



# REPORT

**DATE ISSUED:** March 14, 2003

**ITEM 102**

**REPORT NO.:** HCR03-016  
For the Agenda of March 21, 2003

**SUBJECT:** Loan to The Association For Community Housing Solutions for Paseo Glenn Apartments (Council District 2)

**SUMMARY**

**Issue:** Should the Housing Commission approve a loan of \$591,881 to The Association For Community Housing Solutions (TACHS) for permanent financing and rehabilitation of a fourteen-unit apartment complex located at 1851 – 1865 Titus Street?

**Recommendation:** That the Housing Commission approve a three percent interest, residual receipts secured loan in the amount of \$591,881 to pay off an acquisition bridge loan and rehabilitate the existing housing units.

**Fiscal Impact:** Approval of this recommendation would result in the expenditure of \$591,881 in Housing Commission funds, including a \$10,000 Early Assistance Predevelopment Loan to TACHS which would be repaid to the Housing Commission with the proceeds of the permanent financing loan.

**Certificate of Funding Availability:**

Certificate No.:	FY03-102
Amount:	\$591,881
Revenue Source:	Various
Division:	Housing Finance and Development
Line Item:	Loans and Grants



**Affordable Housing Impact:** TACHS would operate one manager's unit, and thirteen studio units restricted at fifty percent of Area Median Income (currently \$22,350 for a one-person household) targeted to extremely low-income chronically mentally ill homeless adults. To make the units affordable to the extremely low-income target population, rents would be further subsidized with a grant to TACHS from HUD's Shelter Plus Care program to make up the difference between the rents necessary to support the development and the rents the target tenant population can afford to pay (thirty percent of gross income; typically \$220 per month or less). The following table describes the proposed initial subsidized rents for the thirteen affordable units:

Unit Type	Unit Size (sq. ft.)	No. of Units	Estimated Monthly Tenant-Paid Rent Per Unit	Estimated Monthly Shelter Plus Care Subsidy Per Unit	Estimated Monthly Market Rent	Annual Rent Savings Over Market Rate
studio	303	12	\$220	\$488	\$750	\$76,320
1br/1ba	668	1	\$220	\$589	\$975	\$9,060
<b>Total</b>						<b>\$85,380</b>

**Environmental Review:** The proposed development was reviewed by the City and found to be exempt from review under the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the CEQA guidelines, and exempt from review under the National Environmental Policy Act (NEPA) pursuant to 24 CFR 58, Section 58.34(a)(12).

**Community Planning Group Review:** TACHS presented the proposed Paseo Glenn Apartments development to Uptown Planners at that organization's meeting held on January 7, 2003. The group determined that no action was necessary to approve the item and a vote was not taken.

**Home Program Compliance:** The proposed permanent financing and rehabilitation of this development is an allowable activity under HOME Program rules. HOME rules state that refinancing an existing debt is an appropriate use of HOME funds providing that the housing units are also rehabilitated using HOME funds.

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

**Previous Related Actions:** On January 21, 2003, the Loan Committee voted to recommend Housing Commission approval of this loan and approved a \$10,000 Project Support Grant to pay a portion of the project management cost. Previously, an Early Assistance Loan of \$10,000 was approved to pay for feasibility studies and an appraisal. Project Support Grants and Early Assistance Loans are elements of the Nonprofit Capacity Building Program mandated by the Housing Trust Fund.

**Future Related Action:** The recommended \$591,881 loan exceeds the Housing Commission's approval limit of \$250,000 and would require Housing Authority approval.

## **BACKGROUND**

It is estimated that at least seventy-five percent of San Diego's homeless are single adults, with thirty percent of those residents exhibiting some form of mental disability. There are also significant numbers of mentally ill individuals who may be classified as near-homeless; those who live in shelters or transitional housing facilities. The targeted tenant population is characteristically extremely low income, with a typical income consisting solely of a monthly Social Security payment of less than \$750. A monthly housing cost affordable to this group would be a maximum of thirty percent of actual gross income, or approximately \$220.

