



## EXECUTIVE SUMMARY

### HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

DATE: January 3, 2019

HCR19-004

COUNCIL DISTRICT(S): 9

ORIGINATING DEPARTMENT: Real Estate Division

CONTACT/PHONE NUMBER: Tina Kessler (619) 578-7569

#### REQUESTED ACTION:

Take the initial steps to issue Housing Authority of the City of San Diego tax-exempt Multifamily Housing Revenue Bonds to fund the acquisition and development of Keeler Court Apartments, a proposed 71-unit development, located at 1290-1294 Keeler Court, San Diego 92113, which will remain affordable for 55 years.

#### EXECUTIVE SUMMARY OF KEY FACTORS:

- The proposed development is a 71-unit new construction affordable rental housing project that will be located at 1290-1294 Keeler Court in the Southeastern Community Planning Area of Council District 9.
- The development will include a mix of studio, one, two, and three bedroom units with rents restricted from 30% - 60% of area median income
- Community Housing Works, the developer is seeking preliminary approvals to issue up to \$25,000,000 in tax-exempt Multifamily Housing Revenue Bonds. There will be no Housing Commission loan funds in this transaction.
- Total development cost of the development is \$35,692,466
- The Housing Commission previously approved an award of 7 federal Veterans Affairs Supportive Housing (VASH) project based housing vouchers for this development. Units will be set aside for homeless veterans.
- Staff requests the Housing Commission Board recommend, to the Housing Authority, approval of the following steps:
  - Issue a bond inducement resolution for up to \$25,000,000 in Multifamily Revenue Bonds
  - Authorize an application to the California Debt Limit Allocation Committee
  - Approve a financing team of Kutak & Rock as Bond Counsel and PFM as Financial Advisor
  - Request the City Council hold a Tax Equity and Fiscal Responsibility Act public hearing to adopt a resolution approving the issuance of the tax exempt bonds.
- If approved, the developer could commence construction in December 2019 and complete construction by December 2020.



## REPORT

**DATE ISSUED:** January 3, 2019

**REPORT NO:** HCR19-004

**ATTENTION:** Chair and Members of the San Diego Housing Commission  
For the Agenda of January 11, 2019

**SUBJECT:** Preliminary Bond Authorization for Keeler Court Apartments

**COUNCIL DISTRICT:** 9

### **REQUESTED ACTION**

Take the initial steps to issue Housing Authority of the City of San Diego tax-exempt Multifamily Housing Revenue Bonds to fund the acquisition and development of Keeler Court Apartments, a proposed 71-unit new construction development, located at 1290-1294 Keeler Court, San Diego 92113, which will remain affordable for 55 years.

### **STAFF RECOMMENDATION**

That the San Diego Housing Commission (Housing Commission) recommend that the Housing Authority of the City of San Diego (Housing Authority) and San Diego City Council (City Council) take the following actions, as described in this report.

### **Housing Authority:**

- 1) Approve the following steps to issue Housing Authority tax-exempt Multifamily Housing Revenue Bonds for Keeler Court Apartments, a proposed 71-unit new construction affordable rental housing development, located at 1290-1294 Keeler Court, San Diego 92113, which will remain affordable for 55 years:
  - a. Issue a bond inducement resolution (Declaration of Official Intent) for up to \$25,000,000 in Multifamily Housing Revenue Bonds for the acquisition and construction of Keeler Court Apartments by Community Housing Works;
  - b. Authorize an application (and subsequent applications, if necessary) to the California Debt Limit Allocation Committee (CDLAC) for an allocation of authority to issue tax-exempt private activity bonds in an amount up to \$25,000,000 for Keeler Court Apartments;
  - c. Approve the financing team of Kutak Rock, LLP as Bond Counsel and PFM as Financial Advisor; and
- 2) Authorize the Housing Commission President & Chief Executive Officer (President & CEO), or designee, to execute any and all documents that are necessary to effectuate the transaction and implement these approvals in a form approved by General Counsel and Bond Counsel, and to take such actions as are necessary, convenient, and/or appropriate to implement these approvals upon advice of General Counsel and/or the Bond Counsel.

**City Council:**

Hold a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing and adopt a resolution approving the issuance of Multifamily Housing Revenue Bonds in an amount up to \$25,000,000.

**SUMMARY**

Keeler Court Apartments is supported by the initial phase of HOUSING FIRST – SAN DIEGO, the Housing Commission’s homelessness action plan launched on November 12, 2014. Keeler Court Apartments received a preliminary commitment of seven Veterans Affairs Supportive Housing (VASH) vouchers through the Permanent Supportive Housing Notice of Funding Availability that was released by the Housing Commission on October 7, 2015, in the second year of HOUSING FIRST – SAN DIEGO.

