CITY COUNCIL AGENDA STATEMENT

CITY OF CHULA VISTA

June 11, 2019 File ID: **19-0254**

TITLE

RESOLUTION OF THE CHULA VISTA HOUSING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY OF ITS TAX-EXEMPT MULTIFAMILY HOUSING REVENUE NOTES AND ITS SUBORDINATE CHULA VISTA HOUSING AUTHORITY MULTIFAMILY HOUSING REVENUE BONDS (ST. REGIS PARK APARTMENTS), COLLECTIVELY IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $21,400,000, AND THE EXECUTION AND DELIVERY OF ITS TAXABLE MULTIFAMILY HOUSING REVENUE NOTES IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $8,000,000 FOR THE PURPOSE OF FINANCING THE ACQUISITION AND REHABILITATION OF THE ST. REGIS PARK APARTMENTS MULTIFAMILY 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 THE RESOLUTION; AND RATIFYING AND APPROVING ANY ACTION HERETOFORE TAKEN IN CONNECTION WITH THE NOTES

RECOMMENDED ACTION

Authority adopt the resolution.

SUMMARY

On March 26, 2019, the Chula Vista Housing Authority (CVHA or the "Authority") adopted CVHA Resolution No. 2019-001, approving 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 the St. Regis Park apartments multifamily rental housing project; approved and authorized the execution and delivery of any and all documents necessary to execute and deliver the notes, complete the transaction and implement the resolution, and ratifying and approving any action heretofore taken in connection with the notes.

Subsequently, Chelsea Investment Corporation (CIC or the "Developer") notified the CVHA that it was restructuring the bond financing for this project. The restructuring is necessary to bring in Southern California Housing Collaborative, a non-profit 501(C)(3) organization as a 21% member of CIC St. Regis Park, LLC, leaving Chelsea affiliate as a 79% member. This ensures the transaction meets IRS guidelines and avoids any potential tax implications. Additionally, a taxable series of notes in an amount not to exceed $8,000,000 is required to meet the costs of the project. The original bond allocation from the California Debt Limit Allocation Committee (CDLAC) remains unchanged at $21,400,000.

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 lack of quorum.

DISCUSSION

On July 17, 2018, the City Council and the Authority adopted Resolution Nos. 2018-144 and 2018-006, respectively, approving the use of multifamily housing revenue notes to finance the acquisition and rehabilitation of existing affordable housing units at St. Regis Park Apartments, totaling 119 affordable rental units for very low- and low-income families and one manager's unit (the "Project") by 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). The City and Authority were advised on this matter by a financing team consisting of Stradling Yocca Carlson & Rauth as special counsel and bond counsel (together, "Special Counsel") and Ross Financial as Financial Advisor.

On March 26, 2019, the Authority took action by its Resolution No. 2019-001 authorizing the execution of any and all documents necessary to execute and deliver the notes and complete the transaction to fund the Project. Since such time, the Developer requested that the Authority approve a revised ownership and financing structure and authorize the execution and delivery of the tax-exempt multifamily housing revenue notes and subordinate bonds for the Project based upon award of $21,400,000 in bond allocation from the California Debt Limit Allocation Committee ("CDLAC") and taxable multifamily housing revenue notes in an aggregate principal amount not to exceed $8,000,000. CDLAC approved the financing structure and modifications on May 17, 2019.

Revised Ownership Structure

In Consultation with Special Tax Counsel, the Developer is restructuring the ownership structure for Project. This restructuring is necessary in order to bring in Southern California Housing Collaborative, a non-profit 501(C)(3) organization as a 21% member of CIC St. Regis Park, LLC, leaving Chelsea affiliate as a 79% member. Southern California Housing Collaborative will also be admitted as a Special Limited Partner with a .0090% interest. This ensures the transaction meets IRS guidelines regarding disaffiliation of the seller and buyer to ensure an arm's length transaction and avoids any potential tax implications related to the tax-exempt notes and subordinate bonds.

Please refer to Table I below for the new Ownership Structure.

Table I – Ownership Structure

Description	Owner Interest	Current Owner	Owner Interest	Newly Proposed Owners
Managing General Partner	00.05%	Pacific Southwest Community Development Corporation	00.0010%	Pacific Southwest Community Development Corporation (PSCDC)
Administrative General Partner	00.05%	Chelsea Investment Corporation (CIC), manager	5.00%	CIC St. Regis, LLC • Sage Three LLC (79%) • So Cal Housing Collaborative (21%)
Special Limited Partner			.0090%	So Cal Housing Collaborative
Investor Limited Partner	99.90%	Edison Housing Capital Investment	94.990%	Raymond James

Revised Financing Structure

The Project was awarded a maximum private activity bond allocation of $21,400,000 from CDLAC in March 2019. Since such time, the allocation of the bonds has been revised and a tax-exempt subordinate loan and a taxable senior loan is required. The following is the estimated structure for the maximum $21.4 million in tax-exempt obligations, along with a taxable series:

- $12,800,000 to a Citibank construction-converting-to-permanent loan (Tax-Exempt Series B-1 Note);
- $6,800,000 will be allocated to fully finance the Seller Carryback loan (Tax-Exempt Subordinate Series B-4 Bonds); and
- $1,800,000 and $4,100,000 to a Citibank construction bridge loan for the amount of construction loan proceeds that are needed in excess of the $12,800,000 construction-to-permanent loan (Tax-Exempt Series B-2 and Taxable Series B-3 Notes, respectively).

