CITY COUNCIL AGENDA STATEMENT

CITY OF CHULA VISTA

October 1, 2019 File ID: **19-0461**

TITLE

A. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE ISSUANCE, SALE, AND DELIVERY OF MULTIFAMILY HOUSING REVENUE BONDS OF THE CHULA VISTA HOUSING AUTHORITY FOR OTAY RANCH APARTMENTS

B. RESOLUTION OF THE CHULA VISTA HOUSING AUTHORITY REGARDING ITS INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS FOR THE PROPOSED DEVELOPMENT OF OTAY RANCH APARTMENTS

RECOMMENDED ACTION

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

SUMMARY

The Chula Vista Housing Authority ("CVHA") has received a request from Meta Housing ("Project Sponsor") on behalf of Otay Affordable I V8, LP to consider the issuance of tax exempt private activity bonds to finance the construction, maintenance, and operation of 175 affordable units for very low income and low income households at Otay Ranch Apartments (the "Project"). The Project is located at Main Street E/W and west of La Media Parkway in the Otay Ranch Escaya master planned community.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed project for compliance with the California Environmental Quality Act (CEQA) and has determined that the Project was adequately covered in previously adopted/certified Otay Ranch Village 8 West Sectional Planning Area and Tentative Map Final Environmental Impact Report (FEIR 10-03) – SCH No. 2010062093. Thus, no further CEQA review is necessary.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

the Housing Advisory Commission was not able to consider the Project due to timing constraints for the October 11, 2019 application deadline.

DISCUSSION

The Project Sponsor is requesting that the CVHA 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 $70 million for new construction and operation of the Project located at west of La Media Parkway and bounded by Main

East Street to the south and Main West Street to the north (Attachment 1: Locator Map). An application will be submitted by October 11, 2019 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 Service 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 to consider whether the CVHA should issue tax exempt private activity bonds to finance the Project and to approve the issuance, sale, and delivery of multi-family housing revenue bonds by the CVHA at such time as the bond allocation is received from CDLAC. Additionally, it is requested that the CVHA adopt a resolution expressing its preliminary intent to issue bonds. Such preliminary actions are necessary in order to allow the CVHA 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 CVHA will then consider final approval of loan documents for the issuance of bonds.

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

The Development Team

The Project Sponsor, Meta Housing Corporation, is a for-profit affordable housing developer. Otay Affordable I V8, LLC will serve as the Administrative General Partner, with JMH Investments, LLC as the manager. FFAH V Otay Ranch I, LLC will serve as the Managing General Partner. At bond closing, a limited partnership, Otay Affordable I V8, LP, will be created to construct, maintain and operate the Project.

Table 1 - Development Team Summary

Role		FIRM/CONTACT
Ownership		Otay Affordable I V8, LP
Managing General Partner	**0.01 %**	FFAH V Otay Ranch I, LLC
Administrative General Partner	**0.09 %**	Otay Affordable I V8, LLC *JMH Investments, LLC, Manager*
Tax Credit Investor/Limited Partner	**99.99 %**	Red Stone Capital Equity Partners, LLC
Property Management		WSH Property Management
Lender/Purchaser		Pacific Western Bank
Architect		Dahlin Group, Inc.

Meta Housing will be responsible for managing the construction of the property through completion and cost certification, with a general contractor overseeing construction. Meta will also be responsible 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. WSH Property Management will serve as the day to day property manager.

Meta Housing was selected by the master plan developer of Otay Ranch Village 8 West as their partner in developing affordable housing in compliance with the City's Balanced Communities Policy. Meta Housing has developed over 80 affordable communities, totaling 6,400 units, throughout California with the majority of the communities within Los Angeles County. Their communities include special needs housing, senior housing, family housing, and mixed-use/transit oriented developments. Otay Ranch Apartments represents the first bond and tax credit financed affordable housing development for Meta Housing in the San Diego region.

The Proposed Project

The Project will be built within the Escaya master planned community in eastern Chula Vista. The low-income units will satisfy the requirements of the City's Balanced Communities Program for the provision of Affordable Housing within the Escaya community. The development envisions 175 units with all units affordable to low income households. The proposed development will consist of 55 1-bedroom units, 72 2-bedroom units, 46 3-bedroom units. There will also be 2 two-bedroom manager's units. Project amenities include community rooms, property management offices, game room, outdoor courtyards, and a tot lot.

