



SAN DIEGO
HOUSING
COMMISSION

San Diego Housing Commission (SDHC) Multifamily Housing Revenue Bonds Workshop January 12, 2018

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SDHC - Multifamily Housing Revenue Bonds Introduction

- As a public agency the Housing Authority, is authorized to issue bonds, often referred to as “multifamily housing revenue bonds” or “private activity bonds.”
- Multifamily housing revenue bonds have been issued in the City or Housing Authority since 1982.
- SDHC’s Multifamily Mortgage Revenue Bonds Program was enacted in 1989.
- More than \$1.6 billion in bonds have been issued.
- 17,780 units of multifamily housing produced
 - 10,415 of these units are affordable are restricted to lower income households.





SDHC - Multifamily Housing Revenue Bonds Program Goals

- Increase and preserve the supply of affordable rental housing.
- Encourage economic integration within residential communities.
- Maintain a quality living environment for residents of assisted developments and surrounding properties.
- If SDHC funds or other public funds are invested in the project, maximize the leveraging of private sector funds to optimize the effectiveness of public funds.





SDHC - Multifamily Housing Revenue Bonds Municipal Bonds

- Four Major Types of Bonds:
 - Government
 - Corporate
 - **Municipal**
 - Agency
- **Municipal Bonds:** Debt Issued by a state or local government. Municipal bonds may be tax-exempt from federal and/or state and local taxes.
- Examples of Municipal Bond Issuers:
 - Cities
 - Counties
 - Public Utilities
 - School Districts
 - **Housing Authorities**
 - Joint Power Authorities
 - Special Taxing Districts





SDHC - Multifamily Housing Revenue Bonds Municipal Bonds (Continued)

- Two most common types of Municipal Bonds:
 1. **General Obligation Bonds** – Issued by a state or municipality and backed by the “full faith and credit” of the issuer, which has the power to tax residents to pay bondholders
 2. **Revenue Bonds** – Backed by revenue from a specific project or revenue stream—not by government’s taxing power
- Federal tax code classifies General Obligation Bonds as “Governmental Bonds” and Revenue Bonds as “Private Activity Bonds” (PABs).
- SDHC utilizes PABs to develop multifamily rental housing.





SDHC - Multifamily Housing Revenue Bonds Federal and State Regulations

- PABs were created by Congress.
- The Federal Tax Reform Act of 1986 (Section 1301) established a detailed set of rules to regulate the use of tax-exempt PABs and to restrict the funds created by the bond issuance (Section 146 of the Internal Revenue Code)
- Federal law limits how much tax-exempt debt a state can issue (Annual State Ceiling) in a calendar year for private projects that have a qualified public benefit.
 - The limit is determined by a state's population, multiplied by a specified dollar amount.
- The Annual State Ceiling for California in calendar year 2017 was \$3,925,001,700.





SDHC - Multifamily Housing Revenue Bonds Federal and State Regulations

- The California Debt Limit Allocation Committee (CDLAC) allocates PABs in the State of California.
- CDLAC's primary functions include:
 - Set the Annual State Ceiling
 - Allocate PABs within the limit of the Annual State Ceiling
 - Administrative functions, as necessary
- Three active programs in the State of California are utilized for the issuance of tax-exempt PABs:
 - **Qualified Residential Rental Project Program**
 - Industrial Development Bond Project Program
 - Exempt Facility Program



SDHC - Multifamily Housing Revenue Bonds Program Requirements

- Income Restrictions:
 - A minimum of 20% of the units must be set aside for households with income up to 50% of AMI; or
 - A minimum of 40% of the units must be set aside for households with income up to 60% of AMI.
- Affordable for a 55-year period.
- PABs are publicly offered or privately placed with bondholders.
- 95% of the tax-exempt bond proceeds must be allocated to capital costs associated with the development.



*Fairbanks Terrace
82 units for seniors (age 62 and older)
Black Mountain Ranch
\$15.3 million Multifamily Housing Revenue Bonds
June 21, 2017*



SDHC - Multifamily Housing Revenue Bonds

Economic Benefits of PABs

- **Tax-exempt from federal and/or state and local taxes; results in below market rate interest compared with conventional financing.**
 - *Example: For an investor in the 21% marginal tax bracket, considering a municipal bond paying 5.00%:
Tax-Equivalent Yield = $.05 / (1 - .21) = 6.33\%$*
- **Qualifies for 4% Low Income Housing Tax Credits (LIHTC)**
 - If 50% or more of the cost of the land and the building constituting a project is financed with PABs
 - Historically paid for 30%-40% of total development cost of affordable units (up to 60% AMI)