Development Summary is included as Attachment 1.

**Table 1 – Development Details**

Address	1290-1294 Keeler Court, San Diego, 92113
Council District	9
Community Plan Area	Southeastern San Diego
Development Type	New Construction
Construction Type	Type-V
Parking Type	Surface – 86 parking spaces
Housing Type	Multifamily
Lot Size	1.61 acres – 70,132 square feet
Units	71
Density	44 dwelling units per acre
Affordable Unit Mix	10 studio units, 20 one-bedroom units, 18 two-bedroom units, 22 three-bedroom units, and 1 one-bedroom manager unit
Gross Building Area	78,939 square feet
Net Rentable Area	71,027 square feet

**The Development**

Keeler Court Apartments is a proposed 71-unit new construction affordable rental housing development. The project site is 1.61 acres, located at 1290-1294 Keeler Court in the Southeastern Community Plan Area of Council District 9. A site map is included as Attachment 2. The development will consist of one four-story building, connected with exterior bridges, and incorporating 10 studio units, 20 one-bedroom units, 18 two-bedroom units, 22 three-bedroom units and a one-bedroom on-site manager’s unit. Site amenities include on-site laundry, elevator, multipurpose room, bicycle storage, and covered and open parking. The project will include solar, and energy efficient appliances. Additionally, the project will incorporate neighborhood bicycle circulation improvements and other neighborhood infrastructure improvements required by the Affordable Housing and Sustainable Communities Program (AHSC) funding.

**Project Sustainability**

Keeler Court Apartments will comply with the California Tax Credit Allocation Committee’s (TCAC) minimum energy efficiency standards.

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Development Team

The current owner of the project is Kalmia Street Housing Associates, L.P. At closing, the Limited Partnership will be composed of Keeler Court Housing Associates, L.P. as Administrative General Partner, Las Conchas Housing Opportunities LLC, as Managing General Partner, and a tax credit Investor Limited Partner. A developer disclosure statement is included as Attachment 3.

Community Housing Works is a nationally recognized nonprofit organization that helps low-income individuals and families by developing and owning affordable rental housing and providing on-site services and opportunities for residents. Their developments include rehabilitation and new construction of senior, multifamily, and special needs housing.

**Table 2 - Development Team Summary**

<b>ROLE</b>	<b>FIRM/CONTRACT</b>
Owner	Keeler Court Housing Associates, LP
Administrative General Partner	Keeler Court Housing Associates, LP
Managing General Partner	Las Conchas Housing Opportunities, LLC
Investor Limited Partner	Esperanza Housing & Community Development Corporation
Developer	Community Housing Works
Architect	BNIM
General Contractor	Highland PM, LLC
Property Management	ConAm Management
Construction Lender	To-be-determined
Permanent Lender	To-be-determined

Financing Structure

Keeler Court has an estimated total development cost of \$35,692,466. Financing will include a combination of tax-exempt Multifamily Housing Revenue Bonds, federal 4 percent tax credits, City of San Diego loan as the Successor Agency, Affordable Housing Sustainable Communities (AHSC) loan, Federal Home Loan Bank Affordable Housing Program (AHP) loan, Infill Infrastructure Grant (IIG), seller carryback note, general partner contribution to the project, and a deferred developer fee.

There will be no Housing Commission loan proceeds provided to this development.

Estimated permanent sources and uses of financing are provided in Table 3. The developer's project proforma is provided as Attachment 4.

**Table 3 – Estimated Sources and Uses of Financing**

<b>Permanent Financing Sources</b>	<b>Amounts</b>	<b>Permanent Financing Uses</b>	<b>Amounts</b>
Permanent Loan	\$2,870,000	Acquisition Costs	\$3,271,794
AHSC Loan	7,394,135	Construction Costs	20,650,582
Successor Agency Loan	6,000,000	Soft Costs	4,571,530
AHP Loan	940,000	Financing Costs	2,992,124
IIG Grant	700,000	Reserves	198,018
Seller Carryback Note	2,115,000	Developer Fee	4,008,418
Deferred Developer Fee	175,000		
GP Contribution (developer fee contributed to the project)	2,433,418		
Accrued Interest Soft Debt	352,573		
Refunds	103,500		
Tax Credit Equity	12,608,840		
<b>Total Development Cost</b>	<b>\$35,692,466</b>	<b>Total Development Cost</b>	<b>\$35,692,466</b>

Developer Fee

\$ 4,008,418 – gross developer fee  
- 2,433,418 – developer fee contribution to the project  
- 175,000 – deferred developer fee  
\$ 1,400,000 – net cash developer fee

The net cash developer fee shall be \$1,400,000 provided, however, that in the event financing terms or construction costs change and result in a financing gap, the developer may defer additional developer fee.

