

HOUSING AUTHORITY REPORT

DATE ISSUED: October 23, 2007 REPORT NO: HAR 07-021
ATTENTION: Chair and Members of the Housing Authority
For the Agenda of October 30, 2007
SUBJECT: Mayberry Apartments, 4328-4390 Mayberry Street (Council District 4)

REQUESTED ACTION:

Approve the following revisions to the terms of a previously approved loan as identified in the staff recommendation below and discussed in this report. All other previously approved loan terms and conditions are to remain unchanged.

STAFF RECOMMENDATION:

Subject to the conditions described below:

1. Recommend Housing Authority approval of a revision to the current loan terms to allow for a loan re-finance by Southeastern Economic Development Corporation (SEDC); and,
2. Recommend a pro-rata sharing of residual receipts payments for a second SEDC loan; and,
3. Authorize the President and Chief Executive Officer, or designee, to execute any and all documents necessary for these individual and separate transactions.

BACKGROUND:

Mayberry Apartments, previously called Southwest Summit Crest Apartments, originally received Housing Authority approval of a \$670,000 San Diego Housing Commission residual receipts loan and the issuance of up to \$3,400,000 in housing revenue bonds in January 1999 (HAR99-002) for the 70-unit Mayberry Apartments. The Metropolitan Area Advisory Committee Project, also known as the MAAC Project, (MAAC) requested and was approved for a change of ownership from the original owner, Southwest Summit Crest, L.P., and an assumption and repositioning of the Housing Commission loan at the September 23, 2003 Housing Commission meeting (HCR03-087). MAAC agreed to increase the number of affordable units from 28 to 69 of the 70 units and recommence the 55-year period of affordability from that point in time. The project was acquired and rehabilitated with the approved bond and loan proceeds identified below. The MAAC Project is now requesting additional financing from SEDC to do additional rehabilitation and other improvements (See Attachment 1, SEDC Report No.07-14).

To accomplish this, MAAC is requesting Housing Commission approval to take out the third position Low Income Investment Fund (LIIF) loan and replace it with an SEDC loan. The SEDC loan would have better payment terms and would have the same third position priority as the LIIF loan it replaced. SEDC's second loan would be a new residual receipts loan behind the Housing Commission's fourth position loan, in fifth position. SEDC is further requesting a pro-rata share of residual receipts with the Housing Commission. Residual receipts are split 50/50 with MAAC and the public lenders if new loans are authorized.

The present and proposed sources are shown below:

Present Financing with MAAC	Original Sources	Proposed	Proposed/Or Original
1. Tax Exempt Bonds/ARCS	\$3,400,000	1. Tax Exempt Bonds/ARCS	\$3,400,000
2. ARCS Secondary Loan	1,900,000	2. ARCS Secondary Loan	1,900,000
3. Low Income Investment Fund	\$743,000	3. SEDC 3% Loan	799,957
4. SD Housing Commission	670,000	4. SD Housing Commission	670,000
Wells Fargo Loan (Unsecured)	500,000	5. SEDC Residual Receipts Loan	799,370
		Wells Fargo Loan (Unsecured)	500,000
Developer Equity Contribution	590,000	Developer Equity Contribution	590,000
Total Investment	\$7,803,000		\$8,659,327

The new third position SEDC 3% interest loan replaces a LIIF 7% interest loan. Due to this change, debt service on this loan is reduced to \$28,000 annually, an annual savings of \$59,316 over the present LIIF loan. The new loan is slightly higher because it includes closing costs. The second SEDC loan is a new \$799,370 residual receipts loan with a 55-year term that would finance the additional rehabilitation. SEDC proposes a pro-rata residual receipts split with the Housing Commission with the addition of this loan, which is in fifth priority position, behind the Housing Commission's fourth position loan.

Distribution would be based on the aggregated level of funding provided by the two agencies. The total residual receipts funding based on loans of \$1,469,000 (SEDC's \$799,370 and the Housing Commission's \$670,000) results in a 54% share of residual receipts to SEDC and a 46% share to the Housing Commission of the 50% residual receipts split with MAAC.

