

<b>REQUEST FOR HOUSING AUTHORITY ACTION</b> CITY OF SAN DIEGO				1. CERTIFICATE NUMBER:			
TO: CITY ATTORNEY		2. FROM: (ORIGINATING DEPARTMENT) SAN DIEGO HOUSING COMMISSION		3. DATE May 21, 1999			
4. SUBJECT: PROPOSED AMENDMENTS OF THE HOUSING AUTHORITY REVENUE BONDS FOR PASEO POINT APARTMENTS, LA CIMA APARTMENTS, AND NOBEL COURT APARTMENTS							
5. FOR INFORMATION, CONTACT: (NAME & MAIL STA.) JACK FARRIS MS49			6. TELEPHONE NO. 525-3621		7. CHECK HERE IF BOX 1472A, "DOCKET SUPPORTING INFORMATION," HAS BEEN COMPLETED ON PAGE 2:		
<b>8. COMPLETE FOR ACCOUNTING PURPOSES</b>							
FUND						9. ADDITIONAL INFORMATION / ESTIMATED COST: 0	
DEPT.							
ORGANIZATION							
OBJECT ACCOUNT							
JOB ORDER							
C.I.P. NO.							
AMOUNT							
<b>10. ROUTING AND APPROVALS</b>							
ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	CHIEF EXECUTIVE OFFICER	<i>Elizabeth P. Morris</i>			CITY MANAGER		
					AUDITOR		
				2	CITY ATTORNEY	<i>Prescilla Dugard</i>	5-24-99
				3	ORIGINATING DIVISION	<i>Patricia M. Getze</i>	5/22/99
					MGR. DOCKET COORD.	COUNCIL REP.	
				✓	RULES COMMITTEE	<input type="checkbox"/> CONSENT <input type="checkbox"/> Refer to _____	<input checked="" type="checkbox"/> ADOPTION Date 6-8-99
11. PREPARATION OF: <input checked="" type="checkbox"/> RESOLUTION(S) <input type="checkbox"/> ORDINANCE(S) <input type="checkbox"/> AGREEMENT(S) <input type="checkbox"/> DEED(S)							
AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDED AND RESTATED INDENTURE OF TRUST AND RELATED ACTIONS WITH RESPECT TO THE REISSUANCE OF THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO \$51,500,000 MULTIFAMILY HOUSING REVENUE BONDS, 1985 ISSUE L, \$43,640,000 MULTIFAMILY HOUSING REVENUE BONDS, 1985 ISSUE K, \$14,550,000 MULTIFAMILY HOUSING REVENUE BONDS, 1994 ISSUE A.							
11a. EXECUTIVE DIRECTOR'S RECOMMENDATIONS:  APPROVE THE RESOLUTION.							
12. SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION.)							
<u>HOUSING COMMISSION RECOMMENDATION:</u>		THE HOUSING COMMISSION BOARD RECOMMENDED HOUSING AUTHORITY APPROVAL ON MAY 28, 1999.					
<u>COUNCIL DISTRICT(S):</u>		1					
<u>COMMUNITY AREA(S):</u>		RANCHO PENASQUITOS AND UNIVERSITY CITY					
<u>ENVIRONMENTAL IMPACT:</u>		N/A					
<u>OTHER ISSUES:</u>		COMPANION ITEM TO CITY COUNCIL REPORT					

(HA-99-41)

HOUSING AUTHORITY OF  
THE CITY OF SAN DIEGO

RESOLUTION NO. \_\_\_\_\_

ADOPTED ON \_\_\_\_\_

A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDED AND RESTATED INDENTURE OF TRUST AND RELATED ACTIONS WITH RESPECT TO THE REISSUANCE OF THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO \$51,500,000 MULTIFAMILY HOUSING REVENUE BONDS, 1985 ISSUE L, \$43,640,000 MULTIFAMILY HOUSING REVENUE BONDS, 1985 ISSUE K, \$14,550,000 MULTIFAMILY HOUSING REVENUE BONDS, 1994 ISSUE A.

WHEREAS, the Housing Authority of the City of San Diego [the Authority] has previously issued its \$51,500,000 Multifamily Housing Revenue Bonds, 1985 Issue L [the Nobel Bonds] pursuant to an Indenture of Trust dated as of December 1, 1985, as amended by that certain Amended and Restated Indenture of Trust dated as of July 1, 1986, that certain First Supplemental Indenture of Trust dated as of November 1, 1992 and that certain Second Supplemental Indenture of Trust dated as of June 1, 1996 [collectively, the Original Nobel Indenture], between the Authority and U.S. Bank Trust National Association, as successor trustee under the Original Nobel Indenture [the Nobel Trustee]; and

WHEREAS, the Authority has previously issued its \$43,640,000 Multifamily Housing Revenue Bonds, 1985 Issue K [the La Cima Bonds] pursuant to an Indenture of Trust dated as of December 1, 1985, as amended by that certain Amended and Restated Indenture of Trust dated as of July 1, 1986, that certain First Supplemental Indenture of Trust dated as of November 1, 1992 and that certain Second Supplemental Indenture of Trust dated as of June 1, 1996 [collectively,

the Original La Cima Indenture], between the Authority and U.S. Bank Trust National Association, as successor trustee under the Original La Cima Indenture [the La Cima Trustee]; and

WHEREAS, the Authority has previously issued its \$14,550,000 Multifamily Housing Revenue Bonds, 1994 Issue A [the Paseo Bonds, and together with the Nobel Bonds and the La Cima Bonds, the Bonds] pursuant to an Indenture of Trust dated as of January 1, 1994, as amended by that certain First Amended and Restated Indenture of Trust dated as of May 15, 1998, between the Authority and U.S. Bank Trust National Association, as successor trustee under the Original Indenture (the Paseo Trustee, and together with the Nobel Trustee and the La Cima Trustee, the Trustees) (collectively, the Original Paseo Indenture, and together with the Original Nobel Indenture and the Original La Cima Indenture, the Original Indentures]; and

WHEREAS, the Authority has previously made loans [the Developer Loans] to Nobel Court Ltd., La Cima Ltd. and Vista Court Ltd., each a California limited partnership [collectively, the Developers] to enable the Developers to finance the construction, respectively, of a 685-unit multifamily residential development located at 8895 Caminito Plaza Centro., a 514 unit multifamily rental housing project located at 7500 Charmant Drive, and a 250-unit multifamily rental housing project located at 10024 Paseo Montril Drive, each in the City of San Diego [the City], California and known, respectively, as the Nobel Court Apartments, the La Cima Apartments and the Paseo Point Apartments [collectively, the Developments], to be occupied partially (at least 20 percent) by persons of low or moderate income within the meaning of Section 103(b)(12)(C) of the Internal Revenue Code of 1954, as amended, all for the public purpose of assisting persons of low and moderate income within the City and surrounding areas to obtain decent, safe and sanitary housing; and

WHEREAS, in order to implement the making of the Developer Loans, the Authority entered into that certain Loan Agreement dated as of December 1, 1985, as amended by that certain First Amendment to Loan Agreement dated as of July 1, 1986, that certain Second Amendment to Loan Agreement dated as of November 1, 1992 and that certain Third Amendment to Loan Agreement dated as of June 1, 1996 [the Nobel Loan Agreement], that certain Loan Agreement dated as of December 1, 1985, as amended by that certain First Amendment to Loan Agreement dated as of July 1, 1986, that certain Second Amendment to Loan Agreement dated as of November 1, 1992 and that certain Third Amendment to Loan Agreement dated as of June 1, 1996 [the La Cima Loan Agreement] and that certain Loan Agreement dated as of January 1, 1994, as amended by that certain Loan Agreement Amendment dated as of May 15, 1998 [the Paseo Loan Agreement, and together with the Nobel Loan Agreement and the La Cima Loan Agreement, the Loan Agreements] with the respective Developers and the respective Trustees pursuant to which. the Authority agreed to make and the Developers agreed to accept the Developer Loans to enable the Developers to finance the construction and development of the Developments; and

WHEREAS, payment of principal of and interest on the Bonds, as well as the purchase price of the Bonds in the event of a liquidity drawing for the purchase price of the Bonds, is currently secured by Irrevocable Letters of Credit [the Letter of Credits]; and

WHEREAS, each of the Letters of Credit for the Nobel Bonds and the La Cima Bonds terminates on June 30, 1999, and for the Paseo Bonds terminates on August 15, 1999 and the Developers desire to provide replacements for the Letters of Credit and to extend the maturity for the Bonds; and

WHEREAS, the Original Nobel Indenture and the Original La Cima Indenture provide

that upon satisfaction of the conditions of Section 212 of each such Indenture, the respective Developer may deliver to the Trustee a Substitute Letter of Credit or an Alternate Security as a replacement for the Letters of Credit; and

WHEREAS, the Original Paseo Indenture provides that upon satisfaction of the' conditions of Section 3.04 of such Indenture, the Developer may deliver to the Trustee a Substitute Letter of Credit as a replacement for the Letter of Credit; and

WHEREAS, the Developers desire to replace each of the Letters of Credit with an Alternate Security issued by the Federal Home Loan Mortgage Corporation [Freddie Mac] in the form of a Credit Enhancement Agreement [collectively, the Credit Enhancement Agreements] which will provide for (i) liquidity draws by the Trustee as necessary to pay the purchase price of the Bonds while the Bonds bear interest at the Variable Interest Rate and (ii) draws in an amount equal to the principal and interest payments due and owing under the Developer Loans; and

WHEREAS, the Authority desires to extend the maturities of the Bonds to December 1, 2022; and

WHEREAS, it is necessary to make certain amendments to the Original Indentures, the Loan Agreements and certain of the other documents executed with respect to the Bonds to provide for replacement of the Letter of Credit with the Credit Enhancement Agreement and to extend the maturity of the Bonds; and

WHEREAS, Sections 1001 and 10.01, as applicable, of the Original Indentures provides that the Original Indenture may be amended at any time by Supplemental Indentures, with the consent of all Bondholders to extend the date of maturity of the Bonds; and

WHEREAS, Sections 1102 and 11.02, as applicable, of the Original Indentures provide that the Authority, the Developers and the Trustees may, with the consent of all of the

Bondholders, enter into amendment of the Developer Loan Documents to extend the time of payment of amounts payable under the Loan Agreements; and

