



# REPORT

**DATE ISSUED:** March 14, 2003

**ITEM 103**

**REPORT NO.:** HCR03-025  
For the Agenda of March 21, 2003

**SUBJECT:** Loan and Initial Authorization to Issue Multi-family Housing Revenue Bonds for the Acquisition and Rehabilitation of Casa Colina del Sol located at 5207 52<sup>nd</sup> Place (Council District 7)

## SUMMARY

**Issue:** Should the Housing Commission facilitate the acquisition and rehabilitation of a 75-unit rental housing development for seniors by recommending that the Housing Authority take the initial steps to issue bonds and approve a loan in the amount of \$1,600,000 to Housing Development Partners (HDP)?

**Recommendation #1:** That the Housing Commission recommend that:

- (a) the Housing Authority approve a bond inducement resolution for an amount not to exceed \$3,500,500 to finance the acquisition and rehabilitation by Housing Development Partners, and a Tax Credit Limited Partnership to be formed later, of the 75-unit Casa Colina del Sol senior housing complex located at 5207 52<sup>nd</sup> Place in San Diego;
- (b) the Housing Authority authorize the Executive Director of the Housing Authority or the Chief Operating Officer of the Housing Commission, or their designee, to execute all documents necessary to facilitate the financing; and,
- (c) the City Council hold a TEFRA (Tax Equity and Fiscal Responsibility Act) hearing and adopt a resolution approving the issuance of bonds by the Housing Authority.
- (d) the Housing Authority approve a three percent residual receipts Housing Commission loan of \$1,600,000 to Housing Development Partners for the acquisition and rehabilitation of Casa Colina del Sol for participation in the development as owner of the land, subject to a 55-year lease to Housing Development Partners.
- (e) the Housing Authority approve the Housing Commission purchase of the land from the City of San Diego.



**Recommendation #2:** That the Housing Commission select, from its previously approved list of financial advisors and bond counsels, Litten Financial Consulting as Financial Advisor and Stadling, Yocca, Carlson and Rauth as bond counsel to begin work on the project.

**Fiscal Impact:** Approval of the bond inducement resolution does not commit the Housing Authority to issue bonds. The developer is responsible for the payment of all costs under the financing for the proposed project. Approval of the loan would result in the expenditure of up to \$1,600,000 in Housing Commission funds.

**Certificate of Funding Availability:**

Certificate No.:	FY03-112
Amount:	\$1,600,000
Revenue Source:	HOME/various
Division:	Housing Finance and Development
Line Item:	Loans and Grants

**Affordable Housing Impact:** With one unit used as the manager's residence, HDP would preserve eight units of rental housing affordable to very low-income seniors with incomes at or below 50 percent of Area Median Income and 66 units affordable to low-income seniors with incomes at or below 60 percent of Area Median Income. The following table describes the proposed initial rents:

Unit Type	Unit Size (sq. ft.)	No. of Units	Monthly Rent Per Unit @ 50% AMI	Monthly Rent Per Unit @ 60% AMI	Monthly Utility Allowance Per Unit	Monthly Housing Cost Per Unit	Monthly Market Rent From Rent Survey	Annual Rent Savings Over Market Rate
1br/1ba	576	8	\$572		\$26	\$598	\$825	\$24,288
1br/1ba	576	66		\$691	\$26	\$717	\$825	\$118,992
2br/1ba	750	1(mgr)						
<b>Total</b>		75						<b>\$143,280</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:** HDP contacted the chairperson of the City Heights Planning Group regarding the proposed development. Per that discussion, it was determined that the group would not require a vote to approve acquisition and rehabilitation of Casa Colina del Sol because the use of the property would not change with implementation of these recommendations.

**Home Program Compliance:** The proposed acquisition and rehabilitation of this development is an allowable activity under HOME Program rules. (Note: In compliance with HOME requirements, no HOME funds will be used to purchase land from the City.)

