THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

DATE OF ISSUANCE: November 12, 2003

REPORT NO.: HAR03-005
For the Housing Authority Agenda of December 2, 2003

SUBJECT: Loan and Initial Authorization to Issue Multifamily Housing Revenue Bonds for Beyer Courtyard Apartments (Council District 8)

SUMMARY

Issue: Should the Housing Authority approve a residual receipts loan of $3,000,000 (with a unique repayment provision) and bond financing of up to $6,000,000 for Beyer Courtyard Apartments, a new development of sixty units for families in San Ysidro? The developer is Wakeland Housing and Development Corporation, a nonprofit organization.

Recommendation No. 1: That the Housing Authority and City Council take the initial steps to issue tax-exempt and taxable multifamily housing revenue bonds to finance construction of the 60-unit Beyer Courtyard Apartments by:

(a) Housing Authority approval of an Official Intent Resolution to issue up to $6 million in multifamily housing revenue bonds to finance the 60-unit Beyer Courtyard Apartments (Council District 8);
(b) Housing Authority approval of an application to the first round of the State's 2004 allocation and, if necessary, subsequent rounds for bond issuing authority;
(c) City Council holding a public TEFRA (Tax Equity and Fiscal Responsibility Act) hearing and adopting a resolution approving the issuance of bonds by the Housing Authority; and,
(d) approving the use of CGC Advisors, Inc. as Financial Advisor, and Quint and Thimmig, LLP as Bond Counsel, from previously approved lists of consultants, to work on this development.

Recommendation No. 2: That the Housing Authority approve:

(a) a three percent simple interest residual receipts loan of $3,000,000 to Beyer Boulevard Apartments, LLP to finance construction of the development; and,
(b) approval for the Housing Commission to take possession of the property at the end of the fifteenth year of the development, in lieu of repayment of the Housing Commission loan, and assume, at its sole discretion, any project-related tax liability of the limited partner of the tax credit limited partnerships.

Fiscal Impact: Issuance and sale of the bonds would not financially obligate the City, the Housing Authority, or the Housing Commission because security for the repayment of the bonds would be limited to specific private revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds, would be borne by the developer. The

Housing Commission's annual fee for administering the bonds would be up to $13,800 (.0023 percent of the total bond amount). Approval of this loan would result in the expenditure of $3,000,000 in Housing Commission funds. Should the Housing Commission exercise its option to take title to the property at the end of year fifteen, the Housing Commission would forego repayment of its $3,000,000 loan and accrued interest (three percent interest for fifteen years equals $1,350,000) and assume the first position loan of an estimated $3,120,000 in principal and accrued interest.

Certificate of Funding Availability:

Certificate No.:	FY03-093 and FY04-
Amount:	$3,000,000
Revenue Source:	HOME / Housing Trust Fund
Division:	Housing Finance and Development
Line Item:	Loans and Grants

Affordable Housing Impact: Beyer Boulevard Apartments, LLP (The Partnership) proposes to construct a sixty-unit apartment complex with units affordable to families earning between fifty percent and sixty percent of Area Median Income. Occupancy of fourteen units would be restricted to families earning fifty percent or less of Area Median Income ($29,950 for a family of four) and occupancy of forty-five units would be restricted to families earning sixty percent or less of Area Median Income ($35,940 for a family of four). One two-bedroom apartment would be reserved for occupancy by a resident manager. The following table shows a breakdown of the proposed rents by unit size and affordability level:

Unit Type	Unit Size (sq. ft.)	No. of Units	Rent Levels @ Percent of AMI	Proposed Initial Monthly Rent	Monthly Market Rent	Annual Rent Savings Over Market Rate
2br/1ba	835	8	50%	$680	$950	$25,920
2br/1ba	835	21	60%	$824	$950	$31,752
3br/2ba	1,106	6	50%	$751	$1,200	$32,328
3br/2ba	1,106	24	60%	$910	$1,200	$83,520
2br/1ba	835	1				
Total		60				**$173,520**

Environmental Review: The City completed environmental review of the project under the California Environmental Quality Act (CEQA), which resulted in a Mitigated Negative Declaration, and under the National Environmental Policy Act (NEPA), which resulted in a Finding Of No Significant Impact (FONSI). HUD must certify the FONSI prior to release of the federal HOME funds.

