



Good Neighbors

San Diego Housing Commission

REPORT

DATE ISSUED: September 8, 2006 REPORT NO: HCR 06-65
ATTENTION: Chair and Members of the Housing Commission ITEM: 104
For the Agenda of September 15, 2006
SUBJECT: Changes in Hotel Metro/434 Financial Structure to Generate Funds for
Shelter Program (Council District 2)

REQUESTED ACTION:

Approve a number of related actions to provide greater financial stability for Hotel Metro/434 and generate funds to help support the City's homeless shelter program in FY2007 and FY2008.

STAFF RECOMMENDATION:

That the Housing Commission recommend Housing Authority authorization for the President/CEO to:

1. Subordinate two existing junior loans to San Diego SRO Limited Partnership (Alpha Project, Managing General Partner of Hotel Metro/434) in favor of a new first-position loan from the City's Redevelopment Agency to SD SRO L.P., with which SD SRO L.P. will repay the Housing Commission's first-position loan;
2. Modify provisions of the Housing Commission's Hotel Metro/434 lease, loans, and Agreement for Rent and Affordability Restrictions to help ensure the project's long-term financial stability and to facilitate recordation of the Redevelopment Agency's 55-year restrictions against the borrower's leasehold interest;
3. Amend the FY2007 Budget to incorporate \$795,331 from the sale of the first-position loan to the Redevelopment Agency and designate the additional revenue for the Housing Commission's contribution to the City's homeless shelter program in FY2007 and FY2008 (proposed Budget revision attached); and
4. Execute all documents relative to these transactions.

BACKGROUND

Funding for City's Shelter Program

For many years, the Housing Commission has provided the majority of funding to support the City's shelter program with a yearly contribution of \$445,000. As reported on May 2, 2006 (HAR06-007), the Commission's contribution could not be funded in FY07 because the source of funds supporting that effort in previous years is no longer available and there are limited unrestricted funds that can be substituted. The Land Use and Housing Committee of City Council asked the Redevelopment Agency/Center City Development Corporation (CCDC)'s assistance in funding the shelter program to fill this gap, pending identification and implementation of a permanent alternative funding source. However, under State law, redevelopment funds are primarily available for "bricks-and-mortar" projects or lease payments and not to provide direct assistance for homeless services. Lending money to SD SRO L.P. to repay the Housing Commission first-position loan on Hotel Metro/434 is an eligible use that will



provide revenue the Commission can use to fund the shelter program in FY07 at the same level as in FY06 and previous years (\$445,000) and to partially fund the program in FY08.

Hotel Metro/434

Hotel Metro/434 is a 195-unit Single Room Occupancy (SRO) hotel at 434 and 435 13th Street in downtown's East Village, developed in 1990 on land owned by the Housing Commission and leased to San Diego SRO L.P. Alpha Project for the Homeless, dba Metro Hotel Community Association, is Managing General Partner of SD SRO L.P. Lease payments equal to six percent of gross revenue are scheduled to begin this, the sixteenth year of the lease.

One unit in each building is used as an office, leaving 193 affordable units. Hotel Metro/434 is a deeply affordable development with minimal amenities. Although the facility was originally envisioned as serving downtown minimum-wage workers, it now primarily houses persons who have disabilities and limited employment potential.

The project has three Housing Commission loans outstanding: a first position loan that is the subject of this Report; a second position loan with a principal amount of \$98,700; and a third position loan with a principal amount of \$457,137. The project has no other debt. The project has never generated sufficient income to make residual receipts payments on the loans.

DISCUSSION

There are two goals for the recommended actions: a) to generate revenue needed to support the City's shelter program in FY07 and FY08, while the City identifies alternative sources of future funding and puts them in place; and b) to improve the current and future financial security of Hotel Metro/434, an important housing resource for very low income individuals.

Housing Commission and CCDC staff are working with Alpha Project, managing general partner of SD SRO L.P., to place and keep Hotel Metro/434 on sound footing for the present and well into the future. CCDC, with the full cooperation of Alpha Project, has been conducting a financial and operations audit and a study of the Metro's physical and resident service needs, with a view to maintaining and improving the facility as a long-term affordable housing asset serving the needs of a population at risk of homelessness and fitting well into the surrounding East Village community. The Housing Commission will continue its monitoring functions.

Several features of the lease, loans and affordability agreement with San Diego SRO L.P. differ from most Housing Commission agreements, in which affordability is usually tied to Area Median Income (AMI). Those differences put the Hotel Metro/434 at a financial disadvantage. Specifically, the rent and affordability level for 50 percent of the rooms are indexed to 30 percent of the monthly wages of a worker earning California's minimum-wage. Minimum wage at the outset equated to an affordability level of 30 percent of AMI; current minimum wage equates to an affordability level of 26 percent of AMI. Rent for the remaining 50 percent of rooms is linked to percentage changes in the housing component of the Consumer Price Index. The equivalent affordability level started at and is currently at 40 percent of AMI.

