



HOUSING AUTHORITY REPORT

DATE ISSUED: February 9, 2007 REPORT NO: HAR 07-004

ATTENTION: Members of the Housing Authority
Council President and City Council
For the Agenda of March 6, 2007

SUBJECT: Preliminary Items Pursuant to Issuing Multifamily Housing Revenue Bonds for
Redwood Villa Apartments (Council District 4)

REQUESTED ACTION:

Take the initial steps to issue Housing Authority mortgage revenue bonds to fund rehabilitation of the 92-unit Redwood Villa Apartments. Borrower would rehabilitate the property and restrict rents below market; issuance of bonds would require Housing Authority approval at a later date.

STAFF RECOMMENDATION:

- A. Housing Authority approve a bond inducement resolution (a “declaration of official intent”) for up to \$7 million in multifamily housing revenue bonds for rehabilitation of the Redwood Villa Apartments by San Diego Interfaith Housing Foundation (“Interfaith”);
- B. Housing Authority approve an application (and subsequent applications if necessary) to the California Debt Limit Allocation Committee (“CDLAC”) for an allocation of authority to issue tax-exempt “private activity bonds” in an amount up to \$7 million for Redwood Villa Apartments; and,
- C. City Council hold a public hearing (*known as a TEFRA hearing -Tax Equity and Fiscal Responsibility Act*) and adopt a resolution approving the issuance of tax-exempt bonds in an amount up to \$7 million by the Housing Authority for Redwood Villa Apartments located at 3060 53rd Street in the City of San Diego.

BACKGROUND:

The Project

Redwood Villa is a 92-unit affordable housing development for seniors located at 3060 53rd Street in the community of Oak Park. The project contains 66 one-bedroom units, 24 two-bedroom units, and two three-bedroom staff units. See Attachment 1 for a vicinity map.

The property was developed by a tax credit limited partnership formed by San Diego Interfaith Housing Foundation in 1988. The original financing to build Redwood Villa included 9% tax credits, a State of California Rental Housing Construction Program (RHCP) loan, two Housing Commission loans, membership fees raised by Interfaith, and a first mortgage currently held by Citibank. The tax credits expired in 2003 and the original tax credit limited partner, Related Capital, has exited the partnership. Interfaith also has already repaid one of the Housing Commission loans; the remaining loan will be repaid as part of the refinancing of the project.

The state RHCP program has recently given Interfaith permission to refinance and rehabilitate the project using tax exempt bonds and 4% tax credits. The refinancing will allow for financial stabilization of the project, an increased term of affordability, and substantial rehabilitation of the project. Interfaith expects to

spend approximately \$1.4 million on the rehabilitation of the project with the proposed scope of work to include a new HVAC system, roof, parking lot, and landscaping as well as new cabinets and fixtures in each unit.

Housing Affordability

Redwood Villa currently has rent and occupancy restrictions on 74 of its 92 total units: 17 units are restricted at 50% Area Median Income (AMI) (\$27,600 for a family of two), 46 units are restricted at 60% AMI (\$33,100 for a family of two), and 11 units are restricted at 65% AMI (\$35,900 for a family of two). The remaining 18 units are unrestricted.

Through the proposed refinancing, Redwood Villa will continue to provide housing for low income seniors. As part of its agreement with the State to pay off its RHCP loan, Interfaith will continue to restrict at least 27 units at 50% AMI until the year 2018. In addition, under the Housing Commission’s Multifamily Bond Program, the project will restrict 9 units at 50% AMI and 81 units at 60% AMI for 55 years. Two units will be reserved for on-site managers and will not be occupancy-restricted. The combined restrictions, which will be in place until 2018, are outlined in the chart below. After 2018, only the Housing Commission’s bond restrictions will remain in place.

Type	AMI	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Monthly Savings per unit
One Bedroom	50% AMI	17	\$611	\$774	\$163
One Bedroom	60% AMI	49	\$741	\$774	\$33
Two Bedroom	50% AMI	10	\$731	\$929	\$198
Two Bedroom	60% AMI	14	\$886	\$929	\$43
Three Bedroom	MGR	2	N/A	N/A	N/A
Total		92			
Total Annual Savings					\$83,640

Development Team

The project will be developed by Interfaith and owned and operated by Redwood Villa Associates, a California limited partnership. Redwood Villa Interfaith Housing Corporation, a wholly owned affiliate of Interfaith will act as the managing general partner of Redwood Villa Associates. Red Capital Markets will act as the limited partner of Redwood Villa Associates. A Developer’s Disclosure Statement for Redwood Villa Associates is included as Attachment 2.

