



Good Neighbors

San Diego
Housing Commission

REPORT

ITEM 101

DATE: For the Agenda of May 19, 2000

REPORT NO: HCR00-048

SUBJECT: Issuance of Housing Revenue Bonds (Council Districts 1, 4, 6 and 8)

SUMMARY

Issue No. 1: Should the Housing Commission recommend that the Housing Authority take the final steps to issue tax-exempt and taxable housing revenue bonds to finance the acquisition and rehabilitation of the five projects for which the Housing Authority has previously approved Bond Inducement resolutions?

Recommendation No. 1: It is recommended that the Housing Authority authorize the issuance of taxable and tax-exempt revenue bonds in an amount not to exceed the amounts stated below to finance the acquisition and rehabilitation of the following five projects. The Executive Director of the Housing Authority is authorized to execute all documents relevant to the financings.

- 1) \$29.5 million in tax-exempt and \$3 million in taxable bonds for the 504-unit Penasquitos Gardens (to be renamed Canyon Rim Apartments) located at 10931 Gerana Street (Council District 1);
- 2) \$17.6 million in tax-exempt and \$2.5 million in taxable bonds for the 312-unit Mount Aguilar Apartments (to be renamed Stratton Apartments) located at 5765 Mount Alifan Drive (Council District 6);
- 3) \$10.3 million in tax-exempt and \$2.7 million in taxable bonds for the 240-unit Vista La Rosa Apartments (presently known as Second Imperial Apartments) located at 2002 Rimbey Avenue (Council District 8);
- 4) \$3.4 million in tax-exempt and \$420,000 in taxable bonds for the 70-unit Summit Crest Apartments (formerly known as Mayberry Apartments) located at 4328-4490 Mayberry Street (Council District 4); and,
- 5) \$3.2 million in tax-exempt and \$1.1 million in taxable bonds for the 100-unit Regency Centre Apartments located at 4765 Home Avenue (Council District 4).

Issue No. 2: Should the Housing Commission recommend an increase of allowable tax-exempt debt for Penasquitos Gardens and Mount Aguilar Apartments needed to replace the loss of tax credit equity resulting from HUD's mixed income requirements?

Recommendation No. 2: That the Housing Commission recommend that:

- 1) the Housing Authority approve a new bond inducement resolution and an application to the State for an additional allocation of bond issuing authority of \$2.95 million for Penasquitos Gardens and \$2.5 million for Mount Aguilar Apartments; and
- 2) the City Council hold a public hearing ("TEFRA" hearing) and adopt a resolution approving the issuance of bonds for the Penasquitos Gardens and Mount Aguilar Apartments by the Housing Authority.

Issue No. 3: Should the Housing Commission recommend that the City Council hold a public hearing ("TEFRA" hearing) and adopt a resolution reapproving the issuance of bonds for the Summit Crest Apartments by the Housing Authority?

Recommendation No. 3: It is so recommended.

Issue No. 4: Should the Housing Commission approve the underwriting firm of Kinsell, Newcomb & De Dios, Inc. to work on preparing the Summit Crest bond issuance?

Recommendation No. 4: It is so recommended.

Fiscal Impact: The issuance and sale of the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources. All costs of the financings, including compensation for staff efforts in preparing the bonds will be borne by the developers. The Housing Commission's origination fee as well as the annual administrative fee under the financings will be up to \$171,000 (0.23 percent of the amount of the bonds).

Housing Affordability Impact: All projects will restrict 10% of the apartments for occupancy by families earning no greater than 50% MAI and at least 30% of the remaining units for families earning no greater than 60% MAI. Each project is subject to additional affordability requirements, varying from site, as described below.

Previous Related Actions: All five projects have Inducement and TEFRA resolutions previously approved by the Housing Authority and the City Council, respectively. In addition, the Housing Authority has previously authorized Housing Commission loans for Penasquitos Gardens, Mount Aguilar, and Summit Crest. See Attachment 1 for more detail.

Future Related Actions: Final approval will be sought at the next available Housing Authority and City Council meetings.

BACKGROUND

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. At the present time, over \$400 million in outstanding bonds provides permanent financing for more than 6,900 multifamily rental units in the City, of which 2,514 units are restricted at various levels of affordability.