WHEREAS, Sections 1103 and 11.03, as applicable, of the Original Indentures provide that no amendments may be made to any of the respective Developer Loan Documents unless the Authority has received opinions of Bond Counsel to the effect that such amendments, changes or modifications will not impair the exemption of the interest on the Bonds from federal income taxation and the State of California personal income taxation; and

WHEREAS, the Developers have requested that the Authority and the Trustee approve certain amendments to the Original Indentures and the respective Developer Loan Documents in order to permit the delivery of the Credit Enhancement Agreements by Freddie Mac; and

WHEREAS, the Authority desires to approve certain amendments to the Original Indentures and the respective Developer Loan Documents in order to permit the extension of the maturity of the Bonds and the delivery of the Credit Enhancement Agreements; and

WHEREAS, Stradling Yocca Carlson & Rauth, a Professional Corporation, as Bond Counsel to the Authority, will render opinions to the effect that such amendments to the Original Indentures and the respective Developer Loan Documents will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds; and

WHEREAS, any capitalized terms not defined herein shall have the meaning set forth in the Original Indentures; and

WHEREAS, the Authority desires to approve an Amended and Restated Indenture of Trust dated as of June 1, 1999 [the Nobel Amended and Restated Indenture], an Amended and Restated Indenture of Trust dated as of June 1, 1999 [the La Cima Amended and Restated Indenture] and an Amended and Restated Indenture of Trust dated as of June 1, 1999 [the Paseo

Amended and Restated Indenture, and together with the Nobel Amended and Restate Indenture and the La Cima Amended and Restated Indenture, the Amended and Restated Indentures] the form of which has been presented at this meeting; as requested by the Developers and to authorize its officers to grant any needed consents or take any other actions required to effectuate the amendments to the Original Indentures, the substitution of the Freddie Mac Credit Enhancement Agreements, the extension of the maturities of the Bonds and the remarketing of the Bonds; and

WHEREAS, the Authority desires to approve an Amended and Restated Loan Agreement dated as of June 1, 1999 (the Nobel Amended and Restated Loan Agreement), an Amended and Restated Loan Agreement dated as of June 1, 1999 [the La Cima Amended and Restated Loan Agreement] and an Amended and Restated Loan Agreement dated as of June 1, 1999 [the Paseo Amended and Restated Loan Agreement, and together with the Nobel Amended an Restate Loan Agreement and the La Cima Amended and Restated Loan Agreement, the Amended and Restated Loan Agreements] the form of which has been presented at this meeting, as requested by the Developers and to authorize its officers to grant any needed consents or take any other actions required to effectuate the amendments to the Original Loan Agreements; and

WHEREAS, the Authority desires to approve an Amended and Restated Regulatory Agreement dated as of June 1, 1999 [the Nobel Amended and Restated Regulatory Agreement], an Amended and Restated Regulatory Agreement dated as of June 1. 1999 [the La Cima Amended and Restated Regulatory Agreement] and an Amended and Restated Regulatory Agreement dated as of June 1, 1999 [the Paseo Amended and Restated Regulatory Agreement, and together with the Nobel Amended and Restated Regulatory Agreement and the La Cima Amended and Restated Regulatory Agreement the Amended and Restated Regulatory

Agreements] the form of which has been presented at this meeting, as requested by the Developers and to authorize its officers to grant any needed consents or take any other actions required to effectuate the amendments to the Regulatory Agreements;

WHEREAS, the Authority desires to approve an Amended and Restated Intercreditor Agreement dated as of June 1, 1999 [the Nobel Amended and Restated Intercreditor Agreement], an Amended and Restated Intercreditor Agreement dated as of June 1, 1999 [the La Cima Amended and Restated Intercreditor Agreement] and an Amended and Restated Intercreditor Agreement dated as of June 1, 1999 [the Paseo Amended and Restated Intercreditor Agreement, and together with the Nobel Amended and Restated Intercreditor Agreement and the La Cima Amended and Restated Intercreditor Agreement, the Amended and Restated Intercreditor Agreements] the form of which has been presented at this meeting, as requested by the Developers and to authorize its officers to grant any needed consents or take any other actions required to effectuate the amendments to the Intercreditor Agreements; NOW, THEREFORE,

BE IT RESOLVED, by the Board of Commissioners of the Housing Authority of the City of San Diego, as follows:

1. In accordance with the Housing Law and pursuant to the Original Indentures, the Authority is authorized to reissue the Bonds, with a maturity date or dates and other terms as provided in the Amended and Restated Indentures as finally executed. The Bonds shall be in the form set forth .in and otherwise in accordance with the Amended and Restated Indentures, and shall be executed by the manual or facsimile signature of the Chairman or Executive Director of the Authority and the manual or facsimile seal of the Authority shall be impressed or reproduced thereon and attested by the manual or facsimile signature of the Secretary of the Authority.

2. The Amended and Restated Indentures between the Authority and U.S. Bank Trust

National Association, as trustee [the New Trustee], in substantially the form presented to the Board, copies of which are on file with the Secretary of the Authority, are approved. Any one of the Chairman or Executive Director or any designee thereof [each, an Authorized Officer], is authorized to execute, and the Secretary of the Authority is authorized to affix and attest the seal of the Authority on, the Amended and Restated Indentures in substantially said form, with such additions thereto and changes therein as such Authorized Officer may approve or recommend in accordance with item 6 hereof. The date, maturity date or dates, interest rate or rates, interest payment dates, denominations, form, registration privileges, manner of execution, place of payment, terms of redemption, and other terms of the Bonds shall be as provided in the Amended and Restated Indentures as finally executed.

3. The Amended and Restated Loan Agreements, among the Authority, the Developers and the New Trustee, in substantially the forms presented to the Board, copies of which are on file in the office of the Executive Director as Document Nos. \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, are approved. Any Authorized Officer is authorized to execute, and the Secretary of the Authority is authorized to affix and attest the seal of the Authority on, the Amended and Restated Loan Agreements, in substantially said form, with such additions thereto and changes therein as such Authorized Officer may approve or recommend in accordance with item 6 hereof.

4. The Amended and Restated Regulatory Agreements, among the Authority, the Trustee and the Developers, in substantially the form presented to the Board, copies of which are on file in the office of the Executive Director as Document Nos. \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, are approved. Any Authorized Officer is authorized to execute, and the Secretary of the Authority is authorized to affix and attest the seal of the Authority on, the Amended and Restated Regulatory Agreements, in substantially said forms, with such additions thereto and changes therein as such Authorized Officer may approve or recommend in accordance with item 6

hereof

5. The Amended and Restated Intercreditor Agreements, among the Authority, the Trustee and the Developers, in substantially the form presented to the Board, copies of which are on file in the office of the Executive Director as Document Nos. \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, are approved. Any Authorized Officer is authorized to execute, and the Secretary of the Authority is authorized to affix and attest the seal of the Authority on, the Amended and Restated Intercreditor Agreements, in substantially said forms, with such additions thereto and changes therein as such Authorized Officer may approve or recommend in accordance with item 6 hereof

6. Any Authorized Officer executing a document approved herein, in consultation with General Counsel to the Authority and Stradling Yocca Carlson & Rauth, Bond Counsel, is authorized to approve and make such modifications, changes or additions to the Amended and Restated Indentures, the Amended and Restated Loan Agreements, the Amended and Restated Regulatory Agreements, and the Amended and Restated Intercreditor Agreements, or other document as may be necessary or advisable, and the approval of any modification, change or addition to any of the aforementioned agreements shall be evidenced conclusively by the execution and delivery thereof by such Authorized Officer.

7. All actions heretofore taken by the officers, employees and agents of the Authority with respect to the reissuance of the Bonds are approved, confirmed and ratified, and the officers, employees and agents of the Authority are authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents, including but not limited to those documents described in the Amended and Restated Indentures and the other documents herein approved, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance

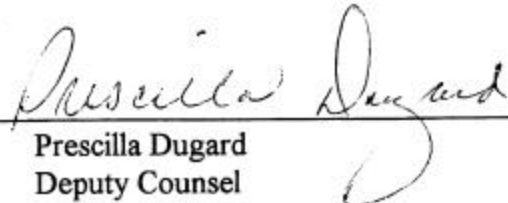
and delivery of the Bonds and to effectuate the purposes thereof and of the documents herein approved in accordance with this resolution and resolutions heretofore adopted by the Board.

8. All prior resolutions or parts thereof in conflict with this resolution herewith are, to the extent of such conflict repealed.

9. If any section, paragraph or provision of this resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any remaining sections, paragraphs or provisions of this resolution.

10. This resolution shall take effect immediately upon its adoption.

APPROVED: CASEY GWINN, General Counsel

By   
\_\_\_\_\_  
Prescilla Dugard  
Deputy Counsel

PD:cdk  
05/24/99  
Or.Dept:Hsg.Comm.  
HA-99-41



# REPORT

**DATE:** For the Agenda of May 28, 1999

**REPORT NO:** HCR99-063

**SUBJECT:** Amendment of Bonds for Paseo Point, La Cima and Nobel Court Apartments

**(COUNCIL DISTRICT 1)**

## SUMMARY

**Issue No.1:** Should the Housing Commission recommend that the Housing Authority approve amendments to the existing bond documents in order to extend the term of affordability requirements for the following three Housing Authority multifamily revenue bond financed projects?

- 1) \$14,250,000 in bonds, 1985 Issue M, for the 250-unit Paseo Point project located at 10024 Paseo Montril Drive;
- 2) \$43,640,000 in bonds, 1985 Issue K, for the 514-unit La Cima Apartments located at 7503 Charmant Drive; and,
- 3) \$50,915,000 in bonds, 1985 Issue L, for the 685-unit Nobel Court Apartments located at 8895 Caminito Plaza Centro.

**Recommendation No.1:** It is recommended that the Housing Commission support the amendments to the bond documents by recommending that:

- 1) The City Council hold a public hearing to provide an opportunity for interested persons to present their views on the proposed restructuring of the bonds in accordance with the Tax Equity and Fiscal Responsibility Act ("TEFRA") of 1982; and,
- 2) The Authority approve the following amendments to the existing bonds (as further described herein) to accommodate the proposed credit enhancement provider, the Federal Home Loan Mortgage Corporation ("Freddie Mac"):

- a) Modification of the bond documentation to make the terms and conditions substantially identical for all three bond issues including allowing for interest only payments of the existing bonds, thereby eliminating principal payments until the bonds are retired;
- b) Extension of the bond maturity from 2008 for the La Cima and Nobel Court bonds and 2015 for the Paseo Point bonds to December 1, 2022; and,
- c) Extension of the term of the Regulatory Agreements to the later of 2005 or when the bonds are retired.