The fee proposed is consistent with the Request for Approval of Updated Developer Fees (HAR17-011) approved by the Housing Authority on April 25, 2017.

Prevailing Wages

Prevailing wages will be paid for this project. Issuance of the bonds does not require the payment of state or federal prevailing wages. However, other sources of funds used to finance the construction require the payment of prevailing wages.

Development Cost Key Performance Indicators

Housing Commission staff has identified development cost performance indicators, which were used to evaluate the proposed development. The key performance indicators listed in Table 4 are commonly used by real estate industry professionals and affordable housing developers.

**Table 4 – Key Performance Indicators**

Development Cost Per Unit	$\$35,692,466 \div 71 \text{ units} =$	\$502,711
Acquisition Cost Per Unit	$\$3,271,794 \div 71 \text{ units} =$	\$46,082
Net Rentable Square Foot Hard Cost	$\$20,650,582 \div 71,027 \text{ sq. ft.} =$	\$291
Gross Building Square Foot Hard Cost	$\$20,650,582 \div 78,939 \text{ sq. ft.} =$	\$262

Project Comparison Chart

There are multiple factors and variables that influence the cost of developing multifamily affordable housing, including but not limited to project location, site conditions, site improvements needed, environmental factors, land use approval process, community involvement, construction type, design requirements/constraints, economies of scale, City impact fees, developer experience and capacity, and amenities necessary to gain tax credit approval. Table 5 shows a comparison of the subject property and other developments of the same construction type.

**Table 5 – Comparable New Construction Projects**

Project Name	Year	Construction Type	Units	Total Development Cost	Cost Per Unit	SDHC Subsidy Per Unit *	Gross Hard Cost Per Sq. Ft.
<b>Keeler Court</b>	<b>2019</b>	<b>V</b>	<b>71</b>	<b>\$35,692,466</b>	<b>\$502,711</b>	<b>\$0</b>	<b>\$262</b>
Playa Del Sol	2017	V	42	\$13,595,880	\$424,871	\$0	\$161
Villa Encantada	2016	V	67	\$26,197,399	\$391,005	\$111,940	\$190

Proposed Housing Bonds

The Housing Commission utilizes the Housing Authority’s tax-exempt borrowing status to pass on lower interest rate financing (and make 4 percent low-income housing tax credits available) to developers of affordable rental housing. The Housing Authority’s ability to issue bonds is limited under the U.S. Internal Revenue Code. To issue bonds for a development, the Housing Authority must first submit an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation. Prior to submitting applications to CDLAC, developments are brought before the Housing Commission, Housing Authority, and City Council. Housing Authority bond inducement resolutions must be obtained prior to application submittal, and City Council Tax Equity and Fiscal Responsibility Act (TEFRA) resolutions must be secured no later than 30 days after application submittal. These actions do not obligate the Housing Authority to issue bonds.

The developer plans to submit a bond allocation application to CDLAC in April 2019, for a June 2019 bond allocation meeting; however, if necessary, staff will submit additional applications to CDLAC to secure a bond allocation for the development.

The developer will be seeking a CDLAC bond allocation of approximately \$25,000,000. The developer proposes to issue the bonds through a tax-exempt private placement bond issuance. The bonds will meet all requirements of the Housing Commission’s Multifamily Housing Revenue Bond Program policy and will fully comply with the City of San Diego’s (City) ordinance on bond disclosure. The up to \$25,000,000 bond allocation that will be sought from CDLAC is approximately 15 percent higher than the estimated \$21,287,700 amount for which the development is being underwritten. This increased amount represents a bond contingency to account for possible increases in the bond amount due to increases in construction costs, and/or decreases in the assumed interest rate, and/or the loss of other planned funding sources. The bond amount that is ultimately issued will be based upon development costs, revenues, and interest rates prevailing at the time of bond issuance.

The developer proposes that the bonds will be used for acquisition, construction and permanent financing. Housing Commission staff will later return to both the Housing Commission and Housing Authority for approval of the final bond amount. A general description of the Multifamily Housing

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Revenue Bond Program and the actions that must be taken by the Housing Authority and by the City Council to initiate and finalize proposed financings are described in Attachment 5.

Staff recommends assigning Kutak Rock LLP as Bond Counsel and PFM as Financial Advisor to work on the development. The proposed financing team members have been selected in accordance with the existing policy for the issuance of bonds. Financial Advisors and Bond Counsels are selected in accordance with the Housing Commission's Bond Policy.

