



Good Neighbors

San Diego  
Housing Commission

- ◆ 1625 Newton Avenue
- ◆ San Diego, California 92113-1038
- ◆ 619/231 9400
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# REPORT

**DATE ISSUED:** August 19, 2005

**ITEM 107**

**REPORT NO.:** HCR05-81  
For the Agenda of August 26, 2005

**SUBJECT:** Revision to the minimum annual payment requirement on the loan for Jean C. McKinney Manor. (Council District 4)

## SUMMARY

**Issue:** Should the Housing Commission approve a revision to the requirement to make a minimum annual payment on the \$927,158 residual receipts loan for construction of Jean C. McKinney Manor?

**Recommendation:** That the Housing Commission approve a revision to the residual receipts loan repayment condition to accept an annual payment equal to 50 percent of the residual receipts as payment on the Housing Commission loan as requested by the first position lender.

**Fiscal Impact:** Approval of this recommendation will not result in a further expenditure of Housing Commission funds. The approval may result in a decrease in the amount of payments to the Housing Commission because payments would only be made to the extent that residual cash flow is produced.

**Affordable Housing Impact:** Rents would not change as a result of this action. Rents are affordable at 50 percent or less of AMI (currently \$27,600 for a two-person household and \$24,150 for a one-person household). One unit is occupied by a resident manager.

**Previous Related Actions:** On May 28, 2002, the Housing Authority approved a Housing Commission recommendation to make a residual receipts loan, in the amount of \$677,158, to a partnership of St. Stephens Retirement Center, Inc. and The Related Companies of California for construction of St. Stephens Senior Apartments.



On September 23, 2003, the Housing Authority approved a Housing Commission recommendation for a \$250,000 addition to the residual receipts loan, which increased the amount from \$677,158 to \$927,158 to pay for off-site construction costs resulting from City-required right-of-way improvements to Imperial Avenue. (See Attachment 2 – Report No. HCR03-066).

On February 4, 2005, the Housing Commission approved an increase in the maximum income occupancy restriction from 50 percent of AMI to 60 percent of AMI for 47 units, which did not affect rents charged to the tenants.

## **BACKGROUND**

St. Stephens financed construction of the St. Stephens Senior Apartments with a construction loan from Wells Fargo Bank and nine percent tax credits. Construction was completed in December of 2004 and the facility, now known as Jean C. McKinney Manor, is fully occupied. The Housing Commission's second position loan has not been funded; it will be part of the permanent financing scheduled to close in September 2005.

## **DISCUSSION**

In preparation for the completion of the permanent financing for McKinney Manor, staff became aware of a conflict between the requirements of the first position lender, California Community Reinvestment Corporation (CCRC), and the previously approved Housing Commission loan structure.

To underwrite its loan, CCRC will require that the borrower retain 50 percent of residual receipts. As a consequence, St. Stephens has asked the Housing Commission to forego its minimum payment requirement (the greater of residual receipts or \$8,357 beginning in the fourth year) and accept instead 50% of the annual residual receipts. Staff supports this approach because it will strengthen the developer's ability to maintain the building and the services with rent revenues.

Approval of this recommendation would allow the conversion to permanent financing, thus increasing the likelihood that the Housing Commission would receive payment of its share of the residual receipts.

**ALTERNATIVE**

The Housing Commission could deny approval of this revision to the minimum payment requirement. This would result in additional construction loan interest costs by delaying conversion to the permanent loans and make it necessary for the developer to seek alternative senior financing.

Respectfully submitted,

**Signature on File  
With Original Document**

Approved by,

Cissy Fisher  
Director of Housing Finance and Development

Elizabeth C. Morris  
President & Chief Executive Officer

Attachments:     1. Development Summary  
                      2. Report HCR03-066\*

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue and the office of the City Clerk, 2<sup>nd</sup> floor, 202 "C" Street.

Information: Mr. Dan Cady (619) 578-7594

cady:f:\HCreportSTSTEPHENS Aug. 26 2005.doc(08/26/05)

## ATTACHMENT 1

### DEVELOPMENT SUMMARY AUGUST 26, 2005

Name: Jean C. McKinney Manor  
Location: 5641 Imperial Avenue  
Description: Rental housing for very low-income seniors  
Sponsor: St. Stephens Retirement Center, Inc.

