October 12, 2021

ITEM TITLE

Affordable Housing Financial Approvals: Consideration of Final Approvals for Columba Apartments Including Authorizing the Execution and Delivery of its Tax-Exempt Multi-family Housing Revenue Notes and Bonds

Report Number: 21-0151

Location: Northwest Corner of Solstice Avenue and Optima Street Chula Vista, California 91915 (Assessor Parcel Number 643-060-61-00)

Department: Development Services

Environmental Notice: The project was adequately covered in the 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. Due to the use of City HOME Investment Partnership Act Entitlement funds from the U.S. Department of Housing and Urban Development (HUD), the City completed the necessary reviews under the National Environmental Protection Act (NEPA). The City's loan will be conditioned upon receiving an Authorization to Use Grant Funds from HUD.

Recommended Action

Housing Authority adopt a resolution authorizing: (A) the execution and delivery of its tax-exempt multi-family housing revenue notes and its subordinate Chula Vista Housing Authority Multi-family Housing Revenue Bonds (Columba Apartments), collectively in an aggregate principal amount not to exceed $52,100,000; and (B) the execution and delivery of its taxable multi-family housing revenue notes in an aggregate principal amount not to exceed $26,000,000 for the purpose of financing the acquisition and construction of the Columba Apartments multi-family 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 this resolution, and ratifying and approving any action therefore taken in connection with the notes.

SUMMARY

The Chula Vista Housing Authority ("CVHA") is being asked to authorize the execution and delivery of the multifamily housing notes for the proposed financing of Columba Apartments ("the Project"), as requested

by Chelsea Investment Corporation ("Project Sponsor") on behalf of Millenia II CIC, LP. The Project received a Private Activity Bond Allocation of $52,100,000 from the California Debt Limit Allocation Committee ("CDLAC") on April 28, 2021, to finance the Project.

Tonight's action provides final approval of the financial package and constitutes final action by the Housing Authority in authorizing the Project.

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.

The City's federal HOME funds will also be a source of financial assistance. Therefore, as required by the federal entitlement funds, the project was reviewed under the National Environmental Protection Act ("NEPA") resulting in a Finding of No Significant Impact. Funding of the loan will be conditioned upon receiving the Authorization to Use Grant Fund from HUD.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

On April 11, 2021, the Housing Advisory Commission voted (4-0) to recommend the approval of the project.

DISCUSSION

On January 9, 2021, at a public hearing held 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 City Council (via CC Resolution No. 2021-012 and CVHA Resolution No. 2021-001) approved the use of multifamily housing revenue notes, to be issued by the CVHA, to finance the new construction and operation of the Project located at northwest corner of Solstice Avenue and Optima Street (Attachment 1). An application was submitted to the CDLAC, the State bonding authority, and to the California Tax Credit Allocation Committee ("CTAC") for the companion tax credits.

Subsequently on April 28, 2021, the Project received a 2021 State Ceiling on Qualified Private Activity Bonds Allocation in the amount of $52,100,000 (the "Allocation"), pursuant to CDLAC Resolution No. 21-134. Additionally, the Project received a Preliminary Reservation Letter from the California Tax Credit Allocation Committee ("CTCAC") for federal and state tax credits. The bond allocation and tax credit contributions will be used to substantially finance the Project. 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.

Staff requests that the CVHA approve, in substantial final form, all documents related to the execution and delivery of the notes and bonds to finance the Project. The Project will assist the City in meeting its Regional Housing Need Allocation (RHNA) set asides in providing units for extremely low, very low, and low-income households in satisfaction of the City's General Plan 2021-2029 Housing Element. The City Council has authorized the Project via CVHA Resolution 2021-004 and Council Resolution 2021-182, the execution of a companion loan documents that includes the City's Declaration of Covenants, Conditions, and Restrictions (CC&Rs) that restrict occupancy of the Project.

Resolutions, the note, and bond documents presented for the Council's and CVHA's consideration have been prepared by Stradling Yocca Carlson & Rauth, serving as Special Counsel for the City of Chula Vista and CVHA.

The Development Team

The Project is being developed by Chelsea Investment Corporation ("CIC"), a for-profit affordable housing developer (the "Project Sponsor"), who has developed several projects in Chula Vista, primarily in eastern Chula Vista to satisfy various developers' Balanced Communities Affordable Housing obligations, including: Teresina Apartments, Rancho Buena Vista, Villa Serena Senior Apartments, the Landings I and II, Duetta Apartments and Volta Senior Apartments. CIC has over 11,000 units in its portfolio. The company has a strong experienced team of professionals. CIC has successfully managed low-income housing units for over 30 years. CIC is a qualified developer and has demonstrated on going desire and commitment to partner with the City in the development of another affordable housing project.