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

**Previous Related Action:** This loan was presented to the Loan Committee for approval on March 18, 2003.

**Future Related Action:** As appropriate, Housing Authority and City Council approval will be sought for the recommended \$1,600,000 loan, issuance of bonds, and sale of City property.

## **BACKGROUND**

HDP submitted this application for funding under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing and intends to apply for bond financing during the second round of the California Debt Limit Allocation Committee's 2003 funding cycle.

On March 19, 1990, the Housing Commission authorized the establishment of a nonprofit housing corporation, which led to the creation of the San Diego Development Corporation. On June 3, 1998, the Housing Commission amended the Articles of Incorporation of the California public benefit corporation to change its name to Housing Development Partners of San Diego. As expressed by its Articles of Incorporation, the goals of HDP are:

- To provide low and moderate income persons, elderly persons, and disabled persons with affordable housing by acquiring or developing publicly-financed low and moderate income housing and renting that housing to these persons;
- To provide facilities and services related to housing; and,
- To take other actions, in cooperation with private persons and public agencies, to promote the creation and preservation of low and moderate-income housing.

## **DISCUSSION**

### The Borrower

Housing Development Partners (HDP) is operated by a Board of Directors consisting of two members of the Board of Commissioners of the San Diego Housing Commission, the Chief Executive Officer of the Housing Commission, and four at-large directors designated by the Housing Commission.

HDP developed and owns Knox Glen, a fifty-four unit affordable housing development for families located at 4720 Logan Avenue in the San Diego community of Lincoln Park. In 2002 HDP acquired the Mason Hotel, a 27 unit single-room-occupancy facility located at 1345 Fifth Avenue in Downtown San Diego. HDP is also a general partner, with Barone Galasso & Associates, in the Island Village development, a 280-unit rental housing complex located in the East Village.

### The Development

Located near the intersection of 52<sup>nd</sup> Street and University Avenue in City Heights, Casa Colina del Sol was developed in 1978 as seventy-four units of rent-restricted housing for low-income seniors under a HUD-insured mortgage program. The complex consists of a well-maintained three-story apartment building with a manager's office, laundry facility, tenant lounge, multi-purpose room with kitchen, arts and crafts room, and a landscaped area with bar-b-que equipment.

The complex was constructed on leased city-owned land by the developer and current owner of the improvements, Gentry & Coles, which is a California General Partnership represented by Nancy G. Boyd and Robert J. Coles. The seller's lease agreement with the City of San Diego, which expires on December 22, 2031, is for a term of fifty-five years. The seller's original twenty-year regulatory agreement with HUD expired in 1998.

HDP proposes to purchase the improvements from Gentry & Coles and also to purchase the land from the City of San Diego. In a separate transaction, title to the land would be transferred to the Housing Commission in return for a long-term (55-year) lease under the same terms as the current City lease (annual payment of 2.25 percent of gross collected rents).

### Impact on Current Residents

Current rents average approximately \$645 per month under the HUD contract, which is subject to annual voluntary participation by the owner and renewal by HUD. The proposed acquisition will replace the annual agreement with 55-year rent restrictions. The proposed rents range from approximately \$570 to \$690. HDP will analyze the impact of any potential rent increases and phase increases so as to minimize the impact to current residents while maintaining required debt service ratios.

Relocation should be minimal because there would be no change in the use of the property. However, should relocation costs be greater than budgeted, developer fee would be used to cover the excess. The current property manager, SK Management, would be retained by HDP.

### The Funding Request

The total estimated development cost of this proposal is \$7,718,407, which is approximately \$103,000 per unit. Total investment of Housing Commission funds would be approximately \$21,000 per unit. Primary financing would be in the form of an allocation of tax-exempt bonds in the amount of \$3,500,500. Additional financing would consist of tax credit equity of approximately \$2.2 million plus the Housing Commission loan of \$1,600,000, and a deferred developer fee of approximately \$400,000. Housing Commission financing in the initial transaction would be in the form of a three percent interest, 55-year residual receipts loan secured by a trust deed recorded against the property.