As identified in the City of San Diego's FY2002 Consolidated Annual Plan, a goal of San Diego's Community Development Strategy includes providing permanent supportive housing that enables extremely low income residents with special needs to live independently. Many mentally ill residents are at risk of becoming chronically homeless due to a cycle of institutionalization, transition, and relapse because of a lack of decent and affordable permanent housing. By providing destinations for persons graduating from transitional housing, permanent supportive housing frees transitional housing beds and makes them available to homeless persons who would otherwise have to compete for scarce shelter beds or live on the streets.

TACHS submitted this application for funding of special purpose housing under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing.

## **DISCUSSION**

### The Borrower

Founded in 1994 with the mission of developing housing for the City's mentally ill homeless, TACHS is a local 501(c)(3) nonprofit corporation operating in San Diego. In 1998, TACHS leased the Parker-Kier Building from the Housing Commission for ten years with options to renew the lease for a total of forty-five years. The nonprofit utilizes the ninety-year old structure, located in the historic Uptown District, as permanent supportive housing for mentally disabled adults capable of independent living. In 1999, the Parker-Kier Building received a Meritorious Achievement Award from the Association of Local Housing Finance Agencies for the use of HOME funds. The development provides twenty-two units of permanent supportive rental housing for mentally ill residents with incomes at or below fifty percent of Area Median Income and eleven units for other very low income households.

The homeless mentally ill are a critically under-served resident population whose housing needs are not met within the private development sector. To help address this housing shortage, TACHS completed its first new construction project, the eighteen-unit Reese Village development, in May of 2002. Located at 4809-4819 70th Street in the College Area of East Central San Diego, Reese Village was funded in part through the HUD 811 program. The fully-leased apartment complex now provides permanent supportive housing for formerly homeless adults with mental illness. The Housing Commission made a \$670,000 revocable grant to TACHS to help pay for the improvements, which involved the demolition of two dilapidated structures, the construction of two new buildings, and substantial rehabilitation of two existing buildings.

TACHS's board president is the Reverend Glenn Allison. Reverend Allison is the Executive Director of the Ecumenical Council of San Diego County. TACH's board members are experienced in the field of special purpose housing development.

The executive director of TACHS is Ms. Kimberly Russell-Shaw. In addition to her duties as Executive Director, Ms. Shaw served as TACH's project manager for the Reese Village project. The nonprofit's staff includes professional property managers and a social services coordinator who manage the organization's rental housing facilities.

#### The Development

Located on a quiet residential street on the east side of Interstate 5 near Old Town, Paseo Glenn Apartments is a well-maintained complex of two buildings constructed in the 1950's and one building that is approximately seventy years old. Because rehabilitation would have little impact on the exterior of the complex, neighborhood character would not be affected by the proposed development. The site is located in an area of low-density multi-family and single-family housing with access to public transportation, freeways, and shopping (see Attachment 1 – Location Map).

The Paseo Glenn Apartments would provide thirteen units of rent-subsidized permanent supportive housing for chronically mentally ill adults capable of living independently. Following the model of the Parker-Kier Building and Reese Village, prospective tenants would be selected through a screening process involving TACHS and its property management personnel, mental health providers, and professional case managers.

Residents of Paseo Glenn Apartments would be enrolled in State-supported mental health programs such as those supported under California AB2034. This legislation provides grants to community-based mental health care organizations to provide services and outreach to mentally ill adults who are homeless or at risk of becoming homeless. The offices of the mental health

providers who would support the proposed development are located in the project area. No services would be provided at the site.

The total estimated development cost of this proposal is \$1,661,881. The budget includes \$12,000 for testing and removal of lead paint and asbestos-containing materials. Funds not needed for hazardous materials abatement would be used first to correct any previously undetected defects, and second to reduce the principal of the Housing Commission loan. The proposal also includes the costs of paying prevailing wages to all workers supplying labor for the rehabilitation. If, upon commitment of all funding sources, it is determined that the payment of prevailing wages is not applicable to this project, the amount of the Housing Commission loan would be reduced by up to \$19,100.

TACHS contracted with Pacific Relocation Services to develop and administer a relocation plan. Implementation of the acquisition and rehabilitation project proposed by TACHS would involve relocation of all existing residents of the complex; however, relocation needs are expected to be modest because several of the units are unoccupied.