At bond closing, a limited partnership, Millenia II, CIC, LP, will enter into agreements and project documents to construct, maintain, and operate the Project as the owner and borrower of the bond proceeds. Pacific Southwest Community Development Corporation ("PSCDC") will serve as the Managing General Partner and CIC Millenia II, LLC will serve as the Administrative General Partner of Millenia II CIC, LP. A summary of the project team is listed in Table 1 below.

Table 1 - Development Team Summary		
Role		**FIRM/CONTACT**
Ownership		Millenia II, CIC, LP
Managing Partner	**0.005%**	PSCDC
Administrative General Partner	**1.005 %**	CIC Millenia II, LLC
Tax Credit Investor/Limited Partner	**98.99 %**	Raymond James HOF 71-Millenia II CIC, LLC ("RJ")
Property Management		CIC Management, Inc.
Lender/Note Purchaser		Citibank
Architect		Joseph Wong AIA Design Associates ("JWDA")

The Project Sponsor will be responsible for managing the construction of the property through completion and cost certification, with a general contractor overseeing construction. CIC 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. ConAm Property Management will serve as the day-to-day property manager.

The Project

The Project will be built within the Millenia master planned community in eastern Chula Vista. The Project envisions a total of 200 units, with 198 affordable to extremely low, very low- and low-income households and 2 units for the onsite resident managers. The unit mix will consist of 56 one-bedroom units, 86 two-bedroom units and 58 three-bedroom units. One two-bedroom and one three-bedroom units will be reserved for onsite resident managers. Project amenities include a computer lab/lounge, laundry facilities, community room, onsite leasing/ property management office, landscaped courtyards, two tot lots, bocce ball area, four barbeque areas with shaded structures, and two community gardens. The Project will also provide units that are accessible to persons with disabilities.

The Project is ideally located for the convenience of residents. Located in the urban heart of Otay Ranch, the Project will be near retail, employment, residential, civic, and cultural uses. 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 are located:
- Less than 0.5 miles from grocery store and other shopping;
- Less than 0.5 miles from a community park; and
- Adjacent to the Bus Rapid Transit

Total Project costs for both acquisition and construction are estimated at $102.8 million, as more fully described in Table 2.

Table 2 - Estimated Costs and Key Performance Indicators

	Total Estimated Costs	Estimated Costs per Unit
Acquisition Costs	$14,500,000	$72,500
Hard Costs and Soft Costs	$ 88,336,787	$ 441,684
TOTAL COSTS	**$ 102,836,787**	**$ 514,184**
TOTAL Dwelling Units (DUs)	200	

Income & Rent Restrictions

For bond financing, Section 142 (d) of the Internal Revenue Code requires either a minimum of 20 percent of the rental units in the Project be available for occupancy by very low-income 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 low-income 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 of bond financing with 198 of the 200 units of the Project to be restricted as affordable for very low- and low-income households, with two units reserved for the resident managers, as reflected in Table 3. The Project proposes to maintain the income and rent restrictions for 55 years from the effective date of the bond financing agreements. These income and rent restrictions will be outlined within the 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"). The 2021 San Diego County Area Medium Income ("AMI") is $95,100.

Unit and Affordability Mix

The unit mix and affordability restrictions for the Project are anticipated as shown below:

Columba	Unit Mix	30% AMI	50% AMI*	60% AMI*
1 Bedroom/1 Bath	56	6	6	44
2 Bedroom/1 Bath	86*	9	9	67
3Bedroom/2Bath	58*	6	6	45
Total Units	**200**	**21**	**21**	**158**

**Includes 1 manager's unit in each unit type that are unrestricted. Manager's units are not subject to affordability restrictions*

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.

Financing

The Tax-Exempt and Taxable Multi-Family Revenue Notes and Bonds and Low-Income Housing Tax Credit financing will support the majority of the estimated $102,836,786 total development cost of the Project. The Project Sponsor has requested the CVHA consider the issuance of one tax-exempt Note and one series of tax-exempt Bonds with a total aggregate principal not to exceed $52.1 million and a taxable note in the amount not to exceed $26 million. Citibank, N.A. ("Citi") will be the lender/purchaser of the tax-exempt and taxable notes and provide a construction-converting-to-permanent loan (Tax-Exempt Series). Subordinate Bonds will also be issued to finance the costs of acquisition, constructing, and equipping the Project; the Subordinate Bonds will be purchased by a fund created by principals at Chelsea.

