



Good Neighbors

San Diego
Housing Commission

REPORT

DATE: For the Housing Authority Agenda of February 13, 2001

REPORT NO: HAR01-001

SUBJECT: Issuance of Multifamily Housing Revenue Bonds for New Projects
(Council Districts 1,7,8)

SUMMARY

Issue No. 1: Should the Housing Authority take the *initial steps* to issue tax-exempt and taxable housing revenue bonds to finance the acquisition, rehabilitation, and construction of three projects located in Council Districts 1,7, and 8?

Recommendation: No. 1: The Housing Commission recommends that:

- A. the Housing Authority approve *Bond inducement resolutions* for the following three projects:
1. Acquisition and construction of the 280-rental “living unit” **Island Village Apartments** to be located on a parcel at 12th through 13th Streets, and Island through Market Streets, for the approximate amount of \$13 million in housing revenue bonds (Council District 8); and
 2. Acquisition and construction of the 76-unit **Torrey Highlands Apartments** to be located at the intersection of Route 56 and Camino Ruiz for the approximate amount of \$5.5 million in housing revenue bonds (Council District 1).
 3. Acquisition and rehabilitation of the 81-unit **Pacific Cove Apartments** located at 4019-4027 Oakcrest Drive for the approximate amount of \$3.3 million in housing revenue bonds (Council District 7).
- B. the Housing Authority approve *Applications* to Round 1 and, if necessary, Round 2, of the State’s 2001 allocation rounds for bond issuing authority for each of the three projects.



C. The City Council holds a **public hearing** (known as a *TEFRA hearing* – Tax Equity and Fiscal Responsibility Act) and adopts resolutions approving the issuance of bonds by the Housing Authority for each of the three projects.

Issue No. 2: Should the Housing Commission approve financing teams from the previously approved list of Financial Advisors and Bond Counsels to work on preparing the proposed bond issuances?

Recommendation No. 2: That the Housing Commission ***approve the following financing teams:***

- A. Dain Rauscher Incorporated as financial advisor and Stradling, Yocca, Carlson & Rauth as bond counsel to begin work on **Island Village Apartments**.
- B. CSG Advisors Incorporated as financial advisor and Orrick, Herrington & Sutcliffe, LLP as bond counsel to begin work on **Torrey Highlands Apartments**.
- C. CSG Advisors Incorporated as financial advisor and Quint & Thimmig, LLP as bond counsel to begin work on **Pacific Cove Apartments**.

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

Housing Affordability Impact: Each of the three projects will restrict, at a minimum, 10% of the apartments for occupancy by families earning no greater than 50% Median Area Income (MAI), which is \$26,850 for a family of four; and at least 30% of the remaining units for families earning no greater than 60% MAI, which is \$32,220 for a family of four. Each project is subject to additional affordability requirements, varying from site, as described below, and illustrated in *Attachment 2*. The affordability restrictions will remain in place for 55 years.

Previous Related Actions: No previous actions.

Future Related Action(s): Specific authorization to issue bonds for each of the three projects will be sought from both the Housing Commission and the Housing Authority at future dates (Refer to *Attachment 1*, Section 4 “Final Bond Approval”).

Also, at a future date, no later than 30 days after the State’s Round I application deadline date of February 21st, staff will request that the City Council hold the abovementioned public (TEFRA) hearing for each of the three Projects.

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 tax-exempt borrowing status to pass on lower interest rate financing to developers of affordable housing. Some projects require both forms of assistance, as is the case for one of the projects (**Pacific Cove Apartments**) described in this report. However, this report pertains specifically to the issuance of tax-exempt multifamily revenue bonds.

The authority to issue bonds is limited under the US Internal Revenue Code. The California Debt Limit Allocation Committee (CDLAC) accepts applications generally twice a year (funding "rounds"), and receives more applications than is available under its financing authority. Despite recent congressional action that has increased the state's bonding capacity by 50%, competition is expected to remain keen.

Prior to the CDLAC funding rounds, projects are grouped and brought to the Housing Commission, Housing Authority, and City Council; all necessary approvals must be obtained prior to Round I application submittal on February 21, 2001.

