

REPORT

DATE ISSUED: May 7, 2007

REPORT NO: HAR 07-12

ATTENTION: Chair and Members of the Housing Authority
For the Agenda of June 5, 2007

SUBJECT: Final Bond Authorization for 16th and Market Apartments

REFERENCE:

REQUESTED ACTION:

Take the final step to authorize the issuance of Housing Authority mortgage revenue bonds to fund the development of the 16th and Market Apartments.

STAFF RECOMMENDATION:

Housing Authority authorize the issuance of up to \$40 million in housing revenue bonds to fund the development of 136 affordable multifamily housing units, located at 640 16th Street, by 16th and Market L.P., a California limited partnership formed by S.V.D.P. Management Inc. (SVDP) and Chelsea Investment Corporation (Chelsea).

BACKGROUND:

16th and Market is a proposed 12-story residential building that is being constructed to partially fulfill the inclusionary housing obligation of Ballpark Village, a 1,500 unit market rate condominium project being developed adjacent to Petco Park by Ballpark Village LLC, a joint venture of Lennar and JMI Realty (Master Developer). The Master Developer is also required to build approximately 35 for-sale affordable units as part of the Ballpark Village project.

The Project

16th and Market is a 136-unit new construction development to be located in the East Village of downtown San Diego on a 0.54 acre site at the northwest corner of 16th and Market Streets. (A site map is included as Attachment 1.) The project will include a total of 166,579 square feet in a single twelve story building. The ground floor will include 4,700 square feet of retail space and 10,000 square feet of residential common space. The second floor will include an additional 900 square foot community room, a laundry room, and a 6,000 square foot exterior courtyard for outdoor activities. Parking for 114 autos and storage for 40 bicycles will be provided in a two-level subterranean parking garage.

Floors two through twelve will contain a mixture of one-, two-, and three-bedroom units. Each unit will include a private balcony with either a street or courtyard view. The three-bedroom units will be concentrated on the lower levels to provide families with easy access to the second level courtyard and community amenities by using either the elevator or a common open stair. The twelfth floor will include a 1,100 square foot community room and 2,250 square feet of outdoor common space.

Housing Affordability

16th and Market will accommodate a range of household sizes and income levels. There will be 40 one-bedroom units (29%), 52 two-bedroom units (38%) and 44 three-bedroom units (33%). The project will be restricted for occupancy by, and at rents affordable to, households earning between 30% Area Median Income (AMI) (\$21,050 for a household of four) and 60% AMI (\$42,120 for a household of

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four). Two units will be reserved for on-site managers and will not be occupancy-restricted. Rent and income restrictions for the project are outlined in the chart below:

Type	AMI	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Monthly Savings per unit
One Bedroom	30% AMI	10	\$380	\$1,300	\$933
One Bedroom	40% AMI	6	\$512	\$1,300	\$804
One Bedroom	50% AMI	16	\$644	\$1,300	\$675
One Bedroom	60% AMI	8	\$775	\$1,300	\$545
Two Bedroom	30% AMI	13	\$455	\$1,750	\$1,312
Two Bedroom	40% AMI	8	\$613	\$1,750	\$1,156
Two Bedroom	50% AMI	20	\$771	\$1,750	\$1,001
Two Bedroom	60% AMI	11	\$929	\$1,750	\$846
Two Bedroom	MGR	1	N/A	\$1,750	N/A
Three Bedroom	30% AMI	11	\$505	\$2,200	\$1,695
Three Bedroom	40% AMI	7	\$681	\$2,200	\$1,516
Three Bedroom	50% AMI	18	\$856	\$2,200	\$1,370
Three Bedroom	60% AMI	8	\$1,322	\$2,200	\$1,198
Three Bedroom	MGR	1	N/A	\$2,200	N/A
Total		136			
Total Annual Savings					\$1,703,532

Development Team

SVDP and Chelsea will be joint venture partners in a limited partnership that has been established to own and operate 16th and Market; SVDP will be the managing general partner and an affiliate of Chelsea will be the administrative general partner. SVDP and Chelsea have collaborated on five affordable housing projects during the previous twelve years. These collaborations include: Paul Mirabile Center, a 350 bed short-term single adult facility (1994); Village Place Apartments, a 46-unit permanent affordable housing facility (1996); Toussaint Academy of the Arts and Sciences, a residence and high school for 30 youth (1998); Martha's Village & Kitchen in Riverside County which provides emergency and transitional housing for up to 120 individuals (1999); and Villa Harvey Mandel, a 90-unit permanent affordable housing project dedicating 25 units for mentally ill/chemically dependent adults (2002).