Community Planning Group Review: On September 17, 2002, San Ysidro Planning and Development Group approved the concept of the development and recommended a proposed change in zoning from industrial to residential use.

Home Program Compliance: The proposed financing for construction of this development is an allowable activity under HOME Program rules.

Equal Opportunity Statement: Staff reviewed and approved the Certificate of Compliance and the San Diego County Workforce Reports submitted by The Partnership.

Previous Related Actions: On October 24, 2003, the Housing Commission voted to recommend Housing Authority approval of the loan and bond issuance.

BACKGROUND

The managing general partner for The Partnership, Wakeland Housing and Development Corporation (Wakeland), submitted this application for funding of under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing.

DISCUSSION

<u>Selection Of Financing Team Members</u>

Staff recommends assigning CSG Advisors, Inc. as the financial advisor and Quint & Thimmig, LLP as the bond counsel. These team members are proposed in accordance with the existing Housing Commission policy for the issuance of bonds. Financial advisors and bond counsels are designated on a rotating basis from a list of firms selected under a competitive Request For Proposals.

<u>The Financial Structure</u>

The estimated total development cost of the project is $11,405,432. Proposed sources of financing include $4,093,983 in tax-exempt bonds; a Housing Commission loan of $3,000,000, which would close simultaneously with sale of the bonds; $3,822,462 of four percent tax credit equity; and a deferred developer fee of $400,000. A prior proposal requested $4,600,000 in bonds, which included a ten percent contingency. However, because Wakeland is required to meet a fifty percent test as a threshold for an award of four percent tax credits (fifty percent of the tax credit basis and land cost must be covered by tax-exempt financing) staff is requesting bonding authority for up to $6,000,000. A tax-exempt bridge bond of $1,700,000 would be secured during the construction period by deferred payment of equity from the tax credits. This additional bond will not increase the cost of development because it will be retired with tax credit proceeds.

The bonds would be sold directly to Fannie Mae through its tax-exempt bond purchase program. Credit enhancement of the bonds by Fannie Mae is expected to result in the highest credit rating of "AAA" by Standard and Poors. This Fannie Mae program, which is restricted to properties with bond amounts of up to $8,000,000, would provide significant savings to the developer through elimination of an underwriting fee and related legal, marketing, and publication expenses.

The purchase of the property, completed on November 21, 2002, was funded with a $344,250 loan from Low Income Investment Fund (LIIF), a $100,000 loan from Local Initiatives Support Corporation (LISC), and $155,750 from Wakeland's line of credit with Wells Fargo Bank. Should Wakeland be unsuccessful in negotiating a viable financing package for Beyer Courtyard Apartments, it could recover most of its costs to date by selling the property because re-zoning will add value to the undeveloped parcel, which is appraised at $729,000 when zoned for fifty-four residential units. At $13,500 per unit, the estimated value for sixty units is $810,000.

The Housing Commission's cost for development of sixty rental housing units would be $50,000 per unit. The total estimated development of approximately $190,091 per unit includes repayment of the LIIF and LISC acquisition loans. Wakeland would defer half of its $800,000 developer fee; the deferred fee to be recovered by Wakeland through payments from project cash flow over the initial seven years of operation, including six percent interest on the un-recovered balance.

