Good Neighbors
San Diego
Housing Commission

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REPORT

DATE: For the Agenda of July 19, 2002 **ITEM 102**

REPORT NO: HCR02-057

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Windwood Village Apartments (Council District 1)

SUMMARY

Issue: Should the Housing Authority take the final step to issue tax-exempt multifamily housing revenue bonds to finance the acquisition and construction by Chelsea Investment Corporation of Windwood Village Apartments, to be located at 12730-12770 Briarcrest Place in Subarea III in the North City Future Urbanizing Area (NCFUA) of Council District 1?

Recommendation: That the Housing Authority authorize the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed $6,768,000 for the acquisition and construction of the 92-unit Windwood Village Apartments complex.

Fiscal Impact: The issuance and sale of the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the developer. The Housing Commission's origination fee as well as the annual administrative fee under the financing will be up to $15,566 (0.23 percent of the bond amount).

Housing Affordability Impact: Because the development will utilize bonds, tax credits, and State Multifamily Housing Program funds, very deep affordability can be achieved. The project will restrict 10% of the apartments for occupancy by families earning no greater than 20% Area Median Income (AMI) ($12,020 for a family of four); 20% of the apartments for families earning no greater than 30% AMI ($18,050 for a family of four); and the remaining 70% of apartments for families earning no greater than 60% AMI ($36,060 for a family of four). The affordability restrictions will remain in place for 55 years. The restricted rents would also apply if Section 8 tenants occupy the units.

Previous Related Action(s): A Bond Inducement resolution, a TEFRA resolution and an application for the allocation of bond issuing authority for the project was approved by the Housing Authority and City Council on April 2, 2002, Report No. HAR 02-002, Resolution No. R-1148 and Resolution No. R-296246. These actions were not presented to the Housing Commission Board due, at that time, to a real or potential conflict of one or more of the Commissioners and potential conflicts of interest under applicable state and local laws. Therefore, the actions were forwarded directly to the Housing Authority.

BACKGROUND

On April 17, 2002, the Housing Authority, on behalf of the developer, submitted an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation in the amount of $6,768,000 for Windwood Village Apartments. On June 24, 2002, CDLAC awarded the requested bond allocation to the project. The project's bond allocation will automatically revert to CDLAC unless the bonds are issued by September 19, 2002.

A general description of the Housing Commission's Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize the proposed financing are described in *Attachment 1*.

THE DEVELOPER

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

Chelsea, through its 100% owned affiliate, PHR Inclusionary, will act as administrative general partner (0.5% partnership interest) in CIC PHR, LP, a tax credit limited partnership. Pacific Southwest Community Development Corporation, an experienced California nonprofit public benefit corporation with which Chelsea has partnered on several projects, will serve as the managing general partner (0.5% partnership interest); an organizational profile is included as *Attachment 3*. Lend Lease Real Estate Investments, Inc. is expected to be the limited partner (99.9% partnership interest).

The San Diego Housing Commission and Housing Authority have worked successfully with Chelsea over the past two years to issue a total of $13,159,000 in multifamily housing revenue bonds for four developments: (i) $4,100,000 in August of 2000 to assist in the acquisition and rehabilitation of the 100-unit Regency Centre Apartments in Council District 4; (ii) $4,780,000 in July of 2001 to assist in the new construction of the 76-unit Torrey Highlands Apartments in Torrey Highlands (Subarea IV of the NCFUA) in Council District 1; (iii) $2,231,000 in June of 2002 to assist in the new construction of the 32-unit Villa Andalucia Apartments in Pacific Highlands Ranch (Subarea III of the NCFUA) in Council District 1; and $2,048,000 in June of 2002 to assist in the new construction of the 26-unit Villa Glen Apartments in Torrey Highlands (Subarea IV of the NCFUA) in Council District 1.

Chelsea is also the developer of two 9% tax credit financed projects - the 200-unit senior studio housing, Market Square Manor, and the 90-unit Harvey Mandel Villas for St. Vincent de Paul. The Housing Commission has loans on these two projects totaling $3,590,000. The projects are downtown in Council District 8 and 2, respectively. Chelsea also recently completed development of the 38-unit Longacres at Seabreaze Farms, which is also located in the NCFUA.

Chelsea is now requesting that the Housing Authority take the final step to issue a total of up to $6,768,000 in multifamily housing revenue bonds to help finance the development of Windwood Village Apartments. Development of the apartment complex would fulfill the affordable housing requirements for market rate developments by a master developer of the NCFUA, Pardee Homes.

