



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: December 8, 2006

REPORT NO.: HCR06-103

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of December 15, 2006

SUBJECT: Request For Modification of Predevelopment Loan To Develop 88 Affordable
Senior Apartments (Council District 7)

REQUESTED ACTION:

Modify the repayment date of a predevelopment loan to facilitate the construction of a proposed 88-unit rental housing development for seniors.

STAFF RECOMMENDATION:

Recommend that the San Diego Housing Commission extend the term from June 30, 2006 to December 31, 2007 on the \$50,000 predevelopment loan to Housing Development Partners of San Diego for the property located at 52nd and El Cajon Boulevard. All other terms and conditions will remain in full force and effect.

BACKGROUND:

In June 2002, the Housing Commission funded a \$50,000 predevelopment loan to Housing Development Partners of San Diego (HDP) to pay a portion of the predevelopment costs associated with the project. The original predevelopment loan maturity date was June 30, 2004. Subsequent to the funding of the Housing Commission's predevelopment loan, HDP received a \$222,546 predevelopment loan from the Local Initiatives Support Corporation for the 52nd and El Cajon Boulevard site. The combined loan funds were used to obtain environmental and geotechnical reports, engineering studies, architectural and construction drawings, and permit processing fees.

On March 1, 2005, the Housing Authority approved a \$2,372,000 residual receipts loan to develop the site for an 88 unit senior housing development. The approval also included an extension of the predevelopment loan maturity due date to June 30, 2006.

On March 11, 2005, the San Diego Housing Commission purchased the site using HELP program funds that will be due in 2015.

HDP intends to apply for nine percent tax credit financing from the Tax Credit Allocation Committee during fiscal year 2007 and will seek a permanent residual receipts loan to pay off predevelopment and construction costs.



The Developer

Housing Development Partners of San Diego, is a qualified Internal Revenue Code 501(c)(3) California nonprofit public benefit corporation. It operates under a Board of Directors, which includes two members of the Board of Commissioners of the San Diego Housing Commission, the President and Chief Executive Officer of the San Diego Housing Commission, and four at-large directors appointed by the San Diego Housing Commission. HDP's administrative staff includes the legal counsel of Sullivan Wertz Mc Dade and Wallace; Housing Commission staff are made available under a Memorandum Of Understanding between the Housing Commission and HDP. HDP partners with the private sector for property management, development, and consulting expertise.

HDP currently has 479 affordable rental units of various types. It developed and owns 436 rental units including Knox Glen (54 affordable family housing units in the Lincoln Park community). In May 2002, the nonprofit acquired the Mason Hotel, a 27 unit single room occupancy hotel located at 1345 Fifth Avenue in downtown San Diego. (A cigarette started a fire in this property in December of 2004; HDP carries fire insurance for the asset and claims have been filed against HDP in connection with the fire.) HDP is also a general partner with Barone Galasso & Associates in the Island Village Apartments (a 280-unit rental-housing complex in downtown San Diego). In 2004, HDP acquired and rehabilitated Casa Colina Apartments (75 senior rental units at 5207 52nd Place) that was at risk of losing its affordability restrictions. All of these projects are partially funded by the San Diego Housing Commission; the borrower is in compliance on all outstanding loans.

If this project receives an award of nine percent tax credits, HDP will form a limited partnership that will comprise the legal ownership entity in conformance with standard tax credit requirements and practice. The tax credit partner has not yet been selected.

The Development

The proposed project will have 88 rental apartment units for seniors in a four-story building surrounding an interior courtyard. The project will include: an on-site management office and community room; on-site laundry facilities; sun and patio decks; and an underground garage. The project will have private patios and each floor will be accessible by elevator. The project will be designed to meet the special needs of seniors who can qualify for a one-bedroom or two-bedroom unit. The proposed site is part of a larger mixed-use development. The proposed senior development site is vacant and will be ground leased by the Housing Commission to HDP.

Predevelopment Loan Term Extension

The Housing Commission's \$50,000 predevelopment loan had a loan term of two years. According to the terms of the Promissory Note, all principal and accrued interest (3 %) was due and payable on the earlier of June 30, 2004 or upon funding of the permanent loan for the project, unless extended by the Housing Commission in writing. The extension of the Predevelopment loan from June 30, 2004 to June 30, 2006 was granted at the March 1, 2005 Housing Authority meeting. Housing Commission staff delayed official action on HDP's current request for extension in order to present the Board with a comprehensive development plan. The project has experienced significant delays due to a determination that the entire

mixed-use site, not just the proposed senior affordable housing, must be submitted for review and approval by the Development Services Division of the City of San Diego. It appears that the issues arising from processing as a mixed-use development are now resolved and the project is expected to proceed more expeditiously. An extension of the loan term through December 31, 2007 is recommended. At that time, \$57,242 will be due and payable. All other terms and conditions of the predevelopment loan will remain in full force and effect. The predevelopment loan is to be paid off with the project financing.

Risks and Mitigations

The San Diego Housing Commission has taken title to the property. The amount of the predevelopment loan is small in relationship to the potential benefits from the development. Because the development needs atypical development approvals and an allocation of tax credits, there is some chance that the project will not be able to proceed as envisioned. In such a scenario, the Housing Commission could hold the land or sell it. The land value would be enhanced by well-designed and constructed residential buildings.

