



Good Neighbors

San Diego Housing Commission

REPORT

DATE ISSUED: June 16, 2006

REPORT NO: HAR 06-014

ATTENTION: Members of the Housing Authority
For the Agenda of August 8, 2006

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Del Sol Apartments

REQUESTED ACTION:

Approve funding to preserve an existing 91-unit affordable rental complex by taking the final step to issue housing revenue bonds for the Del Sol Apartments. Borrower will rehabilitate the property and restrict rents below market.

STAFF RECOMMENDATION:

Authorize the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed \$12,421,531 for the acquisition and construction of the 91-unit Del Sol Apartments by Wakeland Housing and Development Corporation and its affiliate, Del Sol Apartments, L.P., located at 3606-3690 Del Sol Boulevard in the Otay Mesa-Nestor community.

SUMMARY:

Del Sol Apartments is a 30-year old project located at 3606-3690 Del Sol Boulevard in the Otay Mesa-Nestor community of Council District 8 (see Attachment 1 – Location Map). The project has been operating under a federal affordable housing program and the affordability restrictions are set to expire at the end of 2006. In addition, although the project has been maintained, the improvements are suffering from the effects of age and could become a detriment to the neighborhood if the apartment complex is not renovated in the near future. The Housing Commission has been working with the Wakeland Housing and Development Corporation (Wakeland) in order to establish a financing plan to acquire, rehabilitate, and preserve the affordable housing units in the project.

Wakeland is a California 501(c)(3) nonprofit corporation established in 1998 with the mission of developing affordable housing. Wakeland has participated in the development of over 1,900 affordable rental housing units in San Diego and has collaborated with the Housing Commission on several successful projects.

As part of the proposed financing plan, Wakeland would acquire the project and spend approximately \$4.5 million to rehabilitate the complex. After rehabilitation, a total of 90 units would be restricted as affordable housing for 55 years, with one unit to be occupied by a resident manager: 32 units would be restricted at 30% of the Area Median Income (AMI) (\$20,700 for a family of four); 17 units would be restricted at 50% AMI (\$34,500 for a family of four); and 41 units would be restricted at 60% AMI (\$41,400 for a family of four).



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The Borrower

The owner and the borrower would be Del Sol Apartments, LP; Wakeland Del Sol LLC, a limited liability corporation formed by Wakeland, would be the managing general partner and Red Capital Markets would be the tax credit limited partner. Del Sol Apartments would be the borrower's sole asset. Wakeland's audited financial statements and disclosure statement are included as Attachments 2 and 3.

Wakeland's project team for the Del Sol Apartments would include its executive director (Mr. Ken Sauder) and its senior project manager (Mr. Barry Getzel). The borrower would contract with John Stewart Company to provide property management services for Del Sol Apartments.

In March of 2006, Wakeland completed construction of the 60-unit Beyer Courtyard Apartments, an affordable rental housing complex located on Beyer Boulevard in San Ysidro. Beyer Courtyard Apartments was financed in part with a loan from the Housing Commission and bonds issued by the Housing Authority. In September of 2002, the Housing Commission provided a \$1,200,000 loan for Wakeland's acquisition and rehabilitation of Vista Terrace Hills. Vista Terrace Hills is 262 units of affordable rental housing located on the parcel immediately adjacent to Beyer Courtyard Apartments. Beyer Courtyard Apartments and Vista Terrace Hills are within walking distance of the proposed development. Wakeland is currently in compliance with the terms of its previous loans from the Housing Commission.

The Development

Built in 1975, Del Sol Apartments is located in the community of Nestor near the intersection of Highways 5 and 905. The complex currently consists of 93 townhome style apartment units in 16 two-story wood frame and stucco buildings on approximately six acres. Laundry facilities are provided on-site. The property is within walking distance of a bus stop and trolley stop, and the complex provides convenient access to schools, parks, supermarkets and other retail establishments.

Planned improvements to the property include upgraded laundry facilities, a new outdoor play area for children, and a new community room. To increase the number of units suitable for families, the complex would be reconfigured with two studio apartments combined to create a two-bedroom unit and two small one-bedroom apartments combined to create a three-bedroom unit. Rehabilitation will include landscaping, site drainage, walkway repairs, kitchen and bathroom remodeling, roofing, door and window replacements, floorcoverings, interior and exterior painting, plumbing, and electrical work. Parking is provided by 191 spaces in a central courtyard area.