The Taxable Series Note is the primary difference between the current financing approach being presented and CVHA's previous approval on March 26th.

The Developer's current pro forma is included as Attachment 2. The Municipal Advisor's Report is included as Attachment 3.

Bond Structure

The Housing Authority is being asked to authorize the issuance of up to four series of notes and bonds (Series 2019 B-1 through B-4) to finance development costs. The Notes will be purchased in a private placement by Citibank, N.A. or another affiliate. Citibank has committed to provide tax-exempt and taxable construction and permanent financing for the Project. The tax-exempt Seller Carryback bonds will be subordinate to the other obligations and will be purchased by St. Regis Park, LP (Seller of the property) as a carry back.

At this time, the Chula Vista Housing Authority is being asked to approve in substantial final form all documents related to the execution and delivery of the notes and bonds. Note and bond documents presented for the CVHA's consideration have been prepared by Stradling Yocca Carlson & Rauth, serving as Special Counsel to the CVHA.

These documents are listed below:

- The Funding Loan Agreement describes the terms and conditions between the Issuer and the Funding Lender for advancing funds and application of these for the purpose of funding a loan to the Borrower (Attachment 4).
- The Loan Agreement specifies the terms and conditions of the Loan financing for the project (see Attachment 5).
- The Bond Regulatory Agreement and Declaration of Restrictive Covenants specifies the regulations for the use and operation of the Project (Attachment 6).
- The Subordinate Indenture describes the terms and conditions under which the Issuer will issue the series of bonds subordinate to the governmental lender notes described in the Funding Loan Agreement (Attachment 7).
- The Subordinate Loan Agreement provides the terms and conditions under which the proceeds of the subordinate bonds will be advanced to the Borrower for the purpose of funding the subordinate loan to the Borrower (Attachment 8).
- The Subordinate Bond Purchase Agreement establishes the terms of the subordinate bond sale (Attachment 9).
- With the redemption of the outstanding Series 2000A and Series 2000B bonds for the Project, a Termination of Regulatory Agreement and Declaration of Restrictive Covenants in connection with that issuance is necessary and will be replaced with the associated Bond Regulatory Agreement for the Multifamily Housing Revenue Notes (St. Regis Park Apartments) 2019 Series B-1 through B-4 (Attachment 10).

Financial Advisor's Feasibility Analysis

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 and subordinate bonds. The Financial Advisor's analysis and recommendation is included as Attachment 3.

Financial Disclosure

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 11, 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 Multifamily Housing Revenue Bond Program is self-supporting, with the borrower responsible for the payment of all costs of issuance and other costs of the notes and subordinate bonds. The CVHA will receive compensation for its services in execution and delivery of the notes and subordinate bonds by charging an origination fee equal to 20 basis points (0.20%) of the total original principal amount of the notes and subordinate bonds, with a minimum fee of $15,000. The origination fee to be paid to the CVHA by the Developer is estimated at $51,000 (.20% of $25.5 M), with the final amount determined at transaction closing. The Developer is responsible for payment of all costs under the financing, including Bond 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 and subordinate bonds will be reimbursed from an annual administrative fee of $17,000 paid to the CVHA by the Developer. The notes and subordinate bonds will not constitute a debt of the City or financially obligate the City or the CVHA because security for the repayment of the notes and subordinate bonds will be limited to specific private sources of the development. Neither the faith and credit nor the taxing power of the City or the CVHA will be pledged to the payment of the notes and subordinate bonds. The Developer is responsible for payment of all costs under the financing, including the CVHA's annual administrative fee.

ATTACHMENTS

1. Locator Map
2. Revised Project Pro Forma (5/1/2019)
3. Financial Advisor's Feasibility Analysis

Bond Loan Documents (Transaction Documents)

4. Funding Loan Agreement
5. Borrower Loan Agreement
6. Bond Regulatory Agreement and Declaration of Restrictive Covenants
7. Subordinate Indenture Agreement
8. Subordinate Loan Agreement
9. Subordinate Bond Purchase Agreement
10. Termination of Bond Regulatory Agreement (2000)

Other:

11. Public Disclosures Relating to Conduit Revenue Obligations

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