SVDP is the property owner, developer and key partner of St. Vincent de Paul Village, a complex of buildings and programs in downtown San Diego that provides a continuum of care for homeless individuals and families. St. Vincent de Paul Village was established in 1987 and has grown to be the largest homeless service provider in San Diego, offering emergency and transitional housing for up to 869 men, women and children on a nightly basis. St. Vincent de Paul currently provides 42% of all available shelter beds in urban San Diego. St. Vincent de Paul provides transitional housing programs for over 4,000 homeless individuals a year as well as comprehensive services including daily meals, case management, counseling, employment skills development, education, child care, access to free healthcare and other supportive services leading to greater self-sufficiency and independence. SVDP and St. Vincent de Paul Village, Inc. are 501c (3) organizations, each with its own Board of Directors;

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however the agencies collaborate closely for fundraising and program development, and share the same President, Father Joe Carroll. SVDP's developer disclosure statement is included as Attachment 2.

Chelsea has been developing affordable housing in San Diego and Imperial Counties of southern California and Yuma County, Arizona for nineteen years. Chelsea has developed forty-two (42) properties totaling 4,744 units of affordable housing. The following table summarizes the projects that Chelsea has developed in the City of San Diego since 1999. Chelsea's developer disclosure statement is included as Attachment 3.

<u>Project Name</u>	<u>Number of Units</u>
Regency Centre	100
Torrey Highlands	76
Villa Andalucia	32
Villa Glen	26
Windwood Village	92
The Crossings	108
Rancho del Norte	119
Fairbanks Ridge	204
Total	757

Financing Structure

The project has a total development cost of approximately \$72.5 million; sources of funds include tax-exempt bonds, a loan from the State of California's Multifamily Housing Program (MHP), federal tax credits, a Master Developer contribution, a loan from the Federal Home Loan Bank's Affordable Housing Program (AHP), a deferred developer fee, and equity and a land donation from SVDP. Although \$40,000,000 in bonds will be issued for the project, approximately \$37,000,000 of the bond amount will be paid off at conversion to permanent financing, resulting in a permanent bond amount of approximately \$3,000,000. Permanent financing sources are summarized in the following table.

Proposed Permanent Financing Sources	
MHP	\$10,000,000
Master Developer Contribution	21,000,000
Tax Credits	25,400,000
AHP	1,000,000
Deferred Developer Fee	1,200,000
Permanent Bond Amount	3,000,000
SVDP Land Contribution	8,000,000
SVDP Equity Contribution	2,900,000
Total	\$72,500,000

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The bonds will be sold through a private placement with US Bank. When bonds are issued through a public offering, a third party trustee administers bond proceeds, collects project loan payments, makes bond debt service payments, and protects the interest of bondholders. Under the private placement structure for this transaction, US Bank will act as both trustee and bondowner/lender. If necessary, the Housing Authority has the right, at any time, to appoint an independent, third party as bond trustee.

As part of the proposed financing, US Bank will be required to sign an investor letter certifying that they are a sophisticated investor, understand the risks associated with the purchase of the bonds, and have completed all necessary due diligence in determining to purchase the bonds. The transfer of the bonds by US Bank or any subsequent bondholder will be restricted to transferees who would purchase all of the bonds (to maintain ownership by a single bondholder), and who would represent to the Authority that they are sophisticated investors who are buying the bonds for investment purposes and not for resale, and have made due investigation of the information they would deem material in connection with the purchase of the bonds. Finally, US Bank must agree that a mortgage loan default will not, in itself, constitute a bond default.

Public Disclosure and Bond Authorization

Because the bonds are being sold through a private placement, an Official Statement (public offering document) will not be used. In addition, the bonds will not be subject to SEC continuing disclosure requirements nor will they be credit enhanced or rated. However, it is necessary for members of the Housing Authority to disclose to staff any knowledge, not available to the general public, about the viability of the project, so that this information can be provided to US Bank.

As part of its authorizing resolution, the Housing Authority will be asked to approve a Bond Indenture, a Loan Agreement, a Regulatory Agreement and Declaration of Restrictive Covenants, an Assignment of Deed of Trust and Other Loan Documents, and other documents as may be necessary in consultation with the City Attorney's Office and Bond Counsel to document the transaction. At the time of docketing, all bond documents in substantially final form will be presented to members of the Housing Authority.

