CITY COUNCIL AGENDA STATEMENT

CITY OF CHULA VISTA

March 26, 2019 File ID: **19-0060**

TITLE

A. RESOLUTION OF THE CHULA VISTA HOUSING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY OF TAX-EXEMPT MULTIFAMILY HOUSING REVENUE NOTES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $21,400,000 FOR THE PURPOSE OF FINANCING THE ACQUISITION AND REHABILITATION OF ST. REGIS PARK APARTMENTS MULTI-FAMILY RENTAL HOUSING PROJECT; APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF ANY AND ALL DOCUMENTS NECESSARY TO EXECUTE AND DELIVER THE NOTES, COMPLETE THE TRANSACTION AND IMPLEMENT THIS RESOLUTION, AND RATIFYING AND APPROVING ANY ACTION HERETOFORE TAKEN IN CONNECTION WITH THE NOTES

B. RESOLUTION OF THE CHULA VISTA HOUSING AUTHORITY, IN ITS CAPACITY AS THE SUCCESSOR HOUSING ENTITY WITHIN THE MEANING OF HEALTH AND SAFETY CODE SECTION 34176; APPROVING THE ASSUMPTION OF EXISTING HOUSING AUTHORITY LOAN TOTALING APPROXIMATELY $1,275,778 IN ACCRUED INTEREST WITH AMENDED LOAN TERMS, AND AUTHORIZING THE DIRECTOR TO EXECUTE ALL RELATED LOAN DOCUMENTS BY AND BETWEEN THE CHULA VISTA AND ST. REGIS PARK CIC, LP FOR ST. REGIS PARK MULTI-FAMILY AFFORDABLE RENTAL APARTMENTS

RECOMMENDED ACTION

Authority adopt the resolutions.

SUMMARY

On July 17, 2018, the City Council and the Chula Vista Housing Authority ("CVHA") approved the use of Multifamily Housing Bonds/notes, with non-competitive four percent tax credits, to finance the acquisition and rehabilitation of existing affordable units at St. Regis Park Apartments, totaling 119 affordable rental units for very low- and low-income families and 1 manager's unit (the "Project") by St. Regis Park CIC, LP ("Developer"). The Project is located in Southwest Chula Vista at 1025 Broadway. The rehabilitation would improve the property and extend the term of the affordable rents for 55 years (currently scheduled to expire in 2052). At this time, the CVHA is asked to authorize the execution and delivery of multifamily housing revenue notes for the Project based upon award of $21,400,000 in bond allocation from the California Debt Limit Allocation Committee ("CDLAC") with a financing structure as described in this report.

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

On July 17, 2018, the Chula Vista City Council (CC Resolution No. 2018-144) and the Chula Vista Housing Authority (CVHA Resolution No. 2018-006), respectively, approved taking certain preliminary authorization steps to issue up to $25,000,000 of tax-exempt Multifamily Housing Revenue Bonds/Notes (Notes), along with non-competitive four percent tax credits, to finance the acquisition and rehabilitation of existing affordable units at St. Regis Park Apartments, totaling 119 affordable rental units for very low- and low-income families and 1 manager's units (Attachment 1: Locator Map).

Subsequently on January 18, 2019, the Developer for St. Regis Park Apartments applied for a bond allocation up to $21,400,000. The California Tax-Credit Allocation Committee (TCAC) and CDLAC approved an allocation of 4 percent tax credits and tax-exempt bonds on March 20, 2019. The Developer proposes to issue the bonds/notes through a tax-exempt private placement bond issuance. The bond/notes will meet all of the requirements of the CVHA Multi-Family Housing Revenue Bond Program Policy. The CVHA will be the conduit issuer for the bonds/notes. The tax-exempt bond allocation and tax credit contributions will be used to substantially finance the Project. In addition to the tax-exempt obligations being issued by the Housing Authority, the Developer has requested the CVHA consider its existing loans for the Project. The outstanding balance of such loans is approximately $2,662,930, in principal ($1,387,152) and accrued interest ($1,275,778). Developer is proposing to pay the principal loan balance, with the Project assuming the existing accrued interest as continued financial assistance to the Project.

<u>The Development Team</u>

The Developer, Chelsea Investment Corporation (CIC), is a for-profit affordable housing developer. The project is currently owned by St. Regis Park, L.P., with CIC as the Administrative General Partner. At transaction closing, a new limited partnership, St. Regis Park CIC, LP, will be created to acquire, rehabilitate and operate the Project. CIC will continue to serve as the manager of the Administrative General Partnership, 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. Raymond James will be the new tax credit Investor Limited Partner. Please refer to Table I below for the Ownership Structure and Table II for the Development Team.

