The Housing Authority of the City of San Diego

DATE: For the Agenda of May 28, 2002

REPORT NO: HAR02-004

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Villa Andalucia Apartments and Villa Glen Apartments (Council District 1)

SUMMARY

Issue: Should the Housing Authority take the final step to issue tax-exempt multifamily housing revenue bonds to finance the acquisition and construction by Chelsea Investment Corporation of Villa Andalucia Apartments and Villa Glen Apartments, located in subareas III and IV, respectively, of Council District 1, formerly a part of the North City Future Urbanizing Area (NCFUA)?

Recommendation: That the:

Housing Authority authorize the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed:

1. $2,231,000 for the acquisition and construction of the 32-unit Villa Andalucia Apartments complex to be located in Pacific Highlands Ranch (subarea III) at the intersection of Rancho Santa Fe Farms Road and Caminito Mendiola (Council District 1); and,

2. $2,048,000 for the acquisition and construction of the 26-unit Villa Glen Apartments complex to be located in Torrey Highlands (subarea IV) on Torrey Santa Fe Road west of Torrey Meadows (Council District 1).

Fiscal Impact: 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 both financings will be up to $9,842 (0.23 percent of the bond amounts).

Housing Affordability Impact: The combined projects represent new housing supply of 58 units. Both projects will restrict 30% of the apartments for occupancy by families earning no greater than 50% Area Median Income (AMI) ($28,450 for a family of four); and the remaining 70% of units for families earning no greater than 60% AMI ($34,140 for a family of four). The affordability restrictions will remain in place for 55 years. The restricted rents would also apply if Section 8 tenants occupy the units.

Previous Related Action(s): A Bond Inducement resolution, a TEFRA resolution and an application for the allocation of bond issuing authority for the project was approved by the Housing Authority and City Council on January 15, 2002, Report No. HAR 02-001, Resolution No. R-1143 and Resolution No. R-295957 (Villa Andalucia) and Resolution No. R-1144 and Resolution No. R-295956 (Villa Glen).

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 for action.

BACKGROUND

On January 23, 2002, the Housing Authority, on behalf of the developer, submitted applications to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation in the amounts of $2,231,000 for Villa Andalucia and $2,048,000 for Villa Glen. On April 2, 2002, CDLAC awarded the requested bond allocation to the project. The projects' bond allocation will automatically revert to CDLAC unless the bonds are issued by July 1, 2002.

A general description 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 the proposed financing are described in *Attachment 1*.

PROJECT NARRATIVES

The applicant and developer for the proposed projects 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 projects) 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* and the Report of San Diego County Workforce is included as *Attachment 6*.

Chelsea will act as the general partner in two California limited partnerships that will be created for the projects. Pacific Southwest Community Development Corporation, a

California nonprofit public benefit corporation, will serve as the managing general partner and tax credit investors will be the limited partners of the partnerships.

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 acquisition and 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 in Council District 8 and 2, respectively. Finally, Chelsea also recently completed development of the 38-unit Longacres at Seabreaze Farms in the North City.

Chelsea is now requesting that the Housing Authority take the final step to issue a total of up to $4,279,000 in multifamily housing revenue bonds for the two projects. Development of each apartment complex would fulfill the affordable housing requirements for market rate developments by two separate master developers in the Planning subareas. The location map is included as *Attachment 3*.

The new construction projects would create a total of 58 units. Each project would include a community facility suitable in size for the number of units in the respective development. Standard unit amenities would include refrigerators, gas ranges, microwave ovens, walk-in closets, and balconies or patios. Both projects would restrict 30% of their units to households earning no greater than 50% of AMI. The remaining 70% of units in each project would be restricted to households earning no greater than 60% of AMI. The restricted rents for each project (outlined below) would also apply if Section 8 tenants occupy the units. The Regulatory Agreement that determines the level of affordability for the projects would be in existence for 55 years.

Following are plans to attenuate traffic that might be created by development of the two projects:

Villa Andalucia – The Pacific Highlands Ranch land use plan anticipates that there will be two Transit Centers located within the master planned community. One of the Transit Centers is to be located in the Village Core, approximately one mile from the affordable site. The other is to be located less than two miles west of Villa Andalucia. Shuttles from the Transit Centers will transport riders to the closest Coaster station with service to downtown San Diego and north to Oceanside with connecting service to the San Diego Trolley and AMTRAK either in San Deigo or in Solana Beach.

Villa Glen – While no specific plans have been adopted to provide bus service to Torrey Highlands, the Metropolitan Transit District Board's (MTDB) long range plans include a trolley-like express service in the right-of-way of Interstate 15 with collector service from the residential and employment centers along the I-15 corridor. The Torrey Highlands employment center and the local mixed-use centers are likely pick-up points for the collector service. In addition, there are no fewer than seven park and ride locations within three to four miles of the project site on the I-15 corridor.

Villa Andalucia Apartments

The 32-unit Villa Andalucia Apartments will be located at the intersection of Rancho Santa Fe Farms Road and Caminito Mendiola (south side of State Route 56) in Pacific Highlands Ranch (subarea III) of the FUA. The project, which will be constructed on 1.35 acres, will consist of 8 one-bedroom, one-bath apartments; 12 two-bedroom, two-bath apartments; and 12 three-bedroom, two-bath apartments. The project will include a 1,000 SF community center. Chelsea's development of the project would satisfy the master developer's, Barrett-American, Inc., requirement to provide affordable units on-site, along with the development of market rate housing.

