



# REPORT

ITEM 105

DATE: For the Housing Commission Agenda of November 17, 2000

REPORT NO.: HCR00 -109

SUBJECT: Loan to Bayview Community Development Corporation for the Acquisition and Rehabilitation of 1440-1516 South 40<sup>th</sup> Street (Council District 4)

**Issue:** Should the Housing Commission recommend Housing Authority approval of a loan of up to \$696,000 to Bayview CDC for the acquisition and rehabilitation of a 16-unit property located at 1440-1516 South 40th Street?

**Recommendation:** That the Housing Commission recommend Housing Authority approval of a 3 percent residual receipts loan secured by a second trust deed in the maximum amount of \$696,000 for this project.

**Fiscal Impact:** Approval of the Recommendation would result in the expenditure of up to \$600,000 in HOME Program Funds and \$96,000 in Housing Trust Funds.

**Certificate of Funding Availability:**

Certificate No.:	01-099
Amount:	\$696,000
Revenue Sources:	HOME @ \$600,000 HTF @ \$96,000
Division:	Housing Finance
Line Item:	Loans (\$696,000)

**Affordable Housing Impact:** Approval of the recommendation will preserve a housing project that has been identified in the highest risk group of the "At-Risk Housing Projects" listed in the City of San Diego FY99-FY04 Housing Element. So long as the Section 8 Housing Assistance Payments Contract ("HAP Contract") remains in effect, no family will pay more than 30% of its income. Rents will be capped as follows: 1 one-bedroom unit affordable to a family at 43 percent of area median income, 14 two-bedroom units affordable to families with incomes at 49 percent of area median income (one unit will be a manager's unit), and 1 three-bedroom unit affordable at 53 percent. The units will be affordable for a 55-year period.



**Home Program Compliance:** An acquisition and rehabilitation loan to a nonprofit corporation is an eligible activity under HOME rules. Bayview CDC's proposed rents are below HOME guidelines. Of the 16 units, 11 would be HOME funded and subject to HOME rent restrictions. Housing Commission rent restrictions would apply to four of the remaining five units. The fifth unit would be the manager's unrestricted unit.

**Environmental Review:** The City's Environmental Analysis Section has determined that the proposed project is exempt from review pursuant to Section 15061(b)(3) of the California Environmental Quality Act (CEQA) Guidelines, and Categorically Excluded under the National Environmental Policy Act (NEPA) pursuant to 24CFR58, Section 58.35(a).

The proposed project has been found to contain surfaces with lead-based paint. Costs for abatement and disposal are included within the total development costs.

**Community Planning Group Review:** The Southeast San Diego Development Committee (SSDC) approved the project by a vote of 6-0 with three abstentions at the November 13, 2000 meeting.

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

**Previous Related Action:** On October 31, 2000, the Loan Committee approved these recommendations and a \$10,000 Housing Trust Fund Project Support Grant for this proposed development.

**Future Related Action:** The recommended funding exceeds the Housing Commission's approval limit (\$250,000) and will require Housing Authority approval.

## **BACKGROUND**

Bayview CDC has been certified as a Community Housing Development Organization (CHDO). Bayview CDC submitted this application for funding under the Housing Commission's current Notice of Funding Availability For The Construction, Acquisition And Operation of Affordable Rental Housing.

## **DISCUSSION**

### The Borrower

Bayview CDC is a nonprofit corporation that has operated in San Diego since 1995. The agency has one six-unit and one fifteen-unit rental housing property, which were separately acquired with Housing Commission assistance. Bayview CDC is in compliance with the terms of its Housing Commission loans. South 40<sup>th</sup> Street will be Bayview CDC's third multi-family housing development project. The agency has also acquired and rehabilitated 28 single-family homes which have been sold to families earning 50 percent to 80 percent of area median income through its Project RENEW: (Rebuilding Neighborhoods That Work).

Bayview CDC has a social service component that runs Resident Opportunities Councils at both of its rental housing sites, a Homeownership Training program, the Innovative Internships employment program, and Women in Non-traditional Trades program. The agency has also spearheaded neighborhood clean-up campaigns. The primary focus area for current programs operated by Bayview CDC is within Council District 4. Bayview CDC is in compliance with the Commission's minimum organization standards for non-profit loan applicants. Its credit report is satisfactory.

Bayview CDC's development team for this acquisition will include Chief Executive Officer, Isabel St. Germain, and staff member Earl Martin, Housing Development Director, who will oversee the acquisition and rehabilitation. Neighborhood CDC Construction Corporation (NCDCC) will perform rehabilitation. The shareholders of NCDCC Construction are Bayview CDC (40 percent), San Diego Community Housing Corporation (40 percent), and Mark Kearns (an individual – 20 percent). Housing Commission legal counsel has previously reviewed the structure and composition of Neighborhood CDC. It was counsel's opinion that that there was no conflict of interest based on a contract that would be equivalent to the current proposed contractual relationship. Hallmark Asset Management would perform property management services.

