



City of Chula Vista

Staff Report

File#: 15-0539, **Item#:** 6.

CONSIDERATION OF THE ISSUANCE OF TAX-EXEMPT OBLIGATIONS WITH RESPECT TO PROPOSED FINANCING OF THE DEVELOPMENT OF A 123-UNIT SENIOR AND 87-UNIT AFFORDABLE HOUSING DEVELOPMENT IN THE MILLENIA COMMUNITY

- A. RESOLUTION NO. 2015-238 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE ISSUANCE, SALE AND DELIVERY OF MULTIFAMILY HOUSING REVENUE BONDS OF THE HOUSING AUTHORITY OF THE CITY OF CHULA VISTA FOR MILLENIA SENIOR AFFORDABLE APARTMENTS
- B. RESOLUTION NO. 2015-006 OF THE HOUSING AUTHORITY OF THE CITY OF CHULA VISTA REGARDING ITS INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS FOR A PROPOSED DEVELOPMENT OF THE MILLENIA SENIOR AFFORDABLE APARTMENTS
- C. RESOLUTION NO. 2015-239 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA APPROVING THE ISSUANCE, SALE AND DELIVERY OF MULTIFAMILY HOUSING REVENUE BONDS OF THE HOUSING AUTHORITY OF THE CITY OF CHULA VISTA FOR MILLENIA AFFORDABLE APARTMENTS
- D. RESOLUTION NO. 2015-007 OF THE HOUSING AUTHORITY OF THE CITY OF CHULA VISTA REGARDING ITS INTENTION TO ISSUE TAX-EXEMPT OBLIGATIONS FOR A PROPOSED DEVELOPMENT OF THE MILLENIA AFFORDABLE APARTMENTS

RECOMMENDED ACTION

Council conduct the public hearing, adopt resolutions A and C; Authority adopt resolutions B and D.

SUMMARY

On December 16, 2014, the City Council and the City's Housing Authority approved the use of Multifamily Housing Bonds for the financing of the development and construction of a low income senior and a low income affordable housing development, respectively, known as Millenia Senior and Millenia Affordable Apartments ("Project") by Chelsea Investment Corporation (CIC). The Project is located near the southwest corner of Birch Road and Eastlake Parkway within the Otay Ranch Eastern Urban Center (EUC and also known as Millenia) master planned community. In the past nine months, construction plans and cost estimates have advanced, costs of construction have escalated and lender requirements have changed. CIC is proposing 123 units for senior housing and 87 units for affordable housing and that the Housing Authority of the City of Chula Vista be the conduit bond issuer for an aggregate amount of \$41.1 million in tax exempt private activity bonds for multifamily projects, an increase of approximately \$3 million in bonding authority. The bonds will be secured by the project and will not constitute a liability to or obligation of the City of Chula Vista or its

Housing Authority.

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 proposed project was adequately covered in previously adopted Final Second Tier Environmental Impact Report, EIR 07-01. Therefore, no further CEQA review or documentation is necessary.

BOARD/COMMISSION RECOMMENDATION

On November 20, 2014, the Housing Advisory Commission voted to recommend the development of Millenia Senior and Millenia Apartments as affordable rental communities and the issuance of tax exempt private activity bonds for its financing.

DISCUSSION

On December 16, 2014, the City Council approved through Resolution No. 2014-256 and 2014-257 the issuance, sale and delivery of Multifamily Housing Revenue Bonds of the Housing Authority of the City of Chula Vista for a 126-unit multifamily rental housing project for seniors and an 84-unit multifamily rental housing project ("the Project") within Otay Ranch Eastern Urban Center (Exhibit 1 - Locator Map). Additionally, the City's Housing Authority expressed its intent through HA Resolution No. 2014-006 and 2014-007 to issue an aggregate total of \$38,000,000 in tax-exempt obligations for the proposed Millenia developments.

In the past nine months, construction plans and cost estimates have advanced, costs of construction have escalated and lender requirements have changed. Additionally, in order to meet the City's design and building requirements, both developments have undergone some reconfiguration that has resulted in a change in the number of units to be constructed within the projects.

