



Good Neighbors

San Diego
Housing Commission

REPORT

ITEM 103

DATE: For the Agenda of December 1, 2000

REPORT NO. HCR 00-117

SUBJECT: Selection of Bond Counsels and Financial Advisors for Participation in the Multifamily Mortgage Revenue Bond Program (Citywide)

SUMMARY

Issue: Should the Housing Commission approve the selection committee's recommendation that the following firms participate in its Multifamily Mortgage Revenue Bond Program for transactions initiated between January 1, 2001 and December 31, 2002, with an option to renew for two additional one-year periods?

Bond Counsels

- Stradling, Yocca, Carlson & Rauth
- Orrick, Herrington & Sutcliffe
- Quint & Thimmig

Financial Advisors

- CSG Advisors Inc. (lead) and CIC Research, Inc. (local MBE – real estate analysis);
- Dain Rauscher Inc. (lead) and Kosmont and Associates (MBE – real estate analysis).

Recommendation: That the Housing Commission approve the selection committee's recommendation of these firms for the proposed transaction period.

Fiscal Impact: None. The cost of services provided by the financing team members are paid by the developer as part of the cost of issuance under each financing.



Affordable Housing Impact: In each newly financed project, at least twenty percent of units must be affordable at fifty percent of median income; or thirty percent of the units must be affordable at sixty percent of the median, and ten percent of the units at fifty percent of the median income.

Equal Opportunity Statement: All recommended firms have met the Housing Commission's Equal Opportunity requirements.

Previous Related Action(s): The existing bond policy, which includes procedures for the selection of the financing team, was approved by the Housing Authority on June 28, 1994 (R-00722) and amended on May 28, 1996 (R-00849) and on June 4, 1999 (R-01019). On August 22, 1994, the Housing Commission approved financing team members for transactions initiated through December 31, 1996 (HCR94-90). On October 10, 1996, the Chief Executive Officer extended their term of engagement through December 31, 1997. On October 13, 1997, the Housing Commission approved financing team members for transactions initiated from January 1, 1998 through December 31, 2000 (HCR97-144).

Future Related Action(s): For each individual transaction, the respective bond counsels and financial advisors will be designated by the Chief Executive Officer on a rotating basis from among those selected in today's action for approval by the Housing Commission and by the Housing Authority.

BACKGROUND

Using tax-exempt mortgage revenue bonds issued by the Housing Authority, the Multifamily Mortgage Revenue Bond Program (the bond program) offers below-market financing to private developers, nonprofit sponsors and public sector participants for new construction, acquisition, rehabilitation and refinancing (nonprofit and public sector only) of multifamily rental housing projects. The purpose of the program is to increase the supply of affordable housing in the City by providing units affordable to very low- and low-income tenants in participating projects.

Since 1982, a total of 58 projects were financed with approximately \$593,000,000 in bonds issued. Currently, \$469,000,000 in tax-exempt bond financing is provided for 25 projects with 7,972 units, of which 3,306 units are restricted. Most recent activity under the program included new-money issuances to facilitate efforts to preserve local affordable housing under the threat of conversion to market rate housing. This year, the Commission closed a total of \$69,000,000 in new-money financing for four projects totaling 1,156 units, of which 914 units are restricted.

The program is being implemented with the assistance of the proposed financing team members. Under the existing policy, two or more bond counsels and financial advisors are selected through separate Requests For Qualifications to serve as participants on financing teams for individual bond issuances, reissuances or restructurings for a period of two to four years. For each individual transaction, the respective bond counsels and financial advisors are designated by the Chief Executive Officer on a rotating basis for approval by the Housing Commission. Bond underwriters are designated by the Chief Executive Officer based on proposals by the developers, who work on structuring financing proposals with bond underwriters (including provision of credit enhancement to assure the required minimum "A" rating on the bonds) before their projects can be submitted for consideration by the Housing Commission.

The role of bond counsel is to represent the issuer in the bond issuance process and to provide an objective opinion regarding the validity of the bonds and the exemption of their interest from federal and state taxation. Of particular importance is the ability of bond counsel to ensure appropriate legal representation and advice, as necessary, to best protect the interests of the Housing Commission, Housing Authority, and the City.

Financial advisors prepare financial feasibility analyses to determine whether it is advisable to proceed with a bond issuance, reissuance or restructuring. Of particular importance is the ability to ensure Housing Authority participation only in transactions in which stringent standards of competence and fiscal prudence have been met while adhering to its bond program requirements and its affordable housing objectives.

DISCUSSION

Staff issued separate Requests for Qualifications for bond counsel services and for financial advisory services on October 27, 2000. The solicitations for the requested services included advertisements in the San Diego Daily Transcript and La Prensa. In addition, 60 bond counsels (19 of them local) and 36 financial advisors (10 of them local) were notified of the respective RFOs. By the November 13, 2000 deadline, a total of seven responses from bond counsel and two from financial advisors were received.