*Torrey Vale
28 units for families
Pacific Highlands Ranch
\$7 million Multifamily Housing Revenue Bonds
October 11, 2016*





SDHC - Multifamily Housing Revenue Bonds Bond Issuance Process Overview

Step 1 Inducement Application

- Project proponent submits an application to SDHC
- SDHC staff conducts application/feasibility review
- SDHC staff prepares reports to SDHC Board & Housing Authority

Step 2 Tax Equity & Fiscal Responsibility Act Hearing (City Council Action)

- Housing Authority issuance of any PABs must be approved by the City Council, after a public hearing for which a public notice is given.
- The public hearing provides an opportunity for interested persons to provide their views on the proposed bond issuance and on the nature and location of the project



SDHC - Multifamily Housing Revenue Bonds Bond Issuance Process Overview (Continued)

Step 3 Preliminary Bond Authorization (Housing Authority)

- SDHC Board recommends a City Council TEFRA Hearing and Preliminary Authorization actions by the Housing Authority.
- IRS requires an inducement resolution, which is a conditional expression of the Housing Authority's “official intent” to issue PABs.

Step 4 CDLAC Bond Application

- Housing Authority must formally apply for and receive an allocation of bond issuing authority from CDLAC before PABs are issued.
- PABs for multifamily housing currently are awarded noncompetitively

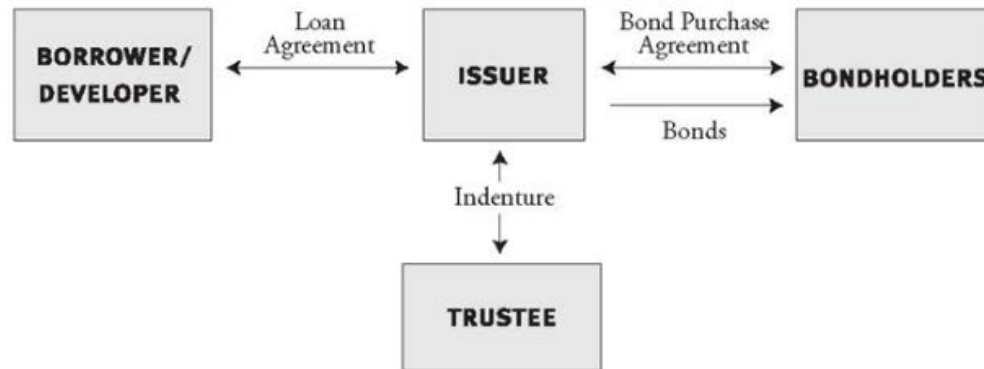


SDHC - Multifamily Housing Revenue Bonds Bond Issuance Process Overview (Continued)

Step 5 Low Income Housing Tax Credit (LIHTC) Application

- Program provides affordable housing developers with federal tax credits that are sold to private investors who contribute equity to the project in exchange for tax benefits.
- Developers use the equity provided by the investors to acquire, construct or rehabilitate low-income projects.

Step 6 Bond Document Preparation





SDHC - Multifamily Housing Revenue Bonds

Bond Issuance Process Overview (Continued)

Step 7 Final Bond Authorization

- SDHC Board recommends that Housing Authority proceed with proposed bond issuance.
- Housing Authority authorizes the issuance of PABs.
- Financing Secured

Step 8 Issue Bonds

- Bond issue closes
- Bond proceeds wired to Trustee for disbursement
- Bond proceeds are available to be spent by Borrower





SDHC - Multifamily Housing Revenue Bonds

Legal Considerations

- No direct liability to the City, the Housing Authority or SDHC.
- No pledge of the City's or the Housing Authority's faith, credit or taxing power.
- PABs do not constitute general obligations of the issuer because the security for the repayment of bonds is limited to project revenue.
- PAB's are limited obligations of the Issuer secured only by a loan. The Issuer assigns the loan to the bondholders or to a bond trustee to secure payment of the bonds.
- If project revenues do not support repayment of the bonds, the bondholders (or a third-party credit enhancer) will bear the loss.