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	682	47% AMI	2	N/A	$468	$1,010	$542
1 Bedroom	682	56% AMI	6	N/A	$574	$1,010	$436
2 Bedroom	880	50% AMI	4	N/A	$558	$1,325	$767
2 Bedroom	880	60% AMI	8	N/A	$686	$1,325	$639
3 Bedroom	1,122	50% AMI	4	N/A	$609	$1,602	$993
3 Bedroom	1,122	60% AMI	8	N/A	$752	$1,602	$850
Total:			**32**				

Villa Glen Apartments

The 26-unit Villa Glen Apartments will be located on Torrey Santa Fe Road west of Torrey Meadows Drive (south side of State Route 56) in Torrey Highlands (subarea IV). The project, which will be constructed on 2.2 acres, will consist of 8 one-bedroom, one-bath apartments; 8 two-bedroom, two-bath apartments; and 10 three-bedroom, two-bath apartments. The project features will include a 600 SF community center. Chelsea's development of the project would satisfy the master developer's, McMillin Companies, Inc., requirement to provide affordable units on-site, along with the development of market rate housing.

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	750	47% AMI	2	N/A	$468	$1,010	$542
1 Bedroom	750	56% AMI	6	N/A	$574	$1,010	$436
2 Bedroom	900	50% AMI	3	N/A	$558	$1,325	$767
2 Bedroom	900	60% AMI	5	N/A	$686	$1,325	$639
3 Bedroom	1,091	50% AMI	3	N/A	$609	$1,602	$993
3 Bedroom	1,091	60% AMI	7	N/A	$752	$1,602	$850
Total:			**26**				

FINANCING STRUCTURE

Two separate issues of bonds are proposed for the projects: 2002 A Bonds ("Senior Bonds") and Series B Bonds ("Subordinate Bonds") for Villa Andalucia; and 2002 C Bonds ("Senior Bonds") and Series D Bonds ("Subordinate Bonds") for Villa Glen. The Senior Bonds will be credit enhanced by Fannie Mae and are expected to receive a "AAA" rating by Standard and Poor's Corporation. The Subordinate Bonds will be secured by a guaranteed investment contract and are expected to receive a rating of at least "AA" by Standard and Poor's Corporation.

In addition to bond proceeds, the projects would be funded from tax credit equity investments, deferred developer fees, and loans from each of the master developers as partial fulfillment of their obligations to provide affordable housing in the NCFUA. The loans would be subordinated to the Bonds. The Bonds would be fixed rate, with the final maturity in 2034. The Subordinated Bonds would be paid in full by the proceeds of the guaranteed investment contract upon conversion from construction to permanent financing, approximately two years after issuance. Sources and uses of the funds are shown in *Table 1 of Attachment 4 and Attachment 5*.

RISKS AND MITIGATIONS

Staff has been working with Litten Financial Consulting, the Housing Commission's financial advisor for these projects, to perform due diligence under the proposed financing and in formulating the resulting recommendation for the Housing Authority. After evaluating the projects' financial circumstances, the terms of the proposed financing and public benefits to be achieved, it is the financial advisor's recommendation that the bond issuance for both projects be authorized. The Financial Advisor's analysis and recommendation to proceed is included as *Attachment 4 (Villa Andalucia) and Attachment 5 (Villa Glen)*.

Issuances of bonds for the projects do 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 properties and their revenue sources. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fees.

If the bond issuance is authorized, the following primary documents will be executed on behalf of the Housing Authority: Indenture of Trust, Financing Agreement, Regulatory Agreement and Bond Purchase Agreement. These documents, in a substantially final form, will be on file in the Housing Commission and City Clerk offices at the time of docketing for consideration by the Housing Authority.

ALTERNATIVE

Do not authorize the issuance of the bonds at this time. The projects' bond allocation will automatically revert to the State unless the bonds are issued by July 1, 2002. If the recommended actions are not taken for either project, that project will not be able to benefit from tax-exempt below-market financing, and the applicant would not be able to provide the lower than required level of affordability (65% AMI) to each of the three projects.

Respectfully submitted,

Signature on File with Original Document

Jack D. Farris
Manager, Housing Finance & Development

Approved by,

Elizabeth C. Morris
Chief Executive Officer

ATTACHMENTS:

1. Description of Multifamily Bond Program
2. Developer Disclosure Statement and Financial Statements*
3. Project Location Map (Both Projects)
4. Financial Advisor's Letter (Villa Andalucia)
5. Financial Advisor's Letter (Villa Glen)
6. Report of San Diego County Workforce

*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 $470 million in outstanding bonds provides permanent financing for more than 7,900 multifamily rental units in the City, of which 3,203 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 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 resulting 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 is 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 public hearing to be held by the City Council with respect to the proposed issuance of bonds will be 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 bond issuing 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 will generate additional information and analysis. Prior to final consideration of the proposed bond issuance by the Housing Authority, the project will have to comply with all the program's financing and affordability requirements, and undergo all required planning procedures/reviews by local planning groups, etc.