### Preservation of an At-Risk Assisted Housing Project

The previous property owner had entered into a Section 8 Housing Assistance Payments Moderate Rehabilitation Program Contract with HUD via the Housing Commission. Under the terms of the 1984 contract, the owner agreed to complete the rehabilitation of the property in accordance with an agreed-upon scope of work. The owner financed and performed the work. When the rehabilitation was completed, the owner and the Commission entered into a HAP Contract under which the owner agreed to rent to eligible lower income families whose rent payments would be subsidized by the Section 8 program.

This particular project is now at point where the owner has the option of terminating its participation in this rental assistance contract. If the owner elects to exercise this option, the subsidy to the project and accompanying use restrictions are terminated. Units may be converted to market-rate units; this would reduce the local affordable housing inventory.

For this reason this project is listed in Group 1 of the City of San Diego Housing Element's List of At-Risk Assisted Housing Projects. The preservation objective is 10 percent of all units in Group 1. One of the plans to achieve this objective (as identified in the Housing Element) is for the City to provide assistance to non-profit entities that want to purchase and manage these developments as affordable housing. Bayview CDC is listed as one of the nonprofit corporations that have the organizational capacity to acquire and manage such a housing development.

If Bayview CDC acquires this property, it will maintain the existing rental contract, with the rent schedule intact. Residents will continue paying 30 percent or less of their income for their portion of the rent. The HAP Contract requirements will take precedence and remain in effect for the units.

#### The Property

The property includes 1 one-bedroom unit, 14 two-bedroom units, and 1 three-bedroom unit in eight duplex single-story buildings at 1440-1516 South 40<sup>th</sup> Street in Mountainview. There is a separate building with laundry facilities; there are 21 open parking spaces. The structures are 56 years old. They have good access to public transportation, freeways, and shopping. Cesar Chavez Elementary School is next-door to the subject property.

The acquisition price is \$600,000. The "as-is" value is \$600,000 and the "after rehab" value is \$960,000.

The scope of work includes interior repairs, exterior upgrades, lead-based paint abatement and roofs. Interior improvements will include window and door replacements, floor and wall finishes, electrical improvements, plumbing repairs and kitchen upgrades. The exterior upgrades will consist of additional landscape improvements, retaining walls, restucco of buildings and parking lot resurfacing. Per the recommendations of the Southeast San Diego Development Committee (SSDC), there will be irrigated landscaping around the perimeter of the buildings and fencing to comply with the Southeast San Diego Planned District Ordinance. The rehabilitation estimate is approximately \$327,020.

The operating budget includes funds to pay for repairs and replacements anticipated within the next five, ten, and fifteen years.

Review by staff indicates that all families in residence are qualified under the current affordability restrictions of the existing Housing Assistance Plan contract with the Housing Commission. No relocation costs are anticipated.

While restricted rents are not significantly discounted from current market rents, the proposal would provide marked improvements in the physical quality and would preserve the Section 8 subsidy which allows deep discounts in the rents actually charged to eligible families.

The SSDC Project Committee reviewed the project on October 23, 2000. It will be presented to the SSDC Community Planning group on November 13, 2000.

The seller of the property is Southside Properties. Its limited partners are David Ellman and Joji Kubo.

### The Funding Request

Total loans against the property would be \$1,116,000, resulting in a loan-to-completion value for the Commission loan of 116 percent. The first position loan for \$420,000 received preliminary approval.

### The Financial Plan

Total Development Cost	The total development cost is \$1,116,000, which includes the purchase price and other development costs.
Appraised Value:	"As-is" value is estimated to be \$600,000 which is equal to the acquisition price. After rehabilitation value is estimated to be \$960,000.
Security:	The loan will be secured by a second trust deed against the property.
Loan-to-Value:	The after-rehab loan to value is 116 percent.
Debt Service Ratio:	The debt service ratio on the first trust deed in the first year is 1.11.
First Trust Deed:	California Bank & Trust will provide a first trust deed of at least \$420,000 with a term of 25 years and a 10.00 percent interest rate.

Second Trust Deed: Housing Commission funds; 3 percent simple interest.

Payments on the Second Trust Deed: From residual receipts: Bayview CDC to receive 50 percent of residual receipts and the Housing Commission to receive 50 percent of residual receipts.

Rent Restrictions: A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. One one-bedroom unit, 14 two-bedroom units, and 1 three-bedroom unit will be restricted to rental rates based on the HAP contract rents. In the event that the HAP contract is terminated, rents would be restricted to 50 percent of AMI (with the exception of the manager's unit.)

Occupancy Restrictions: The HAP contract requirements will restrict occupancy of all sixteen units to qualifying families earning no more than 60 percent of AMI. One unit will be designated for an on-site manager. The manager's unit would be restricted to no more than 80 percent of AMI if a future manager is not HAP eligible or the HAP contract is terminated. In the event that the HAP contract is terminated, the remaining occupancy would be restricted to families earning no more than 50 percent AMI.

Recourse: The loan will be a recourse loan to Bayview CDC.

Term: Fifty-five years.

Management Plan: A Management Plan has been approved.

Operating Expense: Operating expense of \$269 per unit per month includes a replacement reserve.



8. Appraisal Summary\*
9. Rehabilitation Cost Estimate\*

\* Distribution of the attachment is limited. A copy is available for review at the Housing Commission office.

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