The Housing Authority of the City of San Diego

DATE: For the Agenda of April 2, 2002 **ITEM 5**

REPORT NO: HAR02-002

SUBJECT: Multifamily Housing Revenue Bonds for Windwood Village Apartments (Council District 1)

SUMMARY

Issue No. 1: Should the Housing Authority and City Council take the initial steps to issue tax-exempt and taxable housing revenue bonds to finance the new construction by Chelsea Investment Corporation of Windwood Village Apartments located in subarea III of Council District 1 in the North City Future Urbanizing Area (NCFUA)?

Recommendation: No. 1: That the:

A. Housing Authority approve a bond inducement resolution for new construction of the 92-unit Windwood Village Apartment complex to be located in the southwest portion of Pacific Highlands Ranch (subarea III) for up to $7.5 million in housing revenue bonds (Council District 1);

B. Housing Authority approve applications to Round II and, if necessary, subsequent rounds of the State's allocation rounds for bond issuing authority; 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 bonds by the Housing Authority.

Issue No. 2: Should the Housing Authority approve a financing team from the previously approved list of Financial Advisors and Bond Counsels to work on preparing the proposed bond issuance?

Recommendation No. 2: That the Housing Authority approve CSG Advisors, Inc. as financial advisor and Quint & Thimmig, LLP as bond counsel to begin work on the project.

Fiscal Impact: Approval of the bond inducement resolution does not commit the Housing Authority to issue bonds. The developer is responsible for the payment of all costs under the financing for the proposed project.

Housing Affordability Impact: The project will restrict 10% of the apartments for occupancy by families earning no greater than 20% Area Median Income (AMI) ($12,020 for a family of four); 20% of the apartments for families earning no greater than 30% AMI ($18,050 for a family of four); and the remaining 70% of apartments for families earning no greater than 60% AMI ($36,060 for a family of four). The affordability restrictions will remain in place for 55 years.

Previous Related Action(s): This action was not scheduled for the Housing Commission Board due to a real or potential conflict of one or more of the Commissioners and potential conflicts of interest under applicable state and local laws. Therefore, the matter is being forwarded directly to the Housing Authority and City Council for action. It should be noted that the financing structure mirrors other similar developments approved previously.

Future Related Action(s): Specific authorization to issue bonds for the project will be sought from the Housing Authority at a future date (Refer to Attachment 1, Section 4 “Final Bond Approval”).

BACKGROUND

There are two primary ways the Housing Commission provides financial assistance for development of affordable housing: 1) direct lending of Housing Commission HOME and Housing Trust Fund monies; and 2) issuance of tax-exempt multifamily revenue bonds through the Housing Commission’s multifamily bond program. The Housing Commission utilizes the Housing Authority’s tax-exempt borrowing status to pass on lower interest rate financing to developers of affordable housing. Some projects require both forms of assistance. This report pertains specifically to the issuance of tax-exempt multifamily revenue bonds.

The Housing Authority’s authority to issue bonds is limited under the U.S. Internal Revenue Code. The California Debt Limit Allocation Committee (CDLAC) accepts applications generally two to three times during the year (funding “rounds”), and typically receives more applications for bonding authority than it has available.

Prior to the CDLAC funding rounds, projects are brought to the Housing Authority and City Council. Bond inducement resolutions must be obtained prior to application submittal and TEFRA resolutions must be secured no later than 30 days after application submittal. The next CDLAC application submittal date is April 17, 2002.

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 the proposed financings are described in Attachment 1.

The developer has applied for, and received, a commitment for a $3.37 million low-interest loan from the Multifamily Housing Program administered by the State's Department of Housing and Community Development. The State's loan funds has enabled the developer make more units available to very low-income households than would otherwise be the case with just bond financing. The loan commitment also will enhance the project's chance of being awarded a bond allocation from CDLAC.

PROJECT NARRATIVES

The applicant and developer for the proposed project is Chelsea Investment Corporation (Chelsea), which is headquartered in Solana Beach. Mr. James Schmid is President and 100% shareholder of the corporation. Formed in 1986, Chelsea is involved in the acquisition, development, and management of multifamily housing projects in California and Arizona. Chelsea currently manages seven apartment communities, including 689 multifamily units located in San Luis, Arizona and in San Diego, Chula Vista, and Calexico, California. Chelsea and its affiliates own, have developed, or are now developing (not including the proposed project) 20 apartment projects comprising a total of 2,254 units located in Southern California and Arizona. The Developer's Statement for Public Disclosure is included as Attachment 2.

Chelsea will act as administrative general partner in a partnership that will be created for the project. Pacific Southwest Community Development Corporation, an experienced California nonprofit public benefit corporation with which Chelsea has partnered on several projects, will serve as the managing general partner (an organizational profile is included as Attachment 3). The tax credit investors will be the limited partners of the partnership.