**Issue No. 2:** Should the Housing Commission approve the financing team for the proposed bond restructuring?

**Recommendation No. 2:** It is recommended that the Housing Commission approve the financing team consisting of Litten Financial and Kosmont & Associates, Inc. (MBE-20%), financial advisor; Stradling Yocca Carlson & Rauth and Robinson & Pearman (MBE - 20 percent), bond counsel; and PaineWebber Incorporated, bond remarketing agent.

**Fiscal Impact** - The recommended actions would extend the maturity of \$108,805,000 of housing revenue bonds. All costs of the amendments, including compensation for the financing team members and staff in preparing the amendments will be borne by the project owner. The amendments require a one-time origination fee of \$60,000 to the Housing Commission. The Housing Commission currently receives approximately \$250,252 annually for administration of the three bond issues. If the bonds are retired due to lack of the required credit support for the bonds, the administrative fees would terminate.

**Housing Affordability Impact:** Currently, 20 percent of all units (290) are restricted to families earning 80 percent of MAI. The proposed action would extend these restrictions, and for 14 units at Nobel Court, reduce rents to amounts affordable at 60 percent MAI.

**Previous Related Action(s) - Paseo Point:** The original issuance of bonds was approved by the Housing Authority on October 28, 1985 (R-00386). On June 26, 1990, the Housing Authority authorized restructuring of the bonds (R-00507). On January 18, 1994, the Housing Authority authorized the refunding of the bonds (R-00675). Attachment 2 contains a narrative history of the previous related actions.

**La Cima and Nobel Court:** The Housing Authority approved the issuance of bonds for the two projects on October 15, 1985 (R-00381; R-00382). On

November 17, 1992 the Housing Authority approved amendments to the original bond documents (R-00629). On May 28, 1996 the Housing Authority approved amendments to the bond documents (R-00851). Attachment 2 contains a narrative history of the previous related actions.

**Future Related Action(s)** - If approved by the Housing Commission, the recommended actions will be submitted for consideration by the Housing Authority and the City Council.

## **BACKGROUND**

### Paseo Point

On December 7, 1985, the Housing Authority issued \$17,100,000 in housing revenue bonds to finance the 250-unit Vista Court Apartments project located at 10024 Paseo Montril Drive in the Rancho Penasquitos area (see Attachment 3, Project Location). The project name was subsequently changed to Paseo Point Apartments. The project, consisting of 160 one-bedroom units and 90 two-bedroom units, was developed and is currently owned by Vista Court, Ltd., a California limited partnership consisting of two general partners. The general partners are T and T Partners, a California limited partnership, of which Thomas F. Moran and Anthony T. Rossi are the general partners and Vista Court Partners One, a California limited partnership, of which James L. Bosler, Christopher E. Hashioka and Cameron S. Rottler are the general partners. The Developer's Statement for Public Disclosure is provided as Attachment 4 to this report.

### La Cima and Nobel Court

On December 23, 1985, the Housing Authority issued \$43,640,000 in multifamily housing revenue bonds to finance the 514-unit La Cima Apartments located at 7503 Charmant Drive and \$51,500,000 in bonds to finance the 685-unit Nobel Court Apartments located at 8895 Caminito Plaza Centro (see Attachment 5, Project Location Map). Both projects are located in close proximity to each other in the University Town Centre area of the city. The developer's equity contribution for both projects totaled \$24,600,000.

The projects were developed, and are currently owned, by Nobel Court Ltd., a California Limited Partnership and La Cima Ltd., a California Limited Partnership. The general partners of both partnerships are One Colony Partners, Ltd., a California Limited Partnership in which James L. Bosler, Christopher E. Hashioka and Cameron S. Rottler are the general partners and T and T Partners, a California Limited Partnership in which Thomas F. Moran and Anthony R. Rossi are the general partners.

La Cima consists of 256 one-bedroom units and 258 two-bedroom units contained in a cluster of five two-story buildings.

Nobel Court consists of 473 one-bedroom units and 212 two-bedroom units contained in seven three-story and four-story buildings.

## **DISCUSSION**

The bonds for Nobel and La Cima apartments are currently supported by letters of credit issued by Citibank ("AA2/VMIG1" rating) and Tokai Bank/Credit Suisse ("A1/VMIG1" rating). The bonds for the Paseo Point project are supported by letters of credit issued by Union Bank/Bank of Tokyo ("A2/VMIG1" rating). The letters of credit are what give the bonds their rating. The letters of credit for La Cima and Nobel expire on June 30, 1999 and the letter of credit for Paseo Point expires in August 1999. In order to keep the bonds outstanding, the owners of the projects are working with Freddie Mac to obtain a substitute credit enhancement agreement. The proposed Freddie Mac credit enhancement would result in an increase of the rating on the Housing Authority bonds to the highest credit rating available - "Aaa/VMIG1".

The proposed Freddie Mac credit enhancement would defer principal amortization of the bonds until 2022, the final maturity date for the bonds. Freddie Mac will guarantee the principal and interest payments of the bonds.

Current Affordability: Under the existing bond Regulatory Agreements, the La Cima and Nobel Court Apartments have 240 units (20 percent of the total 1,199 units) which are restricted for occupancy by households earning less than 80 percent of median area income (MAI) (\$42,000 for a family of four). In addition to the income restrictions there are also rent restrictions which set the rent for these 240 units at 30 percent of 80 percent of median income. The rent restrictions are calculated on an assumed household size of two persons for the one-bedroom units and four persons for the two-bedroom units. The current restrictions would expire in 2003.

Paseo Point has 50 units (20 percent of the total 250 units) which are restricted for occupancy by households earning less than 80 percent of MAI. The rent restrictions in place at Paseo Point differ from La Cima and Nobel Court in that they assume a household size of three for the two-bedroom apartments. The current restrictions would expire in 2002.

Proposed Affordability: In connection with the proposed bond amendments, the term of the Regulatory Agreements for all three projects would be extended to the later of 2005 or when the bonds are retired (up to December 1, 2022). In addition, rents will be frozen for 10 one-bedroom units and 4 two-bedroom units in Nobel Court until they conform to rents equivalent to the 60 percent median area income level and at that time, to provide those units to persons whose income is at or below the 60

percent MAI level. As market rents rise, the increasing difference in restricted rents and market rents would produce greater savings for the tenants. (Please refer to the affordability chart on Attachment 1.)

Staff has been working with Stradling Yocca Carlson & Rauth and Robinson & Pearman, bond counsel, and Litten Financial Consulting and Kosmont and Associates, Inc., financial advisor, in evaluating the bond amendment request. It is the recommendation of the financial advisor that the Housing Authority authorize the requested bond amendments. A copy of the financial advisor's opinion letter is attached (Attachment 6). Bond counsel will prepare the necessary bond documents and the enabling opinion.

A restructuring of the bonds is recommended for the following reasons:

- 1) The proposed amendments will extend the Regulatory Agreements to the later of 2005 or as long as the bonds remain outstanding (up to December 1, 2022);
- 2) The Housing Commission will continue to receive twenty-three basis points (0.23 percent) of the initial amount of the refunding bonds annually for the term of the bond issue (approximately \$250,000 annually).
- 3) The future viability of the project will be strengthened through the lowering of the annual debt service, which will also improve the owner's ability to maintain the project in good repair and to meet the ongoing financial obligations.
- 4) The amendments pose no financial obligation or undue risk to the Housing Commission, Housing Authority or the City. The bond documents will state that the security for the bonds are limited to specific private revenue sources. The bonds are not general obligations of the City. Neither the City, the Housing Authority nor the San Diego Housing Commission would be liable in the event of any default.

## **CONCLUSION**

Staff concurs with the financial advisor's recommendation to approve the requested bond amendments which will maintain and extend the provision of restricted housing available on the property.

If approved, the bond amendment process will include the execution of an Amended and Restated Bond Indenture, an Amended and Restated Loan Agreement, an Amended and Restated Regulatory Agreement and an Amended and Restructured Intercreditor Agreement as the primary documents, with conforming changes to related documents. All documents in a substantially final form will be on file in the

Office of the Housing Commission at the time of the docketing for consideration by the Housing Authority.

**ALTERNATIVE**

Do not approve the amendments. If the owners are unable to secure the necessary extension of the letters of credit securing the bonds, the three bond issues will be retired through draws on the expiring letters of credit. A retirement of the bonds would terminate the Housing Commission's \$250,252 in annual fees.

Submitted by,

Approved by,

Patricia M. Getzel  
Housing Finance & Development  
Manager

Elizabeth C. Morris  
Chief Executive Officer

FARRIS:\jack\bond99\lacimae\paseo2.doc

- Attachments:
1. Rental Chart for the Projects
  2. Narrative of Previous Related Actions
  3. Project Location Map for Paseo Point
  4. Developer's Statement for Public Disclosure (Financial Statements are on file with the Housing Commission)
  5. Project Location Map for La Cima and Nobel Court
  6. Financial Advisor's Opinion Letter

**Attachment 1**  
**La Cima, Nobel Court and Paseo Point Apartments**  
**Rental Chart**

<b>Complex</b>	<b>Bedrooms per unit</b>	<b>Total Units</b>	<b>Restricted Units</b>	<b>Assumed Household Size</b>	<b>Initial Net Restricted Rents</b>	<b>Initial Average Market Rents</b>	<b>Initial Average Monthly Savings for the Restricted Units</b>
<u>La Cima</u>							
	1 Bedrooms	256	51	2	\$800	\$1,123	\$16,167
	2 Bedrooms	258	52	4	\$1,000	\$1,337	\$17,524
<u>Nobel Court</u>							
	1 Bedrooms	473	95	2	\$800	\$947	\$13,965
	2 Bedrooms	212	42	4	\$1,000	\$1,320	\$13,440
<u>Paseo Pointe</u>							
	1 Bedrooms	160	32	2	\$800	\$873	\$2,336
	2 Bedrooms	90	18	3	\$895	\$1,067	\$3,096

## ATTACHMENT 2

### Narrative of Previous Related Actions

#### Paseo Point

On June 26, 1990, the Housing Authority authorized amending the \$14,250,000 in remaining bonds, which was completed in September 1990. The restructuring of the bonds included a substitution of the original letter of credit, a reduction in the interest rate on the bonds from 9 percent to 7 percent per annum, and an amendment to the Regulatory Agreement to impose rent restrictions at the 80 percent of median area income level for the set-aside units.

