



# CITY COUNCIL AGENDA STATEMENT



**July 16, 2024**

## **ITEM TITLE**

TEFRA Hearing – Approve the Conversion of the Multifamily Housing Revenue Notes of the Chula Vista Housing Authority to the Permanent Phase of Financing for the Otay Ranch Apartments, Marketed as Encelia at Cota Vera

**Report Number:** 24-0192

**Location:** 1910 Encelia Circle

**Department:** Housing and Homeless Services

**G.C. § 84308:** No

**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 and Tentative Map.

## **Recommended Action**

Conduct the public hearing and adopt the resolution approving the conversion of the Notes to the permanent phase of financing.

## **SUMMARY**

The Chula Vista Housing Authority (“Housing Authority”) previously executed and delivered two Multifamily Revenue Notes and loaned the proceeds to Otay Affordable I V8 LP, a California limited partnership (“Owner”) affiliated with Meta Housing Corporation, to finance the construction of a 175-unit affordable rental housing project previously known as the Otay Ranch Apartments, and marketed as Encelia at Cota Vera (the “Project”), located at 1910 Encelia Circle within the Otay Ranch master planned community. The Project is now ready to convert the construction financing to the permanent phase of financing. Because the terms of the bond issuance will be modified in connection with the conversion to permanent financing, the City’s bond counsel has recommended that the City hold a new public hearing regarding the project to ensure compliance with the Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”). The proposed action accepts the public comments (if any) and approves the conversion of the Notes to the permanent phase of financing by the Housing Authority.

## 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 environmental review is necessary.

## BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Staff attempted to hold a special meeting of the Housing and Homeless Advisory Commission in order to consider the item. The meeting was scheduled for June 26, 2024, but was cancelled due to lack of quorum. A rescheduled special meeting was arranged for July 10, 2024, but was cancelled again due to lack of quorum.

## DISCUSSION

### Previous Legislative Action

On October 1, 2019, at a public hearing (the “TEFRA Hearing”) held in compliance with Section 147(f) of the Internal Revenue Service Code of 1986, as amended (the “Code”), the Chula Vista City Council, by Resolution No. 2019-193, and the Chula Vista Housing Authority, by Housing Authority Resolution No. 2019-005, approved the use of multifamily housing revenue notes, to be issued by the Housing Authority, to finance the construction of the Project (**Attachment 1: Locator Map**). An application was submitted to the California Debt Allocation Committee (“CDLAC”), the State bonding authority, and to the California Tax Credit Allocation Committee (“CTCAC”) for the companion tax credits.

In February 2020, the Project received a 2020 State Ceiling on Qualified Private Activity Bonds Allocation in the amount of \$35,000,000 (the “Allocation”), pursuant to CDLAC Resolution No. 20-434. Additionally, the Project received a Preliminary Reservation Letter from CTCAC for federal and state tax credits. The bond allocation and tax credit contributions were used to substantially finance the Project.

The October 1, 2019 TEFRA Hearing held by the elected legislative body of the jurisdiction provided the public with an opportunity to comment on the use of the tax-exempt funds to finance the Project. Since one year had lapsed between the TEFRA Hearing and approval, the Chula Vista City Council appointed the City Manager to conduct a new TEFRA Hearing, in accordance with City Council Resolution Number 2020-248. The hearing was held on November 30, 2020, and provided an opportunity for public comments on the issuance of the bonds and the project for which the bond funds were allocated.

Due to unanticipated increases in construction costs, the Project applied for and received a 2022 State Ceiling on Qualified Private Activity Bonds Allocation in November 2022 in the amount of \$4,000,000 (the “Supplemental Allocation”), pursuant to CDLAC Resolution No. 22-286, which was subsequently carried forward to 2023 by an election made by the Housing Authority to the IRS. Additionally, the Project received an additional Preliminary Reservation Letter from CTCAC for federal and state tax credits. The bond allocation and tax credit contributions were used to complete construction on the Project.

In compliance with Section 147(f) of the Code, a TEFRA Hearing for the supplemental \$4,000,000 in tax-exempt note financing for the Project was held by the City Council on March 28, 2023 by Housing Authority Resolution No. 2023-001 to provide the public an opportunity to comment on the use of the tax-exempt funds to finance the Project.

