



HOUSING AUTHORITY REPORT

DATE ISSUED: May 30, 2006

REPORT NO: HAR 06-009

ATTENTION: Members of the Housing Authority
For the Agenda of June 20, 2006

SUBJECT: Preliminary Action Pursuant to Issuing Bonds for Pine Hollow Apartments
(Council District 4)

REQUESTED ACTION:

Preserve the opportunity to issue tax-exempt bonds to fund the acquisition and rehabilitation of the 58-unit Pine Hollow Apartments. Borrower would rehabilitate the property and restrict rents below market; issuance of bonds would require Housing Authority approval at a later date. Approval of a bond inducement resolution would allow the Housing Commission to work with TACHS to structure the most cost-effective financing for the affordable housing project and would not commit the Housing Authority to issue bonds.

STAFF RECOMMENDATION:

Housing Authority approve a bond inducement resolution (a “declaration of official intent”) for up to \$7 million in 501(c)(3) multifamily housing revenue bonds for acquisition and rehabilitation of the Pine Hollow Apartments, located at 5020 Federal Boulevard, by The Association For Community Housing Solutions (TACHS). (See description of 501(c)(3) on page 3.)

DISCUSSION:

The Project

Pine Hollow Apartments is an existing 58-unit rental property located in the community of Webster. TACHS acquired the property on April 24, 2006, in order to provide permanent supportive housing for chronically homeless, mentally ill adults and seniors. The apartment complex includes 12 studios, 32 one-bedroom units, and 12 two-bedroom units. TACHS plans to spend approximately \$300,000 to rehabilitate the property. The location map is included as Attachment 1. The project may need a Housing Commission loan as part of the financing plan.

Housing Affordability

TACHS plans to restrict 9 units for occupancy by, and at rents affordable to, households earning no more than 60% Area Median Income (AMI) (\$41,400 for a family of four). Rents on 47 units will be restricted at 50% AMI (\$34,500 for a family of four). One unit would be reserved for a resident manager. One 2-bedroom unit will be taken out of residential use and converted to office/community room use.

The housing affordability thresholds of the Internal Revenue Code require that at least 75% of the units be set aside for tenants whose income does not exceed 80% AMI (\$55,200 for a family of four). Further, at least 20% or 40% of the units must be set aside for tenants with incomes that do not exceed 50% AMI or 60% AMI, respectively.



Rent and income restrictions for the project are outlined in the chart below:

Type	AMI	Number of Units	Restricted Rent (with utility allowance)
Studio	50%	12	\$604
1 Bedroom	50%	32	\$646
2 Bedroom	50%	3	\$776
2 Bedroom	60%	9	\$931
2 Bedroom	N. A.	1	New Community Room
2 Bedroom	MGR	1	
Total		58	

Developer

Founded in 1994 with the mission of developing housing for the City's mentally ill homeless, TACHS is a local 501(c)(3) nonprofit corporation operating in San Diego. In 1998, TACHS leased the Parker-Kier Building from the Housing Commission for ten years with options to renew the lease for a total of forty-five years. TACHS utilizes the building as permanent supportive housing for mentally disabled adults capable of independent living. In 1999, the Parker-Kier Building received a Meritorious Achievement Award from the Association of Local Housing Finance Agencies for the use of HOME funds. The development provides 22 units of permanent supportive rental housing for mentally ill residents with incomes at or below 50 percent of Area Median Income and 11 units for other very low income households.

The homeless mentally ill are a critically under-served resident population whose housing needs are not met within the private development sector. To help address this housing shortage, TACHS completed its first construction project, the eighteen-unit Reese Village development, in May of 2002. Located at 4809-4819 70th Street in the College Area of East Central San Diego, Reese Village was funded in part through the HUD 811 program. The fully-leased apartment complex now provides permanent supportive housing for formerly homeless adults with mental illness. The Housing Commission made a \$670,000 revocable grant to TACHS to help pay for the improvements, which involved the demolition of 2 dilapidated structures, the construction of two new buildings, and substantial rehabilitation of 2 existing buildings.

TACHS also collaborated with the Housing Commission on the Paseo Glenn Apartments. The Paseo Glenn project provides 13 units of rent-subsidized permanent supportive housing for mentally ill adults capable of living independently. Following the model of the Parker-Kier Building and Reese Village, prospective tenants are selected through a screening process involving TACHS and its property management personnel, mental health providers, and professional case managers.

TACHS has taken on the role of the development partner with Jewish Family Services (JFS) and its recent acquisition and planned rehabilitation of the 20-unit Hope Village apartments. Hope Village is the first JFS residential property acquisition and will further their social service capabilities. Hope Village will house residents from the chronically homeless, mentally ill adult

population. JFS does not have the development and management expertise that TACHS provides as discussed above. TACHS was selected to be the development partner by JFS to provide rehabilitation construction oversight and property management at Hope Village. Hope Village has recently received Housing Authority approval for a \$982,000 residual receipts loan. This loan will close in the current fiscal year.