On January 18, 1994, the Housing Authority authorized the default refunding of the project to enable the project to meet its mortgage obligations and to maintain the project as rental units, preserve and increase the restrictions on the set-aside units, and extend the term of the regulatory agreement.

#### La Cima and Nobel Court

In November 1992, the Housing Authority approved amendments to the original bond documents to restructure the bond debt following the projects' mortgage defaults. As a result of the successful financial work-out (which included remarketing of bonds at a variable rate of interest) the projects have been generating positive cash flow since December 1992.

As part of the November 1992 financial workout, the owners were required to remit all cash flow from the project operations to the credit providers who in turn would reduce their provision of credit by a like amount. In the then existing bond documents, a credit reduction would trigger retirement of bonds in the same amount.

On May 28, 1996, the owners of Nobel and La Cima were authorized by the Housing Authority, through amendments to the bond documents, to purchase bonds that would otherwise be subject to redemption. The purchase in lieu of redemption amendment enabled the owners to retain the benefit of the full amount of tax-exempt debt in case future credit providers were willing to underwrite the original amount of the bonds. The purchased bonds become "Pledged Bonds" held by the bond trustee until such time they are again covered by a credit enhancement. In return for the approval to the bond amendments, the Regulatory Agreement was extended for five years to year 2003.



**Paseo Point**  
**10024 Paseo Montril**  
**San Diego, CA**



Attachment 4

LA CIMA

OWNER'S STATEMENT FOR PUBLIC DISCLOSURE

(add extra **sheets** if you need more **space**)

1. Name of owner: La Cima Ltd., a California limited partnership  
c/o Fairfield Residential LLC
2. Address, phone number and ZIP Code: 5510 Morehouse Drive, Suite 200  
San Diego, CA 92121  
Tel: (619) 457-2123
3. IRS number of owner: #33-6033517
4. If the owner is not an individual doing business under his own name, the owner has the status indicated below and is organized or operating under the laws of California as:

\_\_\_\_\_ A corporation

\_\_\_\_\_ A nonprofit or charitable institution or corporation

A partnership known as: La Cima Ltd.

\_\_\_\_\_ A business association or a joint venture known as \_\_\_\_\_

\_\_\_\_\_ A Federal, State or local government or instrumentality thereof.

\_\_\_\_\_ Other (explain)

5. If the owner is not an individual or a government agency or instrumentality, give date of organization:

December 16, 1985

6. Names, addresses, phone numbers, title of position (if any) and nature and extent of the interest of the officers and principal members, shareholders, and investors of the owner, other than a government agency or instrumentality, are set forth as follows:

NOBEL COURT

OWNER'S STATEMENT FOR PUBLIC DISCLOSURE

(add extra **sheets** if you need more **space**)

1. Name of owner: Nobel Court Ltd., a California limited partnership  
c/o Fairfield Residential LLC
  
2. Address, phone number and ZIP Code: 5510 Morehouse Drive, Suite 200  
San Diego, CA 92121  
Tel: (619) 457-2123
  
3. IRS number of owner: #33-0083778
  
4. If the owner is not an individual doing business under his own name, the owner has the status indicated below and is organized or operating under the laws of California as:

A corporation

\_\_\_\_\_ A nonprofit or charitable institution or corporation

A partnership known as: Nobel Court Ltd.

\_\_\_\_\_ A business association or a joint venture known as \_\_\_\_\_

\_\_\_\_\_ A Federal, State or local government or instrumentality thereof.

\_\_\_\_\_ Other (explain)

5. If the owner is not an individual or a government agency or instrumentality, give date of organization:  

December 16, 1985
  
6. Names, addresses, phone numbers, title of position (if any) and nature and extent of the interest of the officers and principal members, shareholders, and investors of the owner, other than a government agency or instrumentality, are set forth as follows:

PASEO POINT

OWNER'S STATEMENT FOR PUBLIC DISCLOSURE

(add extra **sheets** if you need more **space**)

1. Name of owner: Vista Court Ltd., a California limited partnership  
c/o Fairfield Residential LLC
  
2. Address, phone number and ZIP Code: 5510 Morehouse Drive, Suite 200  
San Diego, CA 92121  
Tel: (619) 457-2123
  
3. IRS number of owner: #36-3402562
  
4. If the owner is not an individual doing business under his own name, the owner has the status indicated below and is organized or operating under the laws of California as:

A corporation

\_\_\_\_\_ A nonprofit or charitable institution or corporation

X  A partnership known as: Vista Court Ltd.

\_\_\_\_\_ A business association or a joint venture known as \_\_\_\_\_

\_\_\_\_\_ A Federal, State or local government or instrumentality thereof.

\_\_\_\_\_ Other (explain)

5. If the owner is not an individual or a government agency or instrumentality, give date of organization:  

December 5, 1985
  
6. Names, addresses, phone numbers, title of position (if any) and nature and extent of the interest of the officers and principal members, shareholders, and investors of the owner, other than a government agency or instrumentality, are set forth as follows:

DISCLOSURE STATEMENT: PAGE 2

- a. If the owner is a corporation, the officers, directors or trustees, and each stockholder owning more than 10 % of any class of stock.
  
- b. If the owner is a nonprofit or charitable institution or corporation, the members who constitute the board of trustees or board of directors or similar governing body.
  
- c. If the owner is a partnership, each partner, whether a general or limited partner, and either the percent of interest or a description of the character and extent of interest.

Please see the attached chart

- d. If the owner is a business association or a joint venture, each participant and either the percent of interest or a description of the character and extent of interest.
  
- e. If the owner is some other entity, the officers, the members of the governing body, and each person who has an interest of more than 10%.

<u>Name, Address &amp; Zip Code</u>	<u>Phone Number</u>	<u>Position Title (if any) and percent of interest or description of character and extent of interest</u>
-------------------------------------	---------------------	---

DISCLOSURE STATEMENT: PAGE 3

7. Name, address and nature and extent of interest of each person or entity (not named in response to Item 6) who has a beneficial interest in any of the shareholders or investors named in response to Item 6 which gives such person or entity more than a computed 10% interest in the developer (for example, more than 20% of the stock in a corporation which holds 50% of the stock of the owner; or more than 50% of the stock in a corporation which holds 20% of the stock of the owner):

Name, Address and <u>Zip Code</u>	Description of character and <u>extent of interest</u>
N/A	N/A

8. Names (if not given above) of officers and directors or trustees of any corporation or firm listed under Item 6 or Item 7 above:

N/A

9. Is the owner a subsidiary of or affiliated with any other corporation or corporations or any other firm or firms? If yes, list each such corporation or firm by name and address, specify its relationship to the owner, and identify the officers and directors or trustees common to the owner and such other corporation or firm:

The principals of the owner Christopher E. Hashioka and James L. Bossler are also the principals of Fairfield Residential LLC; and Thomas F. Moran and Anthony R. Rossi are also the principals of Moran and Company, 115 South LaSalle Street, Chicago, Illinois 60603.

10. The financial condition of the owner, as of December 31, 1998 is reflected in the attached financial statement.

11. If funds for the development are to be obtained from sources other than the owner's own funds, a statement of the owner's plan for financing the development:

N/A

12. Sources and amount of cash available to owner to meet equity requirements of the proposed undertaking: N/A

- a. In banks:

<u>Name, Address and ZIP Code of Bank</u>	<u>\$ Amount</u>
---	------------------

b. By loans from affiliated or associated corporations or firms:

<u>Name, Address and ZIP Code of Source</u>	<u>\$ Amount</u>
---	------------------

c. By sale of readily salable assets:

<u>Description</u>	<u>Market Value</u>	<u>Mortgages or Liens</u>
--------------------	---------------------	---------------------------

13. Name and addresses of bank references: Wells Fargo Bank, 2030 Main Street, Suite 800, Irvine, CA 92614. Tel: (949) 251-4394  
Union Bank of California, 530 B Street, Suite 510, San Diego, CA 92101.  
Tel: (619) 230-3787

14. Has the owner or any of the owner's officers or principal members, shareholders or investors, or other interested parties been adjudged bankrupt, either voluntary or involuntary, within the past 10 years? Yes \_\_\_\_\_ No X\* If yes, give date, place, and under what name.  
\* Information about limited partners is not available.

15. Has the owner or anyone referred to above as "principals of the owner" been indicted for or convicted of any felony within the past 20 years? Yes \_\_\_\_\_ No X

If yes, give for each case (1) date, (2) charge, (3) place, (4) Court, and (5) action taken.  
Attach any explanation deemed necessary.

16. Undertakings, comparable to the proposed project, which have been completed by the owner including identification and brief description of each project and date of completion:

Please the attached list of projects completed by Fairfield

17. If the owner or a parent corporation, a subsidiary, an affiliate, or a principal of the owner is to participate in the development as a construction contractor or builder:

N/A

a. Name and address of such contractor or builder:

DISCLOSURE STATEMENT: PAGE 5

b. Has such contractor or builder within the last 10 years ever failed to qualify as a responsible bidder, refused to enter into a contract after an award has been made, or failed to complete a construction or development contract? Yes \_\_\_\_\_  
No \_\_\_\_\_ If yes, explain:

c. Total amount of construction or development work performed by such contractor or builder during the last three years: \$ \_\_\_\_\_

General description of such work:

d. Construction contracts or developments now being performed by such contractor or builder:

<u>Identification of Contract or Development</u>	<u>Location</u>	<u>Amount</u>	<u>Date to be Completed</u>
--	-----------------	---------------	---------------------------------

e. Outstanding construction-contract bids of such contractor or builder:

<u>Awarding Agency</u>	<u>Amount</u>	<u>Date</u>
<u>Opened</u>		

18. Brief statement respecting equipment, experience, financial capacity, and other resources available to such contractor or builder for the performance of the work involved in the proposed project, specifying particularly the qualifications of the personnel, the nature of the equipment, and the general experience of the contractor:

N/A

DISCLOSURE STATEMENT: PAGE 6

19. Does any member of the governing body of the San Diego Housing Commission, to which the accompanying proposal is being made, or any officer or employee of the San Diego Housing Commission who exercises any functions or responsibilities in connection with the carrying out of the project covered by the owner's proposal, have any direct or indirect personal financial interest in the owner or in the proposed contractor? Yes \_\_\_\_\_ No  X   
If yes, explain.