There are currently 14 unoccupied units that need repairs and rehabilitation. Wells Fargo Bank has agreed to a one-year temporary debt forbearance on its unsecured note in order to allow MAAC an opportunity to complete the rehabilitation and to put all units back into service and improve cash flow.

SEDC approved the loan unanimously on May 30, 2007, by a vote of 11-0-0. The Redevelopment Agency of the City San Diego will consider this matter in a joint meeting with the Housing Authority. If the action is approved and the new loans put in place, the project's cash flow will improve as well as the Housing Commission's residual receipts payment. The MAAC Project pro forma submitted in 2003 (Attachment 2) did not identify a residual receipt payment to the Housing Commission until 2008 (Year 5) in the amount of \$14,000. The proposed SEDC financial pro forma (Attachment 3) prepared by Keyser Marston Associates (KMA) reflects a potential positive annual cash flow of \$98,000 or a 50% residual value of \$49,000 in 2008 (Year One). According to the calculated pro-rata split of 46% to the Housing Commission and 54% to SEDC, the Housing Commission's share would be \$22,540.

The additional SEDC financing will be utilized to improve the property's plumbing systems, to repair and improve certain site conditions, to replace various interior and exterior finishes and fixtures and rehabilitation of units as needed. All of these improvements will enhance the value of the asset.

FISCAL CONSIDERATIONS:

This will have no impact on the amount of funds previously approved and disbursed by the Housing Commission. The new third position SEDC loan that is ahead of the Housing Commission's loan is slightly larger (\$17,000) to cover closing costs. The re-financing results in a slightly better residual receipts projection. The attached Keyser Marston Working Draft (Attachment 3) reflects a positive residual receipts payment of \$22,540 to the Housing Commission based on the improved cash flow at Year One as opposed to the previously projected first payment of residual receipts of \$14,000 in 2008.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The Housing Commission approved an acquisition/rehabilitation loan of \$670,000 and the issuance of up to \$4.2 million in bond financing for this project at its meeting of January 22, 1999 (HCR99-001 and HCR99-002). The Housing Commission approved a change of ownership, the assumption and repositioning of its loan to the MAAC Project at its September 12, 2003 meeting (HCR03-061). The Housing Commission recommended Housing Authority approval of a revision to the current loan terms to allow for a loan re-finance and a pro-rata sharing of residual receipts payments for a second SEDC loan at the June 15, 2007 Housing Commission Meeting (HCR07-46). At that time the SEDC loan amounts were known to be \$766,000 for the third position loan and \$799,000 for the fifth position rehabilitation loan. Those values have increased on the third position loan to \$799,957 due to loan closing costs and anticipated accrued additional interest on the current lender's note and an additional \$370 on the rehabilitation loan.

ENVIRONMENTAL REVIEW

This project is a rehabilitation only project to be funded by SEDC. The following is from the previously approved October 2003 Housing Commission Report (HCR03-061) which stated that the project was previously reviewed by the City's Environmental Analysis Section (LDR No. 99-0540), under which the Housing Commission's financial participation was determined to be exempt from environmental review. The City has determined that the proposed restructuring of the financing is also exempt from environmental review.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Very low income and low income families are the current residents. There will be no change in their occupancy status or unit location. SEDC proposes to provide \$1,565,000 from FY07/08 Southcrest Tax Allocation Bond proceeds to fund the proposed loans to the MAAC Project.

Respectfully submitted,

Approved by,

Cissy Fisher
Director of Housing Finance & Development

Elizabeth C. Morris
President & Chief Executive Officer

ATTACHMENT: 1. SEDC Report No.07-14, issued May 23, 2007
 2. SDHC Development Form – Pro Forma - PF, September 30, 2003
 3. Keyser Marston Working Draft, Mayberry Townhomes