



Good Neighbors
San Diego
Housing Commission

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REPORT

DATE ISSUED: April 29, 2005

ITEM 107

REPORT NO. HCR 05-36
For the Agenda of May 6, 2005

SUBJECT: Proposed Housing Loan for Sunburst Apartments
(Council District 2)

SUMMARY

Issue: Should the San Diego Housing Commission recommend approval of a loan of up to \$934,000 to the San Diego Lesbian, Gay, Bi-Sexual, Transgender Community Center, Inc. (d.b.a. The Center) to fund the acquisition and rehabilitation of a 24-unit apartment complex located at 1640 Broadway for use as permanent supportive housing?

Recommendation: That the San Diego Housing Commission recommend Housing Authority approval of the following actions:

- (a) Approve a 3% percent interest residual receipts loan of up to \$934,000 (that will include \$144,000 in the event that an Affordable Housing Program loan is not fully or partially secured) as outlined in this report; and,
- (b) Authorize the Chief Executive Officer of the Housing Commission, or designee, to execute all documents necessary to facilitate the financing.

Fiscal Impact: Approval of this recommendation would result in the issuance of an auditor's certificate and expenditure of up to \$934,000 in Housing Commission. The \$934,000 loan would consist of \$497,000 in San Diego Housing Trust Fund (HTF) and \$437,000 in State of California Local Housing Trust Fund Program (LHTFP) matching funds. (Note: the HTF allocation of \$497,000 would be contingent upon the approval of the \$437,000 funding by the LHTFP.)



Certificate of Funding Availability:

Certificate No: 05-109
 Amount: \$934,000
 Revenue Source: HTF and CallHTFP
 Division: Housing Finance & Development
 Line Item: Loans & Grants

Affordable Housing Impact: This project will create Twenty-three (23) units for high-risk youth who are either homeless or at extreme risk to become homeless. A resident manager will occupy one non-restricted, one-bedroom unit. The State of California financing program to be applied for requires that 30% of the units are to provide affordability to extremely low income households and the remaining 70% of the units are to be affordable to very-low income families. This requirement would result in a minimum of eight units affordable at 30% or less of the AMI (\$14,500 for a family of one) and 15 units affordable at 50% or less of the AMI (\$24,150 for a family of one). It is the developer's intention to keep all rents affordable at or below the 30% of AMI rent level. The following table describes the units by size and proposed initial rents:

Unit Type	Unit Size (sq. ft.)	No. of Units	Initial Monthly Rent	Maximum Percent of Area Median Income of Eligible Households	Monthly Utility Allowance	Monthly Housing Cost	Monthly Market Rent	Annual Rent Savings Over Market Rate
Studio/1b	400	7	\$230	30%	\$0	\$230	\$617	\$32,508
Studio/1b	400	15	\$230	50%	\$0	\$230	\$617	\$69,660
1br/1ba	500	1	\$335	30%	\$0	\$335	\$900	\$6,780
1br/1ba	500	1	MGR					
Total		24						\$108,948

Environmental Review: The proposed acquisition and rehabilitation of the Sunburst Apartments development has been determined to be categorically exempt by the City of San Diego under the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the CEQA guidelines. A copy of the Determination of Environmental Exemption is attached.

Community Planning Group Review: This acquisition and rehabilitation proposal was presented to the project review committee of the East Village Association on March 3, 2005, where it was approved by a unanimous vote to support the proposed project. The project next goes to the Centre City Advisory Committee for review, followed by the Center City Development Corporation board meeting.

Previous Related Action: On April 12, 2005, the Loan Committee recommended approval of a loan of up to \$934,000.

Future Related Action(s): Approval of this recommendation for a loan agreement will be sought from the Housing Authority.

BACKGROUND

The sponsor of the proposed development, San Diego Lesbian, Gay, Bi-Sexual, Transgender Community Center, Inc. (d.b.a. The Center) submitted a loan application for gap financing of acquisition and rehabilitation under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. The application was reviewed by staff and deemed to be complete.

