



CITY COUNCIL AGENDA STATEMENT



January 19, 2021

File ID: 20-0525

TITLE

- A. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE ISSUANCE, SALE AND DELIVERY OF MULTIFAMILY HOUSING REVENUE NOTES OF THE CHULA VISTA HOUSING AUTHORITY FOR COLUMBA APARTMENTS
- B. RESOLUTION OF THE CHULA VISTA HOUSING AUTHORITY REGARDING ITS INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS FOR THE PROPOSED DEVELOPMENT OF COLUMBA APARTMENTS

RECOMMENDED ACTION

Council adopt resolution A, and Authority adopt resolution B.

SUMMARY

The Chula Vista Housing Authority ("CVHA") has received a request from Chelsea Investment Corporation ("Project Sponsor") on behalf of Millenia II CIC, LP to consider the issuance of tax exempt private activity bonds to finance the construction, maintenance, and operation of 200 affordable units for lower-income households at Columba Apartments (the "Project"). The Project is located at the northwest corner of Solstice Avenue and Optima Street in the Millenia (formerly known as the Eastern Urban Center) master planned community.

ENVIRONMENTAL REVIEW

The Development Services Director 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 certified Final Second Tier Environmental Impact Report (EIR 07-01) – SCH No. 2007041074 for Otay Ranch Eastern Urban Center (EUC) Sectional Planning Area (SPA) Plan and Tentative Map. Therefore, no further CEQA review or documentation is necessary.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

On January 13, 2021, the Housing Advisory Commission voted to recommend the development of Columba Apartments as an affordable rental community and the issuance of tax-exempt private activity bonds.

DISCUSSION

The Project Sponsor is requesting that the CVHA be the conduit bond issuer for tax-exempt private activity bonds ("tax-exempt bonds") in an aggregate amount not to exceed \$60 million for new construction and operation of the Project located at northwest corner of Solstice Avenue and Optima Street (Attachment 1:

Locator Map). An application will be submitted by February 5, 2021 to the California Debt Limit Allocation Committee (CDLAC), the State bonding authority, and for the companion tax credits from the California Tax Credit Allocation Committee (CTCAC). 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), the Chula Vista's hearing officer, the City Manager, as appointed by City Council Resolution No. 2020-248, held the TEFRA (public hearing) on Tuesday December 29, 2020 at 4:00 p.m. at the City Council Chambers of the City of Chula Vista, California to allow public comments in the issuance of the notes and the Project for which bond funds will be allocated (Attachment 2: Notice of Public Hearing). No comments were received at this public hearing. At this time, the City Council is asked 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 a bond allocation is received. Additionally, it is requested that the CVHA adopt a resolution expressing its preliminary intent to apply for and issue such bonds for the Project. Such preliminary actions are necessary in order to allow the CVHA to submit an application to CDLAC 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.

The requested actions are preliminary and do not commit the CVHA to issue the bonds. 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 as the Project Sponsor is successful in receiving a commitment from CDLAC for a bond allocation.

Resolutions presented for City Council and CVHA 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 development team will be led by Project Sponsor, Chelsea Investment Corporation, an award winning, for-profit corporation headquartered in Carlsbad, California. Since 1995, Project Sponsor and its affiliates have developed approximately 9,768 rental units in 77 Chelsea-owned developments in four states. Project Sponsor has substantial experience in a wide range of housing developments and has developed multiple rental housing developments in Chula Vista using City loan funds. At bond closing, a limited partnership, Millenia II CIC, LP, will be created to construct, maintain and operate the Project. Millenia II CIC, LP will serve as the Administrative General Partner, with Pacific Southwest Community Development Corporation (PSCDC), a California Non-Profit Public Benefit Corporation as Managing Partner.

Table 1 - Development Team Summary

Role		FIRM/CONTACT
Ownership		Millenia II CIC, LP
Managing General Partner	0.01 %	PSCDC
Administrative General Partner	0.09 %	TBD
Tax Credit Investor/Limited Partner	99.99 %	TBD
Property Management		ConAm Management Corporation
Lender/Purchaser		TBD
Architect		JWDA
General Contractor		Emmerson Construction, Inc.

Project Sponsor will be responsible for managing the construction of the property through completion and cost certification, with a general contractor overseeing construction. The Project Sponsor 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. The property will be managed by ConAm Management Corporation, a San Diego based multifamily real estate services company that operates more than 53,000 apartment communities across 11 states.