Table I – Ownership Structure

Description	Owner Interest	Current Owner	Owner Interest	Newly Proposed Owners
Managing General Partner	00.05%	Pacific Southwest Community Development Corporation	.01%	Pacific Southwest Community Development Corporation (PSCDC)
Administrative General Partner	00.05%	Chelsea Investment Corporation (CIC), manager	5%	Chelsea Investment Corporation (CIC), manager
Investor Limited Partner	99.9%	Edison Housing Capital Investment	94.99%	Raymond James

CIC will be responsible for managing the rehabilitation of the property through completion and cost certification, with a general contractor overseeing construction. CIC will continue to be responsible for the ongoing preparation and oversight of annual property-specific budgets, marketing, leasing, property management and maintenance, income-qualification of residents, annual reporting to investor and lender, payments to lenders, and provision of 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 most of their communities within San Diego County. Their communities include special needs housing, senior housing, rural housing, and mixed-use developments. St. Regis Park Apartments represents one of 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
▪ Villa Serena Apartments	Sunbow
▪ Landings I	Winding Walk
▪ Landings II	Winding Walk
▪ Duetta	Otay Ranch Millenia
▪ Volta	Otay Ranch Millenia

Table II - Development Team Summary

Role	FIRM/CONTACT
Ownership Managing General Partner (.01 percent) Tax Credit Investor/Limited Partner (99.99 percent)	St Regis Park CIC, LP Pacific Southwest CDC Raymond James
Property Management	Con Am
Tax Credit Investor	Raymond James
Lender/Purchaser	Citi Community Capital or another affiliate
Architect	Basis Architecture and Consulting, Inc
General Contractor	Emmerson Construction

The Project

St. Regis Park Apartments is an existing project located in southwest Chula Vista at 1025 Broadway on a 4.31-acre site. The Project provides 118 restricted rental units and 1 unrestricted manager unit consisting of 5 one-bedroom units, 109 two-bedroom units, and 5 three-bedroom units.

The Project is within walking and biking distance to recreational and education opportunities and neighborhood services and has direct access to public transportation. Nearby amenities and services include:

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- 0.01 miles to MTS Bus Route 932
- Less than ½ mile from grocery store and other shopping.
- Less than ½ mile from Harborside Park and Elementary

The Project's ideal location provides a convenience for residents as it supports a healthy living environment and is competitive for financing programs.

Building Conditions/Proposed Rehabilitation Work

Given the age and the desire to preserve the affordability, the Developer is proposing the acquisition and rehabilitation of the Project using tax-exempt note financing and 4 percent tax credits to ensure continued long-term use and viability. Rehabilitation work will be in compliance with the tax credit financing, which specifies minimum energy efficiency standards for rehabilitation projects of at least a 10 percent post-rehabilitation improvement in energy efficiency over existing conditions and the provision of 10 percent of units required as fully accessible and 4 percent of units with accommodations for visual and hearing impaired compliant with the Americans with Disabilities Act (ADA).

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. Building exterior renovations will include roof replacement, new doors and windows, stucco siding repair, wrought iron handrail replacement, and fresh paint. Interior renovations will include upgrades to the laundry facilities, leasing office, and common restrooms. Individual apartment units will be updated with new appliances, countertops, cabinets, plumbing fixtures, flooring, doors, shelves, ADA-compliant tub enclosures and electrical upgrades. Site area renovations will include upgrades to landscaping, drainage, ADA-path-of-travel, fencing, concrete and pavement repairs, parking area re-striping for ADA compliance, repairs to the swimming pool including an ADA-compliant gate, new signage and mailboxes.

The current estimate of rehabilitation costs is $7,803,791. Based on 119 units, this equates to an average of $65,578 per unit. This figure includes the estimated costs to address the scope of work proposed, general contactor's profit/overhead/general requirements, and a construction contingency of 11 percent of direct costs.

Relocation

The Developer does not anticipate permanent relocation of tenants. The rehabilitation budget will include $686,000 ($5,765/unit) for temporary relocation costs. Tenants may be temporarily relocated to other units on-site for approximately a five to ten days period.

