

## HOUSING AUTHORITY REPORT

DATE ISSUED: August 17, 2007 REPORT NO: HAR 07-026

ATTENTION: Members of the Housing Authority  
Council President and City Council  
For the Agenda of September 11, 2007

SUBJECT: Preliminary Items Pursuant to Issuing Multifamily Housing Revenue Bonds for  
Bay Vista Methodist Heights (Council District 4)

### REQUESTED ACTION:

Take the initial steps to issue Housing Authority mortgage revenue bonds to fund the acquisition and rehabilitation of an existing 268-unit rental complex located in the Encanto neighborhood of San Diego. Borrower would acquire and 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 \$27 million in multifamily housing revenue bonds for Bay Vista Methodist Heights (Bay Vista) to be developed by the Amerland Group, LLC (Amerland);
- 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 \$27 million for Bay Vista; 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 \$27 million by the Housing Authority for Bay Vista located at 4888 Logan Avenue in the City of San Diego.

### BACKGROUND:

#### The Project

Bay Vista is an existing 268-unit affordable housing complex located at 4888 Logan Avenue. The project includes 100 two-bedroom and 168 three-bedroom units in 32 buildings. Bay Vista also includes three playgrounds, a community room, and an on-site daycare facility. The property was built in 1969 by a non-profit affiliate of St. Paul United Methodist Church. St. Paul's has owned and operated Bay Vista since its opening and has recently agreed to sell the property to Amerland.

Bay Vista has a project based Section 8 contract with the Department of Housing and Urban Development (HUD). Through the Section 8 contract tenants pay 30% of their incomes toward rent. Bay Vista is an "at risk" affordable housing project because the Section 8 contract expires within three years and it is possible that the rents could be converted to market rates.

Amerland intends to acquire Bay Vista, preserve and extend the affordable rents, and substantially rehabilitate the property. The proposed property renovations will total approximately \$7 million and will include improvements to unit interiors, roof repairs, interior and exterior painting, window repairs and replacements, plumbing and landscaping upgrades, and retrofits of the community and laundry rooms.

In addition, Amerland will invest in upgrading the security on the property by providing new security gates and additional common area lighting.

Housing Affordability

Through the Housing Commission’s Bond Program, rents on all the units will be restricted at 50% and 60% of the Area Median Income (AMI) (\$35,100 and \$49,150 for a family of four) for a minimum of 55 years. However, Amerland will also be seeking a 20-year extension of the HUD Section 8 contract to ensure that tenants will continue to pay 30% of their incomes toward rent after the acquisition and rehabilitation of the project. Bond Program rent and income restrictions for Bay Vista are outlined in the chart below:

Type	AMI	Unit Size (sq. ft.)	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Monthly Savings per unit
Two Bedroom	50% AMI	750	10	\$760	\$1,050	\$290
Two Bedroom	50% AMI	950	17	\$918	\$1,225	\$307
Three Bedroom	60% AMI	750	90	\$839	\$1,050	\$211
Three Bedroom*	60% AMI	950	151	\$1,014	\$1,225	\$211
<b>Total</b>			<b>268</b>			<b>\$1,019</b>
<b>Total Annual Savings</b>						<b>\$707,640</b>

\*May include up to two managers’ units.

Development Team

Amerland is a San Diego-based company founded in 2001 by Ruben Islas and Jules Arthur. The firm specializes in the creation and maintenance of affordable multifamily housing. Amerland currently owns 15 affordable housing developments totaling over 2,500 units. In 2001 the Housing Commission worked with Amerland to finance the acquisition and rehabilitation of the 170-unit Bella Vista Apartments located at 4742 Solola Avenue. A developer disclosure statement for Amerland is included as Attachment 2.

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 December meeting; however, if necessary, staff will submit additional applications to CDLAC to secure a bond allocation for the project. A general description of the Multifamily Bond Program and 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 \$27 million allocation that will be sought from CDLAC is approximately 35% higher than the amount for which the project is currently being underwritten (\$20.2 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. The bond amount that is ultimately issued 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 \$33 million. Other sources of permanent funds for the project will include federal tax credits, a deferred developer fee, and income from operations. Proposed permanent financing sources are summarized in the following table.

<b>Proposed Permanent Financing Sources</b>	
Housing Revenue Bonds	\$20,200,000
Tax Credits	10,800,000
Deferred Developer Fee	1,900,000
Income from Operations	100,000
<b>Total</b>	<b>\$33,000,000</b>

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 HOUSING AUTHORITY And/Or COMMITTEE ACTIONS:**

None.

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

Amerland will present their proposal for Bay Vista to the Encanto Community Planning Group in the near future.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

The residents of Bay Vista are stakeholders. Amerland will acquire and rehabilitate the project. The seller of the property is a non-profit established by St. Paul's United Methodist Church. Amerland has selected Red Capital Markets as the tax credit investor for the project.

Respectfully submitted,

Approved by,

Cissy Fisher  
Director of Housing Finance & Development

Elizabeth C. Morris  
President & Chief Executive Officer

- Attachments:
1. Site Map
  2. Developer 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, Main Lobby