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 financings are described in *Attachment 1*.

PROJECT NARRATIVES

Island Village Apartments

Palm Village LLC, the current owner of the property, is a joint venture between La Jolla Investment Company LLC (LJIC) and JMI Realty. The principals of Palm Village are also principals in East Village Development San Diego LLC, which was created to develop the four blocks between 9th, 13th, Island and Market Streets. Currently, the plan for the remaining blocks is to build two 24-story high-rise residential towers on the blocks between 9th and 11th, and a 4-story market rate rental project between 11th-12th.

A new ownership entity -- which will include the principals of Palm Village LLC, a non-profit corporation, and a tax credit partner -- will purchase the property from

Palm Village and become developer/owner of the 280-unit affordable housing project, to be known as Island Village.

The principals for LJIC is Rod Stone, formerly of So Cal Development, and Ryan Stone. Rod Stone has been building multi-family developments in San Diego for over 25-years and has completed over 4,000 units. He currently has over 500-units under construction, and recently completed 500-units in San Diego. LJIC has created an internal management company, the Monarch Group, to manage the portfolio.

During the 80's Rod Stone built three communities that utilized bond financing issued by the City of San Diego. There are 740 total units in the project, 20% of which are designated as affordable.

JMI Realty is a private real estate investment and development company that has operated in San Diego since 1992. The principals are Garth Erdossy and Dennis Cruzan. They currently manage a real estate portfolio valued at \$600 million. JMI Realty is the Master Developer for the Ballpark District of the East Village redevelopment area of downtown San Diego. This redevelopment includes, the Padres new Ballpark, retail, office and residential.

The Developer's Statement for Public Disclosure is included as *Attachment 3.1*.

Palm Village LLC, is requesting that the Housing Authority take the initial steps to issue approximately \$13 million in multifamily revenue bonds for new construction of the 280-rental "living unit" Island Village Apartments to be located on a parcel at 12th through 13th Streets, and Island through Market Streets in Council District 8. The location map is included as *Attachment 3*.

The San Diego Municipal Code defines a "living unit" as "an enclosed space of more than 150 net square feet, which is not required to, but may contain a full or partial kitchen and bathroom. In accordance with this code, the units will average approximately 275 s.f. (similar to a studio apartment) and have full bathrooms and full kitchens, which will include a burner, oven, sink, small refrigerator, and garbage disposal. The units will also include closets/storage space and be pre-wired for cable TV. All units will be furnished with beds, dressers and other essential items. Amenities will include laundry room facilities, computer areas, and a living/library room. The Project is located adjacent to the 12th avenue Trolley Stop.

The entire 280 units in the project would be set-aside for occupancy by low-income renters. Ten percent of the units (28 units) would be affordable to

households earning 50% of MAI (\$18,800 for a one-person household); the remaining 252 units would be affordable at 60% of MAI (\$22,560 for a one-person household). Should the developer receive a project loan from Centre City Development Corporation (CCDC), additional affordability requirements would take effect: forty percent of the units (112 units) would be affordable to households earning 50% of MAI; the remaining 168 units would be affordable at 60% of MAI. The restricted rents 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.

The developer is in the process of negotiating a Development Disposition Agreement with CCDC. As of the date of this report, the following approvals are still outstanding: building permit approvals from the City of San Diego Building Department, CCDC Board approval for the Development Disposition Agreement (DDA), and Redevelopment Agency Board approval. The Redevelopment Agency is scheduled to meet on February 20th.

Torrey Highlands Apartments

Chelsea Investment Corporation (Chelsea) is the applicant and developer for Torrey Highlands Apartments. James Schmid is President of the corporation and 100% shareholder. The Developer's Statement for Public Disclosure is included as *Attachment 4.1*.

Chelsea requesting that the Housing Authority take the initial steps to issue approximately \$5.5 million in multifamily revenue bonds for new construction of the 76 unit Torrey Highlands Apartments to be located at the intersection of Route 56 and Camino Ruiz. This apartment complex fulfills the affordable housing requirements for a large market rate development in the Future Urbanizing Area (FUA). The location map is included as *Attachment 4*.