DISCUSSION

THE DEVELOPER

The mission of The San Diego Lesbian, Gay, Bisexual, and Transgender Community Center is to enhance and sustain the health and well-being of the lesbian, gay, bisexual, transgender (LGBT) and HIV communities by providing activities, programs, and services that create community, empower community members, provide essential resources, advocate for civil and human rights, and embrace, promote and support cultural diversity.

Incorporated in 1973 as a community-based non-profit 501(c)(3) agency, The Center has more than thirty years of experience as a health and human services agency. In 2003, The Center provided direct services to more than 13,000 community members through its programs, events and activities.

For the past five years, the Center has provided services to 18-24 year old LGBT youth in San Diego County at the Hillcrest Youth Center (HYC). HYC is committed to providing safe space, adult leadership and educational opportunities for high-risk youth to develop into responsible, productive and fully participating citizens. It is the only drop-in facility for LGBT youth in San Diego County.

The Center's CEO, Dr. Delores Jacobs, along with the senior management team, will oversee the renovation of the Sunburst Apartments. Financial consulting and planning services are being provided by Pat Getzel & Associates. Jean Zagrodnik, a principal of Zagrodnik & Thomas Architects is providing architectural design services. Selections of a general contractor and a construction project management firm are pending.

Partnering with The Center to provide residential property management in this project is The Association for Community Housing Solutions (TACHS), a non-profit 501(c)(3) housing developer with corporate offices in the City of San Diego, and properties throughout the county. As one of a very few housing developers in San Diego County focusing solely on the development of permanent supportive housing for low-income, special-needs individuals, TACHS offers extensive experience in the residential management of this type of program.

TACHS has previously worked with the San Diego Housing Commission on the Parker-Kier Apartments and Reese Village.

THE PROPERTY

The Center's proposed project is one of the first of its kind in the nation to provide affordable housing to homeless, at-risk and HIV-positive youth. In the past three years, local community leaders, The Center and its project collaborators - YMCA Youth and Family Services, Metropolitan Community Church, Walden Family Services, and Children's Hospital – focused on the issue of homelessness among LGBT and HIV-positive youth. A needs assessment was commissioned to study the most effective means of providing appropriate housing and services to this underserved population group. The study was made up of more than 400 homeless youth. Most of the survey participants said they didn't utilize other services or had difficulty when they did, because of their sexual orientation, gender or HIV status. In order to protect themselves from discrimination from providers or violence from other youth service recipients, most said they felt the need to hide the truth about who they are.

The needs assessment found that individual living spaces would be optimal for youth 18-24. The individual apartments in this existing 24-unit apartment building offer tenants a chance to learn the skills and experience necessary for self-support and independent living. In addition, San Diego City College, San Diego High School, public transportation, and stores offering groceries and basic necessities are all within blocks of the building.

The 1926 building contains 22 efficiency units and two one-bedroom apartments and is located at 17th Street and Broadway in downtown San Diego. It will be retrofitted to provide improved access via a ramp and a wheel chair lift. These improvements, as well as two living units, will be designed and retrofitted to Americans with Disabilities Act (ADA) standards and the tenets of universal design. In the late 1990's, the previous owner made extensive improvements to the structure including upgrading the electrical, plumbing, roofing, and all finishes. The windows are dual-pane, energy efficient units. The original plaster-finished, lead-paint covered, common area and individual unit walls and ceilings have all been replaced with new gypsum wallboard and paint. The kitchen cabinets, appliances, plumbing fixtures, and asbestos-containing flooring have been replaced with highly upgraded replacements. The bathrooms were all similarly improved.

THE FUNDING REQUEST

The Center is requesting that the San Diego Housing Commission approve a \$934,000 loan. The developer is also applying for a \$144,000 loan from the Federal Loan Bank's Affordable Housing Program (AHP) through the Bank of America, as applicant. If this application is approved, the requested San Diego Housing Commission loan amount will be reduced by an equivalent value to \$790,000.