The San Diego Housing Commission and Housing Authority have worked successfully with Chelsea over the past two years to issue a total of $8,880,000 in multifamily housing revenue bonds for two developments: $4,100,000 in August of 2000 to assist in the acquisition and rehabilitation of the 100-unit Regency Centre Apartments in Council District 4; and $4,780,000 in July of 2001 to assist in the new construction of the 76-unit Torrey Highlands Apartments in the Torrey Highlands subarea of Council District 1. Chelsea is also the developer of two 9% tax credit financed projects; the 200-unit senior studio housing, Market Square Manor, and the 90-unit Harvey Mandel Villas for St. Vincent de Paul. The Housing Commission has loans on these two projects totaling $3,590,000. The projects are downtown in Council District 8 and 2, respectively. Chelsea recently completed development of the 38-unit Longacres at Seabreaze Farms in the North City. Additionally, the Housing Authority, on Chelsea's behalf, has two applications for bond allocation currently under consideration by CDLAC for two new construction projects in the North City (32-unit Villa Andalucia Apts. and 26-unit Villa Glen Apts.).

Chelsea is now requesting that the Housing Authority and City Council take the initial steps to issue a total of up to $7.5 million in multifamily housing revenue bonds for Windwood Village Apts. Development of the apartment complex would fulfill the affordable housing requirements for market rate developments by the Master Developer, Pardee Construction Company, in the Pacific Highlands Planning subarea. The location map is included as Attachment 4.

Windwood Village Apartments is a new construction project that would create a total of 92 units. The development would be located in the southwest portion of Pacific Highlands Ranch (subarea III) north of State Route 56 and east of Old Carmel Valley Road (approximately 2.5 miles east of Interstate 5). The project would be constructed on 4.34 acres. It would include ten 2-story buildings and a recreation center consisting of a swimming pool, recreation building, tot lot, and picnic area. The 2,363 SF recreation building would include a community room and kitchen, a conference room, multi-media and computer room. The ten residential buildings would consist of 12 one-bedroom, one-bath apartments; 48 two-bedroom, two-bath apartments; and 32 three-bedroom, two-bath apartments. The units would be air-conditioned and include refrigerators, dishwashers, gas ranges, walk-in closets, balconies or patios, and covered parking. The project would restrict 10% of the units to households earning no greater than 20% of AMI and 20% of the units to households earning no greater than 30% of AMI. The remaining 70% of units would be restricted to households earning no greater than 60% of AMI. The restricted rents for the project (outlined below) would also apply if Section 8 tenants occupy the units. The Regulatory Agreement that determines the level of affordability for the project would be in existence for 55 years.

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

Type	**Square Footage**	**AMI**	**Number of Units**	**Average Current Rents**	**Proposed Restricted Rent (Minus utility allowance)**	**Market Rate**	**Savings per unit**
1 Bedroom	588	30% AMI	7	N/A	$334	$1,210	$ 876
1 Bedroom	588	60% AMI	5	N/A	$696	$1,210	$ 514
2 Bedroom	918	20% AMI	9	N/A	$233	$1,495	$ 1,262
2 Bedroom	1,111	30% AMI	12	N/A	$374	$1,495	$ 1,121
2 Bedroom	918	60% AMI	27	N/A	$780	$1,495	$ 715
3 Bedroom	1,127	60% AMI	32*	N/A	$861	$1,926	$ 1,065
Total:			**92**				

* Includes one manager's unit

SELECTION OF THE FINANCING TEAM MEMBERS

Staff recommends assigning CSG Advisors, Inc. as financial advisor and Quint & Thimmig, LLP as bond counsel to work on the project. The proposed financing team members have been selected in accordance with the existing policy for the issuance of bonds. Financial advisors and bond counsels are designated on a rotating basis from the firms selected under the program through a competitive RFP process.

FINANCING STRUCTURE

Chelsea is proposing to duplicate the financing structure used in the Torrey Highlands Apartments project. It is anticipated that the bond-financed loan of up to $7.5 million would be underwritten utilizing Federal National Mortgage Association ("Fannie Mae") credit enhancement resulting in an AAA rating of the bonds with equity provided by a tax credit partner. Newman & Associates, Inc. would serve as the project's Underwriter to market and sell the bonds.

Subsequent to Housing Authority approval, staff would submit, on behalf of Chelsea, an application for private activity bond allocation to the California Debt Limit Advisory Committee (CDLAC). If successful, the bond financing would qualify the project for the allocation of 4% low-income housing tax credits, which would be sold to a tax credit partner. These proceeds would serve as a contribution of project equity. If the application were unsuccessful, at the request of the developer, staff would resubmit the application for a subsequent round.