## **Proposed Action**

The Project is now ready to convert the construction financing to the permanent phase of financing. However, in order to satisfy both CDLAC and Citibank, N.A., the Funding Lender and holder of the Notes, the Owner is required to carry an additional principal amount of the Notes through the permanent phase of financing, up to an additional \$4 million. While this principal amount was contemplated by the previous TEFRA hearings undertaken by the City with respect to the Project and the term of the Notes will not be extended past the maturity dates thereof, the change in amortization may increase the weighted average maturity (a measure of how quickly principal will be repaid) of the Notes. If the weighted average maturity of the Notes increases by four years or more as a result of the additional principal now being carried, it causes a reissuance of the bonds for tax purposes. This reissuance would require a TEFRA Hearing. The change in weighted average maturity of the Notes cannot be calculated with precision at this time, as the details of the permanent financing are still being determined. In an abundance of caution, the City and Housing Authority's Bond Counsel has recommended that the City hold another TEFRA hearing for the Project for the conversion of the Notes to the permanent phase of financing.

At this time, the City Council is asked to conduct the noticed TEFRA Hearing and adopt the Resolution reciting that the TEFRA Hearing was conducted and the Housing Authority may proceed with converting the Notes to the permanent phase of financing for the Project (**Attachment 2: TEFRA Public Hearing Notice**).

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

## **The Owner/Manager**

The Project is being developed by Meta Housing Corporation, a for-profit affordable housing developer ("Project Sponsor"). The Project Sponsor has been responsible for managing the construction of the property through completion and cost certification, and the Project Sponsor or its appointed property management is also responsible for marketing, leasing, managing and maintaining the Project, performing ongoing compliance reporting, and providing resident services.

The Project Sponsor was selected by the master developer of Otay Ranch Village 8 West as its partner in developing affordable housing in compliance with the City's Balanced Communities Policy. The Project Sponsor has developed over 80 affordable communities, totaling 6,400 units, throughout California with the majority of the communities within Los Angeles County. The Project represents the first bond and tax credit financed affordable housing development for the Project Sponsor in the San Diego region.

## **The Project**

The Project is located within the Otay Ranch Village 8 West master planned community in eastern Chula Vista. The low-income units satisfy a portion of the requirements of the City's Balanced Communities Policy for the provision of affordable housing within this community. The Project includes a total of 175 units, with 173 restricted as affordable to very low- and low-income households and 2 units for the resident managers. It consists of 55 one-bedroom units, 72 two-bedroom units, and 46 three-bedroom units. Project amenities include community rooms, a game room, outdoor courtyards, and a tot lot. The project conducted a lottery for tenant selection in compliance with the terms of the City regulatory agreements in March 2023. Building 1 was fully occupied as of January 2024, Building 2 was fully occupied as of December 2023, and Building 3 was fully occupied as of June 2024.

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. The Project is located less than 1 mile from Olympian High School, Central Square Park, and All Seasons Park, and roughly 2 miles from Otay Ranch Town Center, which contains a grocery store and numerous retail outlets.

### **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 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 173 of the 175 units of the Project to be restricted as affordable for very low- and low-income households. The Project will be required to maintain the income and rent restrictions for 55 years from the effective date of the Note financing agreements. These income and rent restrictions are outlined within the bond regulatory agreement recorded against the Project and are 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”).

Compliance with the income and rent restrictions is 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.

### **DECISION-MAKER CONFLICT**

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

### **CURRENT-YEAR FISCAL IMPACT**

There is no current-year fiscal impact as a result of the proposed action. The Project Sponsor is responsible for payment of all costs related to the conversion of the Notes to the permanent phase of financing, including but not limited to Bond Counsel Fees, Financial Advisor Fees, and Trustee Fees. The City will be paid a fee of \$3,500 by the Project Sponsor to cover the costs associated with the TEFRA Hearing.

### **ONGOING FISCAL IMPACT**

There is no ongoing fiscal impact as a result of the proposed action. Multifamily Housing Revenue Bond Financing is a self-supporting program. Staff costs associated with issuance and ongoing compliance are fully recovered through fees paid by the Owner. The Notes do not constitute a debt of the City or financially

obligate the City or the Housing Authority; the security for the repayment of the Notes is limited to specific private sources of the development, as set forth in the financing documents pursuant to which the Notes were issued. Neither the faith and credit nor the taxing power of the City or the Housing Authority are pledged to the payment of the Notes. The borrower is responsible for payment of all costs under the financing, including the Housing Authority's annual administrative fee.

#### **ATTACHMENTS**

1. Locator Map
2. TEFRA Public Hearing Notice, July 16, 2024

*Staff Contact: Brian Warwick, Housing Manager*