The Shelter Plus Care Program targets homeless persons with disabilities and requires a dollar-for-dollar match of services to housing costs. Although resident use of services is not mandated, a resident council at Paseo Glenn Apartments would encourage the tenants to take advantage of easy access to comprehensive services including case management, assistance with management of personal finances, computer literacy courses, and psychiatric counseling. All services would be paid for with state AB2034 program funds. Residents would be referred to available services through Telecare Corporation, a California-based for-profit network that is the primary referral service for AB2034 program participants. To stay informed of the clinical psychiatric status of Paseo Glenn Apartment tenants, TACHS staff would meet with Telecare representatives biweekly to review resident participation in the various programs.

#### The Funding Request

TACHS closed escrow in purchase of the property on November 1, 2002. The sellers were Michael P. Rich, Richard A. and Julia S. Melfe, and Paul A. Garcia. The purchase was funded with a permanent First Trust Deed loan from California Bank & Trust (CBT) in the amount of \$600,000, a secured two-year, deferred-interest, bridge loan of \$400,000 from the Corporation For Supportive Housing (CSH), and an unsecured bridge loan of \$250,000 from the Low Income Investment Fund (LIIF). Permanent financing from the Housing Commission would be used, in part, to take out the unsecured LIIF loan. TACHS received a grant from the federal Supportive Housing Program (SHP) which would be used to take out the loan from CSH. TACHS would participate financially by deferring \$60,000 of its developer fee for five years and contributing cash equity of \$10,000. The deferred developer fee would be paid in full from the residual receipts of the development prior to payments on the Housing Commission loan.

An appraisal dated September 28, 2002, gives an "as-is" valuation of \$1,250,000, which was also the purchase price. Total development costs are estimated at \$1,661,881, including rehabilitation work and repayment of the Housing Commission Early Assistance Loan.

California Bank & Trust provided permanent acquisition financing in the form of a 25-year-amortized, 30-year fixed-rate loan of \$600,000 at 6.09 percent interest; the unsecured Low Income Investment Fund bridge loan of \$250,000 requires a monthly debt service payment of \$1,610 which is budgeted for twelve months. The proposed Housing Commission financing would take out the Low Income Investment Fund loan.

Housing Commission financing would be in the form of a three percent interest, fifty-five year residual receipts loan secured by a trust deed recorded against the property. Payments on the loan would be fifty percent of residual receipts (subject to approval by the Bank). Starting with year four, payments would equal the greater of fifty percent of residual receipts or \$3,895, which is equal to half of the estimated residual receipts at the end of year one. Principal and interest would be due and payable one year after the senior loan is paid off.

#### The Financial Plan

Total Acquisition Cost:	The total acquisition cost is \$1,250,000.
Appraised Value:	The estimated "as-is" value of \$1,250,000 is also the purchase price.
Security:	The Housing Commission loan would be secured by a second trust deed recorded against the property.
Loan-to-Value:	Loan-to-value following completion of permanent financing would be 100 percent.
Debt Service Ratio:	The debt service ratio on the acquisition first trust deed would be 1.18.
First Trust Deed:	A 25-year-amortized, 30-year loan from California Bank & Trust in the amount of \$600,000 would be in first position at a 6.09 percent interest rate.
Second Trust Deed:	A Housing Commission residual receipts loan of \$591,881 for 55 years at three percent simple interest.

Payments on the Second Trust Deed:	Payments of 50 percent of residual receipts (subject to Bank approval). Starting with year-four, payments would equal the greater of 50 percent of residual receipts or \$3,895, which is equal to half the estimated residual receipts at the end of year-one. Principal and interest would be due and payable one year after the senior loan is paid off.
Rent Restrictions:	A Declaration of Covenants, Conditions, and Restrictions, with a 55-year term of affordability recorded against the property, to restrict rents at 50 percent of Area Median Income; no resident would pay more than 30 percent of their actual gross income for rent.
Occupancy Restrictions:	Occupancy would be restricted to residents earning no more than 50 percent of Area Median Income (Currently \$22,350 for a one-person household).
Recourse:	The loan would be a recourse loan to The Association For Community Housing Solutions (TACHS).
Term:	55 years
Management Plan:	A Management Plan was approved by Housing Commission staff.
Operating Expense:	Operating expenses for the development are estimated to be \$4,701 per month.
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; operating expenses at 3.5 percent per year (HUD's Shelter Plus Care program covers income deficits); vacancy rate at 5 percent per year.
Reserves:	A capitalized operating reserve of \$5,000 and a capitalized replacement reserve of \$3,000 are included in the total development cost.