The bonds do 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 is pledged to the payment of the bonds because the security for the bond repayment is limited to specific private revenue sources, such as project revenues, guaranty by the credit provider, and the value of the projects themselves. The developers are responsible for the payment of all costs under each financing, including the Housing Commission's annual fees.

PROJECT NARRATIVES

1) PENASQUITOS GARDENS AND 2) MOUNT AGUILAR APARTMENTS

FF Canyon Rim, L.P., the applicant for Penasquitos Gardens Apartments (to be renamed Canyon Rim Apartments), is requesting \$29.5 million in tax-exempt and \$3 million in taxable bonds to acquire and rehabilitate the 504-unit property located at 10931 Gerana Street in Council District 1 (the location map is included as Attachment 3).

FF Stratton, L.P., the applicant for Mount Aguilar Apartments (to be renamed Stratton Apartments), is requesting \$29.5 million dollars in tax-exempt and \$2.5 million in taxable bonds to acquire and rehabilitate the 312-unit property located at 5765 Mount Alifan Drive in Council District 6 (the location map is included as Attachment 4).

The partners for each project consist of the same entities. The Developer's Statement for Public Disclosure is included as Attachment 5.

Both properties are subject to an existing HUD Regulatory/Use Agreement that will stay in place until November of 2011. Due to HUD's requirement that 30 percent of the units be available for market rate renters (tax credits can only be earned on units restricted at or below the 60 percent MAI level), Issue No. 2 of this report requests authorization to apply for additional tax exempt debt from the California Debt Limit Allocation Committee. The issuance of the additional tax-exempt debt, if approved, would retire

the taxable debt issued in the first round and pay for development costs of the project. All debt issued for the projects will be underwritten using a Fannie Mae credit enhancement with a resulting "AAA" rating on the bonds. In addition to the bonds, the project financing includes a Housing Commission loan of \$1,565,000 for each project (a total of \$3,130,000) that the Housing Authority approved at its February 8, 2000 meeting.

The Financial Advisor's analysis of the bond financing and Housing Commission loans and recommendation to proceed is included as Attachment 6.

Seventy percent of the units in the projects (354 at Penasquitos Gardens and 220 at Mount Aguilar) will be set-aside for occupancy by low-income renters. Ten percent of the units (51 at Penasquitos Gardens and 32 at Mount Aguilar) would be affordable to households earning 50 percent of MAI (\$26,850 for a family of four) and sixty percent will be affordable at 60 percent of MAI (\$32,220 for a family of four). The Regulatory Agreements, determining the level of affordability for each project, would be in existence for 55 years. The remaining 30% of the units would be at market, as required by HUD.

A more detailed description of this project is included as Attachment 2.

3) VISTA LA ROSA

South Pointe Redevelopment, L.P., the applicant for Vista La Rosa Apartments (presently known as Second Imperial Apartments), is requesting \$10.3 million in tax-exempt and \$2.7 million in taxable bonds to acquire and rehabilitate the 240-unit property located at 2002 Rimbey Avenue in Council District 8. The location map is included as Attachment 8 and the Developer's Statement for Public Disclosure is included as Attachment 9.

The property is subject to an existing HUD Regulatory/Use Agreement that will stay in place until June of 2011. All debt issued for the projects will be underwritten using a GNMA credit enhancement with a resulting "AAA" rating on the bonds. The Financial Advisor's analysis of the bond financing and recommendation to proceed is included as Attachment 10.

The entire 240 units in the project will be set-aside for occupancy by low-income renters. Of that total, 90 percent, or 216 units, will be reserved for households earning 60 percent or less of the area median income (\$32,220 for a family of four). The remaining ten percent of the units, 24 units, will be set aside for occupancy by low-income tenants earning 50 percent or less of the area median income (\$26,850 for a family of four). The affordability restrictions will remain in place for 55 years.

A more detailed description of this project is included as Attachment 7.

4) SUMMIT CREST

Southwest Summit Crest, L.P., the applicant for Summit Crest Apartments (formerly known as Mayberry Apartments), is requesting \$3.4 million in tax-exempt and \$420,000 in taxable bonds to replace interim financing for this 70-unit property located at 4765 Home Avenue in Council District 4. The location map is included as Attachment 12 and the Developer's Statement for Public Disclosure is included as Attachment 13.