20. Statements and other evidence of the owner's qualifications and financial responsibility (other than the financial statement referred to in Item 10) are attached hereto and hereby made a part hereof as follows:

Please see the attached statement


CERTIFICATION

La Cima Ltd. by One Colony Partners Ltd., General Partner,

I (We) by Christopher E. Hashioka, Managing General Partner certify that this Owner's Statement for Public Disclosure and the attached evidence of the owner's qualifications and financial responsibility, including financial statements, are true and correct to the best of my (our) knowledge and belief.

Date: May 14, 1999

Date: \_\_\_\_\_

\_\_\_\_\_  
  
Signature

\_\_\_\_\_  
Signature

Title: Managing General Partner

Title: \_\_\_\_\_

Address & ZIP Code

5510 Morehouse Drive, Suite 200

\_\_\_\_\_

San Diego, CA 92121

\_\_\_\_\_

CERTIFICATION

Nobel Court Ltd. by One Colony Partners Ltd., General Partner,  
I (We) by Christopher E. Hashioka. Managing General Partner certify that this Owner's  
Statement for Public Disclosure and the attached evidence of the owner's qualifications and financial  
responsibility, including financial statements, are true and correct to the best of my (our) knowledge and  
belief.

Date: May 14, 1999

Date: \_\_\_\_\_

\_\_\_\_\_  
  
Signature

\_\_\_\_\_  
Signature

Title: Managing General Partner

Title: \_\_\_\_\_

Address & ZIP Code

5510 Morehouse Drive, Suite 200

\_\_\_\_\_

San Diego, CA 92121

\_\_\_\_\_

CERTIFICATION

Vista Court Ltd. by Vista Court Partners One, General Partner,

I (We) by Christopher E. Hashioka, Managing General Partner certify that this Owner's statement for Public Disclosure and the attached evidence of the owner's qualifications and financial responsibility, including financial statements, are true and correct to the best of my (our) knowledge and belief.

