

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 5, 2007

IBA Report Number: 07-68

Housing Authority Docket Date: July 10, 2007

Item Number: 3

Subject: Residual Receipts Loan for the Acquisition and Rehabilitation of Villa Nueva Apartments

OVERVIEW

The Housing Commission is requesting that the Housing Authority approve a residual receipts loan of up to \$9,210,000 to fund the acquisition and rehabilitation of Villa Nueva Apartments. This project, if approved, would provide for the acquisition and rehab of an existing 398-unit affordable housing development located at 3604 Beyer Boulevard in San Ysidro. Earlier this year, the Housing Authority approved preliminary bond items for up to \$45 million in multifamily housing revenue bonds as part of this project. The total development cost of this project is estimated to be \$77 million, which includes the housing revenue bonds (not yet issued), loan from the Housing Commission, federal tax credits, income during the construction period, and deferred developer fee.

FISCAL/POLICY DISCUSSION

Villa Nueva has a Section 8 contract that is subject to annual renewal with the Department of Housing and Urban Development (HUD). In addition, the project has a HUD-insured mortgage that matures in October 2010, which insures the project remains affordable. At the end of 2010, the complex could be converted to market rental rates, if desired by the owner. As part of the proposed project, a 20-year Housing Assistance Payments Contract (HAP Contract) will be obtained from HUD, insuring that the property remains affordable to the lowest income residents. The IBA has learned from staff that a decision on the HAP Contract should be known by the end of July. It is also anticipated that in early September, the Housing Commission will be coming forward to the Housing Authority for approval of the issuance of the revenue bonds. If the HAP Contract is not approved, the project will be unable to meet the anticipated debt service obligations of the proposed bonds.

The IBA questioned the timing of bringing this item before the HAP Contract is approved and subsequent action to approve bond issuance. Upon discussion with Housing staff, the IBA understands that if the item is approved on July 10th by the Housing Authority, a 45 day window would exist for review of loan documents. This would ensure that if the bond issuance is approved in early September, all closing items could be wrapped up thereafter to ensure the timely execution of obtaining all necessary financing to initiate the project.

The IBA also had concerns in regards to the term (55 years) of the Housing Commission loan of \$9.2 million which, as it currently stands, could exceed the HUD affordability timeline (20 years) of the project. Staff has informed the IBA that it is anticipated that an additional extension would occur or some other form of assurance would be developed to preserve affordability. Also, a balloon payment would occur at the earlier of the end of the 55-year loan term or when the development is refinanced. A refinancing event could occur, if at the end of the HAP Contract, the developer chose to convert to market rate rentals. This assures that the availability of affordable rental housing remains in existence, and in the unlikely event it does not, the outstanding loan would be repaid.

For informational purposes, the Housing Authority item in March 2007 to authorize the preliminary bond items for Villa Nueva, identified an estimated total development cost of \$71 million, whereas the action before the Housing Authority today provides an updated estimate of \$77 million. The bond allocation was authorized for \$45 million to underwrite a project estimate of \$35.6 million; the project estimate has been updated to \$37.5 million. Other sources of funding that were adjusted from the original estimate from March included federal tax credits (increase by approximately \$4.4 million) and Housing Commission loan (decrease of \$0.4 million).

CONCLUSION

The IBA is supportive of the proposed action, contingent upon the approval of the HAP Contract that will ensure the affordability of this project.

[SIGNED]

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