450 for a family of four) to 60% (\$34,140 for a family of four) of area median income per the distribution in the chart below. The affordability restrictions will remain in place for 55 years.

Type	Sq. Ft.	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Savings
2br@50%	730	2	\$568	\$725	\$157
2br@60%	730	22	\$696	\$725	\$29
3br Mgr	1005	1	\$0	N.A.	N.A.
3br@50%	1005	3	\$623	\$900	\$277
3br@60%	1005	20	\$766	\$900	\$134
3br@50%	1,190	2	\$623	\$975	\$352
3br@60%	1,190	11	\$766	\$975	\$209
Total Units		60			

Rehabilitation Needs

The rehabilitation of the units is expected to take approximately twelve months to complete. The rehab will be scheduled as an “in-place” rehab, mitigating the need for temporary tenant relocation. The scope of work will include repair or replacement of all appliances, flooring, cabinets, countertops, fixtures, doors, interior painting, and any necessary noise attenuation measures to meet federal requirements. All major building systems, roofs, building exteriors, and landscaping will be repaired or replaced as needed. Attachment 9 consists of the Developer’s proposed scope of work (per the attached National Assessment Corporation Engineering Assessment), and the staff-prepared Preliminary Inspection List. The scope of work is based on the Staff prepared list items contained in Category 1-Immediate Requirements and the Site Work and Exterior Requirements found in Category 2. This work has an approximate value of \$720,000.

The operating budget includes funds to pay for repairs and replacements anticipated to be needed within the next five (Category 2 improvements), ten and fifteen years (Category 3 improvements).

Property Value

Harbor View Apartments is currently owned by the Davidson Housing Family Partnership (Benjamin and Kathleen Davidson). The applicant and developer, Avalon Communities, LLC (Avalon) has entered into a purchase and sale agreement with the current owners to purchase the property for \$4,200,000.

According to the MAI Appraisal, the “as-is” value is \$3,950,000 and the “after rehab” value is \$4,465,000. Although the acquisition price is higher than the “as-is” value, no Commission funds will be used towards acquisition. Commission funds will be utilized at rehabilitation completion. Nevertheless, the Commission will require that the portion of the deferred developer’s fee equivalent to the excess as-is value (\$250,000) be in a subordinate position to the Commission loan.

Relocation

At the time of this report distribution, the actual number of households that may require permanent relocation assistance was not known. However, the developer understands that it is its responsibility that if permanent relocation of any tenants is required, the relocation costs will be funded out of the developer fee. Commission funds will only be utilized at rehabilitation completion. This will be at a point when all relocation expenses will have been paid.

The Funding Request

The total development costs for the project would be \$7,264,055. The first position funding is proposed to be tax-exempt permanent bond financing in the amount of \$3,800,000 utilizing Federal National Mortgage Association ("Fannie Mae") credit enhancement. Total loans against the property would be \$4,700,000. It additionally assumes a 4% tax credit issued by the California Tax Credit Allocation Committee (CTCAC) in the approximate amount of \$1,873,006. The developer will provide \$691,049 in deferred developer fees.

The 3% interest, \$900,000 Commission loan will be amortized over 55 years and secured by a second trust deed against the property. The Commission loan will be due one year following the payoff of the first position loan (a 30-year loan). Until year 2016, the payment of the Housing Commission's debt will be the lesser of the amortized payment or 50 percent of the cash flow following payment of the first position note debt payments and operating expenses of the property. The minimum annual payment will be \$8,135, which is equal to half of the estimated residual receipts at year one (subject to the acceptance by the primary lender and its lending requirements.) Beginning in the year 2016, in the event that there have been any shortfalls in payments not made up in the preceding years, the Housing Commission loan would be re-amortized over the remaining term of the loan to ensure the payoff.

In the event that the Fannie Mae bond amount experiences an increase, there will be a commensurate reduction in the Commission loan amount to the borrower.