HDP would close escrow as owner of the land and the improvements. In a subsequent transaction, HDP would deed the land to the Housing Commission in exchange for a 55 year-lease at the current rate of 2.25 percent of gross rents (approximately \$13,000 per year).

Payments on the Housing Commission loan would be from residual receipts. Debt service during the first three years of operation (starting at stabilized occupancy) would be 50 percent of residual receipts. Starting at the beginning of the fourth year of the development, payments would equal the greater of 50 percent of residual receipts or \$26,384, 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.

### Selection of the Financing Team

Staff recommends assigning Litten Financial Consulting as financial advisor and Stradling, Yocca, Carlson & Rauth as bond counsel to work on the project. The proposed financing team members have been selected in accordance with the existing policy for the issuance of bonds. Financial advisors and bond counsels are designated on a rotating basis from the firms selected under the program through a competitive RFP process.

### The Financial Plan

Total Development Cost:	The total development cost is estimated at \$7,718,407 including the value of the leasehold and the land, rehabilitation costs, interest and other financing costs, contractor overhead and profit, and a developer fee.
Appraised Value:	The estimated "as-is" value of the leasehold is \$4,350,000; the estimated land value is \$700,000.
Security:	The Housing Commission loan would be secured by a second trust deed recorded against the property.

Loan-to-Value:	Estimated Loan-to-Value using the before-rehab value and permanent financing is 66 percent.
Debt Service Ratio:	The debt service ratio on the acquisition first trust deed would be 1.22.
First Trust Deed:	An estimated \$3,500,500 Tax Exempt Bond. The bonds will be sold with credit enhancement provided by FHA to achieve the highest possible rating (AAA is expected).
Second Trust Deed:	A Housing Commission residual receipts loan of \$1,600,000 for fifty-five years at three percent simple interest.
Equity Investment:	An estimated \$2,217,907 Tax Credit Investment.
Payments on the Second Trust Deed:	Subject to approval of other lenders, payments of 50 percent of residual receipts. Starting at the beginning of year-four, payments would equal the greater of 50 percent of residual receipts or \$26,383, 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 55 years of affordability restriction recorded against the property to restrict rents for eight units at 50 percent of Area Median Income and rents for 66 units at 60 percent of Area Median Income.
Occupancy Restrictions:	Occupancy would be restricted to residents earning no more than 50 percent of Area Median Income for eight units and 60 percent of Area Median Income for 66 units.
Recourse:	The loan would be non-recourse because of tax credit rules.
Term:	Fifty-five years
Management Plan:	A Management Plan will be submitted to Housing Commission staff for approval.

Operating Expense:	Operating expenses for the development are estimated to be \$24,540 per month (\$327 per unit).
Pro Forma Assumptions:	Income increases are projected at 2.5 percent per year; operating expenses at 3.5 percent per year; vacancy rate at 5 percent per year.
Replacement Reserves:	Replacement reserves of \$22,500 per year/ \$300 per unit are included in the expenses.

### Risks and Mitigations

Loans to tax credit developments become non-recourse upon the creation of a limited partnership for tax credit syndication because of Internal Revenue Service regulations that make the investment undesirable if structured otherwise. This would limit the Commission's ability to recover funds because the encumbrance would be only on the property and not the other assets of the developer. This risk is typically taken by the Commission for tax credit-financed developments, and is deemed mitigated by conservative underwriting assumptions.

The Housing Commission loan also would be contingent upon HDP arranging the other financing. This contingency, coupled with the development experience of HDP's project management team and the financial stability of the existing project, makes this a relatively low-risk investment.

### Summary

Following the expiration of a HUD regulatory agreement in 1998, Casa Colina del Sol became at risk of being converted to a higher rent development. The proposed Housing Commission loan would help preserve the affordability of 74 units of affordable senior housing in San Diego, at a cost to the Housing Commission of \$21,333 per unit. The total development cost to the Housing Commission of \$1,600,000 leverages \$6,18,407 from other sources. In addition, the Housing Commission would own the land so that it could be used for affordable housing purposes in perpetuity.