Upon completion of rehabilitation, the reconfigured complex would provide two one-bedroom apartments, 11 two-bedroom apartments, 66 three-bedroom apartments, 11 four-bedroom apartments, and one resident manager's unit. Wakeland would also work with the residents of Del Sol Apartments to tailor a package of tenant services that may include such activities as computer training, financial fitness classes, homeownership education, English language instruction, and after-school programs. These opportunities will enhance the lives of project residents and improve conditions in the community beyond the benefit of preserving the affordable units.

The following table describes the units by size and proposed initial rents:

Unit Type	Unit Size (sq. ft.)	No. of Units	Initial Monthly Rent	Maximum Percent of Area Median Income of Eligible Households	Monthly Utility Allowance	Monthly Housing Cost	Monthly Market Rent	Annual Rent Savings Over Market Rate
2br/1.5ba	921	5	\$ 430	30%	\$35	\$ 465	\$1,075	\$ 38,700
3br/1.5ba	995	23	\$ 475	30%	\$43	\$ 518	\$1,280	\$ 222,180
4br/1.5ba	1076	4	\$ 505	30%	\$54	\$ 559	\$1,440	\$ 44,880
1br/1.0ba	507	2	\$ 618	50%	\$28	\$ 646	\$ 865	\$ 5,928
2br/1.5ba	921	2	\$ 741	50%	\$35	\$ 776	\$1,075	\$ 8,016
3br/1.5ba	995	10	\$ 820	50%	\$43	\$ 863	\$1,280	\$ 55,200
4br/1.5ba	1076	3	\$ 877	50%	\$54	\$ 931	\$1,440	\$ 20,268
2br/1.5ba	921	4	\$ 896	60%	\$35	\$ 931	\$1,075	\$ 8,592
3br/1.5ba	995	33	\$ 992	60%	\$43	\$1,035	\$1,280	\$ 114,048
4br/1.5ba	1076	4	\$1,064	60%	\$54	\$1,118	\$1,440	\$ 18,048
2br/1.5ba	921	1	MGR					
Total		91						\$535,860

Of the existing units, 88 are currently affordable under a Section 8 Moderate Rehabilitation contract, which is renewable on an annual basis by the owner (88 units are rented at 30% of adjusted household gross income and four units are rented at market rates). This contract would not be continued after the required noticing period expires on December 31, 2006, because federal regulations preclude implementation of tax credit financing when Section 8 Moderate Rehabilitation contracts are in place.

It is assumed that the majority of the existing households have incomes at or below 60% AMI, which would allow them to continue living in the restricted units following project completion. With HUD approval, eligible tenants would receive tenant-based rental assistance vouchers from the Housing Commission. This would expand the supply of Section 8 vouchers in the City. Tenants could use these vouchers to continue to reside at Del Sol both during and after rehabilitation. Tenants could also use their vouchers to secure housing at any other rental project that accepts Section 8. Any vacancies caused when tenants use their vouchers to secure housing elsewhere are expected to be filled quickly because of the high demand for affordable rental housing in the area.

Financing Structure

The project has a total development cost of approximately \$22,500,000; sources of funds include tax-exempt bonds, tax credits, a low-interest loan from the State of California's Multifamily Housing Program (MHP), and rental income during rehabilitation. Approximately \$12,400,000 in bonds will be issued for the project. A \$4,126,000 Housing Commission loan, contingent on the receipt of the MHP loan, was approved on March 8, 2006 by the Housing Authority; the MHP loan was recently awarded by the State. Approximately \$7,600,000 of the bond amount will be paid off at conversion to permanent financing, resulting in a permanent bond of approximately \$4,800,000. The large amount of bonds to be retired at conversion to permanent financing is due to the fact that approximately \$8,700,000 in tax credit equity and MHP loan proceeds become available at conversion.

Permanent financing sources are summarized in the following table.

Permanent Financing Sources	
Federal Tax Credits	\$7,400,000
MHP Loan	\$5,500,000
Housing Revenue Bonds	\$4,800,000
Housing Commission Loan	\$4,100,000
Project Income	\$700,000
Total	\$22,500,000

The bonds will be sold through a private placement with Washington Mutual Bank (WaMu). As part of proposed financing, WaMu will be required to sign an investor letter certifying that they are a sophisticated investor and understand the risk associated with the purchase of the bonds. The transfer of the bonds by WaMu or any subsequent bondholder will be restricted to transferees who would take all of the bonds (to maintain ownership by a single bondholder), and who would represent to the Authority and the Commission that they are sophisticated investors, are buying for investment 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, WaMu must agree that should a mortgage default occur, there would not be a bond default.