The proposals were reviewed and evaluated by a selection committee consisting of representatives from the City Attorney's office, City Auditor's office, City Financial Services, Bank of America Community Development Bank, Wakeland Housing and Development Corporation, and Commission staff. Each proposal was evaluated based on selection criteria and a point system listed in the respective RFO. Each

panel member used a formal rating sheet to evaluate the proposals received and then ranked all of the respondents based on their resulting score. Subsequently, a final ranking of the highest scoring respondents was generated based on discussion and consensus among panel members.

The recommended firms were rated highest in the area of related experience and qualifications necessary to successfully perform the required services. In addition to work on bond proposals, financial advisors were also requested to provide, if necessary, assistance and advice regarding other housing finance projects with Housing Commission participation. Following is the selection panel ranking of the recommended firms and their proposed compensation (the compensation will also include reimbursement of out-of-pocket expenses).

<u>Bond Counsels (7 responding firms)</u>	<u>Rank</u>
• Stradling, Yocca, Carlson & Rauth	1
• Orrick, Herrington & Sutcliffe	2
• Quint & Thimmig	3
• Fulbright & Jaworski	4
• Hawkins, Delafield & Wood	5
• Quateman & Zidell	6
• Robinson & Pearman	7

<u>Financial Advisors (2 responding firms)</u>	<u>Rank</u>
• CSG Advisors, Inc.	1
• Dain Rauscher, Inc.	2

Four of the five recommended firms currently serve on the Housing Commission's approved financing team for transactions initiated between January 1, 1998 and December 31, 2000. These firms are:

1. Stradling, Yocca, Carlson & Rauth
2. Orrick, Herrington & Sutcliffe
3. CSG Advisors, Inc.
4. Dain Rauscher, Inc. – Note: Litten Financial Consulting (LFC) was the approved firm. During the contract period, Mr. Joe Litten, principle of LFC, became employed at Dain Rauscher. Mr. Litten now serves as Dain Rauscher's assigned personnel to the Housing Commission.

Each of the above firms have provided quality services during the current transaction period. Additionally, they have demonstrated, through their responses to this year's RFQ, that they remain leaders in their field.

The selection Committee recommends that the Housing Commission also approve the third ranking bond counsel, Quint & Thimmig, to expand our pool of qualified firms in this field. The remaining candidates did not score high enough to warrant this consideration.

For illustrative purposes, the proposed compensation for the recommended firms are shown by hypothetical bond issue sizes ranging from five to thirty million.

Bond Counsels – Compensation is contingent upon the sale of bonds:

Firm	Feasibility	Issue Size			
		\$5 million	\$10 million	\$20 million	\$30 million
Stradling, Yocca, Carlson & Rauth	N/A	\$35,000	\$40,000	\$50,000	\$60,000
Orrick, Herrington & Sutcliffe	N/A	\$35,000	\$45,000	\$55,000	\$65,000
Quint & Thimmig	N/A	\$30,000	\$40,000	\$50,000	\$60,000

Financial Advisors – Compensation for feasibility determination is not contingent upon the sale of bonds; the balance of the compensation is contingent on the bond sale:

Firm	Feasibility	Issue Size			
		\$5 million	\$10 million	\$20 million	\$30 million
CSG Advisors Inc.	\$5,000	\$20,000-27,500*	\$25,000-32,500*	\$30,000-37,500*	\$35,000-42,500*
Dain Rauscher Inc.	\$5,000 - \$20,000**	\$25,000	\$32,500	\$40,000	\$45,000

*Higher fees for more complex financings (such as rated, but non-credit enhanced transactions or pooled transactions). Also, final fee includes \$3,000 of the feasibility analysis fee.

** Higher feasibility fees for larger bond issue. Final fees include feasibility analysis fee.

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Compensation for projects other than bond financings proposals will be billed based upon the following hourly rates:

<u>CSG Advisors Inc.:</u>		<u>Dain Rauscher Inc.:</u>	
Principal	\$195	Generally, the firm would provide a fixed fee agreement on a case-by-case basis. However, if hourly rates are preferred, the firm would charge;	
Vice President	\$185		
Senior Associate	\$175		
Associate	\$140		
Analytical Associate	\$100		
Administrative	\$ 40		
<u>CIC Research:</u>		<u>Kosmont & Associates:</u>	
Project Manager I	\$137	Hourly rates will not exceed those quoted above.	
Project Manager II	\$114		
Economic Analyst	\$ 88		
Clerical	\$ 47		
		Managing Directors	\$250
		Associates	\$150

ALTERNATIVE

Do not approve the recommended firms, extend the current bond counsel and financial advisor contracts for 90 days until April 1, 2001, and direct staff to re-advertise for the provision of the services.

Submitted by,

Approved by,

Pat Duplechan
 Director, Housing Programs

Elizabeth C. Morris
 Chief Executive Officer

**Signature on File
 With Original Document**