CITY COUNCIL AGENDA STATEMENT

CITY OF CHULA VISTA

July 17, 2018 File ID: **18-0245**

TITLE

A. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE ISSUANCE, SALE AND DELIVERY OF MULTI-FAMILY HOUSING REVENUE BONDS OF THE CHULA VISTA HOUSING AUTHORITY FOR VILLA SERENA AFFORDABLE APARTMENTS

B. RESOLUTION OF THE CHULA VISTA HOUSING AUTHORITY REGARDING ITS INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS FOR A PROPOSED ACQUISITION AND REHABILITATION OF EXISTING AFFORDABLE UNITS AT VILLA SERENA AFFORDABLE APARTMENTS

RECOMMENDED ACTION

Council conduct the public hearing, adopt Resolution A, and Housing Authority adopt Resolution B.

SUMMARY

The Chula Vista Housing Authority has received a request from Chelsea Investment Co. ("Project Sponsor") on behalf of Serena Sunbow L.P. to consider the issuance of tax exempt obligations to finance the acquisition and rehabilitation of 132 existing affordable units at Villa Serena Apartments (The "Project"). The Project is located at 1231 Medical Center Drive. The rehabilitation would improve the properties and extend the term of the affordable rents for 55 years (currently scheduled to expire in 2052).

ENVIRONMENTAL REVIEW

The Project qualifies for a Class 1 Categorical Exemption pursuant to Section 15301 Existing Facilities of the California Environmental Quality Act State Guidelines because it involves the rehabilitation of existing facilities which would not result in an expansion of the existing uses.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

The Housing Advisory Commission was not able to consider a recommendation due to a lack of quorum.

DISCUSSION

The Project Sponsor is requesting that the Chula Vista Housing Authority ("Housing Authority") be the conduit bond issuer for tax-exempt private activity bonds for multi-family projects ("tax-exempt bonds") in an aggregate amount not to exceed $21 million for the acquisition and rehabilitation of the Project located at 1231 Medical Center Drive (Attachment 1: Locator Map). An application will be submitted by July 20, 2018 to the California Debt Limit Allocation Committee (CDLAC), the State bonding authority, and for the companion tax credits. The bond allocation and tax credit contributions will be used to substantially finance the Project.

In compliance with Section 147(f) of the Internal Revenue Code of 1986, reflecting the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), a public hearing (the "TEFRA hearing") by the elected legislative body of the jurisdiction must be held to provide the public an opportunity to comment on the use of the tax-exempt funds to finance the Project. Proof of a public hearing to be held within 30 days of application to CDLAC is required for consideration of a bond allocation.

At this time, the City Council is asked to hold the TEFRA hearing regarding whether the Housing Authority should issue tax exempt bonds to finance the Project and to approve the issuance, sale, and delivery of multi-family housing revenue bonds by the Housing Authority at such time the bond allocation is received from CDLAC. Additionally, it is requested that the Housing Authority adopt a resolution expressing its preliminary intent to issue bonds. Such preliminary actions are necessary in order to allow the Housing Authority to submit an application to CDLAC on behalf of the Project Sponsor and to allow the Project Sponsor to receive reimbursement out of bond proceeds for cost it incurs leading up to the actual sale of the bonds. If successful in obtaining a bond allocation from CDLAC, the Housing Authority will then consider final approval of loan documents for the issuance of bonds.

Resolutions presented for the City Council's and Housing Authority's consideration have been prepared by Stradling Yocca Carlson & Rauth, serving as bond counsel for the City of Chula Vista and its Housing Authority. All future bond documents will also be prepared by bond counsel.

The Development Team

The Project Sponsor, Chelsea Investment Corporation (CIC), is a for-profit affordable housing developer. The project is currently owned by Serena Sunbow L.P., with CIC as the Administrative General Partner. At bond closing, a new limited partnership, Villa Serena CIC, LP, will be created to acquire, rehabilitate and operate the Project. Under the new limited partnership, CIC will continue to serve as the Administrative General Partner, retaining a level of ownership and handling management of the properties. Pacific Southwest Community Development Corporation will continue to serve as the managing general partner and Candeur Group will be the new tax credit Investor Limited Partner.