The appraised value of the property "as-is" is \$3,950,000. An estimate of stabilized market value after completion of construction is \$4,465,000, based on comparables of recent sales of existing units in the area. This results in an estimated loan-to-completion value, including the Housing Commission's loan, of 105%.

The Financial Plan

Total Development Cost	The total development cost is \$7,264,055, which includes the purchase price, and other development costs.
Appraised Value:	The "as-is" value is \$3,950,000 and the "after rehab" value is \$4,465,000.
Security:	The loan will be secured by a second trust deed against the property.
Loan-to-Value:	The after-rehab loan to value is 105%.
Debt Service Ratio:	The debt service ratio on the first trust deed in the first year is 1.06.

- First Trust Deed: It is proposed that an amortized tax exempt permanent loan of at least \$3,800,000 will be in first position with a term of 30 years and a 6.36% interest rate.
- Second Trust Deed: Housing Commission funds; 3% simple interest.
- Payments on the Second Trust Deed: The payment of the Housing Commission's debt will be the lesser of the amortized payment or 50 percent of the cash flow following payment of the first position note debt payments and operating expenses of the property. The minimum annual payment will be \$8,135, which is equal to half of the estimated residual receipts at year one (subject to the acceptance by the primary lender and its lending requirements.) Beginning in the year 2016, in the event that there have been any shortfalls in payments not made up in the preceding years, the Housing Commission loan would be re-amortized over the remaining term of the loan to ensure the payoff.
- Rent Restrictions: A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. 10% or six of the units will be affordable to households earning 50% of area median income (AMI) or less. 53 of the units will be restricted to households earning 60% of AMI or less.
- Occupancy Restrictions: Occupancy of 59 units will be restricted to families earning no more than 60% of AMI. 10% or six of the units will be restricted to households earning 50% of AMI or less. One unit will be designated for an on-site manager.
- Recourse: The loan will be a recourse loan during the construction period. Once the tax credit financing is in place, the loan will be non-recourse as provided for in the Housing Commission lending policy.
- Term: Thirty-one years (amortized over 55 years).

Management Plan:	A Management Plan has been submitted for approval.
Operating Expense:	Average operating expense of \$283 per unit per month includes a replacement reserve.
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; expense increases are projected at 3.5 percent per year; vacancy is projected at 5.0 percent per year.

Risks and Mitigations

Initially, the amount of the loan that exceeds the "After-Rehab" value will be uncollateralized. However, the risk level is considered to be low as it is mitigated by conservative proforma assumptions, rents below market, and a 1.06 debt service ratio. The operating proforma includes replacement reserves to help protect the project's condition and performance in future years.

The Bonds, which are expected to be credit enhanced by Federal National Mortgage Association ("Fannie Mae"), are expected to receive the highest possible rating of AAA. 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.

Staff has been working with CSG Advisors, 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.

To date, neither the equity investor, the credit enhancer, nor the construction lender issued their final commitment to the project. The Bonds will not be issued, and the Housing Commission loan will not close, without these funding commitments.

Finally, this potential property acquisition is strengthened by the applicant's real estate experience and portfolio record with similar types of projects.

ALTERNATIVE

For the Agenda of October 12, 2001

Loan and Final Authorization to Issue Housing Revenue Bonds for Harbor View Apts.

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The Housing Commission could decline to recommend this gap loan and Bond financing. 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 loan and tax-exempt Bonds, the developer would not have the requisite financing to acquire and create 59 affordable units for low-income renters.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Pat Duplechan
Director, Housing Programs

Elizabeth C. Morris
Chief Executive Officer

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Attachments:

1. Housing Commission's Multifamily Bond Program
2. Developer's Disclosure Statement*
3. Information on the Non-Profit Managing General Partner
4. Project Location Map
5. Financial Advisor's Letter
6. Project Development Summary
7. SDHC Development Forms
8. Financial Statements*
9. Rehabilitation Cost Estimate*
10. Appraisal*

*Distribution of this attachment is limited. A copy is available for review at the Housing Commission's 1625 Newton Avenue office and at the 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.