The Center has received approval for predevelopment funding of \$610,000 from the Corporation for Supportive Housing that will be used to take out The Center's own funding utilized during

the acquisition phase. The Center will contribute \$50,000 towards the development costs. The borrower is applying for financial assistance from the following sources with anticipated funding as follows:

<u>FUNDING SOURCE (By order of Lien Position)</u>	<u>AMOUNT</u>
1. Centre City Development Corporation (CCDC)	\$2,544,747
2. San Diego Housing Commission	
Housing Trust Fund Linkage	\$437,373
Redevelopment	38,328
Transient Occ. Tax	21,299
State Local Housing Trust Fund Program	<u>437,000</u>
	934,000
3. Housing Opportunities For People With Aids (HOPWA)	400,000
4. 8-year, amortizing loan from The Center to project	193,680
5. Owner Contribution	<u>50,000</u>
TOTAL FUNDING SOURCES	\$4, 122,427

The borrower is requesting approval of a 55-year, 3% interest residual receipts loan in the amount of \$934,000. The source of funds for this loan will be \$497,000 from the San Diego Housing Commission Housing Trust Fund and \$437,000 from the State's Local Housing Trust Fund Program (LHTFP). The loan will be in second position (behind the 55-year, 3% deferred interest, forgivable CCDC loan). Annual debt service payments will equal the greater of 50% of residual receipts or \$3,093, which is equal to half of the estimated residual receipts at year one. It should be noted that special purpose housing generally has minimal cash flow due to the very low rents charged and the costs associated with operating service-enriched housing.

The State of California Department of Housing and Community Development (HCD) administers the LHTFP which is funded through the State Proposition 46. Funds awarded by this program must be used for the development of affordable multi-family rental housing and must be matched dollar for dollar by the San Diego Housing Commission using HTF Linkage Fees. The LHTFP guidelines give grant recipients (San Diego Housing Commission) flexibility in structuring loans and provide that loan repayments shall accrue to the grantee's housing trust fund. However, the LHTFP stipulated that if the grantee's housing trust fund ceases operation within five years from the date of award, any promissory notes, regulatory agreements or other lien documents related to the use of the LHTFP funds shall be assigned to HCD. These funds must be awarded and/or encumbered to specific projects within thirty months of award and must be expended no later than thirty months after the date of encumbrance.

The Center now owns and operates the property, which has been appraised at \$3,100,000. The Total Development Cost is \$4,122,427, with a per-unit cost of \$171,768. The per-unit cost to the San Diego Housing Commission (including the LHTFP funds) is \$38,917. The current estimated rehabilitation cost is based on applicable state prevailing wages.

The Financial Plan

Total Development Cost (TDC): The total development cost is \$4,122,427, which includes all development costs.

Appraised Value:	The “as-is” Market Value is \$3,100,000.
Security:	The San Diego Housing Commission loan (\$934,000) will be subordinate to the CCDC loan. The loan amount will be secured by a second trust deed against the property.
First Trust Deed:	A 55-year, 3% deferred interest, \$2,544,747 forgivable loan from CCDC.
Second Trust Deed:	A second deed of trust in favor of the San Diego Housing Commission for \$934,000.
Payments on the Second Trust Deed:	Annual debt service payments will equal the greater of 50% of residual receipts or \$3,093, which is equal to half of the estimated residual receipts at year one.
Payments on Subordinate Trust Deeds:	<p>The third position HOPWA loan is a 55 year loan with the first payment to commence in year 30 ending in year 55. The actual payment value is currently being negotiated with the County of San Diego.</p> <p>The eight-year, 6.33% fourth position loan is from The Center to the project. The loan proceeds were secured through the refinancing of the developer’s office building. Repayment will be made out of project cash flow.</p>
Rent Restrictions:	A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. 30% or eight of the 24 units will be affordable to households earning 30% of area median income (AMI) or less. 70% or 15 of the units will be affordable to households earning 50% of area median income (AMI) or less.
Occupancy Restrictions:	Occupancy of 30% or eight of the units will be restricted to families earning no more than 30% of AMI. Occupancy of 15 units will be restricted to families earning no more than 50% of AMI.
Recourse:	The loan will be a recourse loan to the San Diego Lesbian, Gay, Bi-Sexual and Transgender Community Center, Inc.