Terms of the Housing Commission financing would be a fifty-five year loan, at three percent simple interest, secured by a trust deed recorded against the property. The Housing Commission would subordinate to other lenders as necessary. The deferred developer fee would be paid off in approximately eight years. Typically, Housing Commission loans require payments to begin when the developer fee is paid off; The Partnership would be obligated to begin repayment of the Housing Commission loan (principal and accrued interest would be $4,350,000) within five days following the end of the first fifteen years of operation. In lieu of repayment, and at its sole option, the Housing Commission could elect to assume all accrued project-related tax liability of the limited partner and take possession of the property. By forgoing the estimated receipt of approximately $462,684 in residual receipts payments (fifty percent of net cash flow for years nine through fifteen) the Housing Commission would benefit from the appreciation in value and the retention of the entire residual cash flow as owner of Beyer Courtyard Apartments.

The Developer

Wakeland Housing and Development Corporation would be the managing general partner for The Partnership. A tax credit investor would be added as a limited partner subsequent to an allocation of four percent tax credits and tax-exempt bonds. Beyer Courtyard Apartments would be The Partnership's sole asset. Wakeland's financial statements were reviewed by Housing Commission staff and found to be satisfactory (see Attachment 5 – Financial Statements).

The project development team for The Partnership would be the staff of Wakeland, a California 501(c)(3) corporation established in 1998 with the mission of developing affordable housing. Wakeland's executive director is Mr. Ken Sauder. Its project manager for the proposed development is Mr. Barry Getzel. The architect is Rodriguez+Simon Design Associates. The

Partnership would contract with a professional management company to provide property management services for the completed development.

Wakeland's principals are experienced in the development of affordable housing in both for-profit and nonprofit venues. The nonprofit is a managing general partner of approximately 3,100 units of acquired and rehabilitated affordable housing and 238 units of newly constructed affordable housing. In September of 2002, in partnership with Related Capital, Wakeland completed acquisition and rehabilitation of Vista Terrace Hills. The development is 262 units of affordable rental housing located on the parcel immediately adjacent to the subject property. The Housing Commission provided gap financing for Vista Terrace Hills in the form of a $1,200,000 amortized loan.

<u>The Development</u>

The proposed site of Beyer Courtyard Apartments is a 2.4-acre vacant parcel located between Precision Park Lane and Del Sur Boulevard near the junction of Beyer Boulevard and the I-905 freeway. The development would be within walking distance of a bus stop and trolley stop, and would be convenient to supermarkets and other retail establishments. (see Attachment 1 – Location Map)

Re-zoning of the property is in process because it is currently zoned for industrial use. The triangular lot is adjacent to an attractive small development of single-story light industrial buildings to the north and west, and high-quality multi-family rental housing and single-family residences to the south and east. The development would have a positive impact on the neighborhood because it would convert an unsightly vacant lot, used in the past as a repository for illegally-dumped trash and other debris, to much-needed affordable rental housing.

Beyer Courtyard Apartments is designed to be a quiet enclave of five modest-sized three-story apartment buildings surrounding courtyards of passive open space and play areas for children. The layout of the complex would focus lines of sight toward the courtyards and landscaped areas and away from the street and parking lots. The proposed construction would include a laundry facility and a 2,000 square foot community building.

Wakeland contracted with Casa Familiar, a San Ysidro-based social services provider and affordable housing developer, as a consultant to assist with community relations during development of Beyer Courtyard Apartments. Upon completion of the project, Casa Familiar would utilize its own resources to help development residents access programs providing job skills training, literacy training, citizenship preparation, and after-school programs.

<u>The Financial Plan</u>

Total Development Cost:	The estimated total development cost is $11,405,432 including the value of the land,

