San Diego HOUSING COMMISSION

REPORT

DATE ISSUED: January 11, 2007 REPORT NO: HAR 08-002

ATTENTION: Chair and Members of the Housing Authority
For the Agenda of February 5, 2008

SUBJECT: Final Bond Authorization for Boulevard Apartments (Council District 3)

REQUESTED ACTION:
Take the final step to authorize the issuance of Housing Authority mortgage revenue bonds for the development of Boulevard Apartments.

STAFF RECOMMENDATION:
Housing Authority authorize the issuance of up to $6 million in housing revenue bonds to fund the development of the Boulevard Apartments, a 24-unit apartment complex located at 3137 El Cajon Boulevard. The bonds will be repaid with permanent funding sources after the project is built and occupied. A proposed Housing Commission loan would require future approval by the Housing Authority.

BACKGROUND:
The Project
The site for the proposed Boulevard Apartments is located at 3133-3137 El Cajon Boulevard, on the south side of El Cajon Boulevard between Iowa Street and Illinois Street, two blocks west of the 805 freeway. The project will provide a total of 24 affordable housing units, approximately 2,000-square-feet of commercial space, and a 17-space parking garage on a 0.24-acre site. The project would also include a landscaped roof deck with barbeque facilities, patio cover, picnic tables and a children's play area. Each unit would feature a private balcony. A site map is included as Attachment 1.

Housing Affordability
The 24 residential units would consist of 3 one-bedroom units, 18 two-bedroom units and 3 three-bedroom units. Although the Housing Commission's Bond Program would normally restrict rents at 50% and 60% of the Area Median Income (AMI) ($31,600 and $37,920 for a household of three), other funding sources require substantially lower restricted rents. As a result, 14 units will be restricted at 30% AMI ($18,950 for a household of three) and 9 units will be restricted at 40% AMI ($25,300 for a household of three). One unit will be reserved for an on-site manager and will not be occupancy-restricted. Nine of the units will be designated as supportive housing units serving households that are homeless or at-risk of becoming homeless and in which there is a disabled adult with mental illness, HIV/AIDS or substance abuse. Rent and income restrictions for the project are outlined in the chart below:

Type	**AMI**	**Number of Units**	**Restricted Rent** (net of utility allowance)	**Market Rate**	**Monthly Savings per unit**
One Bedroom	30% AMI	3	$367	$800	$433
Two Bedroom	30% AMI	8	$438	$1,000	$562
Two Bedroom	40% AMI	9	$594	$1,000	$406
Two Bedroom	MGR	1	N/A	N/A	N/A
Three Bedroom	30% AMI	3	$505	$1,300	$795
Total		**24**			
Total Annual Savings					**$137,592**

Development Team

S.V.D.P. Management Inc. (SVDP) and Chelsea Investment Corporation (Chelsea) will be co-developers of the Boulevard Apartments. 3137 El Cajon Boulevard, L.P., a California limited partnership, has been established to own and operate the Boulevard Apartments. SVDP, a California nonprofit public benefit corporation and affiliate of Father Joe's Villages, will be the managing general partner of 3137 El Cajon Boulevard, L.P. and the Richman Group will be the investor limited partner.

SVDP and Chelsea have collaborated on five affordable housing projects during the previous twelve years. These collaborations include: Paul Mirabile Center, a 350 bed short-term single adult facility (1994); Village Place Apartments, a 46-unit permanent affordable housing facility (1996); Toussaint Academy of the Arts and Sciences, a residence and high school for 30 youth (1998); Martha's Village & Kitchen in Riverside County which provides emergency and transitional housing for up to 120 individuals (1999); and Villa Harvey Mandel, a 90-unit permanent affordable housing project dedicating 25 units for mentally ill/chemically dependent adults (2002).