The Bond Indenture contains the basic financial terms of the bonds (maturity dates, interest rates, redemption provisions etc.) and is executed by the Housing Authority and US Bank (acting as bond trustee). The Loan Agreement is entered into by the Housing Authority, US Bank (as bondowner representative), and 16th and Market L.P. (the Borrower) and summarizes the terms under which US Bank is advancing bond proceeds to make a loan to the Borrower. The Loan Agreement also sets forth the project revenues pledged to repay the loan, and establishes events of default and remedies available to US Bank.

The Housing Authority, US Bank, and the Borrower are parties to the Regulatory Agreement and Declaration of Restrictive Covenants. The Regulatory Agreement contains all the affordable housing requirements and is recorded against the property to ensure the long-term use of the project as affordable housing. The Regulatory Agreement also includes covenants to ensure compliance with applicable federal tax and state laws. An Assignment of Deed of Trust and Other Loan Documents, which assigns the Housing Authority's rights and responsibilities as the bond issuer to US Bank, is signed by the Housing Authority and US Bank. Rights and responsibilities that are assigned to US Bank include the right to collect and enforce the collection of loan payments, monitor project construction and related

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budgets, and enforce insurance and other requirements. These rights will be used by US Bank as trustee to protect its financial interests as the bondowner.

The issuance of bonds will not result in a financial liability of the Housing Authority, the City, or the Housing Commission. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the bonds because security for bond payments is limited to the value of the property and its revenue sources. The project owner is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

Staff has been working with Ross Financial, the Housing Commission's financial advisor, to perform due diligence concerning the proposed financing and to formulate a recommendation for the Housing Authority. After evaluating the terms of the proposed financing and the public benefits to be achieved, it is Ross Financial's recommendation that the bond issuance for the project be authorized. Ross Financial's analysis and recommendation to proceed is included as Attachment 4. A description of the Housing Commission's Multifamily Bond Program and the actions that must be taken by the Housing Authority and by the City Council to initiate and finalize proposed bond financings are described in Attachment 5.

Staff is also working with the City's Disclosure Practices Working Group to assure that the issuance of the Housing Authority bonds is in conformance with the City's disclosure requirements.

FISCAL CONSIDERATIONS:

There are no fiscal impacts to the Housing Commission, City, or Housing Authority associated with the requested action. The bonds will not constitute a debt of the City of San Diego. Neither the faith and credit nor the taxing power of the City or the Housing Authority would be pledged to the payment of the bonds; security for repayment of the bonds will be limited to the value of the property and its revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the project owner. The Housing Commission's origination fee under the financing will be up to \$92,000 (0.23 percent of the bond amount). No local housing funds (Tax increment, Inclusionary, Housing Trust Fund, HOME, CDBG etc.) will be made available to develop the project.

PREVIOUS HOUSING AUTHORITY And/Or COMMITTEE ACTIONS:

On October 22, 2005, the Redevelopment Agency (Agency) approved an Owner Participation Agreement (OPA) for Ballpark Village with the Master Developer. On March 28, 2006, the Agency approved a development permit for 16th and Market. On November 14, 2006, the Housing Authority approved a bond inducement resolution of up to \$40,000,000 for the project and the City Council held a public hearing and approved a resolution in compliance with the Tax Equity and Fiscal Responsibility Act.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On May 18, 2005, the Centre City Advisory Committee (CCAC) approved an Owner Participation Agreement (OPA) with the Master Developer that required the provision of affordable housing. On May 25, 2005, the Centre City Development Corporation (CCDC) approved the OPA with the Master Developer. On August 26, 2005 and October 5, 2005, the Housing Commission approved items dealing with the proposed affordable housing requirements of Ballpark Village. On February 15, 2006, CCAC approved a development permit for 16th and Market, and on February 22, 2006, CCDC did the same.

ENVIRONMENTAL REVIEW:

This project is within the jurisdiction of the CCDC. CCDC completed an Environmental Secondary Study for the project in accordance with the Master and Supplemental Environmental Impact Reports for the Centre City Community Plan and Planned District Ordinance.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Low and very-low income households are the intended residents of the project. SVDP and Chelsea compose the development team for the project. The SVDP board members and the owners of Chelsea are listed in Attachments 2 and 3. 16th and Market will partially satisfy the affordable housing obligations of Ballpark Village LLC (JMI Realty/Lennar Homes). US Bank and the Richmond Group have been selected to provide debt and equity for the project.

Respectfully submitted,

Approved by,

Cissy Fisher
Director of Housing Finance & Development

Elizabeth C. Morris
President & Chief Executive Officer

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- Attachments:
1. Site Map
 2. SVDP's Disclosure Statement*
 3. Chelsea's Developer's Disclosure Statement*
 4. Financial Advisor Letter
 5. 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, Main Lobby.