Current revenue at these affordability levels – 50 percent at 26 percent of AMI and 50 percent at 40 percent of AMI – barely covers routine operations; reserves are not adequately funded, and the project generates no residual receipts (100 percent of which are presently designated for the Housing Commission). In addition, under the existing lease, San Diego SRO L.P. is scheduled to begin lease payments to the Housing Commission of six percent of gross income this year; however, revenue at current levels will not support lease payments.

In approving the refinancing of the Housing Commission's first-position loan, CCDC's Budget/Finance & Administration Committee and the CCDC Board posed a number of conditions:

- That the lease, currently set to expire in 2044, be extended to 2061 to coincide with the 55-year restrictions of the Redevelopment Agency's ("Agency's") loan, which is to be recorded against the leasehold interest;
- That the Housing Commission subordinate its two remaining loans to the Agency's loan;
- That required lease payments be deferred to the earlier of the lease's expiration or the sale or subsequent refinancing of the project;
- That affordability levels never exceed 50 percent AMI but that the specific levels be determined in accordance with the results of CCDC's studies of finances, operations, and resident service needs (since determined to be at 40 percent AMI for all 193 units, with rent for all units set at 30 percent of income for an individual at 40 percent AMI);
- That current residents be "grandfathered" under the existing restrictions;
- That residual receipts be divided 50/50 between CCDC and the Housing Commission, with the Agency's share funding a project operating reserve; and
- That all funds used to retire the Housing Commission loan go to support the shelter program.

The Budget/Finance & Administration Committee will later consider funding rehabilitation of Hotel Metro/434, following completion of CCDC's physical needs assessment.

Approval of the CCDC changes will result in a higher affordability threshold for half the units (from approximately 30 percent AMI to 40 percent AMI); deferral of required lease payments to the Housing Commission; a reduced payoff of the Housing Commission's first position loan (\$795,331, the accrued principal and interest as of December 31, 2005, rather than the full value of \$815,066 as of September 15, 2006); and a loss of options regarding use of the revenue. In return, however, rent and affordability restrictions will be extended for 16 years and project rent revenue will be aligned with actual project needs.

FISCAL CONSIDERATIONS: Approval would provide one-time revenue of \$795,331, of which it is recommended that \$445,000 be expended for the City's FY07 shelter program and the remainder reserved for the FY08 shelter program.

PREVIOUS RELATED ACTIONS:

In March 1989 (HCR 89-076), Housing Commission approved leasing its properties at 434 and 435 13th Street to San Diego SRO L.P. for construction and operation of a 195-unit SRO known as Hotel Metro/434.

In August 1989 (89-193), the Housing Commission approved a deferred-payment loan of \$344,000 to San Diego SRO L.P. to help finance the SRO's construction; the Housing Authority approved the loan in October 1989. The accrued value of principal and interest of that loan as of December 31, 2005 was \$795,331.

In 1994 (HCR 94-134), a \$98,700 deferred-payment loan was approved to fund anticipated operating and reserve shortfalls. The accrued value as of December 31, 2005 was \$130,763.

On July 10, 1995 (HCR95-125), the Housing Commission approved and on July 25, 1995 the Housing Authority ratified a deferred-payment work-out loan of \$457,137 to eliminate amortizing debt. The accrued value as of December 31, 2005 was \$595,716.

ENVIRONMENTAL REVIEW: The proposed activities are exempt from the California Environmental Quality Act (CEQA), pursuant to Section 15261 of the CEQA Guidelines.

KEY STAKEHOLDERS & PROJECTED IMPACTS: Stakeholders include Alpha Project, the current owner/operator of Hotel Metro/434; current tenants of the 193 affordable units; and beneficiaries of the City's shelter program. The recommended actions, along with the follow-up measures described, will help preserve an important affordable housing resource, provide adequate operating revenue, and generate revenue needed to operate the shelter program in FY07 and FY08.

Respectfully submitted,

**Signature on File
With Original Document**

Approved by,

Cissy Fisher
Director, Housing Finance & Development

Elizabeth C. Morris
President & Chief Executive Officer

ATTACHMENT - Proposed Budget Revision

**SAN DIEGO HOUSING COMMISSION
FY07 Budget**

	FY07 Original	Proposed Revision	FY07 Proposed
Salaries	148,220		148,220
Benefits	44,790		44,790
Salaries & Benefits	193,010		193,010
Legal Services	7,800		7,800
Training	500		500
Travel	3,760		3,760
Contract/Consultant	108,000		108,000
Office & Bldg Rent	14,951		14,951
Data Processing	1,000		1,000
Sundry	6,028		6,028
Services & Supplies	142,039		142,039
Rent to Owners	753,866		753,866
Loans & Grants	2,537,894	445,000	2,982,894
Housing Programs	3,291,760	445,000	3,736,760
Office Equipment	300		300
Equipment	300		300
TOTAL	3,627,109	445,000	4,072,109