



REPORT

DATE ISSUED: February 14, 2006 REPORT NO.: HAR06-002

ATTENTION: The Housing Authority of the City of San Diego

SUBJECT: Loan to San Diego Youth and Community Services for Transitional Housing (Council District 3)

REFERENCE: Acquisition and Rehabilitation of Affordable Rental Housing

REQUESTED ACTION:

Approve a loan to San Diego Youth and Community Services (SDYCS) for acquisition and rehabilitation of an eight-unit apartment complex as transitional rental housing for homeless young adults.

STAFF RECOMMENDATION:

Approve a \$413,000 residual receipts loan, with unpaid principal and accrued interest forgivable at the end of 55 years, to fund acquisition and rehabilitation of 4760 35th Street and authorize the President and Chief Executive Officer (CEO) to execute any and all documents necessary to make the loan.

DISCUSSION:

SDYCS is a California 501(c)(3) nonprofit corporation and certified Community Housing Development Organization (CHDO) established in 1970 with the mission of providing supportive services, affordable housing, and community development to benefit low-income youth and families in San Diego. The organization's primary focus is emergency shelter and transitional housing for homeless young adults and young adults at risk of homelessness. SDYCS operates its programs at 12 sites in San Diego; it currently owns and operates 36 units of housing for young single mothers and other young adults at risk of homelessness. The organization would be the sole owner and the operator of the proposed development; property management would be provided by SDYCS's on-staff management professionals.

SDYCS submitted an application for funding under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. The proposed acquisition and rehabilitation of the eight unit complex would provide seven units of transitional housing for young mothers, young adults aging out of the foster care system, and other young adults at risk of homelessness (one unit would be occupied by a resident manager). While residing at the site, the tenants would have access to SDYCS's



off-site programs to help them obtain education, employment, health care, child care, personal finance instruction, and other services to help them maintain their independence.

The Development

The property is in Normal Heights at 4760 35th Street. This is an older neighborhood consisting of single family residences and low-density multi-family housing located six blocks west of Interstate 15 (see Attachment 1 – Location Map). The complex is approximately one block north and within walking distance of the bus stops and the retail and service establishments of the Adams Avenue business corridor. The property lies within the Adams Avenue Business Improvement District, which would require SDYCS to pay an assessed Business Improvement District fee as a expense of operation.

The two-story structure, built in 1963, consists of two one-bedroom apartments, six two-bedroom apartments, and a laundry facility. The building is structurally sound; however, it will benefit from the planned interior and exterior renovation which will include energy conservation measures, updating of major systems, and correction of safety issues.

Implementation of the proposed project requires permanent relocation of seven households. SDYCS budgeted \$18,571 per family for relocation based on information provided in the relocation consultant's Preliminary Relocation Plan, including moving costs. Under the California Code of Regulations and the Federal Uniform Relocation Assistance Act, SDYCS would pay relocation benefits to eligible residents prior to vacating the property for rehabilitation of the existing improvements. A survey of available rental units included in the Preliminary Relocation Plan indicates that the displaced households would not have difficulty obtaining replacement housing near the project area.

Each tenant would pay a maximum of 30 percent of their adjusted gross income for rent and utilities. The two bedroom apartments would generally house two tenants who would each be responsible to pay half of the approved housing cost for their unit. The San Diego County Health and Human Services department provides two-year tenant-based rent subsidies for qualified emancipated youth that can be applied to these units. The vouchers pay the difference between what the tenant can afford to pay and the total housing cost of their unit or share of their unit. It is expected that residents participating in the program would have sufficient stability and income at the end of two years to transition into permanent housing at another location.

The County's rent subsidy program has been in effect for five years. The vouchers are undersubscribed because most landlords of suitable units are unwilling to participate. There are currently 57 utilized vouchers out of 80 made available to date. If the County program expires or otherwise becomes unavailable, SDYCS would use other resources to subsidize the rents for this development.

Financing

The Housing Commission loan would leverage a \$1,116,887 revocable grant from the Redevelopment Agency of the City of San Diego. The grant would be from funds reserved for the homeless assistance component of the Naval Training Center (NTC) reuse plan, which was formed in 1996 following the closing of NTC. To make the most efficient use of the \$7.5 million NTC fund reservation, the reuse plan was revised in 1997 to require the use of those funds for development of transitional housing outside the NTC site.

It is important to note that the deep affordability of this development would result in residual cash flow insufficient to pay for both tenant services and payoff of the Housing Commission loan. Because the first position Redevelopment Agency use restriction is in perpetuity, there is the risk that SDYCS would be unable to sell or refinance the property to retire the Housing Commission debt at the end 55 years and would default on the loan. For this reason, it is recommended that unpaid principal and accrued interest of the Housing Commission loan be forgiven at the end of the 55-year term. In the past, this concession has been made by the Housing Commission when a Redevelopment Agency grant is recorded in first position on a transitional housing project.

