



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: July 28, 2003

ITEM 105

REPORT NO.: HCR03-052
For the Agenda of August 15, 2003

SUBJECT: Change of Ownership Entity for Westview Apartments (Council District 3)

SUMMARY

Issue: Should the Housing Commission allow a change of the ownership for Westview Apartments?

Recommendation: That the Housing Commission approve a change of the ownership entity for Westview Apartments (3536 43rd Street) from Westview Home Apartments, LLC to City Heights Community Development Corporation (CHCDC); authorize assignment of all obligations of the Housing Commission's loan agreement with the LLC to CHCDC; and authorize the Chief Executive Officer to execute any and all documents necessary to complete the transaction, subject to the approval of General Counsel.

Fiscal Impact: None with this action. All obligations pursuant to the Housing Commission's loan agreement dated August 25, 1998 would be assumed by City Heights Community Development Corporation.

BACKGROUND

On July 6, 1998, the Housing Commission approved loans totaling \$288,448 to Westview Home Apartments, LLC (Westview) for acquisition and rehabilitation of a six-unit apartment complex at 3536 43rd Street in the community of City Heights. (See HCR98-085 attached.) The managing member of Westview, City Heights Community Development Corporation (CHCDC), created the limited liability company for the purpose of obtaining acquisition financing from the Housing Commission following purchase of the property by CHCDC.



DISCUSSION

In California, counties may forego property tax revenue for properties providing affordable housing. The underlying premise for this exemption is that the provision of rent-restricted housing is an activity that relieves local government of some of the cost burden of creating and preserving affordable units. Section 214(g) of the California Revenue and Taxation Code provides that property owned by nonprofit organizations supplying housing to low-income households may qualify for a welfare exemption from property taxes when the incomes of those households do not exceed State standards as outlined in Section 50053 of the California Health and Safety Code.

In Fiscal Year 2003 – 2004, the maximum allowable household income for a family of four residing in a housing unit owned by an organization qualifying for the exemption would be \$51,050. In San Diego, this would equate to approximately 85 percent of Area Median Income. Participating nonprofits must apply for exemptions in advance; the amount of exemption is directly proportionate to the number of qualifying households in residence. The six units at Westview Apartments are affordable at 40 to 44 percent of area median income (\$23,716 for a family of three).

Because of the current LLC structure, the development does not qualify for a property tax welfare exemption. To obtain tax-exempt status, CHCDC requested Housing Commission approval to transfer ownership to CHCDC as sole owner.

The requested change of ownership entity would have no effect on the financial structure of the development or the operation of the apartment complex. Project income would benefit from the reduction in operating expense of approximately \$1,910 per tax year. CHCDC would continue as the operating manager of Westview Apartments; it is currently in compliance with the terms of its loan agreement with the Housing Commission.

ALTERNATIVE

The Housing Commission could deny approval of the change of ownership entity. Without the requested change, Westview Home Apartments, LLC would continue to pay property taxes on the subject development.

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. Previous Housing Commission Report HCR98-085
Information: Dan Cady 578-7594