



# City of Chula Vista

## Legislation Details (With Text)

|                       |   |                      |   |
|-----------------------|---|----------------------|---|
| <b>File #:</b>        | 18-0075   | <b>Name:</b>         | Public Hearing: City Council consideration of the issuance of tax exempt obligations by the Chula Vista Housing Authority with respect to the proposed financing of the acquisition and rehabilitation of existing affordable units at Trolley Terrace and Cord |
| <b>Type:</b>          | Public Hearing  | <b>Status:</b>       | Passed  |
|                       |   | <b>In control:</b>   | City Council  |
| <b>On agenda:</b>     | 5/15/2018   | <b>Final action:</b> | 5/15/2018   |
| <b>Title:</b>         | A. RESOLUTION NO. 2018-082 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 TROLLEY TERRACE AND CORDOVA VILLAGE AFFORDABLE APARTMENTS<br><br>B. RESOLUTION NO. 2018-003 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 TROLLEY TERRACE AND CORDOVA VILLAGE AFFORDABLE APARTMENTS |                      |   |
| <b>Sponsors:</b>      |   |                      |   |
| <b>Indexes:</b>       | 2. Economic Vitality, 5. Connected Community  |                      |   |
| <b>Code sections:</b> |   |                      |   |
| <b>Attachments:</b>   | 1. Resolution A, 2. Resolution B, 3. Attachment - 1 Location Map TrolleyCordova, 4. Attachment - 2 Estimated Sources & Uses SBCS 2018, 5. Attachment - 3 Disclosure Form, 6. Presentation   |                      |   |

| Date      | Ver. | Action By    | Action | Result |
|-----------|------|--------------|--------|--------|
| 5/15/2018 | 1    | City Council | adopt  | Pass   |

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### RECOMMENDED ACTION

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

### SUMMARY

The City of Chula Vista has received a request from South Bay Community Services ("Project Sponsor") on behalf of Cordova Village L.P. and Trolley Terrace L.P. to consider the issuance of tax exempt obligations to finance the acquisition and rehabilitation of 58 existing affordable units at Trolley Terrace and Cordova Village Apartments (The "Project"). The Project is located at 750 ADA Street and 1280 East J Street. The rehabilitation would improve the properties and extend the term of the affordable rents for 55 years (currently scheduled to expire in 2018).

## **ENVIRONMENTAL REVIEW**

### **Environmental Notice**

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.

### **Environmental Determination**

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 RECOMMENDATION**

On April 25, 2018, the Housing Advisory Commission voted (4-0) to recommend the issuance of tax-exempt private activity bonds in an aggregate amount not to exceed \$8 million for the acquisition and rehabilitation of the Project and the City Council and Chula Vista Housing Authority take all necessary actions to facilitate its financing.

### **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 \$8 million for the acquisition and rehabilitation of the Project (Attachment 1: Locator Map). An application will be submitted by May 18, 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 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 a public 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 intention 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, South Bay Community Services (SBCS), is a 501(c)(3) non-profit organization and the current owner of both Trolley Trestle and Cordova Village apartments. A new partnership is proposed for the acquisition and rehabilitation of the Project. Upon close of escrow, the Project Sponsor will create a new limited partnership, Cordova Trolley, LP to own and operate the Project. The Project Sponsor will serve as the General Partner, retaining a level of ownership and handling management of the properties. SBCS will be responsible for managing the rehabilitation of the properties through completion and cost certification, with a general contractor overseeing construction. SBCS 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. Hyder Property Management will serve as the day to day property manager. Red Stone Capital Equity Partners, LLC shall serve as the managing general partner, providing the necessary tax credit equity investment for financing.

Trolley Terrace and Cordova Village represents the only bond financed and tax credit financed affordable housing developments within SBCS' portfolio. SBCS currently owns and operates several emergency and transitional housing developments for at-risk and homeless youth and families.