The developer purchased the property in March of 1999 with a \$670,000 loan from the Housing Commission and \$2.7 million in bridge financing from Imperial Thrift and Loan Association. The developer has since completed \$800,000 in rehabilitation and improvements. All debt issued for the projects will be underwritten using a GNMA credit enhancement with a resulting "AAA" rating on the bonds. The Financial Advisor's analysis of the bond financing and recommendation to proceed is included as Attachment 14.

Twenty-eight units in the project will be set-aside for occupancy by low-income renters. Of that total, 30 percent, or 21 units, will be reserved for households earning 60 percent or less of the area median income (\$32,220 for a family of four). The remaining ten percent of the units, 7 units, will be set aside for occupancy by low-income tenants earning 50 percent or less of the area median income (\$26,850 for a family of four). The affordability restrictions will remain in place for 55 years. The restricted rents would also apply if the units are occupied by Section 8 tenants.

The original Housing Authority and City Council approvals for Summit Crest Apartments occurred on February 16, 1999. The actual issuance of bonds cannot take place more than one year after the legislative body takes action, necessitating another TEFRA hearing, as requested in Issue No. 3. Also, Issue No. 4 requests approval of the underwriting firm which at that time, had not yet been identified.

A more detailed description of this project is included as Attachment 11.

5) REGENCY CENTRE

Chelsea Investment Corporation., the applicant and developer for Regency Centre Apartments, is requesting \$3.2 million in tax-exempt and \$1.1 million in taxable bonds to acquire and rehabilitate the 100-unit property located at 4765 Home Avenue (in Council District 4). The location map is included as Attachment 16 and the Developer's Statement for Public Disclosure is included as Attachment 17.

This financing anticipates a different financing structure than most previous bond issues. The bonds will be underwritten using a new Fannie Mae direct purchase program. The bonds will be unrated. However, in accordance with the Multifamily Revenue Bond Policy, a single institutional investor, Fannie Mae, will hold the bonds and there will be no bond default while the bonds remain unenhanced. Fannie Mae's direct purchase of the bonds reduces the transaction costs normally associated with a

bond issuance by elimination of the underwriting fees, obtainment of credit rating, printing costs, etc. The Financial Advisor's analysis of the bond financing and recommendation to proceed is included as Attachment 18.

As proposed, the entire 100 units in the project will be set-aside for occupancy by low-income renters. Ten percent of the units (10 units would be affordable to households earning 50 percent of Area Median Income (\$26,850 for a family of four); the remaining 90 units would be affordable at 60 percent of Area Median Income (\$32,220 for a family of four). The term of the Regulatory Agreement is 55 years. The bond-restricted rents would also apply if Section 8 tenants occupy the bond-restricted units.

A more detailed description of this project is included as Attachment 15.

BENEFITS AND RISKS TO THE HOUSING COMMISSION

Staff have been working with CSG Advisors Incorporated and Litten Financial and Kosmont & Associates, Inc., the Housing Commission's financial advisors, in performing due diligence under the proposed financings and in formulating the resulting recommendations 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 advisors' recommendations that the bond issuances for the projects be authorized.

If the bond issuances are 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 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 July 25, 2000. Without the benefit of the tax-exempt bonds and the automatic four percent tax credits, the projects will become financially infeasible and an opportunity would be lost to work collaboratively with the private sector to create and preserve 942 affordable units for low-income renters.

Respectfully submitted,

Approved by,

Carrol M. Vaughan
Director, Housing Policy & Finance

Elizabeth C. Morris
Chief Executive Officer

Signature on File
With Original Document

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ATTACHMENTS: 1. Previous Related Actions (All five projects)

Penasquitos Gardens & Mount Aguilar

2. Detailed Project Description
3. Project Location Map
4. Project Location Map
5. Developer's Statement for Public Disclosure*
6. Financial Advisor's Letter

Vista La Rosa

7. Detailed Project Description
8. Project Location Map
9. Developer's Statement for Public Disclosure*
10. Financial Advisor's Letter

Summit Crest

11. Detailed Project Description
12. Project Location Map
13. Developer's Statement for Public Disclosure*
14. Financial Advisor's Letter

Regency Centre

15. Detailed Project Description
16. Project Location Map
17. Developer's Statement for Public Disclosure*
18. 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.