The Project Sponsor is receiving $4,830,308 in annual Low-Income Housing Tax Credits for the next 10 years and $4,999,996 in state credits over a four-year period. Raymond James will be the Tax Credit Investor.

The balance of the needed funds for construction and permanent financing of the Project is provided by a deferred developer fee and a seller carryback loan. Financial assistance from the City and CVHA was approved on August 24, 2021 and includes $2 million from the City's HOME Investment Partnership Act Entitlement funds from HUD and $1 million from the Successor Housing Agency's Low- and Moderate-Income Housing Fund. A summary of the estimated sources and uses submitted by the Project Sponsor is provided in Attachment 2**.**

<u>Financial Advisor's Feasibility Analysis</u>
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. The Financial Advisor's analysis and recommendation is included as Attachment 3.

Bond Structure

The CVHA is being asked to authorize the execution and delivery of its tax-exempt multifamily housing revenue notes and issue its subordinate CVHA multi-family housing revenue bonds in an aggregate principal amount not to exceed $52.1 million and to authorize the execution and delivery of its taxable multifamily housing revenue notes in an aggregate principal not to exceed $26 million to finance acquisition and development costs. Citibank, N.A (Citi) has committed to provide tax-exempt and taxable construction and permanent financing for the Project and will be purchaser of the notes which will be held by Citi or another affiliate of Citi (the taxable and tax-exempt notes are collectively the "Notes"). The subordinate bond ("Subordinate Bond") will be purchased by CIC Opportunities Fund III, LLC, a California limited liability company (Seller of the Property). Raymond James Tax Credit Housing Opportunity Fund, Inc. is also providing financing through the purchase of tax credits. The Subordinate Bond will be subordinate to the Notes.

The Notes and the Subordinate Bond will meet all requirements of the CVHA's Multifamily Housing Revenue Bond Program and will fully comply with the City bond disclosure policies.

At this time, the 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 *Bond Regulatory Agreement and Declaration of Restrictive Covenants* specifies the regulations for the use and operation of the Project (Attachment 4).
- The Borrower *Loan Agreement* specifies the terms and conditions of the Loan financing for the Project (see Attachment 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 (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 junior 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* provides the terms and conditions whereby the subordinate bonds will be privately purchased by CIC Opportunities Fund III LLC, a California limited liability company (Attachment 9).

2021-2029 Housing Element

With the execution and recordation of a Deed of Trust and a Declaration of Covenants, Conditions, and Restrictions ("CC&Rs"), the Project will provide 200 units (includes 2-exempt manager's units) within the Project to be operated as affordable rental housing for extremely low, very-low and low-income households and will count towards the City's Regional Housing Need obligations of the 2021-2029 Housing Element.

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 10, Public Disclosures Relating to Conduit Revenue Obligations, satisfies this requirement.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council/Housing Authority 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/Housing Authority member of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

CURRENT-YEAR FISCAL IMPACT

Multifamily Housing Revenue Bond Financing is a self-supporting program, with the borrower, the property owner, responsible for the payment of all costs of issuance and other costs of the notes. The CVHA will receive compensation for its services in execution and delivery of the notes by charging an origination fee equal to 20 basis points (0.20%) of the total original principal amount of the notes and bonds, with a minimum fee of $148,364, with the final amount determined at the transaction closing. The borrower is responsible for payment of all costs under the financing, including Bond Counsel, Outside Counsel, Financial Advisor Fees, and Trustee Fees.

ONGOING FISCAL IMPACT

Multifamily Housing Revenue Bond Financing is self-supporting program. Staff costs associated with monitoring compliance of the regulatory restrictions and administration of the outstanding notes will be reimbursed from an annual administrative fee of $21,000 paid to the CVHA by the borrower. The notes will not constitute a debt of the City or financially obligate the City of the CVHA because the security for the repayment of the notes 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. The borrower is responsible for payment of all costs under the financing, including CVHA's annual administrative fee.

ATTACHMENTS

1. Locator Map
2. Draft Project Proforma (10-6-21)
3. Financial Advisor's Feasibility Analysis

Bond Loan Documents (Transactional Documents)

4. Bond Regulatory Agreement
5. Funding Loan Agreement
6. Borrower Loan Agreement
7. Subordinate Indenture
8. Subordinate Loan Agreement
9. Subordinate Bond Purchase Agreement

Other:
10. Public Disclosures Relating to Conduit Revenue Obligations

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