The project will consist of 40 two-bedroom, two-bath apartments and 36 three-bedroom, two-bath apartments in four three-story buildings. The project features an 1,800 SF community center, tot lot, active play area, and laundry room.

The entire 76 units in the project would be set-aside for occupancy by low-income renters. Ten percent of the units (8 units) would be affordable to households earning 50 percent of MAI (\$26,850 for a family of four); the remaining 68 units would be affordable at 60 percent of MAI (\$32,220 for a family of four). The restricted rents 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.

Pacific Cove Apartments

Hampstead Partners, Inc. (Hampstead) is the applicant and developer for Pacific Cove Apartments. The shareholders of the corporation include Chris Foster, Norm Root, Jay Wentz, and Price LLC. The Developer's Statement for Public Disclosure is included as *Attachment 5.1*.

Hampstead is requesting that the Housing Authority take the initial steps to issue approximately \$3.3 million in multifamily revenue bonds for the acquisition and rehabilitation of the 81-unit Pacific Cove Apartments located at 4019-4027 Oakcrest Drive. The location map is included as *Attachment 5*.

The project currently consists of three studio units, 60 one-bedroom units, and 18 two-bedroom units. Hampstead proposes to reconfigure the existing units to a more viable unit mix that will be more responsive to the needs of the local community regarding unit size. The proposed reconfiguration would result in three studios, 66 one-bedroom units, 6 two-bedroom units, and 6 three-bedroom.

The entire 81 units in the project would be set-aside for occupancy by low-income renters. Ten percent of the units (9 units) would be affordable to households earning 50 percent of MAI (\$26,850 for a family of four); the 72 units would be affordable at 60 percent of MAI \$32,220 for a family of four). The restricted rents 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.

In conjunction with its efforts to secure bond financing, Hampstead Partners, Inc. also has submitted an application for a \$2 million loan from the Housing Commission. That application is currently undergoing consideration. A Housing Commission loan is necessary if the project is to proceed; it would be considered by the Housing Commission and Housing Authority at a later date. Hampstead is proposing a co-general partnership, in a tax credit limited partnership, with Housing Development Partners of San Diego. Housing Development Partners (HDP) is a public benefit non-profit corporation created by the Housing Commission.

SELECTION OF THE FINANCING TEAM MEMBERS

The financing team members for the proposed financings 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.

Staff recommends the following assignments:

Island Village Apartments - Dain Rauscher Incorporated (financial advisor) and Stradling, Yocca, Carlson & Rauth (bond counsel);

Torrey Highlands Apartments - CSG Advisors Incorporated (financial advisor) and Orrick, Herrington & Sutcliffe, LLP (bond counsel); and

Pacific Cove Apartments - CSG Advisors Incorporated (financial advisor) and Quint & Thimmig, LLP (bond counsel).

FINANCING STRUCTURE

Based on information received from the developers of all three projects, staff expects the financing structure will be the same for each project. It is anticipated that the bond-financed loans will be underwritten utilizing Federal National Mortgage Association ("Fannie Mae") or Federal Home Loan Mortgage Corporation ("Freddie Mac") credit enhancement resulting in a AAA rating of the bonds with equity provided by a tax credit partner.

Subsequent to Housing Commission and Housing Authority approval, staff would submit, on behalf of each developer, applications for Round I private activity bond allocation to the California Debt Limit Advisory Committee (CDLAC) on February 21, 2001. If successful, the bond financing will automatically qualify the projects 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 an application is unsuccessful, at the request of the developer, staff would resubmit the application for the Round II allocation on, or about, June 1, 2001.

In the future, should the Housing Authority, under a separate action, authorize the issuance of bonds for the projects, 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 project revenue sources. In addition, the owners of the bonds will agree that, should a mortgage default occur, there would not be a bond default. Should a mortgage default occur, the bondholder or institutional investor (i.e., Fannie Mae or Freddie Mac) would have the ability to redeem the bonds in exchange for the ownership of the project. The developers are responsible for the payment of all costs under the financing, including the Housing Commission's annual fees.