Date: May 14, 1999

Date: \_\_\_\_\_

  
Signature

\_\_\_\_\_  
Signature

Title: Managing General Partner

Title: \_\_\_\_\_

Address & ZIP Code

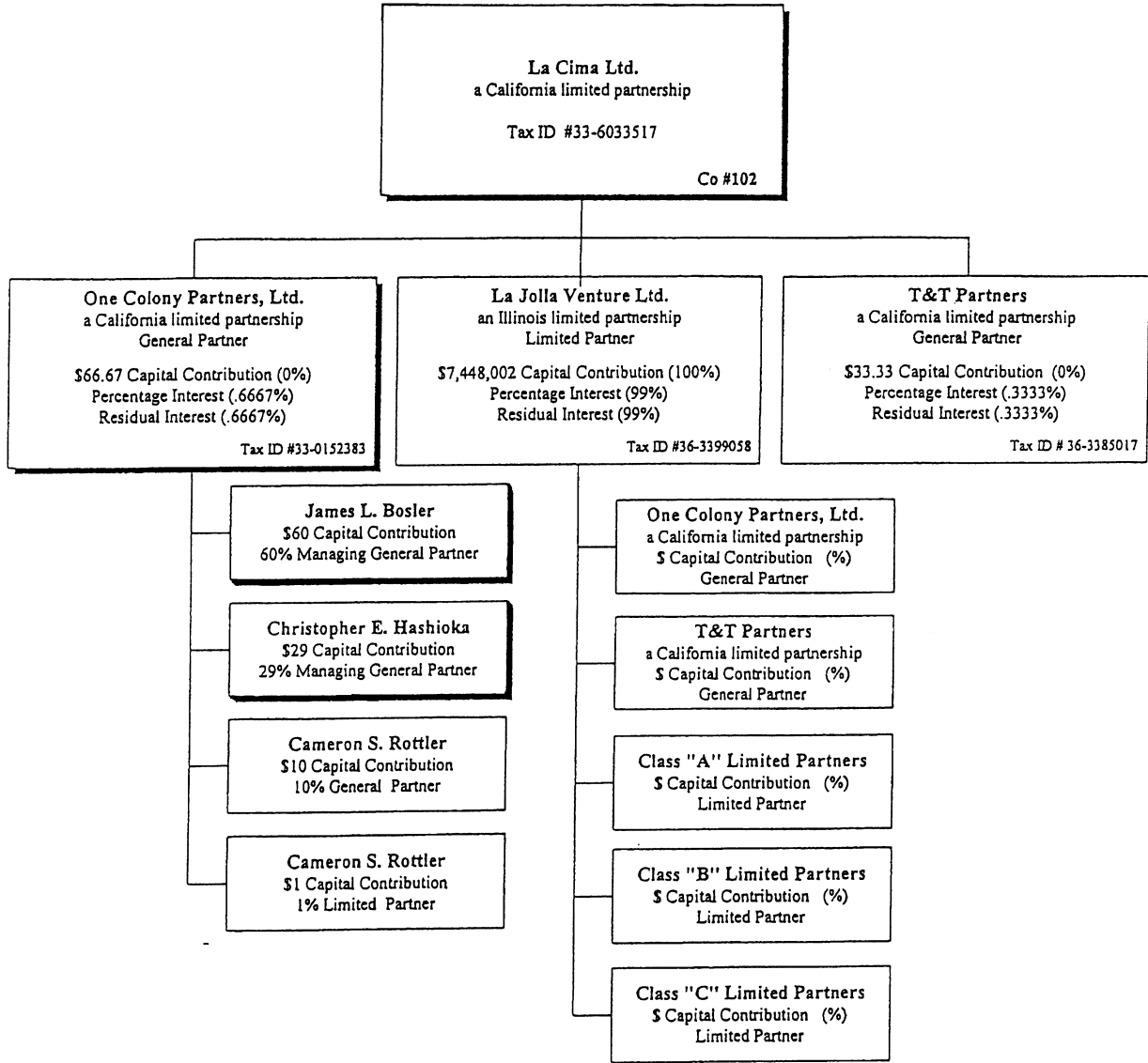
5510 Morehouse Drive, Suite 200

\_\_\_\_\_

San Diego, CA 92121

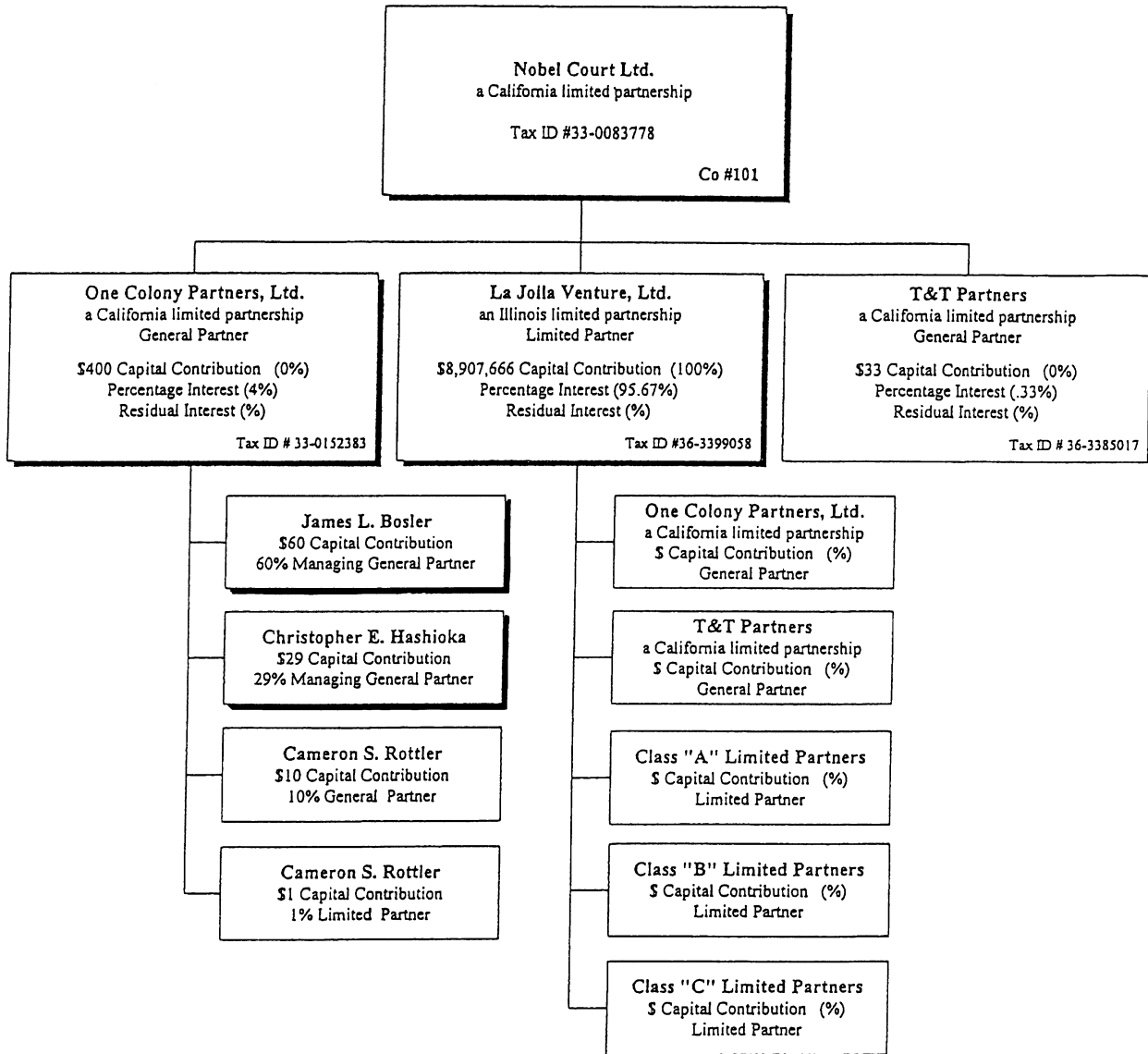
\_\_\_\_\_

**La Cima Apartments**  
 La Jolla, California  
 514 Units



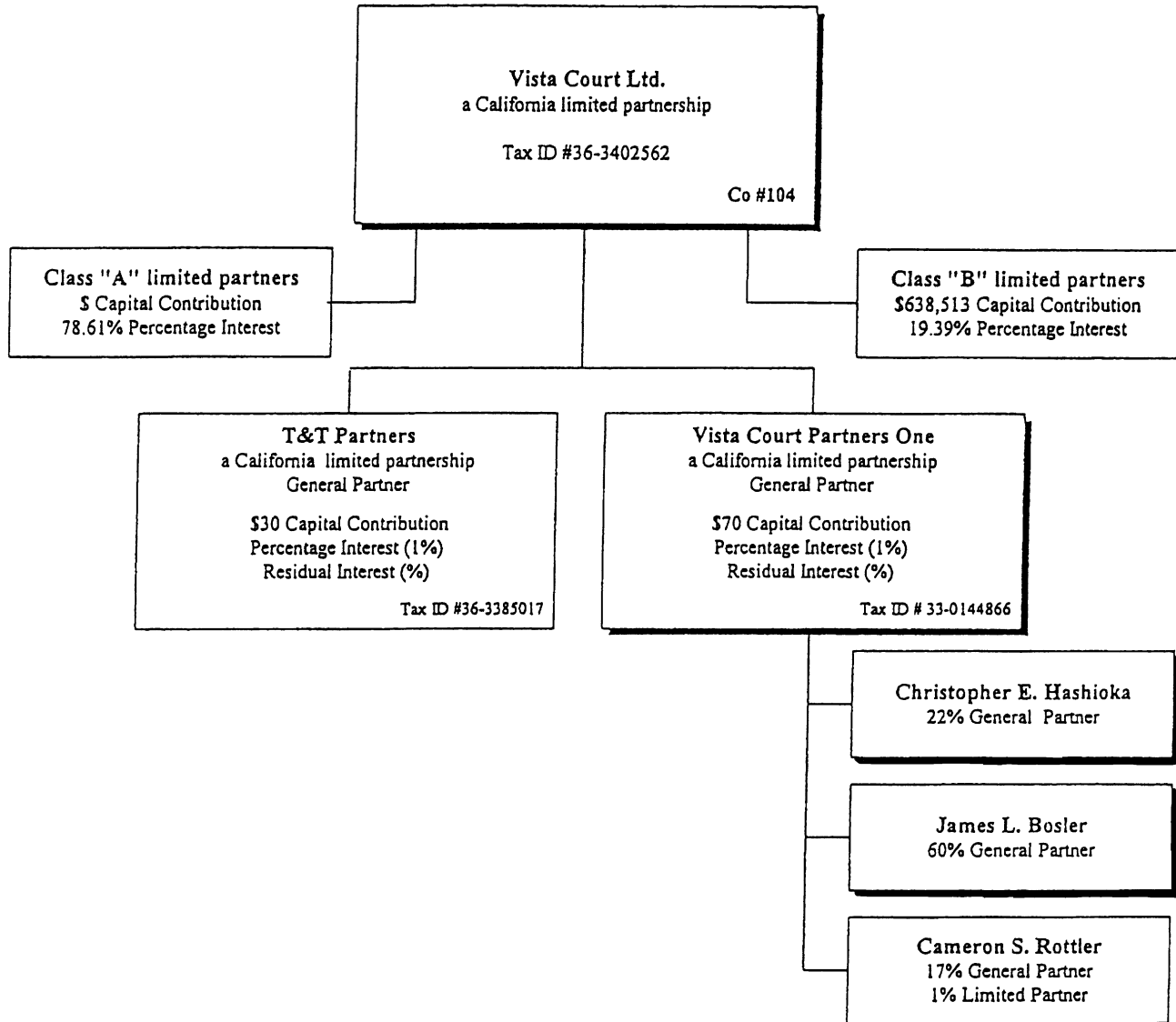
Construction Lender:  
 Citicorp Real Estate, Inc.  
 \$43,640,000

**Nobel Court Apartments**  
 La Jolla, California  
 685 Units



Construction Lender:  
 Citicorp Real Estate, Inc.  
 \$50,915,000

Paseo Point Apartments  
San Diego, California  
250 Units



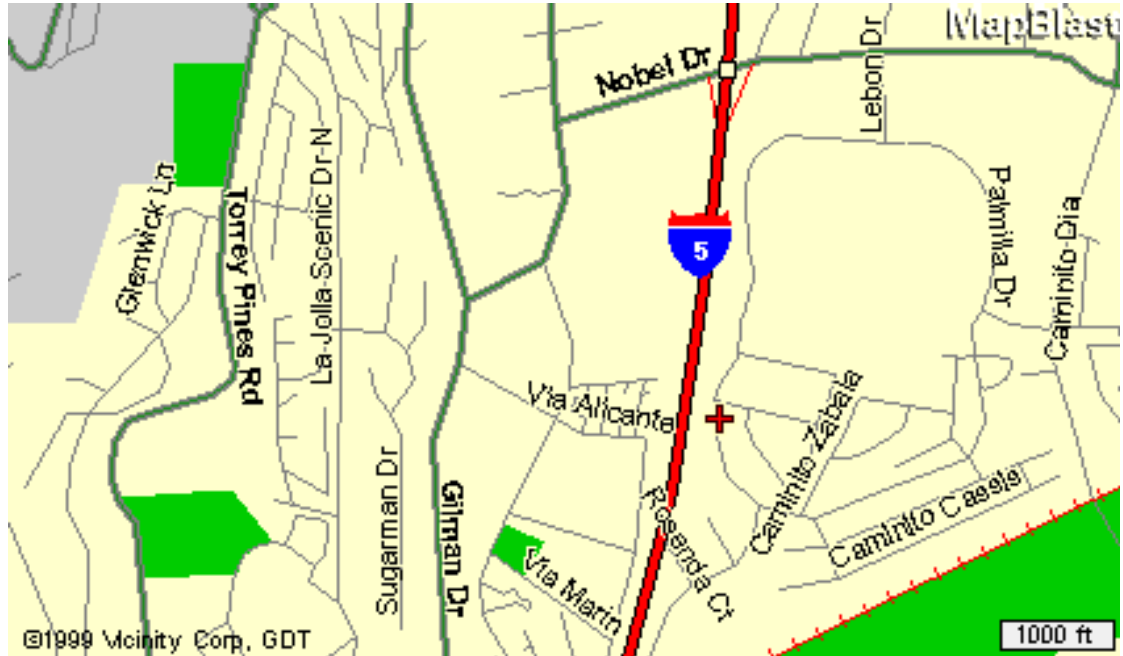
Construction lender:  
Union Bank of California  
\$14,550,000

4-14  
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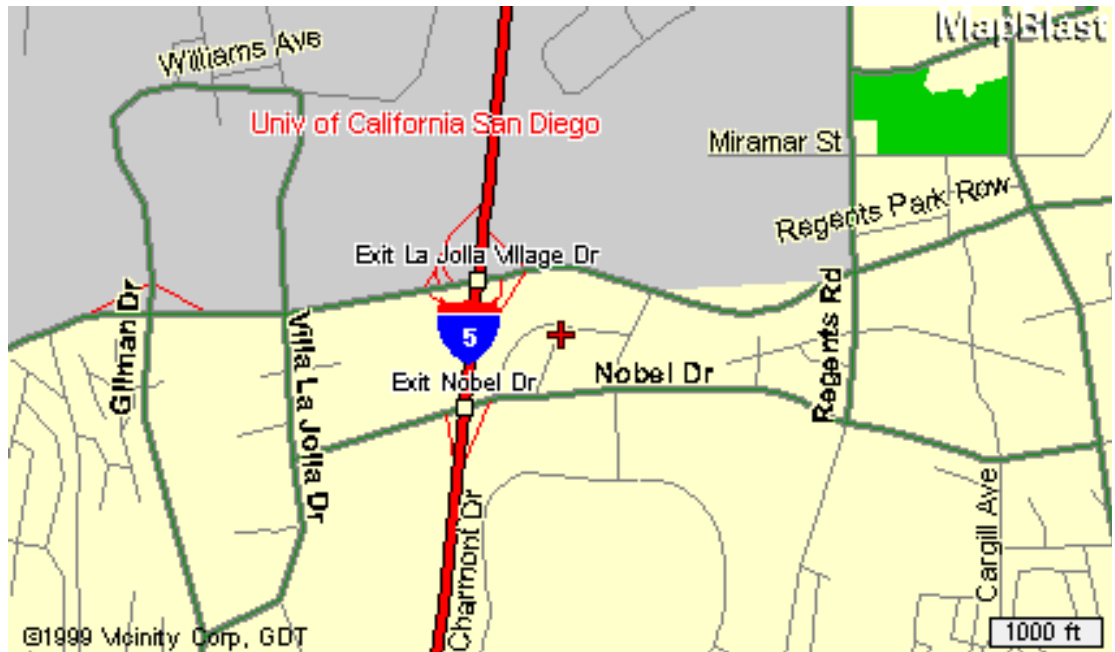
Attachment 5



**La Cima Apartments**  
7503 Charmant Dr  
San Diego, CA



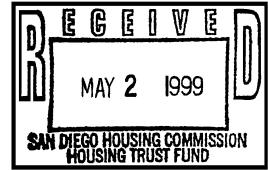
**Nobel Court**  
8895 Caminito Plaza Centro  
San Diego, CA



## ATTACHMENT 6

Joe C. Litten  
Litten Financial Consulting

99 Overhill Road, Orinda, California 94563  
Telephone (925) 254-6774 Facsimile (925) 254-6316  
email joelitten@aol.com



May 19, 1999

Mr. Jack Farris  
San Diego Housing Commission  
1625 Newton Avenue  
San Diego, CA 92113

RE: Proposed amendments, credit enhancement substitution and extension of maturity for the \$43,640,000 Housing Authority of San Diego Multifamily Housing Revenue Bonds 1985 Issue K (La Cima Apartments); the \$51,500,000 Housing Authority of San Diego Multifamily Housing Revenue Bonds 1985 Issue L (Nobel Court Apartments), and the \$14,250,000 Housing Authority of San Diego Multifamily Housing Revenue Bonds 1985 Issue M (Paseo Point Apartments), referred to herein collectively as the "Bonds".

Dear Mr. Farris:

You have asked me to review the proposed actions with respect to the above Bonds and to recommend whether, in my judgment, it is reasonable for the Housing Authority to amend the indenture for the Bonds (the "Indenture") to allow for the credit enhancement substitution and extension of maturities. I have reviewed the proposed amendments and the relevant business terms of the proposed extension. I have also reviewed the financial statements, rent rolls and other financial information relating to each of the projects.