#### Unit Affordability

Total # of units: 50  
Assisted units: 49  
Restricted rents: 5 one-bedroom @ \$353  
10 one-bedroom @ \$546  
34 one-bedroom @ \$610

Market rent: one-bedroom apartments rent for approximately \$950 per month  
Percent of AMI: occupancy restricted at 60 percent or less of Area Median Income  
Affordability: 55 years

#### Development Cost

Total development cost: \$ 7,190,112  
HC development cost: \$ 927,158  
Total development cost per unit: \$ 143,802  
HC cost per unit: \$ 18,543  
Subsidy per bedroom @ 50 br's: \$ 18,543

#### Sources of Funds

CCRC Loan \$ 1,706,954  
Housing Commission Loan \$ 927,158  
9% Tax Credits \$ 4,556,000

#### Pro Forma Summary

Estimated annual income: \$ 322,221 (year 1)  
Estimated annual expense: \$ 169,895 (year 1)  
Annual debt service: \$ 132,447  
Estimated residual receipts: \$ 9,939 (year 1)

Attachment 2



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# REPORT

**DATE ISSUED:** September 5, 2003

**ITEM 101**

**REPORT NO.:** HCR03-066  
For the Agenda of September 12, 2003

**SUBJECT:** Increase in Loan for St. Stephens Senior Apartments (Council District 4)

## SUMMARY

**Issue:** Should the Housing Commission recommend to the Housing Authority an increase in the amount of a previously approved loan, from \$677,158 to \$927,158, for construction of the 50-unit St. Stephens Senior Apartments to be located at 5625 Imperial Avenue?

**Recommendation:** That the Housing Commission recommend approval of a \$250,000 addition to the residual receipts loan, increasing the amount of the loan from \$677,158 to \$927,158, to pay for off-site construction costs resulting from City-required right-of-way improvements to Imperial Avenue.

**Fiscal Impact:** Approval of this recommendation would result in the expenditure of an additional \$250,000, up to \$927,158 in Housing Commission funds.

## Certificate of Funding Availability:

Certificate No.:	FY04-047
Amount:	\$927,158
Revenue Source:	HOME / Housing Trust Fund
Division:	Housing Finance and Development
Line Item:	Loans

**Affordable Housing Impact:** The increased loan amount would not affect affordability. Of the fifty units, forty-nine would be affordable and restricted to households with incomes at or below fifty percent of Area Median Income (\$28,700 for a two-person household or \$25,500 for a one-person household). One unit would be set aside for occupancy by the resident manager.



**Environmental Review:** The project was reviewed for compliance and meets the requirements of the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA).

**Home Program Compliance:** A loan for new construction, to develop rental housing for low-income seniors, is an eligible activity under the HOME Program. Nine of the units would be HOME-assisted and HOME-funded. HOME-funding of nine units does not trigger a requirement for the developer to pay Davis-Bacon wage rates.

**Equal Opportunity Statement:** The developer is in compliance with the Housing Commission's Equal Opportunity Programs.

**Previous Related Actions:** On May 10, 2002, the Housing Commission approved a recommendation to the Housing Authority to make a residual receipts loan, in the amount of \$677,158, to a partnership made up of St. Stephens Retirement Center, Inc. and The Related Companies of California for construction of St. Stephens Senior Apartments. The Housing Authority approved the Housing Commission recommendations on May 28, 2002. On August 19, 2003, the Loan Committee voted to recommend that the Housing Commission increase the loan amount to \$927,158.

**Future Related Action:** Because the total loan amount exceeds \$250,000, the requested increase in the loan amount requires Housing Authority approval.

## **DISCUSSION**

The developer is a partnership of St. Stephens Retirement Center, Inc. (the managing general partner) and The Related Companies of California (the administrative general partner). The developer is requesting an additional \$250,000 to pay for unanticipated off-site construction work resulting from a City requirement to fund right-of-way improvements to Imperial Avenue. Prior to the developer's application for a development permit, the residual receipts loan approved by the Housing Authority on May 28, 2002, was believed to be sufficient to finance a funding gap in the estimated cost of construction. (Other financing includes the sale of nine percent tax credits, a loan from California Community Reinvestment Corporation, and borrower equity.) The additional Housing Commission funds would be used to partially defray a \$350,000 construction cost increase for relocating an electrical vault under Imperial Avenue, relocating a streetlight and traffic signal, relocating television cable and telephone boxes, and providing a new storm drain. The Related Companies of California (Related) would contribute \$100,000 of the additional \$350,000 needed.

