CITY COUNCIL
STAFF REPORT

CITY OF CHULA VISTA

March 28, 2023

ITEM TITLE

Housing Authority Bond Issuance: Approving the Issuance, Sale, and Delivery of a Tax-Exempt Multifamily Housing Revenue Note and a Taxable Multifamily Housing Revenue Note for the Otay Ranch Apartments, Also Known as Encelia

Report Number: 23-0069

Location: 1910 Encelia Circle

Department: Housing and Homeless Services

Environmental Notice:
The Project was adequately covered in previously certified Final Environmental Impact Report (FEIR 10-03) – SCH No. 2010062093 for Otay Ranch Village 8 West Sectional Planning Area (SPA) and Tentative Map.

Recommended Action

Hold a Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") public hearing and adopt: **Resolution A (of the City Council)** approving the sale, execution, and delivery of additional multifamily housing revenue notes of the Housing Authority of the City of Chula Vista for Otay Ranch Apartments; and **Resolution B (of the Housing Authority)** authorizing the sale, execution, and delivery of a tax-exempt multifamily housing revenue note in an aggregate principal amount not to exceed $4,000,000 and a taxable note in the amount up to $1,000,000 for the purpose of financing a portion of construction costs of the Otay Ranch Apartments multifamily 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 the resolution, and ratifying and approving any action heretofore taken in connection with the notes.

SUMMARY

In November 2020, the City Council and the Chula Vista Housing Authority ("CVHA" or the "Authority") took actions needed for the issuance by the CVHA of $35 million in tax-exempt multifamily revenue notes for the purpose of financing the acquisition and construction of Otay Ranch Apartments, known under the marketing name of "Encelia" (the "Project"). Located at the northwest corner of La Media Parkway South and Main Street East in the Otay Ranch Village 8 West master planned community, the Project is currently under construction and will provide 175 affordable rental units to be restricted for 55-years for occupancy by very low-and low-income families, with two units for resident managers.

Due to construction cost increases, the Project is no longer able to qualify for Federal low-income housing tax credits under Federal tax law under the original financing. To continue to qualify for such tax credits, there was need to increase the amount of tax-exempt bonds issued to finance the Project. Accordingly, an application was submitted to the California Debt Allocation Committee ("CDLAC") and approved on November 30, 2022, via Resolution No. 22-286, for a supplemental private activity bond allocation of $4 million. This allocation will allow the issuance of up to $4,000,000 in additional tax-exempt multifamily revenue notes and a taxable note in an amount up to $1,000,000 for the Project.

ENVIRONMENTAL REVIEW

The Director of Development Services 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 Otay Ranch Village 8 West Sectional Planning Area and Tentative Map Final Environmental Impact Report (FEIR 10-03) – SCH No. 2010062093. Thus, no further CEQA review is necessary.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

The Housing and Homeless Advisory Commission provided an advisory recommendation (5-0) at their March 16, 2023 Special Meeting for the Housing Authority to approve the supplemental bond issuance.

DISCUSSION

Chula Vista Housing Authority Role

The Chula Vista Housing Authority coordinates and administers the City's programs for promoting balanced housing for families of all income levels. The Housing Authority often serves as the financing vehicle for the issuance of bonds for acquiring, developing, and rehabilitating housing. The City Council serves as the five-member Board of Directors of the Housing Authority and the City's Housing and Homelessness Advisory Commission serves as an advisory body on such matters.

The Chula Vista Housing Authority's Multifamily Mortgage Revenue Bond Program ("Bond Program" or "Bonds") has been utilized since 1993 to support the development of affordable housing in the City. With interest on the Bonds exempt from federal and state taxation, Bonds provide below market financing for qualified rental projects. The Bond Program is self-supporting with the Project Owner responsible for the payment of all related costs and repayment of the obligations. The Bond Program is able to provide below-market rate financing because interest earnings on bonds issued for eligible projects are excluded from federal gross income and is therefore exempt from federal income taxation. Tax exempt bonds generate a lower interest rate than comparable taxable bonds; thereby allowing borrowers to borrow at a lower rate. Additionally, projects issuing Bonds are eligible for allocations of federal four percent (4%) Low-income Housing Tax Credits ("LIHTC" or "Tax Credits"). Equity from the sale of Tax Credits can provide a significant portion of the financing necessary to develop affordable housing (approximately 30% of the development cost).

Under federal and state law, to be eligible for bond financing, multifamily housing projects must set aside at least 20% of their units at affordable rents by households earning no more 50% of Area Median Income ("AMI") ($65,050 for a family of four during 2022). Alternatively, a minimum of 40% of the units may be restricted at 60% of AMI ($78,060 for a family of four during 2022). Due to the combined requirements of state, local, and federal funding sources, projects financed under the Bond Program are normally deed restricted as affordable for 55 years and often provide deeper affordability levels than the minimum levels required under the Bond Program. Another important element of the tax-exempt Bond Program is that Bonds must meet "the 50% test", whereby tax-exempt bond proceeds must be used to finance 50% or more of the aggregate basis of any building and the land on which the building is located.