Table 1 – Ownership Structure

Description	Owner Interest	Current Owner	Newly Proposed Owners
Managing General Partner	00.01%	Pacific Southwest Community Development Corporation	Pacific Southwest Community Development Corporation
Administrative General Partner	00.09%	Chelsea Investment Corporation (CIC), Manager	Chelsea Investment Corporation (CIC), Manager
Investor Limited Partner	99.9%	Edison Capital Housing Investment	Candeur Group

CIC will be responsible for managing the rehabilitation of the properties through completion and cost certification, with a general contractor overseeing construction. CIC will also be responsible going forward for preparation of annual property-specific budgets, marketing, leasing, overseeing property management and maintenance, income-qualification of residents, annual reporting to investor and lender, payments to lenders and provide resident services. ConAm Management Corporation Property Management will serve as the day to day property manager.

CIC has developed over 100 affordable communities throughout California with the majority of the communities within San Diego County. Their communities include special needs housing, senior housing, rural housing, and mixed-use developments. Villa Serena Apartments represents one of the seven bond and tax credit financed affordable housing developments within CIC's portfolio in Chula Vista. Other CIC affordable housing developments in the City of Chula Vista include:

- Rancho Buena Vista-Eastlake
- St. Regis Park Apartments-Southwest
- Landings I-WindingWalk
- Landings II-WindingWalk
- Duetta-Otay Ranch Millenia
- Volta-Otay Ranch Millenia

<u>The Proposed Project</u>

Built in 2000, the Project consists of 132 affordable rental units for senior households located at 1231 Medical Center Drive within the Sunbow master planned community. This project was originally built and financed using former Redevelopment funds and received a Density Bonus concession. The Redevelopment Agency loan of $275,000 was fully paid in April 2008. The Project is currently subject to a City and Housing Authority Housing Agreement, Bond Regulatory Agreement and California Tax Credit Allocation Committee (TCAC) Regulatory Agreement, with tenant income and rent restrictions expiring in 2052.

The complex is composed of three (3) two and three-story apartment buildings, one one-story laundry building, and one one-story community building all located on a 4.14 acre lot. Site amenities include a community room, exercise room, courtyard/picnic area, laundry room and computer room.

The Project is ideally located for the convenience of residents. The Project is within comfortable walking and biking distance to recreational opportunities and neighborhood services and has direct access to public transportation.

Nearby amenities and services include:

- Directly adjacent to Veterans Home of California and MTS Bus Route 704 (E St Transit Center);
- ¼ mile from Sharp Chula Vista Medical Center;
- 1/3 mile from Ralphs grocery store and other shopping;
- 1/3 mile from Veterans Park and Recreation Center; and,
- ½ mile from MTS Bus Route 712 (Palomar Transit Center).

<u>Building Conditions/Proposed Rehabilitation Work</u>

Given the age and the desire to preserve the affordability, the Project Sponsor is proposing the acquisition and rehabilitation of the Project to ensure continued long-term use and viability. Since the original construction of the Project, no comprehensive renovations have been completed. Project acquisition and rehabilitation costs are estimated to total $32.7 million ($19.4 million for acquisition and $13.3 million for construction and soft costs). Additional detail is provided in Table 2 below.

Table 2 – Estimated Costs & Key Performance Indicators

	Total Estimated Costs	Estimated Costs per Unit	Estimated Costs per Gross Building Sq Ft
Acquisition[1]	$ 19,400,000	$ 146,970	$ 162
Construction[2]	$ 5,183,787	$ 39,271	$ 43
Soft Costs	$ 8,144,664	$ 61,702	$ 68
TOTAL COSTS	**$ 32,728,451**	**$ 247,943**	**$ 273**
TOTAL Dwelling Units (DUs)	132		
TOTAL Gross Bldg Sq Ft	119,706		

A Physical Needs Assessment has been completed for the Project, which will serve as the basis for a more detailed scope of work to be competitively bid by a general contractor and value engineered to the final sources of funds available for the rehabilitation. The scope of work will address the immediate physical needs and will extend the useful life of the building systems, reduce operating costs and improve energy efficiency. Additionally, in accordance with TCAC regulations, rehabilitation projects must meet the minimum 10 percent post-rehabilitation improvements in energy efficiency over existing conditions and provide wheelchair accessibility in 10 percent of the units and 4 percent of the units accessible to residents with visual and/or hearing impairment.