Public Disclosure and Bond Authorization

Because the bonds are being sold through a private placement, an Official Statement will not be used. In addition, the bonds will not be subject to continuing disclosure requirements nor will they be credit enhanced or rated. However, it is necessary for members of the Housing Authority to disclose any knowledge, not available to the general public, about the viability of the project.

As part of its authorizing resolution, the Housing Authority will be asked to approve a Master Agency Agreement, a Master Pledge and Assignment Agreement, a Regulatory Agreement and Declaration of Restrictive Covenants, and any other document as may be necessary or advisable 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 Housing Authority and WaMu will be parties to the Master Agency Agreement and the Master Pledge and Assignment Agreement. The Master Agency Agreement appoints WaMu to act as the Housing Authority's agent and loan the proceeds of the bond issuance to Del Sol Apartments, LP in order to acquire and rehabilitate the property. The Master Pledge and Assignment Agreement contains the basic financial terms of the bonds (maturity dates, interest rates redemption provisions), sets forth the collateral and project revenues pledged to repay the bonds, and established events of default and remedies available to WaMu. The Housing Authority, WaMu, and Del Sol Apartments, L.P. (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 in order to ensure the long-term use of the project as affordable housing. The Regulatory Agreement also includes covenants to ensure compliance with all applicable federal and state laws.

The issuance of bonds will not constitute 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 developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee. (For a summary of the Housing Commission's Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize bond financings, please see Attachment 4.)

Staff has been working with Public Financial Management., 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 the Financial Advisor's recommendation that the bond issuance for the project be authorized. The Financial Advisor's analysis and recommendation to proceed is included as Attachment 5. Staff is also working with the City's Disclosure Practices Working Group to assure that the issuance of Housing Authority bonds is in conformance with the City's requirements.

Conclusion

In its Housing Needs Assessment of the rental housing market, the City's Consolidated Plan identifies large families as an under-served tenant population. Assessment findings show that cost factors result in incentives for developers to produce primarily one-bedroom and two-bedroom units, resulting in a shortage of three-bedroom and four-bedroom apartments.

The City's Draft Housing Element for 2005 to 2010 identifies over 4,000 affordable housing units at risk of conversion to market rents. The Draft Housing Element specifically lists the Del Sol Apartments as an "at risk" affordable housing project. The City's stated goal is to preserve 100 "at risk" housing units each year between 2005 and 2010.

If approved, the recommended actions for this project will provide 77 affordable units (66 three-bedroom and 11 four-bedroom units) for large low-income families, preserve the affordability of 91 "at risk" housing units, and benefit the community by improving the appearance of the property. In addition, up to 88 Section 8 tenant-based housing vouchers would be added to the City's current allotment of approximately 12,000 vouchers.

FISCAL CONSIDERATIONS:

The issuance and sale of 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. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the developer. The Housing Commission's origination fee as well as the annual administrative fee under the financing will be up to \$28,000 (0.23 percent of the bond amount).

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PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On March 28, 2006, the Housing Authority approved a loan of up to \$4,126,000 and a bond inducement resolution of up to \$14,400,000 for the project. On the same date, the City Council held a public hearing and approved a resolution in compliance with the Tax Equity and Fiscal Responsibility Act (TEFRA).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

At its regular meeting on January 11, 2006, the Otay Mesa-Nestor Planning Group voted to approve this development. The Housing Commission Board recommended approval of the loan, the bond inducement and the TEFRA hearing and resolution on February 10, 2006. The Housing Commission recommended approval of the proposed bond issuance at its meeting on July 7, 2006.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

The project is being developed by Wakeland Housing and Development Corporation. Wakeland has selected WaMu and Red Capital Markets as financial participants on the project. The Housing Commission has engaged Public Financial Management and Stradling Yocca Carlson and Rauth to assist in preparing the bond financing.

Respectfully submitted,

Approved by,

Cissy Fisher
Director of Housing Finance and Development

Elizabeth C. Morris
President & Chief Executive Officer

Attachments: 1. Location Map
 2. Financial Statements*
 3. Disclosure Statement*
 4. Multifamily Bond Program Summary
 5. Financial Advisor's Recommendation

Distribution of these attachments may be limited. Copies available for review during business hours at the Housing Commission offices at 1625 Newton Avenue.