



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.

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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.

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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,

Signature on File with Original Document

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, 2nd floor, 202 "C" Street.

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

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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