Table 1: Proposed Change in DUs

Description	Units Proposed		
	Dec 2014	Oct 2015	Difference
Senior Housing	126	123	-3
Family Housing	84	87	+3
TOTAL	210	210	0

Additionally, with increased costs of materials and labor and requirements of lenders changing, the development costs of the project and required financing has increased. Affordable housing developments, particularly, have a limited ability to generate income based on the restricted rental rates, affecting the developer's ability to qualify for additional financing. As developers of affordable housing, CIC has limited reserves and cash flow to absorb increased costs. Therefore, CIC has requested that the Housing Authority of the City of Chula Vista consider a \$3 million increase in the maximum bonding authority to be issued for the Project, for a combined aggregate of \$41.1 million, to support the majority of the estimated \$65.6 million (\$398,572 per senior unit and \$355,443 per family unit) cost of constructing both projects. The permanent bonds and Tax Credits would cover the majority of the estimated cost.

Table 2: Proposed Financing - Senior Development

Description	Sources		
	Dec 2014	Oct 2015	Difference
Multifamily Bonds	21,019,000	21,700,000	681,000
Tax Credit Equity	6,917,000	9,505,169	2,588,161
Deferred & Contributed Developer Fee	1,250,000	1,250,000	-
Successor Agency Residual Receipts Loan	932,000	932,000	-
City Residual Receipts Loan			-
City Fee Deferrals/Waivers	1,288,571	1,288,571	-
TOTAL	31,406,571	34,675,740	3,269,161

Table 3: Proposed Financing - Affordable Development

Description	Sources		
	Dec 2014	Oct 2015	Difference
Multifamily Bonds	15,053,913	19,400,000	4,346,087
Tax Credit Equity	8,177,102	7,294,158	(882,944)
Deferred & Contributed Developer Fee	1,250,000	1,250,000	-
Successor Agency Residual Receipts Loan	1,172,660	1,172,660	-
City Residual Receipts Loan	895,340	895,340	-
City Fee Deferrals/Waivers	911,429	911,429	-
TOTAL	27,460,444	31,818,927	4,358,483

The Applicant is currently preparing an application for both the California Debt Limit Allocation Committee (CDLAC) and the California Tax Credit Allocation Committee for bonds and Tax Credits to substantially finance the Project. The CDLAC application will be submitted on October 16, 2015, with a decision made in December 2015.

At this time, staff is requesting that the Chula Vista Housing Authority express its preliminary intent to apply for and issue bonds for the Project. The City Council is also asked to hold a public hearing to consider the Housing Authority's issuance of tax exempt bonds for the financing of the Project at such time a bond allocation is received.

The requested actions are preliminary and do not commit the Authority to issue the bonds. Such preliminary actions are requirements for application to the State bonding authority which will allow CIC to receive reimbursement out of bond proceeds for costs it incurs leading up to the actual sale of the bonds. If successful in obtaining a bond commitment from CDLAC, the final approval of the issuance of the bonds and the related bond documents will be presented to the Housing Authority.

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

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and its Housing Authority.

Conclusion

Staff recommends approval of the City and Housing Authority resolutions based upon the following:

- The Project offers opportunities to provide quality affordable housing to Chula Vista's working families and in a location within walking distance to neighborhood services, employment centers, and transportation links.
- It is effective in serving the City's housing needs and priorities as expressed in the Housing Element of the General Plan and the HUD Consolidated Plan.
- The Applicant has a proven track record in the development and operation of affordable housing within Chula Vista and California and securing the necessary public and private financing.

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 of 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 provision of 210 rental units within the Otay Ranch EUC community will expand the availability of housing opportunities for all economic segments of the community. 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 owner responsible for the payment of all costs of issuance and other costs and repayment of the bonds. All costs related to the issuance of the bonds will be paid from bond proceeds or profits. The bonds will be secured by the project and will not constitute a liability to or obligation of the City of Chula Vista or Housing Authority.

The City of Chula Vista Housing Authority will receive compensation for its services in preparing the bond issuance by charging an origination fee of 1/8 of 1% of the bond loan, approximately \$47,500.

ONGOING FISCAL IMPACT

Staff costs associated with monitoring compliance of the regulatory restrictions and administration of

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the outstanding bonds will be reimbursed from an annual administrative fee of approximately \$45,000 (based upon 1/8 of 1% of the permanent bond loan) paid to the Housing Authority by the owner.

ATTACHMENTS

1. Locator Map
2. Income Limits and Rents

Staff Contact: Leilani Hines, Housing Manager