Affordable Housing

The Project proposes to maintain the existing income and rent restrictions for 55 years from the effective date of the bond financing agreements, exceeding the existing affordability period ending in 2052 (extends the current affordability period by 22 years). Twenty-four (24) units are currently restricted as affordable for very low-income households at 50 percent of Area Median Income (AMI) and ninety-four (94) low-income households at 60 percent of AMI, see Table III. One unit is reserved for a resident manager. These income and rent restrictions will be outlined within the bond regulatory agreement to be recorded against the property.

Table III –Affordability & Monthly Estimated Rents

Unit Description	No. of Units	% of AMI	Target Income Group Annual Income	Proposed Rents
1 Bd/1 Ba	1	50%	$43,800	$ 864
1 Bd/1 Ba	4	60%	$52,600	$1,048
2 Bd/1 Ba	22	50%	$48,650	$ 954
2 Bd/1 Ba	87	60%	$58,400	$ 1,158
3 Bd/1 Ba	1	50%	$52,550	$ 1,016
3 Bd/1 Ba	3	60%	$63,100	$ 1,237
MGR	1	N/A	N/A	N/A
Total	**119**			

Financing Structure

The Tax-Exempt Multi-Family Revenue Bonds and Low-income Housing Tax Credit financing will support the majority of the estimated $37.69 million total development cost of the Project ($316,738/unit). A maximum of $21.4 million in tax exempt bonds/notes will be privately placed with Raymond James. It is anticipated that the bonds/notes will be used for both construction and permanent financing of the Project.

Financing will include a combination of additional sources as described in Table IV, inclusive of an outstanding CVHA loan from the original development of the Project. The developers' current pro forma is included as Attachment 2.

Table IV –Estimated Sources and Uses of Permanent and Construction Financing

Sources	Amounts	Per Unit
Permanent Loan	$11,135,800	
LIHTC Equity ($0.900) Per Credit)	$9,894,788	
Subtotal -	**$21,030,588**	**$ 176,728**
Deferred Developer Fee	$1,846,162	
Seller Carry Back Loan	$12,550,000	
Net Income from Operations	$581,686	
City-HA RDA (low-mod accrued interest loan)	$1,275,778	
Bond Deposit	$100,000	
Soft Loan Deferred Interest	$307,638	
Subtotal-	**$16,661,264**	
TOTAL	**$ 37,691,852**	**$316,738**
Uses	**Amounts**	**Per Unit**
Acquisition (Land and Building)	$20,424,770	
Rehabilitation (Including Contingency)	$7,803,791	
Subtotal –	**$ 28,228,561**	**$ 237,215**
Architecture & Engineering	$114,036	
Financing Fees & Interest	$3,104,877	
Legal Fees	$240,000	
Reserves	$331,807	
Development Impact and Permit Fees	$68,000	
Developer Fee	$4,168,320	
Misc. (Acctg. Marketing, Reports, Studies, Etc.)	$1,317,849	
Contingency	$118,401	
Subtotal-	**$9,463,290**	
TOTAL	**$37,691,852***	**$316,738**

*rounded up

The CVHA's continued financial assistance to fill the financing gap will be necessary to demonstrate local commitment and leveraging of local funds. The CVHA commitment averages $10,721 per unit. This cost is consistent with the per unit subsidy for this type of development in high-cost markets. Given that this Project also restricts approximately 24 or 20 percent of the units to residents at 50 percent of AMI, the deep affordability of the Project increases the need to keep the public subsidy in the Project. The financial assistance is necessary to provide for affordable rents and to lower development costs. The Project cannot be acquired or rehabilitated without such assistance. For each dollar of CVHA subsidy, approximately $31 of other private/public investment is leveraged.

In accordance with the CHVA's approval, if granted, with terms reviewed by the City Attorney's office satisfactory to the CVHA, a new regulatory agreement with an extended term of affordability, Deed of Trust and an Amended and Restated Promissory Note along with an Assignment, Assumption, and Consent Agreement will be signed, to secure the CVHA loan (see Attachments 3-5). Staff recommends the following:

- CVHA authorize the assumption of the existing CVHA loan balance, with the principal balance being paid in full at closing; and
- Assume the accrued interest with a balance of approximately $1,275,778 as part of this financial package; and
- Revise the residual receipt calculation, after the deferred developer fee is paid; and
- Authorize the CVHA Director to execute all necessary documents to secure the loans.

Consistent with other loans within the CVHA's and City's affordable rental housing portfolio, the standard loan terms will apply:

- Term of the loans shall be fifty-five (55) years; and
- Outstanding balances shall all accrue interest at 3 percent per annum; and,
- Payment on the loans shall be based upon residual receipts.