SVDP is the property owner, developer and key partner of St. Vincent de Paul Village, a complex of buildings and programs in downtown San Diego that provides a continuum of care for homeless individuals and families. St. Vincent de Paul Village was established in 1987 and has grown to be the largest homeless service provider in San Diego, offering emergency and transitional housing and supportive services for up to 869 men, women and children on a nightly basis. SVDP and St. Vincent de Paul Village, Inc. are 501 (C) (3) organizations, each with its own Board of Directors; however the agencies collaborate closely for fundraising and program development, and share the same President, Father Joe Carroll. SVDP's developer disclosure statement is included as Attachment 2.

Chelsea has been developing affordable housing in San Diego and Imperial Counties of southern California and Yuma County, Arizona for over twenty years. During this period, Chelsea has developed or acquired and rehabilitated 44 projects accounting for 4,880 units. Chelsea has developed 12 projects in the City of San Diego and a total of 17 projects in San Diego County. Chelsea's developer disclosure statement is included as Attachment 3.

Financing Structure

The total development cost of the project is estimated to be approximately $10.9 million. Major cost items include site acquisition and demolition, construction costs, interest and financing costs, a developer fee, and other soft costs. A summary of development costs is included below:

Proposed Permanent Financing Uses	
Property Acquisition and Demolition	$1,300,000
Construction	6,200,000
Developer Fee	1,300,000
Interest and Financing Costs	600,000
Other Soft Costs	1,500,000
Total	**$10,900,000**

Mortgage revenue bonds will be used to fund the construction of the project and will be repaid by permanent funding sources. Proposed permanent financing sources will consist of tax credit equity, a loan from the Redevelopment Agency, a loan from the State of California's Multifamily Housing Program (MHP), a grant from the Department of Housing and Urban Development (HUD), a loan from the Federal Home Loan Bank's Affordable Housing Program (AHP), and a deferred developer fee and equity from SVDP. Estimated permanent sources of funding are summarized in the following table:

Proposed Permanent Financing Sources	
MHP	$2,100,000
Redevelopment Agency Loan	2,400,000
HUD	400,000
AHP	400,000
Tax Credits	3,700,000
Deferred Developer Fee	700,000
SVDP Equity/Land Note	1,200,000
Total	**$10,900,000**

The Housing Commission is currently considering an additional loan for the project. A Housing Commission loan would require future approval by the Housing Authority and, due to a State financing deadline, if approved, would be funded after the closing of the housing bonds.

Public Disclosure and Bond Authorization

The bonds will be sold through a private placement to US Bank. The bonds will not be credit enhanced or rated. When bonds are issued through a public offering, a third party trustee administers bond proceeds, collects project loan payments, makes bond debt service payments, and protects the interest of bondholders. Under the private placement structure for this transaction, US Bank will act as both trustee and bondholder/lender.

As part of the proposed financing, US Bank will be required to sign an investor letter certifying that they are a sophisticated investor, understand the risks associated with the purchase of the bonds, and have completed all necessary due diligence in determining to purchase the bonds. The transfer of the bonds by US Bank or any subsequent bondholder will be restricted to transferees who would purchase all of the bonds (to maintain ownership by a single bondholder), and who would represent to the Authority that they are sophisticated investors who are buying the bonds for investment purposes and not for resale, and have made due investigation of the information they would deem material in connection with the purchase of the bonds. Finally, US Bank must agree that a mortgage loan default will not, in itself, constitute a bond default.

The following documents will be executed on behalf of the Housing Authority: Indenture, Loan Agreement, Assignment of Deed of Trust and Other Loan Documents, and Regulatory Agreement. At the time of docketing, all bond documents in substantially final form will be presented to members of the Housing Authority. Any changes to the documents following Housing Authority approval require the consent of the City Attorney's office and bond counsel.

The bonds will be issued pursuant to an Indenture between the Housing Authority and US Bank (acting as the trustee). Based upon instructions contained in Indenture, the trustee will disburse bond proceeds for eligible costs, collect project revenues and make payments to bondholders, and hold collateral to secure payment of the bonds.