### Disclosure

Commissioners Salas and Yip and Chief Executive Officer of the Commission, Elizabeth C. Morris, are each directors and officers of Housing Development Partners, a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c)(3) corporation. Neither Commissioner Salas, Commissioner Yip, nor Ms. Morris receives compensation for their service on the Board of Directors of Housing Development Partners. 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 and are therefore legally entitled to vote and be counted for quorum purposes.

It is the opinion of Charles B. Christensen, General Counsel for the Commission, that none of the individuals mentioned above has a financial interest in the development that would legally preclude their participation under the provisions of Government Code Sections 1090 and/or 87100, et.seq., and/or the San Diego Housing Commission’s Conflict of Interest Code. This disclosure shall be and is hereby documented in the official records of the San Diego Housing Commission.

Further, under the provisions of Title 24 USC 92.356, none of the individuals involved has a financial interest in the project and/or loan being made and/or other actions being proposed and therefore the proposed loan to HDP, a 501©(3) no profit does not, in the opinion of General Counsel, violate any federal conflict provision.

#### **ALTERNATIVES**

Since the other lender commitments would be based on Housing Development Partners securing gap funding from the Housing Commission, a decision to not approve the loan, or loan a lesser amount, could result in the withdrawal of the proposal and the resulting loss to the Housing Commission of an opportunity for long-term preservation of 74 units of affordable rental housing and the opportunity to reserve a parcel of land for affordable housing in perpetuity.

The Board may wish to provide greater affordability than has been proposed. The additional gap financing needed to change the affordability on 10 percent of the units (seven units) from 60 percent AMI to 50 percent AMI would be approximately \$100,500.

Submitted by,

Approved by,

Cissy Fisher  
Supervising Project Manager

Carrol M. Vaughan  
Chief Operating Officer

**Signature on File with Original Document**

- Attachments:
1. Location Map
  2. Development Timeline
  3. Development Summary
  4. Disclosure Statement\*
  5. Financial Statements\*
  6. SDHC General Application 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: Cissy Fisher 619.578.7585  
F:CasaColina03

ATTACHMENT 2

**CASA COLINA DEL SOL  
ESTIMATED DEVELOPMENT TIMELINE**

April 8, 2003	Acquisition and rehabilitation loan to the Housing Authority for approval
May 14, 2003	HDP acquisition closing
June 2, 2003	Start of rehabilitation
June 17, 2003	Completion of Housing Commission Grant Agreement
March 3, 2004	Completion of rehabilitation

**ATTACHMENT 3**  
**Development Summary**  
**March 21, 2003**

Name: Casa Colina del Sol  
Location: 5207 52<sup>nd</sup> Place  
Description: Rental Housing For Seniors  
Sponsor: Housing Development Partners

**Unit Affordability**

Total # of units: 75  
Assisted units: 74

Restricted rents: one-bedrooms @ 50 percent of AMI (currently \$572)  
one-bedroom @ 60 percent of AMI (currently \$691)  
(1 two-bedroom manager's unit not restricted)

Market rent: one-bedroom @ \$825

Percent of MAI: 8 units @ 50 percent  
66 units @ 60 percent

Affordability: 55 years

**Development Cost**

Total development cost:	\$7,718,407
HC development cost:	\$1,600,000
Total development cost per unit:	\$ 102,912
HC cost per unit (75 units):	\$ 21,333
HC subsidy per bedroom @ 76 br's:	\$ 21,053

**Sources of Funds**

Tax Exempt Bonds	\$3,500,500
Housing Commission Loan	\$1,600,000
4% Low Income Housing Tax Credits	\$2,217,907
Deferred Developer Fee	\$ 400,000

**Pro Forma Summary**

Estimated net annual income:	\$ 587,748(year 1)
Estimated annual expense:	\$ 294,479 (year 1)
Annual debt service:	\$ 240,502 (1.22 ratio in year 1)
Estimated residual receipts:	\$ 52,767 (year 1)
Est. cumulative residual:	\$1,249,749(year 15)