The specific findings this report addresses are:

- Whether the credit enhancement substitution and maturity extension for the Bonds will achieve a public purpose by maintaining the project as rental units, preserving affordable housing units, increasing affordability or extending the term of the Regulatory Agreement.
- Whether the proposed actions create no substantial financial risk to the Housing Authority.
- Whether the projects will be able to pay debt service after the restructuring of the debt.

As described below, I find that these conditions are met and therefore recommend that the Housing Authority proceed with the amendment of the Indentures, substitution of the credit enhancement and extension of the maturities.

## **DESCRIPTION OF THE PROPOSED AMENDMENTS**

The Bonds currently are in variable rate form and secured by bank letters of credit. The letters of credit expire for La Cima and Nobel Court on June 30, 1999 and the letter of credit for Paseo Point expires in August 1999. The La Cima and Nobel Court bonds mature in 2008 and the Paseo Point bonds mature in 2015.

The proposed amendments would extend the maturities of all the Bonds to December 1, 2022, and would allow the substitution of the Federal Home Loan Mortgage Corporation ("Freddie Mac") as the credit enhancer. The Bonds would be rated "Aaa" long-term and "VMIG1" short term by Moody's Investors' Service. They would remain in a variable rate mode.

The owners of the projects are also considering the use of a "swap" agreement in conjunction with the substitution of Freddie Mac. Under such an agreement a financially sound third party would pay the equivalent of the variable rate interest on the Bonds in exchange for receiving a fixed rate payment from the owners of the projects. This has the effect of removing the interest rate risk from the transaction as long as the third party providing the swap makes those payments. The owners intend to make the decision to implement the swap or to simply keep the transaction to a simple variable rate bond just prior to marketing the bonds. A swap transaction also could take place subsequent to the proposed restructuring. In the event that the Bonds remain in variable rate form, Freddie Mac requires the owners to purchase a "cap rate" agreement whereby a third party will pay all interest above a certain level should the Bond rate exceed that level. Thus, either structure will mitigate interest rate risk.

## **ACHIEVING PUBLIC PURPOSE**

The extension of maturities will preserve affordable housing units. Under the existing Regulatory Agreements, there are 290 affordable units in the three projects which are set aside for households earning less than 80 percent of median income at rents restricted to 30% of 80% of median income until 2002 for Paseo Point and until 2003 for La Cima and Nobel Court. However, under the current Regulatory Agreement, the affordability requirements fall away after those dates whether the Bonds remain outstanding or not.

With the extension of the maturities on the Bonds, tax regulations will require the extension of the Regulatory Agreement to half the period between the time the projects were placed in service until the new maturity. This would vary slightly among the projects, but the dates would fall in 2005. In addition to this required extension of the Regulatory Agreement, staff has negotiated with the owners to provide that the Regulatory Agreement will be in effect as long as the bonds for the respective projects remain outstanding. Because of the nature of the financing agreement with Freddie Mac, which requires

substantial compensation if the financing agreement is terminated prior to the tenth year, it is likely to be prohibitively expensive for the owners to convert to a conventional loan any time before 2009.

In addition, I conducted an extensive analysis, attached as an appendix to this report, which demonstrated that there is sufficient benefit of the tax exempt financing to provide additional affordability in the Nobel Court project. The analysis compares the financial benefit of the restructured bond financing to conventional financing available to the owners of the project, and expresses that benefit in the equivalent rent per unit of affordable housing. The end results of that analysis are shown in Tables 3A, 3B and 3C for each of the respective projects. The results show that Nobel Court is the only project with sufficient net benefit to warrant additional affordability requirements.

The owners have agreed to freeze rents in 2% of the units in Nobel Court (10 one-bedroom and 4 two-bedroom units) until they conform to rents equivalent to 30% of 60% of median income and, at that time, to provide such units to persons whose income is at or below 60% of median income. Although this is a relatively small percentage of the overall units involved in this transaction, it is almost as effective as providing bond financing in a new 70-unit project which would result in 14 units of housing affordable to persons whose income is 50% of median income.

## **AVOIDING FINANCIAL RISKS**

There will be no undue risk to the City or the Authority. Whether the extension occurs or not, the current bondholders would either tender the Bonds or have them called. The approval of the amendments and the extension of the maturities have no practical effect on current bondholders.

## **PAYMENT OF DEBT SERVICE**

The worst case scenario for interest rates on the Bonds currently would be to execute the swap agreement. That would result in an interest rate for the Bonds of 4.48%. With the additional estimated annual fees for credit enhancement, remarketing, servicing, the swap agreement, the issuer and the trustee, there would be additional payments equivalent to 1.34% for a total mortgage rate of 5.82%.

The estimated cash flow for the projects for the next five years is shown in Tables 4A, 4B and 4C for the respective projects. In the first year of the proposed restructuring, estimated net operating income would cover debt service 1.7 times for Paseo Point, 1.63 times for La Cima and 1.69 times for Nobel Court in the first year under the proposed financing.

## **CONCLUSION**

The financing has met the necessary criteria as follows:

- The proposed actions provide additional affordability by extending the Regulatory Agreements to the later of 2005 or as long as the Bonds remain outstanding. The financial structure provides strong incentives for the owners to keep the Bonds in place until at least 2009. In addition,

rents will be frozen in 14 units of the Nobel Court project until they are 30% of 60% of median and those units will be provided to persons whose incomes are 30% of 60% of median.

- There are no undue financial risks to the City or the Authority since the provisions of the existing Bond documents allow for these actions to be taken.
- There is ample debt service coverage for each of the projects under the proposed restructuring.

Based upon my review, I give my recommendation that the Authority proceed with the amendments to the Indenture to allow the credit enhancement substitution and the extension of the maturities.

Sincerely yours,



Joe C. Litten

**TABLE 1  
ESTIMATE OF RENT LOSSES**

**PASEO POINT**

	<u>Market Rents</u>	<u>Maximum Rents</u>	<u>Difference</u>	<u>Restricted Units</u>	<u>Monthly Rent Loss</u>	<u>Annual Rent Loss</u>
One-Bedroom	\$873	\$800	\$73	32	\$2,322	\$27,866
Two-Bedroom	1,067	1,000	67	18	1,213	14,554
<b>Total</b>				50	\$3,535	\$42,420

**LA CIMA**

	<u>Market Rents</u>	<u>Maximum Rents</u>	<u>Difference</u>	<u>Restricted Units</u>	<u>Monthly Rent Loss</u>	<u>Annual Rent Loss</u>
One-Bedroom	\$1,123	\$800	\$323	51	\$16,483	\$197,796
Two-Bedroom	1,337	1,000	337	52	17,538	210,451
<b>Total</b>				103	\$34,021	\$408,248

**NOBEL COURT**

	<u>Market Rents</u>	<u>Maximum Rents</u>	<u>Difference</u>	<u>Restricted Units</u>	<u>Monthly Rent Loss</u>	<u>Annual Rent Loss</u>
One-Bedroom	\$947	\$800	\$147	95	\$13,926	\$167,111
Two-Bedroom	1,320	1,000	320	42	13,440	161,280
<b>Total</b>				137	\$27,366	\$328,391

**TABLE 2A  
ESTIMATED ANNUAL BENEFIT OF BOND FINANCING  
PASEO POINT**

	<u>Conventional</u>	<u>Variable Rate Bonds</u>		<u>Swap Bonds</u>	
		<u>\$ Amount</u>	<u>Difference</u>	<u>\$ Amount</u>	<u>Difference</u>
Average Base Interest Rate(1)	5.600%	3.620%	1.980%	4.480%	1.120%
Annual Fees/Spread(2)	1.200%	1.617%	-0.417%	1.335%	-0.135%
Total Interest Rate	6.800%	5.237%	1.563%	5.815%	0.985%
Times: Principal Amount of Bonds	\$14,250,000	\$14,250,000		\$14,250,000	
Total Annual Interest	\$969,000	\$746,273	\$222,728	\$828,638	\$140,363
Plus: Rent Losses for Affordable Units	0	42,420	(42,420)	42,420	(42,420)
Total Interest and Rent Losses	\$969,000	\$788,693	\$180,307	\$871,058	\$97,942
Estimated Annual Benefit			\$180,307		\$97,942
Number of Affordable Units			50		50
Estimated Annual Benefit per Affordable Unit			\$3,606		\$1,959
Estimated Monthly Benefit per Affordable Unit			\$301		\$163

**FOOTNOTES**

- (1) For Conventional, the 10-year Treasury per GMAC  
 For Variable Rate, the average annual rate for PSA/BMA for the previous full 9 calendar years  
 For Swap Rate, the estimated swap rate per PaineWebber

- (2) As follows:

	<u>Conventional</u>	<u>Variable</u>	<u>Swap</u>
FHLMC/GMAC fee/spread	1.600%	0.900%	0.900%
Remarketing Fee		0.125%	0.125%
Issuer Fee		0.230%	0.230%
Trustee Fee		0.050%	0.050%
Swap Fee			0.030%
Cap Fee amortization		0.312%	
Total Spread	1.600%	1.617%	1.335%

**TABLE 2B  
ESTIMATED ANNUAL BENEFIT OF BOND FINANCING  
LA CIMA**

	<u>Conventional</u>	<u>Variable Rate Bonds</u>		<u>Swap Bonds</u>	
		<u>\$ Amount</u>	<u>Difference</u>	<u>\$ Amount</u>	<u>Difference</u>
Average Base Interest Rate(1)	5.600%	3.620%	1.980%	4.480%	1.120%
Annual Fees/Spread(2)	1.200%	1.617%	-0.417%	1.335%	-0.135%
Total Interest Rate	6.800%	5.237%	1.563%	5.815%	0.985%
Times: Principal Amount of Bonds	<u>\$43,640,000</u>	<u>\$43,640,000</u>		<u>\$43,640,000</u>	
Total Annual Interest	\$2,967,520	\$2,285,427	\$682,093	\$2,537,666	\$429,854
Plus: Rent Losses for Affordable Units	0	408,248	(408,248)	408,248	(408,248)
Total Interest and Rent Losses	\$2,967,520	\$2,693,675	\$273,845	\$2,945,914	\$21,606
Estimated Annual Benefit			\$273,845		\$21,606
Number of Affordable Units			103		103
Estimated Annual Benefit per Affordable Unit			\$2,659		\$210
Estimated Monthly Benefit per Affordable Unit			\$222		\$17