Attachment 5

HOUSING COMMISSION MULTIFAMILY HOUSING REVENUE BOND PROGRAM Summary

General Description: The multifamily housing bond program provides below-market financing (based on bond interest being exempt from income tax) for developers willing to set aside a percentage of project units as affordable housing. Multifamily housing revenue bonds are also known as “private activity bonds” bonds because the projects are owned by private entities, often including nonprofit sponsors and for-profit investors.

Bond Issuer: Housing Authority of the City of San Diego. There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City’s or the Housing Authority’s faith, credit or taxing power. The bonds do not constitute a general obligation of the issuer because security for repayment of the bonds is limited to specific private revenue sources, such as project revenues. The developer is responsible for the payment of costs of issuance and all other costs under each financing.

Affordability: Minimum requirement is that at least 20% of the units are affordable at 50% of Area Median Income (AMI). Alternatively, a minimum of 10% of the units may be affordable at 50% AMI with an additional 30% of the units affordable at 60% AMI. The Housing Commission requires that the affordability restriction be in place for a minimum of 15 years. In practice, projects financed by multifamily housing bonds are affordable for a minimum of 30 years. Bonds may also be combined with other financing sources to create deeper affordability and longer terms of restriction.

Rating: Generally “AAA” or its equivalent with a minimum rating of “A” or, under conditions that meet IRS and Housing Commission requirements, bonds may be unrated for private placement with institutional investors (typically, large banks). Additional security is normally achieved through the provision of outside credit support (“credit enhancement”) by participating financial institutions that underwrite the project loans and guarantee the repayment of the bonds. The credit rating on the bonds reflects the credit quality of the credit enhancement provider.

Approval Process:

- **Inducement Resolution:** The bond process is initiated when the issuer (Housing Authority) adopts an “Inducement Resolution” to establish the date from which project costs may be reimbursable from bond proceeds (if bonds are later issued) and to authorize staff to work with financing team to perform a due diligence process. The Inducement Resolution does not represent any commitment by the Housing Commission, Housing Authority, or the developer to proceed with the financing.
- **TEFRA Hearing and Resolution (Tax Equity and Fiscal Responsibility Act of 1982):** To assure that projects making use of tax-exempt financing meet appropriate governmental purposes and provide reasonable public benefits, IRS Code requires that a public hearing be held and that the issuance of bonds be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located (City Council). This process does not make the City financially or legally liable for the bonds or for the project.

[Note: It is uncommon for the members of the City Council to be asked to take two actions at this stage in the bond process---one in their capacity as the City Council (TEFRA hearing and resolution) and another as the Housing Authority (bond inducement). Were the issuer (Housing Authority) a more remote entity, the TEFRA hearing and resolution would be the only opportunity for local elected officials to weigh in on the project.]

- **Application for Bond Allocation:** The issuance of these “private activity bonds” (bonds for projects owned by private developers, including projects with nonprofit sponsors and for-profit investors) requires an allocation of bond issuing authority from the State of California. To apply for an 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.
- **Final Bond Approval:** The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Prior to final consideration of the proposed bond issuance, the project must comply with all applicable financing, affordability, and legal requirements and undergo all required planning procedures/reviews by local planning groups, etc.
- **Funding and Bond Administration:** All monies are held and accounted for by a third party trustee. The trustee disburses proceeds from bond sales to the developer in order to acquire and/or construct the housing project. Rental income used to make bond payments is collected from the developer by the trustee and disbursed to bond holders. If rents are insufficient to make bond payments, the trustee obtains funds from the credit enhancement provider. No monies are transferred through the Housing Commission or Housing Authority, and the trustee has no standing to ask the issuer for funds.

Bond Disclosure: The offering document (typically a Preliminary Offering Statement or bond placement memorandum) discloses relevant information regarding the project, the developer, and the credit enhancement provider. Since the Housing Authority is not responsible, in any way, for bond repayment, there are no financial statements or summaries about the Housing Authority or the City that are included as part of the offering document. The offering document includes a paragraph that states that the Housing Authority is a legal entity with the authority to issue multifamily housing bonds and that the Housing Commission acts on the behalf of the Housing Authority to issue the bonds. The offering document also includes a paragraph that details that there is no pending or threatened litigation that would affect the validity of the bonds or curtail the ability of the Housing Authority to issue bonds. This is the extent of the disclosure required of the Housing Authority, Housing Commission, or the City. However, it is the obligation of members of the Housing Authority to disclose any material facts known about the project, not available to the general public, which might have an impact on the viability of the project.