The Financial Plan

Total Development Cost:	The total development cost is \$6,891,272 which includes the \$350,000 for off-site construction requirements.
Cost Per Unit:	The development cost would increase to \$137,825 per unit (\$224 per square foot).
Appraised Value:	The release of Housing Commission funds would be conditioned upon receipt of a satisfactory "as-built" appraisal.
Loan Amount:	A \$927,158 Housing Commission loan would leverage \$5,964,114 from other sources.
Security:	The Housing Commission loan would be secured by a Second Trust Deed subordinate to a First Trust Deed from California Community Reinvestment Corporation.
Payment Plan:	Fifty percent of residual receipts during the first three years of operation. Beginning in year-four, payments would equal the greater of fifty percent of residual receipts or \$8,357, which is half of the estimated residual receipts at the end of year-one.

Risks and Mitigations

There is the risk of loss of funds loaned for construction should the Partnership fail to complete St. Stephens Senior Apartments. Developer assets other than real estate would not provide long-term security because loans for tax credit developments become non-recourse upon the creation of a limited partnership for tax credit syndication. Internal Revenue Service regulations make these investments undesirable if structured otherwise. However, the land would provide the Housing Commission with significant security because the developer has fee title to the parcel.

St. Stephens Senior Apartments was approved by the California Tax Credit Allocation Committee (TCAC) for a reservation of Federal Low Income Housing Tax Credits in TCAC's first funding round of 2003. The reservation of tax credit financing, coupled with the experience of the developer and the fact that the developer owns the land, makes this a relatively low-risk loan. The Housing Commission loan would be contingent upon the developer obtaining all additional financing for the development.

Summary

On May 10, 2002, the Housing Commission approved a loan of \$677,158 to St. Stephens Retirement Center, Inc. and The Related Companies of California, LLC for development of a fifty-unit rental housing complex for very low-income seniors. In June of 2002, the developer was issued a development permit by the City under the condition that right-of-way improvements to Imperial Avenue be added to the scope of the construction work. Because it was necessary for the developer to secure approval of Housing Commission financing prior to the approval of the development permit, these street improvements were not included in the original development budget. The recommended \$250,000 increase in the Housing Commission loan, to pay for the additional off-site improvements, would allow the developer to preserve a reservation of Low Income Housing Tax Credits for the development and proceed with construction of St. Stephens Senior Apartments in a timely manner.

**ALTERNATIVE**

The Housing Commission could deny approval of the increased loan amount. This could cause the developer to seek funding elsewhere, incurring a delay that could lead to the loss of the tax credit reservation.

Submitted by,

Approved by,

Jack D. Farris  
Manager  
Housing Finance & Development

Elizabeth C. Morris  
Chief Executive Officer

- Attachments:
1. Development Summary
  2. Development Timeline
  3. HC Development Form
  4. Previous Report HCR02-035\*

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue and the office of the City Clerk, 2<sup>nd</sup> floor, 202 "C" Street.

Information: Mr. Dan Cady (619) 578-7594

## ATTACHMENT 1

### DEVELOPMENT SUMMARY SEPTEMBER 12, 2003

Name: St. Stephens Senior Apartments  
Location: 5625 Imperial Avenue  
Description: Rental housing for very low-income seniors  
Sponsor: St. Stephens Retirement Center, Inc.

#### Unit Affordability

Total # of units: 50  
Assisted units: 49  
Restricted rents: 5 one-bedroom @ \$330  
10 one-bedroom @ \$509  
31 one-bedroom @ \$569  
3 one-bedroom @ \$569  
Market rent: one-bedroom units rent for approximately \$754 per month  
Percent of AMI: occupancy restricted at 50 percent or less of Area Median Income  
Affordability: 55 years

#### Development Cost

Total development cost: \$ 6,891,272  
HC development cost: \$ 927,158  
Total development cost per unit: \$ 137,825  
HC cost per unit: \$ 18,543  
Subsidy per bedroom @ 50 br's: \$ 18,543

#### Sources of Funds

CCRC Loan \$ 1,308,686  
Housing Commission Loan \$ 927,158  
9% Tax Credits \$ 4,555,428  
Developer equity \$ 100,000

#### Pro Forma Summary

Estimated annual income: \$ 300,800 (year 1)  
Estimated annual expense: \$ 168,854 (year 1)  
Annual debt service: \$ 115,232  
Estimated residual receipts: \$ 16,714 (year 1)

## **ATTACHMENT 2**

### **ST. STEPHENS SENIOR APARTMENTS DEVELOPMENT TIMELINE**

September 12, 2003	Loan to the Housing Commission for approval
September 23, 2003	Loan to the Housing Authority for approval
October 1, 2003	Closing of Construction Financing
October 21, 2003	Start of Construction
January 7, 2005	Completion of Construction
April 21, 2005	Closing of Permanent Financing