**FOOTNOTES**

- (1) For Conventional, the 10-year Treasury per GMAC  
 For Variable Rate, the average annual rate for PSA/BMA for the previous full 9 calendar years  
 For Swap Rate, the estimated swap rate per PaineWebber

- (2) As follows:

	<u>Conventional</u>	<u>Variable</u>	<u>Swap</u>
FHLMC/GMAC fee/spread	1.600%	0.900%	0.900%
Remarketing Fee		0.125%	0.125%
Issuer Fee		0.230%	0.230%
Trustee Fee		0.050%	0.050%
Swap Fee			0.030%
Cap Fee amortization		0.312%	
Total Spread	1.600%	1.617%	1.335%

**TABLE 2C  
ESTIMATED ANNUAL BENEFIT OF BOND FINANCING  
NOBEL COURT**

	<u>Conventional</u>	<u>Variable Rate Bonds</u>		<u>Swap Bonds</u>	
		<u>\$ Amount</u>	<u>Difference</u>	<u>\$ Amount</u>	<u>Difference</u>
Average Base Interest Rate(1)	5.600%	3.620%	1.980%	4.480%	1.120%
Annual Fees/Spread(2)	1.200%	1.617%	-0.417%	1.335%	-0.135%
Total Interest Rate	6.800%	5.237%	1.563%	5.815%	0.985%
Times: Principal Amount of Bonds	<u>\$50,850,000</u>	<u>\$50,850,000</u>		<u>\$50,850,000</u>	
Total Annual Interest	\$3,457,800	\$2,663,015	\$794,786	\$2,956,928	\$500,873
Plus: Rent Losses for Affordable Units	0	328,391	(328,391)	328,391	(328,391)
Total Interest and Rent Losses	\$3,457,800	\$2,991,406	\$466,394	\$3,285,319	\$172,481
Estimated Annual Benefit			\$466,394		\$172,481
Number of Affordable Units			137		137
Estimated Annual Benefit per Affordable Unit			\$3,404		\$1,259
Estimated Monthly Benefit per Affordable Unit			\$284		\$105

**FOOTNOTES**

- (1) For Conventional, the 10-year Treasury per GMAC  
 For Variable Rate, the average annual rate for PSA/BMA for the previous full 9 calendar years  
 For Swap Rate, the estimated swap rate per PaineWebber

(2) As follows:

	<u>Conventional</u>	<u>Variable</u>	<u>Swap</u>
FHLMC/GMAC fee/spread	1.600%	0.900%	0.900%
Remarketing Fee		0.125%	0.125%
Issuer Fee		0.230%	0.230%
Trustee Fee		0.050%	0.050%
Swap Fee			0.030%
Cap Fee amortization		0.312%	
Total Spread	<u>1.600%</u>	<u>1.617%</u>	<u>1.335%</u>

**TABLE 3A  
IMPACT OF PROPOSED CHANGES IN AFFORDABILITY  
PASEO POINT**

250 Units  
 32 Required 1 BR Affordable Units  
 18 Required 2 BR Affordable Units

	<u>Percentage of Total Units</u>	<u>Number of Units</u>	<u>Difference per Unit</u>	<u>Total Difference</u>
Conformance to Existing Household Size	7.20%	18	\$105	\$1,890
Low Income Units (60% of Median Income)				
One Bedroom	0.00%	0	\$210	\$0
Two Bedroom	<u>0.00%</u>	<u>0</u>	236	<u>0</u>
Subtotal	0.00%	0		\$0
Very Low Income Units (50% of Median Income)				
One Bedroom	0.00%	0	\$315	\$0
Two Bedroom (3 Persons)	<u>0.00%</u>	<u>0</u>	354	<u>0</u>
Subtotal	0.00%	<u>0</u>		<u>\$0</u>
Total of Proposed Changes		0		\$0
Total Monthly Cost of Conformance and Proposed Changes				\$1,890
Monthly Cost of Conformance and Proposed Changes per Affordable Unit				38
Monthly Benefit of Tax Exempt Financing per Affordable Unit - Variable Rate				301
Monthly Benefit of Tax Exempt Financing Per Affordable Unit - Swap				163

**TABLE 3B  
IMPACT OF PROPOSED CHANGES IN AFFORDABILITY  
LA CIMA**

514 Units  
 51 Required 1 BR Affordable Units  
 52 Required 2 BR Affordable Units

	<u>Percentage of Total Units</u>	<u>Number of Units</u>	<u>Difference per Unit</u>	<u>Total Difference</u>
Low Income Units (60% of Median Income)				
One Bedroom	0.00%	0	\$210	\$0
Two Bedroom	<u>0.00%</u>	<u>0</u>	236	<u>0</u>
Subtotal	0.00%	0		\$0
Very Low Income Units (50% of Median Income)				
One Bedroom	0.00%	0	\$315	\$0
Two Bedroom (4 Persons)	<u>0.00%</u>	<u>0</u>	394	<u>0</u>
Subtotal	0.00%	<u>0</u>		<u>\$0</u>
Total of Proposed Changes		0		\$0
Monthly Cost of Conformance and Proposed Changes per Affordable Unit				\$0
Monthly Benefit of Tax Exempt Financing per Affordable Unit - Variable Rate				222
Monthly Benefit of Tax Exempt Financing Per Affordable Unit - Swap				17

**TABLE 3C  
IMPACT OF PROPOSED CHANGES IN AFFORDABILITY  
NOBEL COURT**

685 Units  
 95 Required 1 BR Affordable Units  
 42 Required 2 BR Affordable Units

	<u>Percentage of Total Units</u>	<u>Number of Units</u>	<u>Difference per Unit</u>	<u>Total Difference</u>
<b>Low Income Units (60% of Median Income)</b>				
One Bedroom	1.46%	10	\$210	\$2,100
Two Bedroom	<u>0.58%</u>	<u>4</u>	236	<u>945</u>
Subtotal	2.04%	14		\$3,045
<b>Very Low Income Units (50% of Median Income)</b>				
One Bedroom	0.00%	0	\$315	\$0
Two Bedroom (4 Persons)	<u>0.00%</u>	<u>0</u>	394	<u>0</u>
Subtotal	0.00%	<u>0</u>		<u>\$0</u>
<b>Total of Proposed Changes</b>		14		\$3,045
<b>Monthly Cost of Conformance and Proposed Changes per Affordable Unit</b>				\$22
<b>Monthly Benefit of Tax Exempt Financing per Affordable Unit - Variable Rate</b>				284
<b>Monthly Benefit of Tax Exempt Financing Per Affordable Unit - Swap</b>				105

**TABLE 4A  
ESTIMATED CASH FLOW  
PASEO POINT**

Total Principal Amount of Bonds: \$14,250,000

	YEAR				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Effective Gross Income*	\$2,396,180	\$2,444,104	\$2,492,986	\$2,542,845	\$2,593,702
Less: Operating Expenses*	<u>(949,930)</u>	<u>(968,929)</u>	<u>(988,307)</u>	<u>(1,008,073)</u>	<u>(1,028,235)</u>
Net Operating Income	1,446,250	1,475,175	1,504,678	1,534,772	1,565,467
Less: Issuer Fee and Trustee Fee	<u>(39,900)</u>	<u>(39,900)</u>	<u>(39,900)</u>	<u>(39,900)</u>	<u>(39,900)</u>
Net Cash Available for Debt Service	1,406,350	1,435,275	1,464,778	1,494,872	1,525,567
Less: Debt Service	<u>(828,638)</u>	<u>(828,638)</u>	<u>(828,638)</u>	<u>(828,638)</u>	<u>(828,638)</u>
Net Cash Flow	\$577,712	\$606,637	\$636,141	\$666,234	\$696,930
Debt Service Coverage	1.70	1.73	1.77	1.80	1.84

\* Based upon audited 1998 revenue and expenses assumed to increase at 2% per year.

**TABLE 4B  
ESTIMATED CASH FLOW  
LA CIMA**

Total Principal Amount of Bonds: \$43,640,000

	YEAR				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Effective Gross Income*	\$6,407,362	\$6,535,509	\$6,666,219	\$6,799,543	\$6,935,534
Less: Operating Expenses*	<u>(2,146,267)</u>	<u>(2,189,192)</u>	<u>(2,232,976)</u>	<u>(2,277,635)</u>	<u>(2,323,188)</u>
Net Operating Income	4,261,095	4,346,317	4,433,243	4,521,908	4,612,346
Less: Issuer Fee and Trustee Fee	<u>(122,192)</u>	<u>(122,192)</u>	<u>(122,192)</u>	<u>(122,192)</u>	<u>(122,192)</u>
Net Cash Available for Debt Service	4,138,903	4,224,125	4,311,051	4,399,716	4,490,154
Less: Debt Service	<u>(2,537,666)</u>	<u>(2,537,666)</u>	<u>(2,537,666)</u>	<u>(2,537,666)</u>	<u>(2,537,666)</u>
Net Cash Flow	\$1,601,237	\$1,686,459	\$1,773,385	\$1,862,050	\$1,952,488
Debt Service Coverage	1.63	1.66	1.70	1.73	1.77

\* Based upon audited 1998 revenue and expenses assumed to increase at 2% per year.

**TABLE 4C  
ESTIMATED CASH FLOW  
NOBEL COURT**

Total Principal Amount of Bonds: \$50,850,000

	YEAR				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Effective Gross Income*	\$7,774,021	\$7,929,501	\$8,088,091	\$8,249,853	\$8,414,850
Less: Operating Expenses*	<u>(2,641,502)</u>	<u>(2,694,332)</u>	<u>(2,748,219)</u>	<u>(2,803,183)</u>	<u>(2,859,247)</u>
Net Operating Income	5,132,519	5,235,169	5,339,872	5,446,670	5,555,603
Less: Issuer Fee and Trustee Fee	<u>(142,380)</u>	<u>(142,380)</u>	<u>(142,380)</u>	<u>(142,380)</u>	<u>(142,380)</u>
Net Cash Available for Debt Service	4,990,139	5,092,789	5,197,492	5,304,290	5,413,223
Less: Debt Service	<u>(2,956,928)</u>	<u>(2,956,928)</u>	<u>(2,956,928)</u>	<u>(2,956,928)</u>	<u>(2,956,928)</u>
Net Cash Flow	\$2,033,211	\$2,135,861	\$2,240,565	\$2,347,362	\$2,456,296
Debt Service Coverage	1.69	1.72	1.76	1.79	1.83

\* Based upon audited 1998 revenue and expenses assumed to increase at 2% per year.