The driving force behind the project's low levels of affordability is a funding commitment that the developer has secured from the State's Department of Housing and Community Development Division for a $3,371,000 Multifamily Housing Program (MHP) low-interest loan. MHP loans have a 55-year term and bear simple interest at a rate of 3% per year. For the first 30 years, the developer is required to pay only annual interest payments in the amount of 0.42% of the outstanding principal loan balance. Unpaid principal and accrued and deferred interest are due at the end of the loan term.

In the future, should the Housing Authority, under a separate action, authorize the issuance of bonds for the project, the bonds would not constitute a debt or 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 because the security for the bond repayments is limited to the value of the subject 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.

RISKS AND MITIGATIONS

Approval of the bond inducement resolution does not commit the Housing Authority to issue bonds. The recommended actions do not represent any commitment by the Housing Authority or the applicant to proceed with the tax-exempt or taxable financing of the project. When eventually issued, the financing risks associated with the project would be minimal since repayment of the bonds would be guaranteed by a third party.

ALTERNATIVE

Do not recommend approval of the bond inducement and TEFRA resolutions. If the recommended actions are not taken, the project would not be able to benefit from tax-exempt below-market financing, and the applicant would not be able to provide the lower than required NCFUA level of affordability (65% AMI) to the project.

Respectfully submitted, Approved by,

Signature on File
With Original Document

Jack D. Farris
Manager, Housing Finance & Development

Elizabeth C. Morris
Chief Executive Officer

ATTACHMENTS:

1. Description Bond Program and Actions to be Taken
2. Developer Disclosure Statement and Financial Statements*
3. Profile of Nonprofit Managing General Partner
4. Project Location Map

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

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ATTACHMENT 1

MULTIFAMILY BOND PROGRAM

General Description

The Multifamily Bond Program provides below market financing (based on tax exemption of bond interest) for developers willing to set aside a portion of the units in their projects as affordable housing. The issuer of these bonds is the Housing Authority. At the present time, nearly $500 million in outstanding bonds provides permanent financing for more than 8,590 multifamily rental units in the City, of which 3,778 units are restricted at various levels of affordability.

Bonds issued by the Housing Authority require a minimum "A" rating, which is typically achieved through the provision of an outside credit enhancement by participating financial institutions that underwrite the project loans and guarantee the repayment of bonds.

The authority to issue bonds is limited under the US Internal Revenue Code. The California Debt Limit Allocation Committee (CDLAC) accepts applications generally two to three times a year (funding "rounds"), and typically receives more applications than is available under its financing authority. Recent congressional action increased the state's bonding capacity from $50 to $62.50 per capita in 2001 and $75 in 2002.

The following actions must be taken by the Housing Authority and by the City Council to initiate a bond financing:

1. Bond Inducement

The adoption of an "inducement resolution" is an initial step required by the Internal Revenue Service to initiate a possible new-money bond issuance. It does not represent any commitment by the Housing Commission, Housing Authority or the applicant to proceed with the financing. Rather, it establishes, through public record, the date from which project costs incurred may be determined to be reimbursable from bond proceeds. Generally, the bond inducement amount is higher than the estimated bond amount to reflect a 10-15 percent contingency. The adoption also authorizes staff to work with the selected financing team to perform a due diligence process to determine the feasibility of the financing, the level of affordability of the set-aside units and structure a proposal for the issuance of bonds.

2. TEFRA Hearing and Approval

In order for interest on the bonds to be tax-exempt and in accordance with the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, Section 147(f) of the Internal Revenue Code of 1986, the issuance of bonds must be approved by representatives of the governmental unit with jurisdiction over the area in which the project would be located after a public hearing for which a reasonable public notice was given. Therefore, federal regulations require that the issuance of bonds by the Housing Authority be approved by the City Council, as the elected legislative body of the City. A notice of a public hearing to be held by the City Council with respect to the proposed issuance of bonds is published in the San Diego Daily Transcript at least fourteen days prior to the scheduled meeting. The purpose of such public hearing is to provide an opportunity for interested persons to provide their views on the proposed bond issuance and on the nature and location of the project.

3. Bond Allocation

The issuance of bonds for projects owned by private developers (i.e., projects owned by private developers or by nonprofit sponsors with for profit investor participation - "private activity bonds") requires an allocation of a bonding authority from the State of California. In order to apply for the bond allocation, an application approved by the Housing Authority and supported by an adopted inducement resolution and by proof of credit enhancement (or bond rating) must be filed with the California Debt Limit Allocation Committee (CDLAC). In addition, evidence of a TEFRA hearing and approval must be submitted prior to the CDLAC meeting.

4. Final Bond Approval

The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Initially, the information about the proposed tax-exempt financing of the project is preliminary. If the inducement resolutions are approved, a due diligence process conducted by staff and financing team members would generate additional information and analysis. Prior to final consideration of the proposed bond issuance by the Housing Authority, the project would have to comply with all the program's financing and affordability requirements, and undergo all required planning procedures/reviews by local planning groups, etc.