Priority items to be addressed across the portfolio include the following immediate and short term repairs:

1. Site
   - Topo-Drainage Modifications
   - Pavement/Parking-Replace Damaged Concrete
   - Amenities-Site Lighting Improvements
   - Amenities-Security Fencing
   - Improve Non-Conforming Ramps for accessible parking
2. Mechanical/Electrical
   - Plumbing-Replace boilers, pumps, storage tanks
   - HVAC-Humidistat Fans
   - Fire Safety- Fire Alarm Panels-Obtain current inspection certification
   - Safety- Carbon Monoxide Detectors
   - Elevator-Inspection and maintenance

Other physical needs to be addressed with the acquisition and rehabilitation will include:

1. Site
   - Paving/Parking- Patching, crack sealing, sealing, and striping
   - Amenities- Refurbish mailboxes
   - Signage – New signage for units, common areas and directories and reface monument sign

[1] Acquisition costs are based upon an Appraisal Report as of 11/05/2017 indicating a $16,200,000 market value of the fee simple estate assuming restricted rents and $3,170,000 hypothetical value of underlying land as encumbered by a Regulatory Agreement. Hypothetical conditions are specified by TCAC appraisal regulations.

[2] Includes the estimated costs to address the scope of work proposed, temporary relocation, general contactor's profit/overhead/general requirements, and a construction contingency.

- Path of travel upgrades
- Painting of trash and site trellises and railings

2. Architecture
   - Facades- Exterior Paint, stucco repairs, dry rot replacements
   - Facades- Apartment window replacements
   - Roof- Remove and install new underlayment and metal.
3. Mechanical/Electrical
   - Electrical fixture replacement and exterior lighting
   - Replace electrical wall heaters in ADA unit conversions
4. Interiors
   - Kitchen Finishes- Replacement with new laminate cabinets and solid surface counters
   - Bathroom Finishes- Replacement with new laminate vanities and solid surface counters
   - Plumbing - New fixtures, angle stops toilets at units and common baths
   - Carpet/Vinyl flooring replacement
   - Appliances-Replace circulating range hood vents
5. Accessibility
   - 10 percent of units (14 dus) required as fully accessible
   - 4 percent of units (5 dus) with accommodations for visual and hearing impaired
   - ADA compliant handrails
   - Accessible parking stalls

As rehabilitation is performed on each unit, households may require temporary relocation off-site. Such relocation expenses are contemplated in the rehabilitation costs and will be covered by the Partnership.

Income & Rent Restrictions

For the bond financing, Section 142 (d) of the Internal Revenue Code requires either a minimum of 20 percent of the rental units in the Project to be available for occupancy by persons or families whose income does not exceed 50 percent of the area median income (AMI) for the San Diego Primary Metropolitan Statistical Area, or alternatively, at least 40 percent of the rental units are required to be available for occupancy by persons or families whose income does not exceed 60 percent of the AMI. The units are made available at affordable rents established by the applicable State law.

The project will exceed the affordability requirements with 132 units currently restricted as affordable for very low-income households at 50 percent of AMI and low income households at 60 percent of AMI, with one unit reserved for the resident manager, see Table 3. The Project proposes to maintain the existing income and rent restrictions for fifty-five years from the effective date of the bond financing agreements, exceeding the existing affordability period ending 2052. These income and rent restrictions will be outlined within a bond regulatory agreement to be recorded against the property.

Table 3 – Affordability & Estimated Monthly Rent/Income
(Effective April 1, 2018)

Unit Type	Very Low @ 50% AMI			Low Income @ 60% AMI		
	No. of Units	Monthly Gross Rents[3]	Max Annual Income[4]	No. of Units	Monthly Gross Rents[2]	Max Annual Income[3]
1 Bdrm/1 Ba	22	$ 818	$ 31,400	90	$ 981	$ 40,920
2 Bdrm/1 Ba	5	$ 920	$ 38,950	14	$ 1104	$ 46,740
TOTAL DUS	**27**			**104**		

Compliance with the income and rent restrictions will be subject annually to a regulatory audit and annual tax credit certification. Compliance with strict property management policies and procedures will ensure that income and rent restrictions will be maintained for the full 55-year compliance period.

<u>Proposed Financing of Project</u>

The Tax Exempt Multi-Family Revenue Bonds and Low Income Housing Tax Credit financing will support the majority of the estimated $32.7 million total development cost of the Project. The Project Sponsor has requested the Housing Authority consider the issuance of a maximum of $21 million in tax exempt bonds to be privately placed with Candeur Group. It is anticipated that the bonds will be used for both construction and permanent financing of the Project.