Under the terms of the Loan Agreement, the Housing Authority will loan the proceeds of the bonds to the borrower in order to develop the project. The Loan Agreement sets out the terms of repayment and the security for the loan, and the Housing Authority assigns its rights to receive repayments under the loan to the trustee.

An Assignment of Deed of Trust and Other Loan Documents, which assigns the Housing Authority's rights and responsibilities as the bond issuer to US Bank, is signed by the Housing Authority and US Bank. Rights and responsibilities that are assigned to US Bank include the right to collect and enforce the collection of loan payments, monitor project construction and related budgets, and enforce insurance and other requirements. These rights will be used by US Bank as trustee to protect its financial interests as the bondholder.

The Regulatory Agreement will be recorded against the property in order to ensure the long-term use of the project as affordable housing. The Regulatory Agreement will also ensure that the project complies with all applicable federal and state laws.

Since the bonds will not be repaid using any City or Housing Authority revenues, it is not appropriate to provide any information about the City's finances. For a summary 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 bond financings, please see Attachment 4.

Staff has been working with Ross Financial, the Housing Commission's financial advisor, to perform due diligence concerning the proposed financing and to formulate a recommendation for the Housing Authority. After evaluating the terms of the proposed financing and the public benefits to be achieved, it is Ross Financial's recommendation that the bond issuance for the project be authorized. Ross Financial's analysis and recommendation to proceed is included as Attachment 5.

Staff is also working with the City's Disclosure Practices Working Group to insure that the issuance of Housing Authority bonds is in conformance with the City's disclosure requirements.

FISCAL CONSIDERATIONS:

There are no fiscal impacts to the Housing Commission, City, or Housing Authority associated with the requested action. Neither the faith and credit nor the taxing power of the City or the Housing Authority would be pledged to the payment of the bonds; security for repayment of the bonds will be limited to the value of the property and its revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the project owner. The Housing Commission's origination fee under the financing will be up to $13,800 (0.23 percent of the bond amount).

PREVIOUS HOUSING AUTHORITY And/Or COMMITTEE ACTIONS:
On July 24, 2007, the Housing Authority and City Council approved preliminary bond items for the project.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
On April 19, 2005, the Greater North Park Community Planning Group voted 6-5-2 to recommend approval of the project, with the condition that the applicant provide explicit documentation that there is a 50-year agreement specifying St. Vincent de Paul as the manager and operator of the property. On March 15, 2007, with a vote of 5-0-2, the Planning Commission approved the site development permit for the project. On June 15, 2007, the Housing Commission approved preliminary bond items for the project.

KEY STAKEHOLDERS & PROJECTED IMPACTS:
Very-low income households are the intended residents of the project. SVDP and Chelsea compose the development team for the project. The SVDP board members and the owners of Chelsea are listed in Attachments 2 and 3. US Bank and the Richmond Group have been selected to provide debt and equity for the project.

Respectfully submitted,	Approved by,
Cissy Fisher Director of Housing Finance & Development	Elizabeth C. Morris President & Chief Executive Officer

Attachments:
1. Site Map
2. SVDP's Disclosure Statement*
3. Chelsea's Developer's Disclosure Statement*
4. Multifamily Bond Program Summary
5. Financial Advisor Analysis

Distribution of these attachments may be limited. Copies are available for review during business hours at the Housing Commission offices at 1122 Broadway, Main Lobby.

Attachment 4

HOUSING COMMISSION MULTIFAMILY HOUSING REVENUE BOND PROGRAM
Summary

General Description: The multifamily housing bond program provides below-market financing (based on bond interest being exempt from income tax) for developers willing to set aside a percentage of project units as affordable housing. Multifamily housing revenue bonds are also known as “private activity bonds” bonds because the projects are owned by private entities, often including nonprofit sponsors and for-profit investors.