Term: Fifty-five years.

Management Plan: A Management Plan has been approved.

Operating Expense: Average operating expense of \$335 per unit per month.

Pro Forma Assumptions: Income increases are projected at 2.5 percent per year; expense increases are projected at 3.5 percent per year; vacancy is projected at 5.0 percent per year.

Risks and Mitigations

This loan has risk because long term operating funds for special purpose housing are not guaranteed. However, The Center has been approved for a five-year contract (with annual renewals) for additional rent payment guarantees for 18 studio units through the Shelter Plus Care program. The proposed second position San Diego Housing Commission loan is covered approximately 70% within the current appraised value. This factor helps to reduce the risk of exposure. This potential development is also strengthened by the applicant's partnership with TACHS which has a portfolio record with similar types of projects. The proposed loan represents 23% of the project cost.

The structure is approximately 80 years old. The developer is cognizant of the building's age and has budgeted a \$300 (per unit) annual replacement reserve to assure that the structure will remain in good condition.

ALTERNATIVES

The Housing Commission could deny this request for financing. However, the project is consistent with the Housing Trust Fund's Transitional Housing/Special Purpose housing program criteria and provides an opportunity to benefit from \$437,000 in State LHTFP program funds and leverage an additional \$3,188,427 (77%) in resources for affordable housing development.

Respectfully submitted,

Approved by,

**Signature on File
With Original Document**

Cissy Fisher
Director of Housing Finance & Development

Elizabeth C. Morris
Chief Executive Officer

Attachments

1. Development Timeline
2. Development Summary
3. SDHC Application Form
4. Location Map
5. Disclosure Statement*
6. Financial Statements*
7. Appraisal Summary*
8. Determination of Environmental Exemption*

*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue.

INFORMATION: Carlos C.de Baca, 619-578-7586

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ATTACHMENT 1

**Sunburst Apartments
The LGBT Center of San Diego
ESTIMATED DEVELOPMENT TIMELINE**

Loan Committee Approval	April 12, 2005
Housing Commission Consideration*	May 6, 2005
Housing Authority/CCDC Consideration*	May 17, 2005
SDHC Loan Closing Date	June 2005
Construction Start	July 2005
Estimated Rehab Construction Completion	September 2005

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

ATTACHMENT 2
Development Summary
April 12, 2005

Name: Sunburst Apartments
Location: 1640 Broadway
Description: Housing for Homeless or Previously Homeless Youth
Sponsor(s): The Lesbian Gay Bi-sexual Transgender Center of San Diego

Unit Affordability

Total # of units: 24
Assisted units: 23
Restricted rents: 7 – Studios @ \$363; 1 – one bedroom @ 414 (30%)
15– Studios @ \$604 (50%)

Market rent: Studio @ \$617
1 Bedroom @ \$900

Percent of AMI: 8 units @ 30 percent
15 units @ 50 percent

Affordability: 55 years

Development Cost

Total development cost:	\$4,122,427	\$ 294 per square foot
HC development cost:	\$ 790,000	
Total development cost per unit:	\$ 171,768	
HC cost per unit (24 units):	\$ 32,917	
HC subsidy per bed @ 23 beds:	\$ 34,348	

Sources of Funds

Centre City Development Corp	\$2,544,747
San Diego Housing Commission	\$ 790,000
County of SD HOPWA Grant	\$ 400,000
AHP	\$ 144,000
The Center (Loan to Project)	\$ 193,680
The Center (Owner Equity)	<u>\$ 50,000</u>
Total Development Cost	\$4,122,427

Pro Forma Summary

Estimated net annual income:	\$ 49,102 (year 1)
Estimated annual expense:	\$ 42,918 (year 1): \$3.06 per square foot
Estimated residual receipts:	\$ 6,184 (year 1)