Before the Housing Authority can issue tax-exempt obligations for the Project, it must apply for and be awarded a private activity bond allocation from CDLAC. Prior to submitting applications to CDLAC, developments are brought before the City Council and the CVHA. CVHA bond inducement resolutions must be approved prior to a CDLAC application submittal. In addition, to comply with Section 147(f) of the Internal Revenue Service Code of 1986, reflecting the TEFRA Act of 1982 TEFRA, the City must hold a public hearing (the "TEFRA hearing") to provide the public an opportunity to comment on the use of the tax-exempt funds to finance the Project prior to the issuance of the tax-exempt obligations.

While the Housing Authority acts as the issuer of the notes, there is no direct liability of the City or the Housing Authority in connection with the issuance or repayment of the notes. There is no pledge of the City's or Housing Authority's faith, credit, or taxing power and the Bonds do not constitute general obligations of the City or Housing Authority. The notes are special, limited obligations of the Housing Authority payable solely from private revenue sources, such as project cash flows and equity payments, and secured by a first deed of trust on the note-financed property.

Prior Project City Approvals and Project Status

On October 1, 2019, a TEFRA hearing was held before the Chula Vista City Council and approved via Resolution No. 2019-193. In February 2020, the Project received a 2020 State Ceiling on Qualified Private Activity Bonds Allocation in the amount of $35 million, pursuant to CDLAC Resolution No. 20-434. 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. On December 1, 2020, a second TEFRA hearing was held before the Chula Vista City Council (TEFRA hearings must be refreshed if tax-exempt obligations are not issued within one-year of the public hearing) and approved by Resolution No. 2020-263. Also on December 1, 2020, Chula Vista Housing Authority, by CVHA Resolution No. 2019-005, approved the issuance of multifamily housing revenue notes, to be issued by the CVHA in an aggregate amount not to exceed $35 million, to finance the new construction and operation of the Project, Attachment 1, Locator Map.

Since the initial allocation, unforeseen economic conditions created by the COVID-19 pandemic have resulted in significant construction delays, supply chain issues, and cost overruns. The Project managed to absorb as much construction cost increase as it could at closing while maintaining the standard 5% hard cost contingency. When the Project closed the note financing in December 2020, the $35 million in tax-exempt private activity bonds qualified for low-income housing tax credits as the amount exceeded the 50% of the aggregate depreciable basis plus land – the threshold required by the Federal tax code. The cost increase caused by construction delays and cost increases caused the $35 million issuance to fall below the 50% threshold. More tax-exempt obligations were needed.

Project Financing

The supplemental application of $4 million would allow the developer to complete the Project and ensure that the private activity bonds account for at least 50% of depreciable basis plus land. Since the aggregate tax-exempt financing of $39 million is still under the $70 million limit contained in the original inducement resolution adopted in 2019, a new inducement was not necessary, and the Housing Authority applied for a supplemental allocation, which was approved by CDLAC Resolution No. 22-286 on November 30, 2022.

The supplemental issuance of $4 million in a tax-exempt note and up to $1 million in a taxable note, coupled with Low-Income Housing Tax Credits, and the notes previously issued in December 2020 will finance the majority of the estimated $80.3 million total development cost of the Project. Citibank, N.A. ("Citi") will fund the supplemental notes and will continue to provide a construction-converting-to-permanent loan. Boston Financial Investment Management, LP will be the Tax Credit Investor.

The balance of needed funds for the construction and permanent financing of the Project is proposed to be provided by deferred developer fee and seller carryback financing by HomeFed Village 8, LLC, as seller of the property. No financial assistance from the City or the CVHA is being requested for the Project. A summary of the estimated sources and uses submitted by the Project Sponsor is provided in Attachment 2. The notes 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 City Council Appointee is asked to hold the TEFRA with respect to the supplemental tax-exempt private activity note for the Project and to approve the issuance, sale, and delivery of multi-family housing revenue bonds in the amount of $4 million by the CVHA.

The Resolutions presented for the City Council and Housing Authority's consideration has been prepared by Stradling Yocca Carlson & Rauth, serving as Bond Counsel for the City of Chula Vista and CVHA.

The Development Team

The Project is being developed by Meta Housing Corporation ("Meta"), a for-profit affordable housing developer ("Project Sponsor"). The Project Sponsor will be responsible for managing the construction of the property through completion and cost certification, with a general contractor overseeing construction. Meta, or an authorized property management company, will also be responsible for marketing, leasing, overseeing property management and maintenance, income-qualification of residents, annual reporting to the CVHA and provide resident services.