Bond Issuer: Housing Authority of the City of San Diego. There is no direct legal liability to the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City’s or the Housing Authority’s faith, credit or taxing power. The bonds do not constitute a general obligation of the issuer because security for repayment of the bonds is limited to specific private revenue sources, such as project revenues. The developer is responsible for the payment of costs of issuance and all other costs under each financing.

Affordability: Minimum requirement is that at least 20% of the units are affordable at 50% of Area Median Income (AMI). Alternatively, a minimum of 10% of the units may be affordable at 50% AMI with an additional 30% of the units affordable at 60% AMI. The Housing Commission requires that the affordability restriction be in place for a minimum of 15 years. In practice, projects financed by multifamily housing bonds are affordable for a minimum of 30 years. Bonds may also be combined with other financing sources to create deeper affordability and longer terms of restriction.

Rating: Generally “AAA” or its equivalent with a minimum rating of “A” or, under conditions that meet IRS and Housing Commission requirements, bonds may be unrated for private placement with institutional investors (typically, large banks). Additional security is normally achieved through the provision of outside credit support (“credit enhancement”) by participating financial institutions that underwrite the project loans and guarantee the repayment of the bonds. The credit rating on the bonds reflects the credit quality of the credit enhancement provider.

Approval Process:

- Inducement Resolution: The bond process is initiated when the issuer (Housing Authority) adopts an “Inducement Resolution” to establish the date from which project costs may be reimbursable from bond proceeds (if bonds are later issued) and to authorize staff to work with financing team to perform a due diligence process. The Inducement Resolution does not represent any commitment by the Housing Commission, Housing Authority, or the developer to proceed with the financing.

- TEFRA Hearing and Resolution (Tax Equity and Fiscal Responsibility Act of 1982): To assure that projects making use of tax-exempt financing meet appropriate governmental purposes and provide reasonable public benefits, IRS Code requires that a public hearing be held and that the issuance of bonds be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located (City Council). This process does not make the City financially or legally liable for the bonds or for the project.

  [Note: It is uncommon for the members of the City Council to be asked to take two actions at this stage in the bond process---one in their capacity as the City Council (TEFRA hearing and resolution) and another as the Housing Authority (bond inducement). Were the issuer (Housing Authority) a more remote entity, the TEFRA hearing and resolution would be the only opportunity for local elected officials to weigh in on the project.]

- Application for Bond Allocation: The issuance of these "private activity bonds" (bonds for projects owned by private developers, including projects with nonprofit sponsors and for-profit investors) requires an allocation of bond issuing authority from the State of California. To apply for an 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.

- Final Bond Approval: The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Prior to final consideration of the proposed bond issuance, the project must comply with all applicable financing, affordability, and legal requirements and undergo all required planning procedures/reviews by local planning groups, etc.

- Funding and Bond Administration: All monies are held and accounted for by a third party trustee. The trustee disburses proceeds from bond sales to the developer in order to acquire and/or construct the housing project. Rental income used to make bond payments is collected from the developer by the trustee and disbursed to bond holders. If rents are insufficient to make bond payments, the trustee obtains funds from the credit enhancement provider. No monies are transferred through the Housing Commission or Housing Authority, and the trustee has no standing to ask the issuer for funds.

Bond Disclosure: The offering document (typically a Preliminary Offering Statement or bond placement memorandum) discloses relevant information regarding the project, the developer, and the credit enhancement provider. Since the Housing Authority is not responsible, in any way, for bond repayment, there are no financial statements or summaries about the Housing Authority or the City that are included as part of the offering document. The offering document includes a paragraph that states that the

Housing Authority is a legal entity with the authority to issue multifamily housing bonds and that the Housing Commission acts on the behalf of the Housing Authority to issue the bonds. The offering document also includes a paragraph that details that there is no pending or threatened litigation that would affect the validity of the bonds or curtail the ability of the Housing Authority to issue bonds. This is the extent of the disclosure required of the Housing Authority, Housing Commission, or the City. However, it is the obligation of members of the Housing Authority to disclose any material facts known about the project, not available to the general public, which might have an impact on the viability of the project.