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:

- Less than 1.5 miles from grocery store and other shopping; and,
- Less than 0.50 mile from a planned park and elementary school.

The Project total costs for both acquisition and construction is estimated at $61 million.

Table 2 – Estimated Costs & Key Performance Indicators

	Total Estimated Costs	**Estimated Costs per Unit**	**Estimated Costs per Gross Building Sq Ft**
Acquisition	3,605,609	20,603	21
Construction	34,394,391	196,539	204
Soft Costs	23,477,593	134,157	139
TOTAL COSTS	**$61,477,593**	**$351,300**	**$364**
TOTAL Dwelling Units (DUs)	175		
TOTAL Gross Bldg Sq Ft	168,274		

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 173 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 two units 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. These income and rent restrictions will be outlined within a bond regulatory agreement to be recorded against the property and shall be in compliance with the CDLAC Committee Regulations and the Low Income Housing Tax Credit program as set forth in Section 42 of the Internal Revenue Code in 1986, as amended ("LIHTC")

Table 3 – Affordability & Estimated Monthly Rent/Income

(Effective April 24, 2019)

Unit Type	**Very Low @ 50% AMI**			**Low Income @ 60% AMI**		
	No. of Units	**CTCAC Monthly Gross Rents**	**Max Annual Income**	**No. of Units**	**CTCAC Monthly Gross Rents**	**Max Annual Income**
1 Bdrm/1 Ba	18	$ 1,003	$ 37,450*	37	$ 1,203	$ 44,940*
2 Bdrm/1 Ba	0	$ 1,203	$ 42,800*	72	$ 1,444	$ 51,360*
3 Bdrm	0	$ 1,391	$ 48,150*	46	$ 1,669	$ 57,780*
TOTAL DUS	18			155		

**Assumes 1 person occupying a 1-bedroom, 2 persons occupying a two bedroom, and a three persons occupying a three bedroom. Max Annual Income would increase depending on actual occupancy.*

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.

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. 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 are the actions being considered by the City Council and CVHA with this Staff Report and associated Resolutions.

The Project Sponsor intends to submit an application to CDLAC for a $43,000,000 tax-exempt bond/note allocation by October 11, 2019 and will apply to TCAC for a Tax Credits allocation in November 2019. CDLAC will make its final awards in December 2019.

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

Proposed Financing

The Tax Exempt Multi-Family Revenue Bonds and Low Income Housing Tax Credit financing will support the majority of the estimated $61 million total development cost of the Project. The Project Sponsor has requested the CVHA consider the issuance of a series of tax-exempt obligations with a total aggregate principal not to exceed $70 million in both a tax exempt and taxable series. Pacific Western Bank will provide a construction-converting-to-permanent loan (Tax-Exempt Series). Another $4,000,000 is anticipated in a Taxable Series.

The $70,000,000 maximum bond allocation is approximately 63 percent higher than the amount for which the Project is being underwritten for financing, which is $43,000,000. This maximum allocation represents a cushion to account for possible increases in the bond amount due to increases in construction 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 $28 million in Low Income Housing Tax Credits. Red Stone Equity Partners will be the Tax Credit Investor.

The balance of needed funds for the construction and permanent financing of the Project is proposed to be provided by deferred developer fee. No financial assistance from the City or the CVHA is being requested for the Project. A summary of the estimated sources and uses submitted by the Project Sponsor is provided in Attachment 2.

The bonds will meet all requirements of the CVHA'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 CVHA 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 City of Chula Vista obtained voter approval on April 11, 1978 and subsequently on November 6, 2006 with the passage of Proposition C, which authorized the development, construction and acquisition of housing for persons of low-income. With the 175 total units of the proposed Projects, there remains a balance of 967 units under the City's current authority to facilitate these activities.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council and 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 City Council or 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

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 CVHA 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 CVHA by the owner will be $86,000 ($43 million x 0.0020).

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 CVHA by the owner.

ATTACHMENTS

1. Locator Map
2. Sources and Uses
2. Disclosure Form

Staff Contact: Leilani Hines, Housing Manager Chula Vista Housing Authority