TACHS' board members are experienced in the field of special purpose housing development. The executive director of TACHS is Ms. Kimberly Russell-Shaw. In addition to her duties as Executive Director, Ms. Shaw served as TACHS' project manager for the Reese Village project. The nonprofit's staff includes professional property managers and a social services coordinator who manage the organization's rental housing facilities. TACHS' audited financial statement and developer disclosure statement are included as Attachments 2 and 3.

Proposed Housing Bonds

The Housing Commission utilizes the Housing Authority's tax-exempt borrowing status to pass on lower interest rate financing to developers of affordable housing. Usually, these are tax-exempt mortgage revenue bonds; the Housing Authority's ability to issue these bonds is limited under Section 142 of the U.S. Internal Revenue Code.

The Internal Revenue Code also permits the issuance of tax-exempt bonds for 501(c)(3) organizations whose charitable purpose is to provide affordable housing for low income households. The Housing Authority would issue 501(c)(3) bonds for the Pine Hollow Apartments because the acquisition and rehabilitation of the Pine Hollow Apartments would further the charitable purpose of TACHS. In addition, the proposed rent and occupancy restrictions of the project and the nature of the scope of rehabilitation will comply with all Internal Revenue Code requirements for 501(c)(3) housing bond issuances.

501(c)(3) housing bond issuances are different from standard mortgage revenue bonds issued by the Housing Authority. Most significantly, 501(c)(3) bonds do not qualify a project for low income housing tax credits. This restriction is not a constraint for the Pine Hollow Apartments because the prior owner of the project did not own it for 10 years, and as a result, Pine Hollow does not qualify for tax credits. In addition, because there is no limit to the principal amount of 501(c)(3) bonds that can be issued in a given state in a year, 501(c)(3) bonds do not require an allocation of bonding authority from the State of California. Finally, unlike most housing revenue bonds, interest earnings on 501(c)(3) bonds are not subject to the Alternative Minimum Tax. This results in lower interest rates on 501(c)(3) bonds.

The action item for the Housing Authority is to approve a bond inducement resolution for the project. The bond inducement resolution establishes a date after which (and up to 60 days prior to which) costs incurred can be reimbursed from bond proceeds. TACHS purchased the Pine Hollow apartments on April 24, 2006. In order for the acquisition price to be an eligible use of bond proceeds, the Housing Authority will need to approve the bond inducement resolution by June 23rd. As such, this item has been docketed for consideration by the Housing Authority on June 20th.

TACHS purchased Pine Hollow with a number of sources of interim financing, which will require repayment within 2 years. TACHS has been preparing applications for various permanent financing sources to help subsidize the acquisition, rehabilitation, and operation of the facility. Potential funding sources include the State of California's Governor's Initiative to End Chronic Homelessness and the Mental Health Services Act (Proposition 63) and the Department of Housing and Urban Development's Shelter Plus Care program. TACHS has also submitted a loan application to the Housing Commission.

TACHS anticipates that its funding applications will be highly competitive. However, regardless of the subsidies that the project is able to secure, there is a strong likelihood that the project will need a first position loan on the property. Interest rates for conventional mortgages on properties such as Pine Hollow are currently in excess of 7%. An estimated interest rate on a tax-exempt 501(c)(3) bond would be 5.5%. The lower tax-exempt interest rate could lower the debt service that TACHS pays over the life of the loan and increase the financial resources that the agency would have to own and operate the property. A lower interest cost could also increase the size of the loan, reducing the size of the Housing Commission gap loan that is required, freeing up resources to produce additional affordable housing units in other projects.

The Housing Commission and TACHS are investigating various ways to structure the issuance of bonds for the project, i.e., sale through a public offering or private placement. However, whatever bond structure is used will have to comply with the Housing Commission's Multifamily Housing Revenue Bond Program policy.

Issuance of the bonds would be contingent on TACHS receiving commitments from other public and private entities to fully fund the acquisition, rehabilitation, and operation of the project. A Housing Commission loan would also need future approval by the Housing Commission and Housing Authority.

Should the Housing Authority, under a separate action, authorize the issuance of bonds for the project at a future date, the bonds would not constitute a financial liability of the Housing Authority or the City of San Diego. 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 bonds would be repaid from project revenues and secured by the value of the property. All costs of issuing the bonds would be paid by the developer.

Alternative

If the recommended action is not taken, the project will not be able to benefit from tax-exempt below-market rate financing.

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 does not commit the Housing Authority to issue bonds. 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. 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:

Not applicable. Prior to final authorization of the bonds or the approval of a Housing Commission loan, the developer would need to present this item to the Eastern Area Planning Committee.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

TACHS is the developer for the project. TACHS' board members are listed in Attachments 2. Ross Financial Services and Quint & Thimmig have been selected as bond counsel and financial advisor to represent the Housing Authority.

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. TACHS Developer's Disclosure Statement*
 3. TACHS Financial Statement*

* Distribution of the attachment is limited. A copy is available for review at the Housing Commission office located at 1625 Newton Avenue.