	construction, interest costs, builder overhead and profit, builder fees, and a developer fee.
Cost Per Unit:	The estimated cost per unit of $190,091 includes significant site work such as cleanup, wetlands mitigation, and grading and compaction of soils.
Appraised Value:	The appraised value for the undeveloped land zoned for sixty apartment units is $810,000. Release of Housing Commission funds would be conditioned upon receipt of a satisfactory "as-built" appraisal.
Loan Amount:	The proposed loan would leverage $3,000,000 of Housing Commission funds against $8,405,432 expected from other sources.
Security:	The Housing Commission loan would be secured by a second trust deed recorded against the property.
Rent Restrictions:	A Declaration of Covenants, Conditions, and Restrictions with a fifty-five year term of affordability recorded against the property to restrict rents of fourteen units at fifty percent of Area Median Income and forty-five units at sixty percent of Area Median Income.
Occupancy Restrictions:	Occupancy of fourteen units would be restricted to households earning no more than fifty percent of Area Median Income. Occupancy of forty-five units would be restricted to households earning no more than sixty percent of Area Median Income.
First Trust Deed:	A thirty-year tax-exempt bond loan of $4,093,983 from a source to be identified, would be in first position at the bond market interest rate at the time of closing (estimated at 6.2 percent).
Second Trust Deed:	A Housing Commission loan of $3,000,000 with payment deferred for fifteen years.
Payments on the Second Trust Deed:	Deferred until the beginning of the sixteenth year. Payments would be amortized through year fifty-five at three percent simple interest per year.

Loan-to-Value:	Loan-to-value to be determined upon receipt of an as-built appraisal.
Debt Service Ratio:	The debt service ratio for the first year is 1.20.
Recourse:	The loan would be a recourse loan to Wakeland Housing and Development Corporation prior to completion of tax credit financing.
Loan Term:	Fifty-five years; payment deferred for fifteen years, after which payments would be fifty percent of residual receipts until the first position loan is paid; the remainder amortized to the end of the fifty-five year term.
Management Plan:	A Management Plan will be submitted to Housing Commission staff for approval.
Operating Expense:	Operating expenses for the development are estimated to be $17,135 per month ($286 per unit).
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; operating expenses at 3.5 percent per year; vacancy rate at 5 percent per year.
Reserves:	An annual $12,000 replacement reserve is included in the pro forma.

Risks and Mitigations

The Housing Commission loan would be contingent upon the developer securing the zoning change and the other financing. Although an as-built appraisal has not been performed, it is very likely that significant developer equity would result in a favorable loan-to-value ratio. Also, Wakeland is an experienced developer with a track record of timely completions within budgets.

Because the gap financing needed to construct new housing units is significant, the developer agreed to allow the Housing Commission to assume sole ownership of the property at the end of year fifteen. This opportunity could provide both permanently affordable housing and income to the Housing Commission in the future. However, it is also possible that the marketability could decline over the long term due to demographic changes in the neighborhood, deterioration of the improvements, or changes in the condition or uses of adjoining properties. These risks would be somewhat mitigated by conservative underwriting assumptions requiring replacement reserves which could be used to reconfigure or update the housing units to make them more marketable. Also, a high demand for the units should continue indefinitely because the proposed development conforms to the character and scale of other residential development in a demographically stable community of young families who rely on multi-family rental properties for their housing.

Loans to tax credit developments become non-recourse upon the creation of a limited partnership for tax credit syndication because of Internal Revenue Service regulations that make the investment undesirable if structured otherwise. This would limit the Housing Commission's ability to recover funds because the encumbrance would be on the property and not the other assets of the developer. This risk is typically taken by the Housing Commission for tax credit-financed developments and is deemed mitigated by conservative underwriting assumptions and the equity contribution provided by the tax credit financing.

Approval of the Official Intent and TEFRA resolutions would not commit the Housing Commission to issue bonds. The recommended actions do not represent commitments by the Housing Authority and the applicant to proceed with tax-exempt or taxable financing. Because security for repayment of the bonds is limited to the value of the property and its sources of revenue, neither the good faith and credit of the City and the Housing Authority, nor the taxing power of the City, would be pledged to the payment of the bonds.

Conclusion

In its Housing Needs Assessment of the rental housing market, the City's 2003 Consolidated Plan identifies large families as an under-served tenant population. Assessment findings show that cost factors result in incentives for builders to produce large numbers of one-bedroom and two-bedroom units, resulting in a shortage of three-bedroom and four-bedroom apartments. Because the high cost of single-family housing excludes most low-income families from home ownership, those households are overpaying for scarce rental units with large numbers of bedrooms or they live in overcrowded conditions. Because private developers find it difficult to provide larger rental units due to market conditions, nonprofit housing providers are increasingly relied upon to develop properties featuring three-bedroom and four-bedroom units with ancillary facilities valuable to families.

