

REPORT

DATE ISSUED: September 10, 2007

REPORT NO: HAR 07-31

ATTENTION: Members of the Housing Authority
Members of the City Council
For the Agenda of October 9, 2007

SUBJECT: Preliminary Items Pursuant to Issuing Multifamily Housing Revenue Bonds for
Ten Fifty B (Council District 2)

REQUESTED ACTION:

Take the initial steps to issue Housing Authority mortgage revenue bonds to fund site acquisition and construction of the 229-unit Ten Fifty B project. Borrower would develop the property and restrict rents below market; issuance of bonds would require Housing Authority approval at a later date and is contingent upon approval of a loan by the Redevelopment Agency. Please note that although Ten Fifty B will consist of a single structure, for financing purposes, two separate project components will be created on separate legal parcels.

STAFF RECOMMENDATION:

- A. Housing Authority approve two bond inducement resolutions (a “declaration of official intent”) for up to a total of \$55 million in multifamily housing revenue bonds for acquisition and construction of Ten Fifty B by Affirmed Housing Group (Affirmed);
- B. Housing Authority approve two applications (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 total amount up to \$55 million for Ten Fifty B; and,
- C. City Council hold a public hearing (*known as a TEFRA hearing -Tax Equity and Fiscal Responsibility Act*) and adopt two resolutions approving the issuance of tax-exempt bonds in a total amount of up to \$55 million by the Housing Authority for Ten Fifty B to be located at 1050 B Street in the City of San Diego.

BACKGROUND:

The Project

Affirmed proposes to construct and operate a 23-story, 229-unit affordable rental housing development on a 19,994 square-foot site located on the north side of B Street between Tenth and Eleventh Avenues in downtown San Diego. The project would consist of 68 studio, 57 one bedroom, 34 two bedroom, and 70 three bedroom units. As part of its purchase contract with the property owner, Affirmed will construct ground floor retail space in the building and allow the seller to retain ownership of that portion of the building. The project will also include 132 parking spaces, a 700 square foot community room, and two outdoor terraces totaling 7,400 square feet. A vicinity map is included as Attachment 1. Attachment 2 provides a summary description of the project and its two components.

Housing Affordability

A total of 226 apartments would be affordable to very low and low-income households earning 25% to 60% of Area Median Income (AMI) (\$15,800 to \$37,250 for a household of three). Three units will be

reserved for on-site managers and will not be occupancy-restricted. The following table summarizes the rent and occupancy restrictions.

Type	Unit Size (sq. ft.)	AMI	Number of Units	Restricted Rent (net of utility allowance)*	Market Rate	Monthly Savings per unit
Studio	465	35%	33	\$412	\$900	\$488
Studio	465	50%	11	\$598	\$900	\$302
Studio	465	60%	24	\$719	\$900	\$181
One Bedroom	648	30%	7	\$373	\$1,400	\$1,027
One Bedroom	648	50%	15	\$643	\$1,400	\$757
One Bedroom	648	60%	34	\$774	\$1,400	\$626
One Bedroom	648	MGR	1	N/A	\$1,400	N/A
Two Bedroom	887	30%	17	\$445	\$1,600	\$1,155
Two Bedroom	887	50%	3	\$761	\$1,600	\$839
Two Bedroom	887	60%	13	\$918	\$1,600	\$682
Two Bedroom	887	MGR	1	N/A	\$1,600	N/A
Three Bedroom	1,068	25%	10	\$424	\$1,900	\$1,476
Three Bedroom	1,068	30%	7	\$514	\$1,900	\$1,386
Three Bedroom	1,068	35%	10	\$603	\$1,900	\$1,297
Three Bedroom	1,068	40%	4	\$693	\$1,900	\$1,207
Three Bedroom	1,068	50%	9	879	\$1,900	\$1,021
Three Bedroom	1,068	60%	29	\$1,059	\$1,900	\$841
Three Bedroom	1,068	MGR	1	N/A	\$1,900	N/A
Total			229			\$159,420
Total Annual Savings						\$2,045,448

*Due to CCDC funding, rents have been reduced below Housing Commission typical rents for each income category to comply with California Redevelopment requirements.