### Risks and Mitigations

The Housing Commission would be investing in a development with minimal operating income because the rents would be affordable to an extremely low income resident population. However, this risk would be mitigated by long-term financial participation from HUD in the form of a Shelter Plus Care subsidy of operating costs that would fill any deficit in operating income due to low rents. The term of the current Shelter Plus Care contract for Paseo Glenn Apartments expires on June 30, 2004; however, HUD renews this subsidy for developments that remain in compliance with program requirements.

The Housing Commission would be making a loan to a development with a total cost exceeding the market value of the property; however, the loan-to-value ratio of the completed project is conservative at one hundred percent and there would be considerable borrower equity in the form of grants. Risk to the Housing Commission is somewhat mitigated by the experience of the developer and because the loan is a recourse loan secured by the corporate assets of TACHS.

### Summary

The proposed development would provide thirteen units of special purpose housing for homeless mentally ill residents at a cost to the Housing Commission of \$45,529 per unit. The total development cost to the Housing Commission of \$591,881 leverages \$1,070,000 from other sources.

### **ALTERNATIVE**

The Housing Commission could deny approval of this loan. Without the proposed gap financing, it is unlikely that TACHS would be able to complete the project because HUD participation is conditioned by the performance of the rehabilitation work that would be paid for with loan proceeds. In addition, the Housing Commission would lose the opportunity to apply a Shelter Plus Care subsidy to thirteen rental housing units to make them affordable to homeless adults with mental illness.

Submitted by,

Approved by,

**Signature on File with Original Document**

Jack D. Farris  
Manager  
Housing Finance & Development

Elizabeth C. Morris  
Chief Executive Officer

- Attachments:
1. Location Map
  2. Development Timeline
  3. Development Summary
  4. Disclosure Statement\*
  5. Financial Statements\*
  6. HC Development Form

\*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: Dan Cady 578-7594

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ATTACHMENT 2

**PASEO GLENN APARTMENTS  
ESTIMATED DEVELOPMENT TIMELINE**

April 8, 2003	Acquisition and rehabilitation loan to the Housing Authority for approval
May 22, 2003	Interim financing closing
June 11, 2003	Start of rehabilitation
July 23, 2003	Completion of rehabilitation
August 13, 2003	HUD Closing

## ATTACHMENT 3

### Development Summary March 21, 2003

Name: Paseo Glenn Apartments  
Location: 1851-1865 Titus Street  
Description: Special Purpose Rental Housing  
Sponsor: The Association For Community Housing Solutions

#### Unit Affordability

Total # of units: 14  
Assisted units: 13  
  
Restricted rents: studios @ 50 percent of AMI (currently \$507)  
one-bedroom @ 50 percent of AMI (currently \$575)  
  
Market rent: studios @ \$750  
one-bedroom @ \$975  
  
Percent of MAI: 13 units @ 50 percent  
  
Affordability: 55 years

#### Development Cost

Total development cost:	\$1,661,881
HC development cost:	\$ 591,881
Total development cost per unit:	\$ 118,706
HC cost per unit (14 units):	\$ 42,277
HC subsidy per bedroom @ 14 br's:	\$ 42,277

#### Sources of Funds

California Bank & Trust	\$ 600,000
Supportive Housing Program	\$ 400,000
San Diego Housing Commission Loan	\$ 591,881
Developer Equity	\$ 10,000
Deferred Developer Fee	\$ 60,000

#### Pro Forma Summary

Estimated net annual income:	\$ 51,374 (year 1)
Estimated annual expense:	\$ 56,413 (year 1)
Annual debt service:	\$ 43,585 (1.18 ratio in year 1)
Estimated residual receipts:	\$ 7,789 (year 1)
Est. cumulative residual:	\$ 190,524 (year 15)