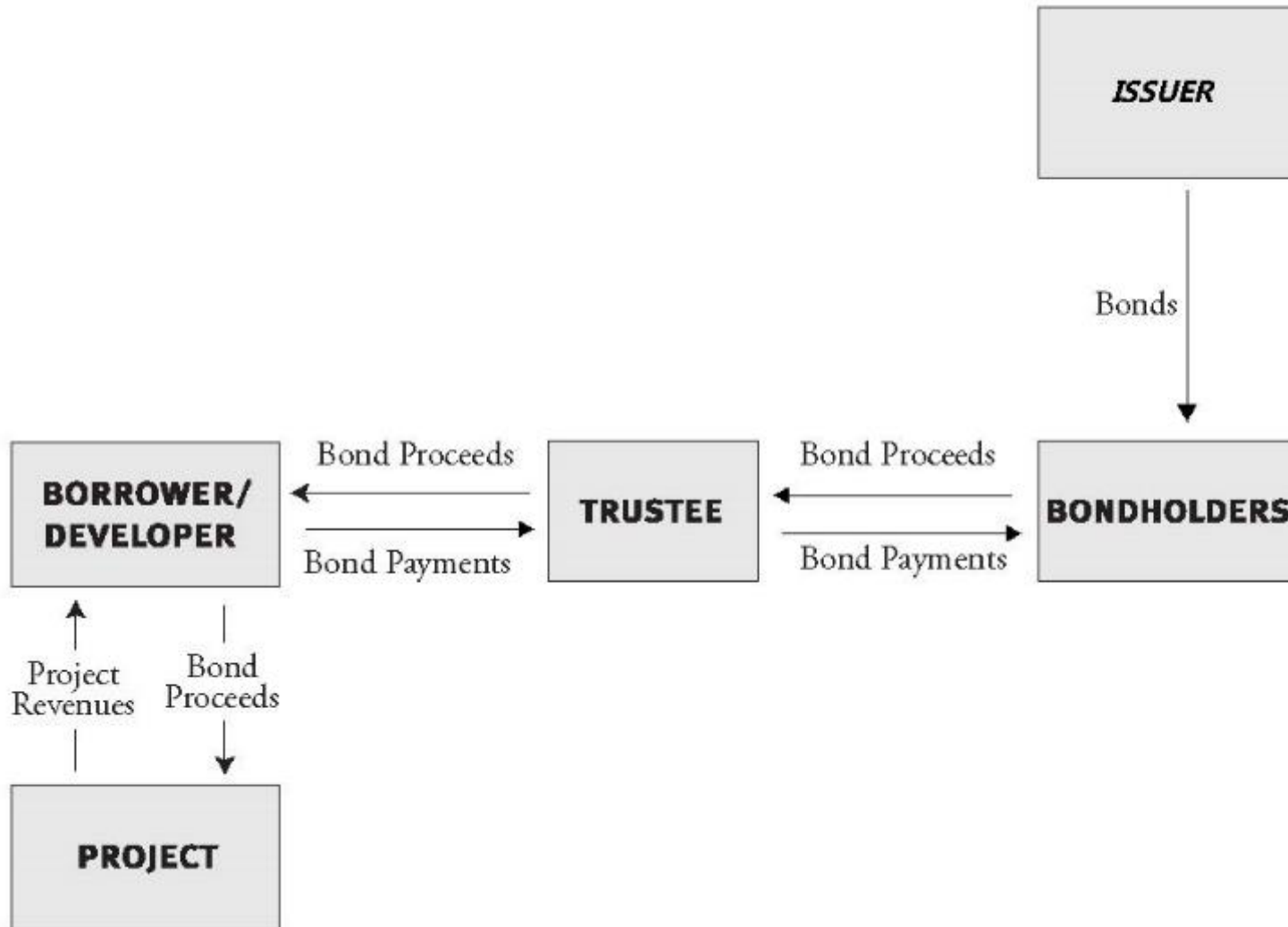
SDHC - Multifamily Housing Revenue Bonds Trustee

- All monies are held and accounted for by a third-party trustee.
- The trustee disburses proceeds from PAB sales to the developer in order to acquire and/or construct the housing development.
- Rental income used to make bond payments is collected from the developer by the trustee and disbursed to bondholders
- No monies are transferred through the SDHC or Housing Authority, and the trustee has no standing to request funds from the bond issuer.



SDHC - Multifamily Housing Revenue Bonds

Bond Proceeds & Development Revenues





SDHC - Multifamily Housing Revenue Bonds

Post-Issuance Compliance

CDLAC Reporting

- CDLAC requires issuers of PABs to provide annual certification of compliance reports:
 - Data by calendar year
 - Must be submitted by March 1 of the following year
- SDHC works with the Borrower to ensure current forms are completed correctly and monitors the project for compliance with the CLDAC resolution and regulatory agreement.
- All reporting is ultimately submitted by SDHC to CDLAC via an online reporting system.





SDHC - Multifamily Housing Revenue Bonds

Post-Issuance Compliance

Outstanding Balances

- As a part of the SDHC and City audit cycle SDHC staff monitor the outstanding PAB balances at the close of each fiscal year (July 1 through June 30).
- The outstanding bond balance report is prepared by confirming, from the project trustees and/or developers, the balance of PABs outstanding as of June 30 each year.
- SDHC staff compile the information and provide the data to City fiscal staff.