The Project Sponsor was selected by the master developer of Otay Ranch Village 8 West as their partner in developing affordable housing in compliance with the City's Balanced Communities Policy. Meta has developed over 80 affordable communities, totaling 6,400 units, throughout California with the majority of the communities within Los Angeles County. Their communities include special needs housing, senior housing, family housing, and mixed-use/transit-oriented developments. Encelia represents the first bond and tax credit financed affordable housing development for Meta in the San Diego region.

The Project

The Project is currently under construction and the low-income units will satisfy the requirements of the City's Balanced Communities Policy for the provision of affordable housing within this community. The Project envisions a total of 175 units, with 173 affordable to very low- and low-income households and 2 units for the resident managers. It will consist of 55 one-bedroom units, 72 two-bedroom units, 46 three-bedroom units. Two of the two-bedroom units will be reserved for on-site resident managers. Project amenities include community rooms, property management offices, game room, 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 are located:

- Less than 1.5 miles from grocery store and other shopping; and,
- Less than 0.50 mile from a planned park and elementary school.

Total Project costs for both acquisition and construction are estimated at $80.3 million, as outlined in Table 1. A financial feasibility analysis, Attachment 3, was conducted and concluded that issuance of the 2023 notes would:

- Enable the completion of the Development, which will achieve a public purpose by providing 173 affordable units, with all units restricted to income levels at 50% and 60% of AMI.
- Evidence tax-exempt and taxable loans funded by a well-established, highly capitalized bank that is active in affordable housing lending and will always be subject to restrictive transfer limitations.
- Borrower will pay issuance costs from sources other than tax-exempt Series 2023A-1 Note proceeds.
- Based on revised estimates provided by the Borrower, there should be sufficient funds to complete the Development and the Development provides adequate cash flow to cover debt service on the 2020 Note and the subordinate 2020 Taxable Loan made by Citi.

Table 1
Estimated Costs & Key Performance Indicators

	Total Estimated Costs	Estimated Costs per Unit	Estimated Costs per Gross Building Sq Ft
Construction & Soft Costs	$ 46,402,876	$ 265,159	$184
Soft Costs	$ 24,461,830	$ 139,782	$97
Developer Costs	$ 9,498,052	$ 54,275	$38
TOTAL COSTS	**$80,362,757**	**$ 459,216**	**$ 318**
TOTAL Dwelling Units (DUs)	175		
TOTAL Gross Bldg Sq Ft	252,411		

Income & Rent Restrictions

The project will exceed the affordability requirements of bond financing with 173 of the 175 units of the Project to be restricted as affordable for very low- and low-income households, with two units reserved for the resident managers (see Table 2). 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 LIHTC as set forth in Section 42 of the Internal Revenue Code in 1986.

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.

Table 2
Affordability & Estimated Monthly Rent/Income
(Effective March 2023)

Unit Type	**Very Low @ 50% AMI** No. of Units	CTCAC Monthly Gross Rents	Max Annual Income	**Low Income @ 60% AMI** No. of Units	CTCAC Monthly Gross Rents	Max Annual Income	**Manager Units**
1 Bdrm/1 Ba	41	$ 1,220	$ 45,550*	14	$ 1,464	$ 54,660*	
2 Bdrm/1 Ba	7	$ 1,463	$ 52,050*	65	$ 1,756	$ 62,460*	2
3 Bdrm	5	$ 1,691	$ 58,550*	41	$ 2,030	$ 70,260*	
TOTAL DUS 175	53			120			2

**Assumes 1 person occupying a one-bedroom, 2 persons occupying a two-bedroom, and three persons occupying a three- bedroom. Max Annual Income would increase depending on actual occupancy.*

Conclusion

Approval of the $4 million (tax-exempt) and up to $1 million (taxable) supplemental funding will fund the remaining construction costs of the Encelia Project and allow the project to continue to meet tax-exempt bond requirements, which will provide 173 units of affordable housing in Village 8 West.

The project is currently taking information for its interest list and will begin lease up in Summer 2023 with final construction anticipated in late 2023. For more information visit https://www.enceliaapts.com or call (619) 436-1860.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the 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 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/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 additional principal amount of the notes, with a minimum fee of $15,000 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 Fiscal Agent 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 $17,000 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. Revised Pro Forma, Meta Housing 3.7.23
3. Project Feasibility Analysis, Ross Financial 3.9.23

Bond Loan Documents (Transaction Documents):

4. Funding Loan Agreement
5. Borrower Loan Agreement
6. Bond Regulatory Agreement and Declaration of Restrictive Covenants

Other:

7. Public Disclosures Relating to Conduit Revenue Obligations

Staff Contact: *Stacey Kurz, Director of Housing and Homeless Services*
Bradley R. Neal, Counsel to the Housing Authority, Stradling Yocca Carlson & Rauth