### **AFFORDABLE HOUSING IMPACT**

Under the proposed bond financing, Keeler Court Apartments would have 70 units restricted to households with incomes from 30 percent to 60 percent of San Diego Area Median Income (AMI). The remaining unit will be an unrestricted manager's unit. The affordable units will be restricted for a 55-year term. Table 6 summarizes the affordability:

**Table 6 – Affordability & Monthly Estimated Rent Table**

<b>Unit Type</b>	<b>AMI</b>	<b>Number of Units</b>	<b>Maximum Gross Rents</b>
1-bedroom	30%	4	\$512
2-bedroom	30%	6	\$608
3-bedroom	30%	5	\$687
Studio	40%	2	\$682
1-bedroom	40%	2	\$695
2-bedroom	40%	2	\$827
3-bedroom	40%	1	\$940
Studio	50%	6	\$822
1-bedroom	50%	8	\$878
2-bedroom	50%	6	\$1,043
3-bedroom	50%	8	\$1,193
Studio	60%	2	\$993
1-bedroom	60%	6	\$1,060
2-bedroom	60%	4	\$1,265
3-bedroom	60%	8	\$1,446
1-bedroom Manager	--	1	--
<b>Total</b>		<b>71</b>	

Development Schedule

The estimated development timeline is as follows.

<b>Milestones</b>	<b>Estimated Dates</b>
• Housing Authority Meeting Preliminary Bond Approval	• February 2019
• TCAC and CDLAC application submittals	• April 2019
• TCAC and CDLAC allocation meetings	• June 2019
• Housing Commission final bond authorization	• November 2019
• Housing Authority final bond authorization	• December 2019
• Estimated bond issuance and escrow closing	• December 2019
• Estimated start of construction work	• December 2019
• Estimated completion of construction work	• December 2020

**FISCAL CONSIDERATIONS**

The proposed funding sources and uses approved by this action are included in the Housing Authority-approved Fiscal Year (FY) 2019 Housing Commission Budget. Approving this action will not change the FY 2019 total budget.

Funding sources approved by this action will be as follows:

Bond Issuance Fees - \$62,500.00 (\$25,000,000 x .0025)

Funding uses approved by this action will be as follows:

Rental Housing Finance Program Administration Costs - \$62,500.00

Approval of the bond inducement and TEFRA resolutions does not commit the Housing Authority to issue the bonds. The bonds would not constitute a debt of the City. If bonds are ultimately issued for the development, 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 of the development. 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. The developer is responsible for the payment of all costs under the financing, including the Housing Commission annual administrative fee, as well as Housing Commission Bond Council and Financial Advisor fees.

**COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS**

As required by the Housing Commission Bonds Program, the developer presented their proposal for Keeler Court to the Southeastern San Diego Community Planning Group on November 26, 2018.

**KEY STAKEHOLDERS and PROJECTED IMPACTS**

Stakeholders include Community Housing Works, the Southeastern San Diego community and residents. Development of the property is expected to have a positive impact on the community by increasing the inventory of affordable housing in the City of San Diego for low- and very-low income households, including seven units for Veterans experiencing homelessness who will receive rental assistance and supportive services through VASH vouchers awarded by the Housing Commission.



**ENVIRONMENTAL REVIEW**

This activity is not a “project” and is therefore not subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15060(c)(3). This determination is predicated on Section 15004 of the Guidelines, which provides direction to lead agencies on the appropriate timing for environmental review. This action does not constitute approval of a project. Approval will occur once the environmental review has been completed in accordance with CEQA Section 15004. This action will not foreclose review of alternatives or mitigation measures by the public as part of the CEQA process. The proposed actions are approval of preliminary steps to issue bonds and do not constitute approval of the development activity or authorization for the issuance of bonds. Future actions to consider and approve development entitlement approvals related to the future development of the site will require additional review under the provisions of CEQA by the lead agency. Processing under the National Environmental Policy Act (NEPA) is not required as no federal funds are involved in this action.

Respectfully submitted,

*Tina Kessler*

Tina Kessler  
Housing Programs Manager  
Real Estate Division

Approved by,

*Jeff Davis*

Jeff Davis  
Executive Vice President & Chief of Staff  
San Diego Housing Commission

Attachments: 1) Development Summary  
2) Site Map  
3) Developer Disclosure Statements  
4) Developer’s Project Pro forma  
5) Multifamily Housing Revenue Bond Program

Hard copies are available for review during business hours at the security information desk in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the “Public Meetings” section of the San Diego Housing Commission website at [www.sdhc.org](http://www.sdhc.org).