



City of Chula Vista

Staff Report

File#: 15-0672, Item#: 5.

CONSIDERATION OF THE ISSUANCE OF TAX-EXEMPT OBLIGATIONS WITH RESPECT TO THE 123-UNIT VOLTA SENIOR HOUSING PROJECT AND 87-UNIT DUETTA HOUSING PROJECT IN THE MILLENIA COMMUNITY

- A. HA RESOLUTION NO. 2016-001 OF THE CHULA VISTA HOUSING AUTHORITY AUTHORIZING THE ISSUANCE OF ITS TAX-EXEMPT MULTIFAMILY HOUSING REVENUE NOTE AND ITS JUNIOR MULTIFAMILY HOUSING REVENUE BONDS IN A CUMULATIVE AND AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$21,700,000 AND ITS TAXABLE MULTIFAMILY HOUSING REVENUE NOTE IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$1,700,000 FOR THE PURPOSE OF FINANCING THE ACQUISITION AND CONSTRUCTION OF THE VOLTA APARTMENT HOMES MULTIFAMILY RENTAL HOUSING PROJECT; APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF ANY AND ALL DOCUMENTS NECESSARY TO ISSUE THE NOTES AND BONDS, COMPLETE THE TRANSACTION AND IMPLEMENT THIS RESOLUTION, AND RATIFYING AND APPROVING ANY ACTION HERETOFORE TAKEN IN CONNECTION WITH THE BONDS
- B. HA RESOLUTION NO. 2016-002 OF THE CHULA VISTA HOUSING AUTHORITY AUTHORIZING THE ISSUANCE OF ITS TAX-EXEMPT MULTIFAMILY HOUSING REVENUE NOTE AND ITS JUNIOR MULTIFAMILY HOUSING REVENUE BONDS IN A CUMULATIVE AND AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$19,400,000 AND ITS TAXABLE MULTIFAMILY HOUSING REVENUE NOTE IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$1,200,000 FOR THE PURPOSE OF FINANCING THE ACQUISITION AND CONSTRUCTION OF THE DUETTA APARTMENT HOMES MULTIFAMILY RENTAL HOUSING PROJECT; APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF ANY AND ALL DOCUMENTS NECESSARY TO ISSUE THE NOTES AND BONDS, COMPLETE THE TRANSACTION AND IMPLEMENT THIS RESOLUTION, AND RATIFYING AND APPROVING ANY ACTION HERETOFORE TAKEN IN CONNECTION WITH THE BONDS

RECOMMENDED ACTION
Authority adopt the resolutions.

SUMMARY

On October 13, 2015, 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 Volta Senior and Duetta Apartments (aka Millenia Senior and Millenia Affordable Apartments) ("Project(s)") by Chelsea

File#: 15-0672, Item#: 5.

Investment Corporation (CIC). The Project is located near the corner of Stylus Street and Orion Boulevard within the Otay Ranch Eastern Urban Center (EUC and also known as Millenia) master planned community. At this time, the Chula Vista Housing Authority is asked to approve the issuance, sale, and delivery of multifamily housing revenue bonds for the Projects based upon award of \$21,700,000 and \$19,400,000 in bond allocation, respectively, from the California Debt Limit Allocation Committee ("CDLAC").

ENVIRONMENTAL REVIEW

Environmental Notice

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 adopted Final Second Tier Environmental Impact Report, EIR 07-01. Therefore, no further CEQA review or documentation is necessary.

Environmental Determination

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 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 October 13, 2015, the Chula Vista City Council conducted a public hearing and adopted Resolution Nos. 2015-238 and 2015-239 approving the issuance, sale and delivery of multifamily housing revenue bonds for Volta Senior and Duetta Housing (aka Millenia Senior and Millenia Affordable Apartments), respectively, and the Chula Vista Housing Authority adopted HA Resolution Nos. 2015-006 and 2015-007 regarding its intention to issue tax exempt obligations for the Projects (Attachment 1: Locator Map).

Subsequently on December 16, 2015, the California Debt Limit Allocation Committee (CDLAC), the State bonding authority, approved authorization of the use of \$21,700,000 of the 2015 State Ceiling on Qualified Private Activity Bonds ("Bonds") for Volta Senior Apartments and \$19,400,000 for Duetta Apartments.

The Chula Vista Housing Authority will be the conduit bond issuer for the Bonds. The bond allocation and tax credit contributions will be used to substantially finance the Projects. In addition to the tax exempt obligations being issued by the Housing Authority, due to increasing cost estimates, the developer has requested the Housing Authority include taxable note issues for both projects.

The Development Team

Chelsea Investment Corporation (CIC) has developed several projects in Chula Vista, primarily in eastern Chula Vista, to satisfy various developers' Balanced Communities Affordable Housing

obligations (Teresina Apartments, Rancho Buena Vista Apartments, Villa Serena and The Landings I and II). CIC has over 6,300 housing units in its portfolio. The company has a strong and experienced team of professionals. CIC has successfully managed low income housing units for over 30 years. CIC is qualified and has demonstrated an ongoing desire and commitment to partner with the City in the development of another affordable housing project.

The Proposed Project

Volta Senior and Duetta Apartments will be built within the Otay Ranch Millenia master planned community of Chula Vista. As the urban heart of Otay Ranch, Millenia will contain the largest concentration of retail, employment, residential, civic and cultural uses.

The Project sites are located near the corner of Stylus Street and Orion Boulevard and will provide future residents an ideal location, with easy access to employment and education opportunities, neighborhood services within Millenia and the other adjacent neighborhoods and direct access to public transportation. The site is located along the proposed Bus Rapid Transit line and within walking distance to neighborhood services and facilities. It is within 1/3 of a mile of Otay Ranch Town Center, a grocery store, Chula Vista High Tech High and the University/Innovation District. The Project site supports a healthy living environment with its walkability.