The $21,000,000 maximum bond allocation is approximately 10 percent higher than the amount for which the Project is being underwritten for financing, which is $19,000,000. This maximum allocation represents a slight cushion to account for possible increases in the bond amount due to increases in rehabilitation costs or decreases in the assumed interest rate. The bond amount that is ultimately issued will be based upon project costs, revenues and interest rates prevailing at the time of bond issuance.

The Project Sponsor will also apply for approximately $8.2 million in Low Income Housing Tax Credits. The balance of needed funds for the construction and permanent financing of the Project is proposed to be provided by deferred developer fees, rebates, and income during construction. There will be no Housing Authority loan proceeds provided to the Project. A summary of the estimated sources and uses submitted by the Project Sponsor, see Table 4 below.

Table 4 – Sources & Uses

Sources of Funds	Construction	Permanent
Tax-Exempt Bonds	$18,707,410	$11,625,000
City of Chula Vista Loan	$0.00	$0.00
Low Income Housing Tax Credit Equity	$979,474	$8,192,628
Tax Credit Equity Reserves Demand Note		$350,000
Seller Carry Back Loan	$9,151,674	$11,376,358
Existing Reserves		
Income from Operations	$513,080	$726,862
Deferred Developer Fees		$817,603
Total	**$29,351,638**	**$33,088,451**

[3] 1/12th of 30% of 50% or 60% of AMI
[4] Assumes 1 person per bedroom

Uses of Funds	Construction	Permanent
Acquisition (Land and Building)	$19,400,000	$19,400,000
Rehabilitation (Including Contingency)	$5,235,554	$5,235,554
Architectural/Engineering/Technical	$44,000	$44,000
Financing fees and interest	$1,830,085	$1,830,085
Reserves		$350,000
Development and Impact Fees	$100,000	$100,000
Miscellaneous Soft Costs	$1,991,999	$2,491,210
Developer Fees	$750,000	$3,637,602
Total	**$29,351,638**	**$33,088,451**

The bonds will meet all requirements of the Housing Authority's Multifamily Housing Revenue Bond Program and will fully comply with the City bond disclosure policies.

Final approval of the issuance of the bonds and the related bond documents will be presented to the City and its Housing Authority for approval at such time Project Sponsor is successful in receiving a commitment from CDLAC for a bond allocation.

Article 34

Article 34 of the California Constitution requires that voter approval be obtained before any "state public body" develops, constructs or acquires a "low rent housing project". The Project is existing and therefore, exempt from the requirement.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council and the Housing Authority members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100,et seq.). Staff is not independently aware, and has not been informed by any City Council or Housing Authority member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The development and provision of quality affordable housing for low-income families and seniors within master planned communities supports the Economic Vitality goals as it promotes the development quality neighborhoods that provide a full complement of uses and services in a balanced fashion. With only 16 percent of the housing within the areas east of Interstate-805 available as multifamily housing, the Villa Serena Apartment Project will preserve 132 rental units within the Sunbow community of Chula Vista and will preserve the availability of housing opportunities for all economic segments of the community for an additional 55 years. With 57 percent of Chula Vista households earning less than the U.S. Department of Housing and Urban Development's area median income, the development of affordable housing addresses the City's Connected Community goals as it provides housing to meet residents' needs and priorities.

CURRENT-YEAR FISCAL IMPACT

Bond financing is a self-supporting program with the borrower responsible for the payment of all costs of issuance and other costs of the bonds. The Housing Authority will receive compensation for its services in issuing bonds by charging an origination fee equal to 20 basis points (0.20%) of the total original principal amount of the bonds to be issued, with a minimum fee of $15,000. The issuance fee estimated to be paid to the Housing Authority by the owner will be $42,000 ($21 million x .0020).

ONGOING FISCAL IMPACT

The Multifamily Housing Revenue Bond program is self-supporting. Staff costs associated with monitoring compliance of the regulatory restrictions and administration of the outstanding bonds will be reimbursed from an annual administrative fee of $17,000 paid to the Housing Authority by the owner.

ATTACHMENTS

1. Locator Map
2. Disclosure Form

Staff Contact: Jose Dorado, Senior Management Analyst, Chula Vista Housing