Interfaith is a non-profit, HUD-certified Community Housing Development Corporation that has previously received Housing Commission financial assistance to develop Redwood Villa, Mission Terrace, Palm Terrace, Metro Villas, and Renaissance at North Park. Interfaith owns and manages twelve affordable housing communities throughout San Diego county totaling more than 1,100 units.

Proposed Housing Bonds

The Housing Commission utilizes the Housing Authority’s tax-exempt borrowing status to pass on lower interest rate financing (and make federal tax credits available) to developers of affordable housing. The Housing Authority’s ability to issue bonds is limited under the U.S. Internal Revenue Code. To issue bonds for a project, the Housing Authority must first submit an application to CDLAC for a bond allocation. Prior to submitting applications to CDLAC, projects are brought before the Housing Commission, Housing Authority, and City Council. Housing Authority bond inducement

resolutions must be obtained prior to application submittal and City Council TEFRA resolutions must be secured no later than 30 days after application submittal.

It is anticipated that the project will receive a bond allocation at CDLAC's May meeting; however, if necessary, staff will submit additional applications to CDLAC during 2007 to secure a bond allocation for the project. A general description of the Multifamily Bond Program and the actions that must be taken by the Housing Authority and by the City Council to initiate and finalize proposed financings are described in Attachment 3.

The \$7 million allocation that will be sought from CDLAC is approximately 15% higher than the amount for which the project is currently being underwritten (\$6 million). The developer has requested this cushion to account for possible increases in the bond amount due to increases in construction costs or decreases in the assumed interest rate. Of the total \$6 million estimated bond issuance amount, approximately \$3.2 million in housing revenue bonds will be used to finance the rehabilitation of the project and will be paid off at conversion to permanent financing. The permanent bond amount is estimated to be approximately \$2.8 million and will be based upon project costs, revenues, and interest rates at the time of bond issuance.

The total development cost of the project is estimated to be approximately \$11.7 million. Preliminary permanent sources of funding are summarized in the following table:

Proposed Permanent Financing Sources	
Federal Tax Credits	\$4,200,000
Housing Revenue Bonds	\$2,800,000
Deferred Developer Fee	\$400,000
Seller Note	\$4,100,000
Income from Operations	\$200,000
Total	\$11,700,000

The seller note listed above represents the transfer of Interfaith's accumulated equity in the property from the original tax credit limited partnership to the new limited partnership. The seller note will be repaid over time from surplus cash flow.

The developer currently proposes to issue the bonds through a private placement. The bonds would meet all the requirements of the Housing Commission's Multifamily Housing Revenue Bond Program policy and would fully comply with the City's ordinance on bond disclosure.

FISCAL CONSIDERATIONS:

There are no fiscal impacts to the Housing Commission, City, or Housing Authority associated with the requested actions. Approval of the bond inducement and TEFRA resolutions do not commit the Housing Authority to issue bonds. The bonds would not constitute a debt of the City of San Diego. If bonds are ultimately issued for the project, 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. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the bonds. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

From 1983 through 1988 the Housing Commission, City Council, and Housing Authority approved several items to facilitate the financing of Redwood Villa Apartments. On February 9, 2007, the Housing Commission recommended that the Housing Authority and City Council approve the actions described in this report.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Interfaith anticipates presenting an informational item on the refinancing and rehabilitation of the project to the Eastern Area Planning Group in the near future.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Low income seniors are the intended residents of the project. Interfaith will refinance and rehabilitate the project. Red Capital Group will provide debt and equity for the project. The Housing Commission has selected Public Financial Management and Stradling, Yocca Carlson & Rauth to assist in preparing the proposed financing.

Respectfully submitted,

Approved by,

Cissy Fisher
Director of Housing Finance & Development

Elizabeth C. Morris
President & Chief Executive Officer

Attachments: 1. Vicinity Map
 2. Redwood Villa Associates' Disclosure Statement*
 3. Multifamily Bond Program Summary

Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1122 Broadway, Suite 300.