The proposed development would include six three-bedroom apartments affordable to very low-income families with household incomes at fifty percent or less of Area Median Income and twenty-four three-bedroom apartments affordable to low-income families with household incomes at sixty percent or less of Area Median Income. The complex would also feature play facilities for children, a large fully-landscaped common area away from the street and parking lots, a community building, and easy access to learning activities and other community services.

The proposed development would provide sixty units of multi-family rental housing at a cost to the Housing Commission of $50,000 per unit. With a total development cost of $11,405,432 ($190,091 per unit) the $3,000,000 Housing Commission loan leverages $8,405,432 from other sources.

Transfer of ownership of Beyer Courtyard Apartments to the Housing Commission after fifteen years would give the Housing Commission a significant investment in the form of equity. Because of stringent underwriting standards requiring the developer to meet Housing Commission standards for maintenance of the property, the Housing Commission would be taking possession of housing units in good condition and would have the opportunity to preserve the apartments and their affordability in perpetuity.

ALTERNATIVE

The Housing Authority could deny approval of the loan and Official Intent Resolution. Because the other lender commitments are contingent upon approval of this financing package, a decision to not approve the financing could result in the withdrawal of the proposal and the resulting loss to the City of fourteen units of rental housing affordable to very low-income families and forty-five units affordable to low-income families.

The Housing Authority could deny approval for the Housing Commission to pursue an equity position, approving financing in the form of a fifty-five year residual receipts loan.

Submitted by,

Jack D. Farris
Manager
Housing Finance & Development

Approved by,

Elizabeth C. Morris
Chief Executive Officer

Attachments:
1. Location Map
2. Development Timeline
3. Development Summary
4. Disclosure Statement*
5. Financial Statements*
6. HC Development Form

*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue and the office of the City Clerk, 2nd floor, 202 “C” Street.

Information: Dan Cady (619) 578-7594

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ATTACHMENT 2

BEYER COURTYARD APARTMENTS
ESTIMATED DEVELOPMENT TIMELINE

July 15, 2004	Construction financing closing
August 2, 2004	Start of construction
July 30, 2005	Completion of construction

ATTACHMENT 3

Development Summary

Name:	Beyer Courtyard Apartments
Location:	Beyer Boulevard and Precision Park Lane, San Ysidro
Description:	Rental Housing for Families
Sponsor:	Wakeland Housing and Community Development Corporation

Unit Affordability

Total # of units:	60
Assisted units:	59
Restricted rents:	two-bedroom @ 50 percent of AMI (currently $680) two-bedroom @ 60 percent of AMI (currently $824) three-bedroom @ 50 percent of AMI (currently $751) three-bedroom @ 60 percent of AMI (currently $910)
Market rent:	two-bedroom @ $950 three-bedroom @ $1,200
Percent of AMI:	14 units @ 50 percent ($29,950 for a family of four) 45 units @ 60 percent ($35,940 for a family of four)
Affordability:	55 years

Development Cost

Total development cost:	$11,405,432
HC development cost:	$ 3,000,000
Total development cost per unit:	$ 190,091
HC cost per unit (60 units):	$ 50,000
HC subsidy per bedroom @ 150 br's:	$ 20,000

Sources of Funds

First T.D. (bond proceeds)	$ 4,093,983
San Diego Housing Commission Loan	$ 3,000,000
4% Tax Credits	$ 3,822,462
Developer Equity	$ 88,987
Deferred Developer Fee	$ 400,000

Pro Forma Summary

Estimated net annual income:	$ 362,242 (year 1)
Estimated annual expense:	$ 205,592 (year 1)
Annual debt service:	$ 300,893 (1.20 ratio in year 1)