Development Cost Key Performance Indicators

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

Table V – Estimated Costs & Key Performance Indicators

	Total Estimated Costs	Estimated Costs per Unit	Estimated Costs per Net Rentable Building Sq Ft
Acquisition[1]	$20,424,770	$171,637	$196
Construction[2]	$7,803,791	$65,578	$75
TOTAL Hard Costs	**$ 28,228,561**	**$ 237,215**	**$271**
Soft Costs	$9,463,291	$79,523	$91
TOTAL COSTS	**$37,671,852**	**$316,597**	**$362**
TOTAL Dwelling Units (DUs)	119		
TOTAL Gross Bldg Sq Ft	153,162		
Net Rentable Bldg Sq Ft	104,150		

Proposed Housing Bonds/Notes

Multifamily housing financing often involves the issuance of tax-exempt Multifamily Housing Revenue Bonds/Notes (Notes) on behalf of private developers of qualifying affordable rental apartment projects.

[1] Acquisition costs are based upon an Appraisal Report as of 05/10/2018 indicating a $21,300,000 market value of the fee simple estate assuming restricted rents and $2,600,000 hypothetical value of underlying land as encumbered by a Regulatory Agreement. Hypothetical conditions are specified by TCAC appraisal regulations for St. Regis Apartments.

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

The advantages of tax-exempt financing to developers include below-market interest rates, longer loan terms, and access to Low-income Housing Tax Credits (Tax Credits) – features that are not available with typical conventional multifamily housing mortgage loans.
Utilizing the CVHA's tax-exempt borrowing status, the lower tax-exempt interest rate financing (and making Federal four percent Tax Credits available) is passed on to developers of affordable rental housing. The CVHA's ability to issue tax-exempt bonds/notes is limited under the U.S. Internal Revenue Code. To issue tax-exempt bonds/notes for a development, the CVHA must first submit an application to the CDLAC for a tax-exempt bond/note allocation. Prior to submitting applications to CDLAC, developments are brought before the City Council and the CVHA. CVHA bond inducement resolutions must be obtained prior to a CDLAC application submittal. A Tax Equity and Fiscal Responsibility Act (TEFRA) City Council resolution must be secured approximately 30 days before the CDLAC allocation meeting. These City Council and CVHA actions were completed for the Project as of July 17, 2018.

On January 18, 2019, the Developer applied to CDLAC for a $21,400,000 tax-exempt bond/note allocation and applied to TCAC for a Tax Credits allocation. CDLAC and TCAC allocations approvals were received on March 20, 2019. Upon CVHA approval, the Bond/Notes Issuance and Loan Closing is scheduled for April 2019, with construction work scheduled to begin shortly thereafter in April 2019 and completed by December 2019.

The Notes will be used for acquisition and rehabilitation financing. The Notes will meet all requirements of the CVHA's Multifamily Housing Revenue Bond Program policy, as well as State and Federal tax law.

Tax-Exempt Debt Structure

The tax-exempt debt to be issued by the CVHA is known as a "Government Lender Note." Citi Community Capital or another affiliate of Citibank, N.A. ("Citibank") will loan the CVHA the funds needed to finance the project. The CVHA will simultaneously lend the Developer the proceeds of the loan to finance the project. This structure is known as a "back to back tax-exempt loan structure."

The CVHA is acting as a conduit in this structure. Therefore, its obligation to repay its loan is limited to the proceeds of the loan it makes to the Developer. This structure does not create any unusual economic or legal risk for the CVHA. The CVHA is being asked to authorize the execution and delivery of up to $21,400,000 in two note series (Series 2019 B-1 and B-2) to be structured as privately placed notes to finance the acquisition and rehabilitation costs of the Project. The tax-exempt debt, in the form of the Notes, will be acquired through a private placement by Citibank. Through a back to back tax-exempt loan structure, Citibank will provide tax-exempt construction and permanent financing for the Project.

Citibank is considered a "qualified institutional buyer." At closing, Citibank will sign an "Investor's Letter" certifying, among other things, that it is acquiring the Notes for its own account and not for public distribution. Because the Notes are being acquired through a private placement, an Official Statement will not be necessary. In addition, the Bonds will not be subject to continuing disclosure requirements, nor will they be credit enhanced or rated. If there is an unexpected proposed transfer of the Series 2019B-1 and B-2 Notes, then any subsequent proposed Noteholder must comply with the CVHA's Multifamily Housing Revenue Bond Policy. Moreover, any subsequent Noteholder would be required to represent to the CVHA that they are a qualified institutional buyer or accredited investor who is acquiring the Notes for investment purposes and not for resale, and that they have made due investigation of any material information necessary in connection with a decision to purchase the Bonds.