PROJECT NARRATIVE

Windwood Village Apartments is a new construction project that would create a total of 92 units. The development would be located at 12730-12770 Briarcrest Place (at the northeast intersection of Carmel Valley Road and Route 56, approximately 2.5 miles east of Interstate 5) in Subarea III in the NCFUA. The location map is included as *Attachment 4*. The project would be constructed on 4.34 acres. It would include ten 2-story buildings and a recreation center consisting of a swimming pool, recreation building, tot lot, and picnic area. The 2,363 SF recreation building would include a community room and kitchen, a conference room, multi-media and computer room. The ten residential buildings would consist of 12 one-bedroom, one-bath apartments; 48 two-bedroom, two-bath apartments; and 32 three-bedroom, two-bath apartments. The units would be air-conditioned and include refrigerators, dishwashers, gas ranges, walk-in closets, balconies or patios, and covered parking. The project would restrict 10% of the units to households earning no greater than 20% of AMI and 20% of the units to households earning no greater than 30% of AMI. The remaining 70% of units would be restricted to households earning no greater than 60% of AMI. The restricted rents for the project (outlined below) would also apply if

Section 8 tenants occupy the units. The Regulatory Agreement that determines the level of affordability for the project would be in existence for 55 years.

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

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

*** Includes one manager's unit**

The Pacific Highlands Ranch neighborhood is serviced by two major east/west arterials: Del Mar Heights Road, with service to the west; and Interstate 5 and Carmel Valley Road, with service to the east and Interstate 15; and the new east/west freeway, Route 56, which is currently under development, will connect both interstate Highways. Windwood Village is located on a cul de sac on the southern end of Old Carmel Valley Road. Access to Route 56 will be via an interchange one-half mile to the east on Carmel Valley Road.

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

Financing Structure

Two separate issues of bonds are proposed for the project: 2002 F bonds ("Senior Bonds") and Series G bonds ("Subordinate Bonds"). The Senior Bonds will be credit enhanced by Fannie Mae and are expected to receive a "AAA" rating by Standard and Poor's Corporation. The structure of the Subordinate Bonds has not yet been finalized. However, it is anticipated that the Subordinate Bonds would either be sold publicly and cash collateralized by a guaranteed investment contract (resulting in a credit rating of “AA” or “AAA”) or privately purchased by Bank of America. If Bank of America is the

purchaser of the Subordinate Bonds, they would retain ownership for the entire term of the bonds (anticipated to be no longer than 24 months), and, pursuant to Housing Commission policy, would be required to sign an “Investor Letter” agreeing that, should a mortgage default occur, there would not be a bond default. In case of default under the mortgage loan, Bank of America would have the ability to accelerate and redeem the Bonds in exchange for ownership of the project.

In addition to bond proceeds, the project, which has a total development cost of $13,606,365, would be funded from tax credit equity investments ($4,118,000), a low-interest loan from the State of California’s Multifamily Housing Program ($3,318,365), deferred developer fees ($600,000), and a contribution from the master developer ($910,000 as well as contribution of the land) as partial fulfillment of its obligations to provide affordable housing in the NCFUA. Sources and uses of the funds are also shown in Exhibit A *of Attachment 5*.

RISKS AND MITIGATIONS

Staff has been working with CSG Advisors, Inc., the Housing Commission’s financial advisor for this project, to perform due diligence under the proposed financing and in formulating the resulting recommendation for the Housing Authority. After evaluating the project’s financial circumstances, the terms of the proposed financing and public benefits to be achieved, it is the financial advisor’s recommendation that the bond issuance for the project be authorized. The Financial Advisor’s analysis and recommendation to proceed is included as *Attachment 5.*

Issuances of bonds for the project do not constitute a debt or liability of the Housing Authority or the City of San Diego. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the bonds because the security for the bond repayment is limited to the value of the subject property and its revenue sources. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fees.

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

ALTERNATIVE

Do not authorize the issuance of the bonds at this time. If the bonds are not issued, the bond allocation will automatically revert to the State. Also, if the recommended action is not taken, the project will not be able to benefit from tax-exempt below-market financing, and the applicant would not be able to provide the lower than required level of affordability (60% AMI).

Respectfully submitted,

Approved by,

Signature on File with Original Document

Jack D. Farris
Manager, Housing Finance & Development

Elizabeth C. Morris
Chief Executive Officer

ATTACHMENTS:

1. Description of Multifamily Bond Program
2. Developer Disclosure and Financial Statements*
3. Profile of Nonprofit Managing General Partner
4. Project Location Map
5. Financial Advisor's Letter

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

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ATTACHMENT 1

MULTIFAMILY BOND PROGRAM

General Description

The Multifamily Bond Program provides below market financing (based on tax exemption of bond interest) for developers willing to set aside a portion of the units in their projects as affordable housing. The issuer of these bonds is the Housing Authority. At the present time, nearly $470 million in outstanding bonds provides permanent financing for more than 7,900 multifamily rental units in the City, of which 3,203 units are restricted at various levels of affordability.

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

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

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

1. Bond Inducement

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

2. TEFRA Hearing and Approval

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

3. Bond Allocation

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

4. Final Bond Approval

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