The Proposed Project

The Project will be built within the Millenia (Eastern Urban Center) master planned community in eastern Chula Vista, providing rental housing opportunities for extremely low- to low-income households and assisting the City in meeting its Regional Housing Needs Allocation (RHNA). The development envisions 200 units that consists of 60 1-bedroom units, 80 2-bedroom units, 60 3-bedroom units and two units for on-site management. Project amenities includes a community room, property management office, 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 .5 miles from the Vons grocery store and other nearby shopping including Otay Ranch Mall; &
- Less than .5 mile from Stylus and Stata parks.

The Project cost for both acquisition and construction is estimated to total \$95 million, as summarized in Table 2 below.

Table 2 – Estimated Costs

Description	Total Estimated Costs	Estimated Costs per Unit	Estimated Costs per Gross Building Sq Ft
Acquisition	\$11,000,000	\$55,000	\$71
Construction & Hard Costs	\$50,753,758	\$253,769	\$329
Soft Costs	\$33,696,836	\$168,484	\$218
TOTAL COSTS	\$95,450,594	\$477,253	\$618
TOTAL Dwelling Units (DUs)	200		
TOTAL Gross Bldg Sq Ft	154,400		

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 198 units currently restricted as affordable for extremely low to low-income households, ranging from 30 percent to 70 percent of area median income, with two units reserved for the resident managers, as detailed in Table 3 below. 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 and Monthly Rent*(Effective April 2020)*

Unit Type	Sq Ft	Total No. of Units	Gross Monthly Rent ¹	Monthly Household Income ²
1 Bdrm	550	60		
30% AMI		6	\$ 649.00	\$ 2,023
50% AMI		6	\$ 1,083.00	\$ 3,371
60% AMI		24	\$ 1,299.00	\$ 4,045
70% AMI		24	\$ 1,566.00	\$ 4,719
2 Bdrm	760	79		
30% AMI		8	\$ 780.00	\$ 2,310
50% AMI		8	\$ 1,300.00	\$ 3,850
60% AMI		31	\$ 1,560.00	\$ 4,620
70% AMI		32	\$ 1,820.00	\$ 5,390
3 Bdrm	1,010	59		
30% AMI		6	\$ 901.00	\$ 2,600
50% AMI		6	\$ 1,501.00	\$ 4,333
60% AMI		23	\$ 1,802.00	\$ 5,200
70% AMI		24	\$ 2,102.00	\$ 6,067
MGR's Units		2		
TOTAL	154,400	200		

¹ LIHTC Rent Limits for 2020² Assumes 1 person per bedroom

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. The Project Sponsor intends to submit an application to CDLAC for

a \$60,000,000 tax-exempt bond/note allocation by the February 5, 2021 deadline and will also apply to CTCAC for companion Tax Credits. CDLAC will make its final awards in April 2021.

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 and will fully comply with the City bond disclosure policies, 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 \$95.45 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 \$60 million to provide construction and permanent loans to finance the Project. 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 \$41.3 million in Low Income Housing Tax Credits. A Tax Credit Investor will be identified prior to Project closing.

The balance of needed funds for the construction and permanent financing of the Project is proposed to be provided by a seller note, land donation, Junior C bond, and a deferred developer fee. No financial assistance from the City or the CVHA is being requested for the Project. The Project pro-forma (sources and uses) submitted by the Project Sponsor is provided as Attachment 3.

Development Schedule

The estimated development timeline is as follows:

Table 4 – Schedule

Milestones	Date
TEFRA Hearing	December 29, 2020
Housing Authority & City Council meeting: Bond Inducement and TEFRA Resolutions	January 19, 2021
CDLAC/CTAC Application Submittal	February 5, 2021
CDLAC Award	April 28, 2021
Housing Authority & City Council meeting for Final Bond Authorization	Fall 2021
Start Construction	October 2021
Complete Construction	June 2023
Lease Up Complete	October 2023

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 Project Sponsor 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 \$120,000 (\$60 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 \$21,000 paid to the CVHA by the owner for the term of the bond regulatory agreement.

ATTACHMENTS

1. Locator Map
2. Notice of Public Hearing
3. Sources and Uses

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