Under the private placement for this transaction, Citibank will make a loan to the CVHA pursuant to the terms of the Funding Agreement among Citibank, the CVHA, and its Fiscal Agent. The loan made by Citibank to the CVHA (Funding Loan) will be evidenced by the Note, which will obligate the CVHA to pay Citibank the amounts it receives from St. Regis Park CIC, LP (as "Borrower"), as described below.

The CVHA and the Borrower will enter into a Borrower Loan Agreement pursuant to which the proceeds of the Funding Loan will be advanced to the Borrower. In return, the Borrower agrees to pay U.S. Bank National Association, acting as the CVHA's Fiscal Agent ("Fiscal Agent") amounts sufficient for the Fiscal Agent to make payments on the Notes. The CVHA's obligation to make payments on the Notes is limited to the amounts the Fiscal Agent receives from the Borrower under the Borrower Loan Agreement, and no other funds of the CVHA are pledged to make payments on the Notes. The transfer of the Notes to any subsequent party are required to comply with the CVHA's Bond Policy. The following documents will be executed on behalf of the CVHA with respect to the Notes: Funding Loan Agreement (Attachment 6), Borrower Loan Agreement (Attachment 7), Regulatory Agreement (Attachment 8), and other ancillary loan documents.

Based upon instructions contained in the Funding Loan Agreement, Citibank will disburse Note proceeds for eligible costs and will, pursuant to an assignment from the CVHA in the Funding Loan Agreement, receive payments from the Borrower via the Fiscal Agent. Rights that are assigned to Citibank 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 Citibank to protect its financial interests as the holder of the Notes.

At this time, the CVHA is being asked to approve in substantial final form all documents related to the execution and delivery of the Notes. Note documents presented for the CVHA's consideration have been prepared by Stradling Yocca Carlson & Rauth, serving as special counsel for the CVHA.

<u>Financial Advisor's Feasibility Analysis</u>

Ross Financial is the CVHA's Financial Advisor for this transaction. After evaluating the terms of the proposed financing and the public benefits to be achieved, it is the Financial Advisor's recommendation that the CVHA proceed with execution and delivery of the Notes. The Financial Advisor's analysis and recommendation is included as Attachment 9.

<u>Financial Disclosure</u>

Government Code Section 5852.1 requires that the governing body of a public body obtain and disclose certain information about a financing, including conduit revenue obligations, prior to authorizing the issuance of bonds with a term of greater than 13 months. Such information is to be based on good faith estimates of the following information made available in a meeting open to the public. Attachment 10, Public Disclosures Relating to Conduit Revenue Obligations, satisfies this requirement.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the CVHA members and has found no property holdings within 1,000 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)(7) or (8), 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 CVHA member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter."

CURRENT-YEAR FISCAL IMPACT

The Note Financing is a self-supporting program with the borrower responsible for the payment of all costs of issuance and other costs of the Notes. The CVHA will receive compensation for its services in execution and delivery of the Notes by charging an origination fee equal to 20 basis points (0.20%) of the total original principal amount of the Notes, with a minimum fee of $15,000. The origination fee to be paid to the CVHA by the Developer is estimated at $42,800 (.20% of $21.4M), with the final amount determined at transaction closing. The Developer is responsible for payment of all costs under the financing, including the Special Counsel and Financial Advisor Fees.

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 Notes will be reimbursed from an annual administrative fee of $17,000 paid to the CVHA by the Developer. The Notes would not constitute a debt of the City or financing obligate the City, the CVHA because security for the repayment of the Notes will be limited to specific private sources of the development. Neither the faith and credit not the taxing power of the City or the CVHA will be pledged to the payment of the Notes. The Developer is responsible for payment of all costs under the financing, including the CVHA's annual administrative fee.

ATTACHMENTS

1. Locator Map
2. Project Pro Forma

Housing Authority Loan Documents-Successor Housing Agency Loan (RDA-LOW MOD)

3. Declaration of Covenants, Conditions and Restrictions
4. Deed of Trust
5. Amended and Restated Promissory Note & Assignment, Assumption, and Consent Agreement

Bond Loan Documents

6. Funding Loan Agreement
7. Borrower Loan Agreement
8. Bond Regulatory Agreement and Declaration of Restrictive Covenants
9. Financial Advisor's Feasibility Analysis

Other

10. Public Disclosure

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