RISKS AND MITIGATIONS

Approval of the bond inducement resolutions does not commit the Housing Authority to issue bonds. The recommended actions do not represent any commitment by the Housing Commission, Housing Authority or the applicant to proceed with the tax-exempt financing of the project. When eventually issued, the financing risks associated with each 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 for one or more to the proposed projects. If the recommended actions are not taken for any particular project, that project will not be able to benefit from tax-exempt below-market financing and the applicant would have to seek alternative financing sources.

In most cases, projects would not proceed without tax-exempt financing. For those that do proceed, below market rents would not be feasible.

Respectfully submitted,

Approved by,

Pat Duplechan
Director, Housing Programs

Elizabeth C. Morris
Chief Executive Officer

ATTACHMENTS:

1. Description Bond Program and Actions to be Taken
2. Affordability Restrictions and Rents

Island Village Apartments

3. Project Location Map
- 3.1. Developer's Statement for Public Disclosure*

Torrey Highlands Apartments

4. Project Location Map
- 4.1. Developer's Statement for Public Disclosure*

*Signature on File
With Original Document*

Pacific Cove Apartments

- 5. Project Location Map
- 5.1. Developer's Statement for Public Disclosure*

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

ATTACHMENT 1

HOUSING COMMISSION'S MULTIFAMILY BOND PROGRAM

General Description

The Housing Commission's 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 actual issuer of these bonds is the Housing Authority. At the present time, nearly \$400 million in outstanding bonds provides permanent financing for more than 6,900 multifamily rental units in the City, of which 2,373 units are restricted at various levels of affordability.

The Housing Commission's policy for the issuance of bonds requires 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 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 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.

ATTACHMENT 2
AFFORDABILITY REQUIREMENTS AND RENT STRUCTURE

A. Island Village Apartments

(With a CCDC Loan)

Type	Square Footage	MAI	Number of Units	Average Current Rent	Proposed Restricted Rent (developer pays utilities)	Market Rate	Savings
Living Unit	275	50% MAI	112	NA	\$470	\$725	\$ 255
Living Unit	275	60% MAI	168	NA	\$564	\$725	\$ 161
Total:			280				\$ 55,608

(Without a CCDC Loan)

Type	Square Footage	MAI	Number of Units	Average Current Rent	Proposed Restricted Rent (developer pays utilities)	Market Rate	Savings
Living Unit	275	50% MAI	28	NA	\$470	\$725	\$ 255
Living Unit	275	60% MAI	252	NA	\$564	\$725	\$ 161
Total:			280				\$ 46,872

B. Torrey Highlands Apartments

Type	Square Footage	MAI	Number of Units	Average Current Rents	Proposed Restricted Rent (minus utility allowance)	Market Rate	Savings
2 Bedroom	710	50% MAI	4	N/A	\$557	\$1375	\$ 818
2 Bedroom	710	60% MAI	36	N/A	\$678	\$1375	\$ 697
3 Bedroom	1,120	50% MAI	4	N/A	\$613	\$1620	\$ 1,007
3 Bedroom	1,120	60% MAI	32	N/A	\$748	\$1620	\$ 872
Total:			76				\$ 60,296

ATTACHMENT 2
AFFORDABILITY REQUIREMENTS AND RENT STRUCTURE

C. Pacific Cove Apartments

Type	Square Footage	MAI	Number of Units	Average Current Rents	Proposed Restricted Rent (minus utility allowance)	Market Rate	Savings
Studio	400	48% MAI	3	495	\$445	\$500	\$ 55
1 Bedroom	550	45% MAI	13	543	\$472	\$600	\$ 128
1 Bedroom	550	51% MAI	46	543	\$536	\$600	\$ 64
1 Bedroom	550	57% MAI	7	543	\$600	\$600	\$ 0
2 Bedroom	750	48% MAI	1	645	\$564	\$700	\$ 136
2 Bedroom	750	54% MAI	4	645	\$626	\$700	\$ 74
2 Bedroom	750	59% MAI	1	645	\$700	\$700	\$ 0
3 Bedroom	825	50% MAI	5	n.a	\$653	\$800	\$ 147
3 Bedroom	825	56% MAI	1	n.a	\$800	\$800	\$ 0
Total:			81				\$5,940