Alternatives:

If the Housing Commission declined to support the extension of the predevelopment loan, HDP is currently not in a position to repay it. The Housing Commission could find HDP in default and have to begin again to seek a developer and work through the design/review process from scratch.

PREVIOUS ACTIONS:

On May 10, 2002, the Housing Commission approved an unsecured predevelopment loan of up to \$50,000 to Housing Development Partners for 52nd and El Cajon Boulevard.

On March 1, 2005, the Housing Authority approved the following:

- Assign the Option to Purchase the land located at 4310 Dawson Avenue from Housing Development Partners of San Diego to the San Diego Housing Commission;
- Acquire the property for a total of \$1,825,000 (including \$25,000 closing costs) utilizing non-federal bridge financing sources;
- Enter into a 65-year lease agreement with Housing Development Partners of San Diego and lease back the property from the San Diego Housing Commission contingent upon the Housing Development Partners' receipt of tax credits; and,
- Extend the predevelopment loan term from June 30, 2004 to June 30, 2006.
- Approve a residual receipts loan to Housing Development Partners of San Diego of up to \$2,372,000 in order to develop a rental housing development for very-low income seniors and to be known as 52nd Street Senior Apartments; and
- Authorize the Vice President and Chief Operating Officer of the Housing Commission, or designee, to execute all documents necessary to facilitate the financing.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The proposed development was presented at the June 5, 2006 meeting of the City Heights Area Planning Committee where it was approved on a vote of 16-1. The project had previously been before this same group on October 6, 2003 where it received unanimous approval.

ENVIRONMENTAL REVIEW:

The City of San Diego Environmental Analysis staff determined that the project is exempt from review under the California Environmental Quality Act (CEQA) pursuant to Section 15332 of the CEQA Guidelines and a Notice of Exemption was issued by the City of San Diego on December 23, 2004. A second CEQA analysis is in process.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Commissioners Salas and Yip and Chief Executive Officer of the Housing Commission, Elizabeth C. Morris, are each directors and officers of Housing Development Partners of San Diego, a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c)(3) corporation. Commissioner Salas, Commissioner Yip, and Ms. Morris do not receive compensation for their service on the Board of Directors of Housing Development Partners. See Attachment 3 for a list of all HDP board members. Pursuant to the provisions of Government Code Section 1091.5(a)(7) and (8), Commissioner Salas, Commissioner Yip, and Ms. Morris each have a “non-interest” as described in Government Code Section 1091.5. Mr. Salas and Mr. Yip are therefore legally entitled to vote and be counted for quorum purposes. This disclosure shall be and is hereby documented in the official records of the San Diego Housing Commission.

The San Diego Housing Commission, as landowner and lender, is a stakeholder. The owners of the commercial portion of the mixed-use development site are Larry G. Mabee and Phillip A. Ward.

Submitted by,

**Signature on File
With Original Document**

Approved by,

Cissy Fisher
Director of Housing Finance and Development

Carrol Vaughan
Executive Vice President
and Chief Operating Officer

- Attachments:
1. Location Map
 2. Development Timeline
 3. Housing Development Partners of San Diego

Information: Mr. Carlos C. de Baca (619) 578-7586

ATTACHMENT 2

52nd STREET SENIOR APARTMENTS ESTIMATED DEVELOPMENT TIMELINE

Housing Commission Approval	December 15, 2006
Entitlements	January 2007
CTCAC 9% Application Submittal	July 2007
CTCAC Allocation Meeting for Award	September 2007
Construction Start	December 2007
Estimated Construction Completion/Placed in Service	December 2008

* Each subsequent consideration is contingent on affirmation of the project from the prior recommending or approval body.

ATTACHMENT 3
Housing Development Partners of San Diego
List of Board Members and Staff Members

President Held by virtue of appointment as the Chief Executive Officer of the San Diego Housing Commission	Elizabeth C. Morris San Diego Housing Commission 1625 Newton Ave San Diego CA 92113-1038
Chair	John Pedroarena CB Commercial 4305 University Avenue, #600 San Diego, CA 92105
Vice President	Robert R. Henderson Wakeland Housing & Development Corp. 625 Broadway, Suite 1000 San Diego, CA 92101
Secretary Held by virtue of appointed position as a Commissioner of the San Diego Housing Commission	Sal Salas Intero Real Estate Services 910 Hale Place, Suite 101 Chula Vista CA 91910
Chief Financial Officer Held by virtue of appointed position as a Commissioner of the San Diego Housing Commission	Tony Yip Brodshatzer, Wallace, Spoon & Yip 555 West Beech Street, Suite 400 San Diego, CA 92101
Board Member	Lynda Buckner Assistant Vice President California Bank & Trust 11622 El Camino Real Ste 200 San Diego CA 92130
Board Member	Vacant Seat
Legal Counsel to the Board	Pamela Lawton Wilson, Esq. Sullivan Wertz McDade & Wallace 945 Fourth Ave San Diego, CA 92101
Authorized Representative	Wendy G. DeWitt Supervising Project Manager (619) 578-7590 (619) 578-7356 Fax
Staff	Joe Correia Financial Specialist (619) 578-7587 (619) 578-7356 Fax
Staff	Lisa Wolf Sr. Administrative Assistant (619) 578-7583 (619) 578-7356 Fax