Development Team

Since inception in 1994, Affirmed has developed over 1,500 units in California and the mid-Atlantic states of West Virginia, Virginia and North Carolina. Affirmed has secured over \$390 million of tax credit, conventional, and other financing for affordable housing projects. Recent developments include new construction as well as acquisition and substantial rehabilitation projects in San Diego, Riverside, and Santa Clara counties. Recent projects in San Diego include the 106-unit Tesoro Grove Apartments, the 94-unit Hollywood Palms Apartments, the 50-unit Creekside Trails Apartments, the 69-unit Auburn Park Apartments, and the 275-unit Studio 15 development in downtown. A developer disclosure statement for Affirmed is included as Attachment 3.

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 two bond allocations at CDLAC's December meeting (one allocation for each project component); however, if necessary, staff will submit additional applications to CDLAC to secure bond allocations 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 4.

The combined \$55 million bond allocations that will be sought from CDLAC are approximately 25% higher than the anticipated issuance amount (\$47 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 \$47 million estimated bond issuance amount, approximately \$35 million in housing revenue bonds will be used to finance the construction of the project and will be paid off at conversion to permanent financing. The combined permanent bond amount is estimated to be approximately \$9 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 \$88.7 million. In addition to housing revenue bonds, sources of funding will include a loan from the Centre City Development Corporation (CCDC), federal tax credits, a loan from the State of California's Multifamily Housing Program (MHP), and a deferred developer fee. The development of the project is dependent upon the developer securing the MHP loan.

The CCDC Board of Directors is scheduled to hear several items associated with Ten Fifty B, including a loan of up to \$34 million for the project, on September 19, 2007. The CCDC loan requires the approval of the Redevelopment Agency, and the proposed issuance of bonds for the project by the Housing Authority is contingent upon approval of the loan.

To finance the project, Affirmed will secure up to \$2.4 million in private funding. Affirmed is also applying for a number of competitive financing sources. These sources include funds available under Federal Home Loan Bank's Affordable Housing Program (AHP) and the State's Prop 1C programs. To the extent the project receives AHP and Prop 1C funding, the \$2.4 million in private funds will be reduced. Any additional funds will result in a dollar for dollar reduction in the CCDC loan. Preliminary permanent sources of funding are summarized in the following table:

Proposed Permanent Financing Sources	
CCDC Loan	\$34,000,000
Federal Tax Credits	\$33,700,000
Housing Revenue Bonds	\$8,300,000
MHP Program	\$10,000,000
Private Funds/AHP/Prop 1C	\$2,400,000
Deferred Developer Fee	\$300,000
Total	\$88,700,000

The developer is currently analyzing whether to sell the bonds through a private placement or public offering. The proposed financing will comply with both the Housing Commission's Multifamily Housing Revenue Bond Program policy and 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:

N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The project will be presented to the Centre City Advisory Committee on September 13, 2007.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Low and very-low income households are the intended residents of the project. Affirmed will develop the project. The current owners of the site are: Julian E. Josephson and Jennifer Josephson, husband and wife; Stanley G. Smiedt and Paul B. Abelowitz as co-trustees of the Josephson Childrens Trust No. 1995-1; Stanley H. Smiedt and Marilyn Smiedt, husband and wife; and Julian E. Josephson and Sheldon Derezin as co-trustees of the Smiedt Children's Trust No. 1995-1. The developer has not yet selected financial participants for the project.

Respectfully submitted,

Approved by,

Cissy Fisher
Director of Housing Finance & Development

Elizabeth C. Morris
President & Chief Executive Officer

- Attachments:
1. Vicinity Map
 2. Project Description
 3. Affirmed's Developer Disclosure Statement*
 4. Multifamily Bond Program Summary

*Distribution of this attachment may be limited. Copies are available for review during business hours at the Housing Commission offices at 1122 Broadway, Main Lobby.