The Projects will consist of 5-story buildings surrounding a parking structure and configured as stacked flat units. Volta will be comprised of 123 units of one and two-bedroom units for seniors. Duetta will have 87 one to three bedroom units.

All 210 units of Volta and Duetta will be available on a rent restricted basis to households whose income is at or below 50-60 percent (%) of the Area Median Income (AMI) as determined by the U.S. Department of Housing and Urban Development (HUD). The project will be affordable for 55-years and guarantees the availability of such housing and services for the long term. With affordable rents guaranteed, the financial strain on working families and limited income seniors is alleviated.

These Projects will provide a balance of housing opportunities and fulfill a need in Chula Vista for rental housing for seniors and families, particularly in the neighborhoods east of Interstate 805, as outlined in the City of Chula Vista Housing Element (2013-2020).

Income and Rent Restrictions

For bond financing, Section 142 (d) of the Internal Revenue Services Code requires either a minimum of 20 percent of the rental units in the Projects 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 will be made available at affordable rents established by the applicable State law.

As approved by CDLAC, the Projects will exceed the affordability requirements by setting aside 13 units for very low income households at 50 percent of AMI, and 109 units for low income households at 60 percent of AMI at Volta and similarly, 22 units will be set aside for very low income and 60 units for low income households at Duetta. One unit in each Project is reserved for the resident manager. The rents will also be set using these income levels. The income and rent restrictions for the

Projects will be maintained for a period not less than 55 years, exceeding the 30-year term of the bonds. These income and rent restrictions will be outlined within the bond regulatory agreements to be recorded against each property.

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.

Bond/Tax Credit Financing of Project

The Tax Exempt Multifamily Revenue Bonds and Low Income Housing Tax Credit financing will support the majority of the estimated \$65.6 million (\$398,572 per senior unit and \$355,443 per family unit) total development cost of the Projects. The Housing Authority will serve as the issuer of a combined aggregate of \$41.1 million in tax exempt bonds and \$2.9 million in taxable obligations for the Projects.

Bond Structure

The Housing Authority is being asked to authorize the issuance of three series of notes and bonds for each of the Projects (Series 2016 A-1 through A-3 for Duetta and Series 2016 B-1 through B-3 for Volta) to finance development costs. The obligations will be purchased in a private placement by Raymond James Tax Credit Fund, Inc. Citibank, N.A. has committed to provide tax-exempt and taxable construction and permanent financing for the Projects. One series of the bonds and two notes for each Project (Series 2016 A-2 and A-3 and Series 2016 B-2 and B-3) which will be subordinate to the other obligations and will be purchased by SLF IV Millenia LLC (Seller of the property) as a carry back.

At this time, the Chula Vista Housing Authority is being asked to approve in substantial form all documents related to the bond issuance. Bond documents presented for the 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. These documents are listed below:

- The *Bond Regulatory Agreement* specifies the regulations for the use and operation of the Project (see Attachments 2 and 3).
- The *Loan Agreement* for the Bonds specifies the terms and conditions of the Loan financing for the project (see Attachment 4 and 5).
- 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 (see Attachment 6 and 7).
- The *Junior 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 (See Attachment 8 and 9).
- The *Junior Loan Agreement* provides the terms and conditions under which the proceeds of the junior bonds will be advanced to the Borrower for the purpose of funding the subordinate loan to the Borrower. (See Attachment 10 and 11).

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the Housing Authority members and has found no property holdings within 500 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)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

However, Staff has determined that a potential conflict of interest may exist for Councilmember Miesen because it may be reasonably foreseeable that a financial effect on a business entity in which Councilmember Miesen has a financial interest may be material.

Staff is not independently aware, and has not been informed by any 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

Approval of the resolutions authorizes the issuance of tax-exempt obligations for the project totaling \$41.1 million and taxable obligations totaling \$2.9 million, as detailed in the table below.

	Tax Exempt Revenue Note	Taxable Revenue Note	Total
Volta (Senior Housing)	\$21,700,000	\$1,700,000	\$23,400,000
Duetta (Multifamily Housing)	\$19,400,000	\$1,200,000	\$20,600,000
Project Total	\$41,100,000	\$2,900,000	\$44,000,000

The Bond and note 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 obligations. All costs related to the issuance of the obligations will be paid from obligation proceeds or owner profits. The obligations 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 Chula Vista Housing Authority will receive compensation for its services in preparing the obligation issuance by charging an origination fee of 1/8 of 1% of the obligation loans, approximately

File#: 15-0672, Item#: 5.

\$55,000. These revenues are not reflected in the adopted fiscal year 2015-16 budget.

ONGOING FISCAL IMPACT

Staff costs associated with monitoring compliance of the regulatory restrictions and administration of the obligations will be reimbursed from an annual administrative fee of approximately \$55,000 (based upon 1/8 of 1% of the permanent obligation loans) paid to the Housing Authority by the owner. Administrative fee revenues will be reflected in future Housing Authority budgets.

ATTACHMENTS

1. Locator Map
2. Bond Regulatory Agreement - Volta Senior Apts
3. Bond Regulatory Agreement - Duetta Apts
4. Loan Agreement - Volta Senior Apts
5. Loan Agreement - Duetta Apts
6. Funding Loan Agreement - Volta Senior Apts
7. Funding Loan Agreement - Duetta Apts
8. Junior Indenture - Volta Senior Apts
9. Junior Indenture - Duetta Apts
10. Junior Loan Agreement - Volta Senior Apts
11. Junior Loan Agreement - Duetta Apts

Staff Contact: Leilani Hines, Housing Manager