## **The Proposed Project**

The Project consists of two affordable housing projects (Trolley Terrace and Cordova Village Apartments), proposed as a "scattered sites" acquisition and rehabilitation for financing. Trolley Terrace is located at 750 Ada Street in south western Chula Vista and Cordova Village is located at 1280 East J Street in eastern Chula Vista. These projects were originally built and financed using former Redevelopment funds and HOME Investment Partnership Act funds from the U.S. Department of Housing and Urban Development (HUD). The twenty-year HOME affordability requirements originally set to expire in 2018 will be extended with the refinancing and proposed assumption of the existing HOME loan. The City and Housing Authority restrictions expire in 2052.

Given the age and the desire to preserve the affordability, the Project Sponsor is proposing the acquisition and rehabilitation of both properties as "scattered sites" using 4 percent tax credits and tax-exempt bond financing to ensure continued long-term use and viability. The existing ownership, Cordova Village L.P. and Trolley Terrace L.P., will sell the project to the new partnership, inclusive of the Project Sponsor as the General Partner, and complete the rehabilitation. Costs for acquisition of the Project is estimated at \$7.1 million.

Since the original construction of both projects, no comprehensive renovations have been completed. Both properties are in need of additional capital improvements and repairs.

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. Priority items to be addressed across the portfolio include:

1. Site
  - Sealing and restriping of parking areas
2. Improved Energy Efficiency

- Replace all appliances with Energy Star rated appliances
  - Replace all windows with dual pane windows
  - Replace lighting with LED or other high efficiency lighting
3. Other construction/replacement activities
- Replace/repair dry rot and termite infested wood
  - Replace/repair roofing to have a 25+ year minimum life
  - Repair/replace carpets/tile
  - Replace kitchen/bathroom cabinetry and fixtures
  - Replacement of water heaters, as needed
  - Replace/repair playground equipment
4. Accessibility
- 10 percent of units required as fully accessible
  - 4 percent of units 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.

The current estimate of rehabilitation costs is \$2,244,616. With 58 units, this equates to an average of \$38,700 per unit. This figure includes the estimated costs to address the scope of work proposed, temporary relocation, general contractor's profit/overhead/general requirements, and a construction contingency of 10 percent of direct costs.

### **Income & Rent Restrictions**

For the bond financing, Section 142 (d) of the Internal Revenue Services 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 56 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 within each property, see Table 1. The Project proposes to maintain the existing income and rent restrictions for Cordova Village and Trolley Terrace 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 1: Affordability Restrictions

| Description     | Very Low Income |          | Low Income | Manager's Unit<br>(Exempt) |
|-----------------|-----------------|----------|------------|----------------------------|
|                 | 40% AMI         | 50% AMI  | 60% AMI    |                            |
| Trolley Terrace | 17              |          |            | 1                          |
| Cordova Village |                 | 8        | 31         | 1                          |
| <b>TOTAL</b>    | <b>17</b>       | <b>8</b> | <b>31</b>  | <b>2</b>                   |

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 Financing of Project**

The Tax Exempt Multi-Family Revenue Bonds and Low Income Housing Tax Credit financing will support the majority of the estimated \$12.7 million total development cost of the Project. The Project Sponsor has requested the Housing Authority consider the issuance of a maximum of \$8 million in tax exempt bonds to be privately placed with Red Stone Equity Partners. It is anticipated that the bonds will be used for both construction and permanent financing of the Project.

The \$8,000,000 maximum bond allocation is approximately 15 percent higher than the amount for which the Project is being underwritten for financing, which is \$7,000,000. 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 \$3.33 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 an assumption of the existing City and Housing Authority loans, with an estimated outstanding loan balance of \$2,741,200, to be subordinate to the new financing sources, and other contributions. The final assumption of the City and Housing Authority loans and funds from

other sources will be determined prior to Bond loan closing. 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 Housing Authority's Multifamily Housing Revenue Bond Program and will fully comply with the City bond disclosure policies. Ross Financial LLC will serve as the Housing Authority's financial advisor and Stradling Yocca Carlson & Rauth LLP as bond counsel to work on the Project.

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 Housing Authority and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. 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 Cordova Village Apartments and Trolley Terrace Townhomes Project will preserve 40 rental units within the Rancho Del Rey community and 18 units in the Palomar Gateway Area of Southwest 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 to be paid to the Housing Authority by the owner will be \$15,000.

### **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. Summary of Sources and Uses
3. Disclosure Form

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