Because the Housing Commission loan would be subordinate to the Redevelopment Agency's grant, in the event of a monetary default by the borrower any proceeds from disposition of the property would be paid first to the Redevelopment Agency. The Housing Commission would be reimbursed only to the extent of equity remaining after the senior encumbrance is repaid. The Housing Commission will seek to mitigate this risk by obtaining cure rights to step in and assume responsibility for the borrower's obligation to the Redevelopment Agency and locate a successor nonprofit to acquire and operate the project in the event of a default.

A requirement for full repayment of the Housing Commission debt would likely result in borrower default at the end of the 55-year term if there is unpaid principal and interest is due in a balloon payment. The Housing Commission could approve the loan as a forgivable loan, or deny approval of the loan. Because the amount of the Redevelopment Agency commitment is insufficient to cover the costs of this development, a decision to not approve the loan would result in the withdrawal of a proposal to provide eight units of transitional housing for a population of young adults in critical need of assistance.

A release of Housing Commission funds for this project would be conditional upon SDYCS receiving the Redevelopment Agency grant.

AFFORDABLE HOUSING IMPACT:

All units of the development would be affordable with the exception of the resident manager's unit. The Housing Commission would restrict rents and occupancy of two one-bedroom units and five two-bedroom units to households with incomes of 50 percent or less of Area Median Income (AMI), which is currently \$24,150. The developer would deepen the affordability by charging rents affordable to residents earning 46 percent of AMI. Eligible tenants could acquire

vouchers for two-year rent subsidies from the County of San Diego Health and Human Services Agency to make up the difference between the restricted rents and the rents they can afford to pay (thirty percent of adjusted gross household income for rent and utilities; typically \$250 per month or less). Housing Commission Covenants, Conditions, and Restrictions would be recorded against the property with a 55-year term requiring use of seven units as housing for homeless young adults or young adults at risk of homelessness.

The following table shows a breakdown of the proposed initial subsidized rents for the seven restricted units.

| Unit Type | No. Of Units | Unit Size (sq. ft) | Restricted Rent Less Utilities | Monthly Utility Allowance | Estimated Monthly Tenant-Paid Rent And Utilities | Estimated Monthly Rent Subsidy Per Unit | Total Rent And Utilities | Monthly Market Rent | Percent of AMI of Eligible Tenants | Annual Rent Savings Over Market Rate |
|--------------|--------------|--------------------|--------------------------------|---------------------------|--|---|--------------------------|---------------------|------------------------------------|--------------------------------------|
| 1br/1ba | 1 | 389 | \$606 | \$28 | \$250 | \$384 | \$634 | \$ 850 | 50% | \$ 2,928 |
| 1br/1ba | 1 | 437 | \$606 | \$28 | \$250 | \$384 | \$634 | \$ 850 | 50% | \$ 2,928 |
| 2br/1ba | 4 | 657 | \$678 | \$35 | \$250 | \$463 | \$713 | \$1,050 | 50% | \$17,856 |
| 2br/1ba | 1 | 697 | \$678 | \$35 | \$250 | \$463 | \$713 | \$1,050 | 50% | \$ 4,464 |
| Mgr. | 1 | 657 | | | | | | | | |
| Total | 8 | | | | | | | | | \$28,176 |

FISCAL CONSIDERATIONS:

The total development cost for eight units is estimated at \$1,529,887 (\$191,236 per unit). A Housing Commission loan for this project would be a maximum of \$413,000 (\$51,625 per unit). Financing would consist of the proposed 55-year residual receipts loan from the Housing Commission and a revocable grant of \$1,116,887 from the Redevelopment Agency.

Approval of this recommendation would result in the expenditure of up to \$413,000 in Housing Commission funds. The source of the funding would be federal HOME Program CHDO (Community Housing Development Organization) funds and San Diego Housing Trust Fund funds. SDYCS would repay the loan from residual receipts of the project. If residual cash flow is not sufficient to retire the debt, accrued principal and interest would be forgiven at the end of the 55-year loan term.

The Housing Commission loan would be subordinate to the Redevelopment Agency grant. The Redevelopment Agency grant agreement would require use of the 35th Street property as housing for the homeless in perpetuity. Any sale or change in the use of the complex would constitute a default of the grant agreement requiring repayment of the Redevelopment Agency, including interest and penalties.

SDYCS would use its 50 percent share of the residual receipts to pay for tenant services and other costs of operation (the residual receipts split is estimated to be \$10,856 to SDYCS and \$10,856 to the Housing Commission at the end of the first year). Full repayment of the proposed

loan by the end of its 55-year term would require average minimum annual payments of \$15,425 to the Housing Commission. Because this would be a small development with low rents, project income is unlikely to result in residual receipts payments in excess of the estimate. Because Redevelopment Agency use restrictions would make sale or refinancing of the property to pay off the Housing Commission debt undesirable, the borrower could chose to surrender the property to the Housing Commission in lieu of using cash to satisfy the balloon payment. To maintain the development for its intended use, it is recommended that unpaid principal and accrued interest of the Housing Commission loan be forgiven at the end of the 55-year loan term.

Because the Housing Commission loan would be subordinate to the Redevelopment Agency's grant, in the event of a monetary default by the borrower any proceeds from disposition of the property would be paid first to the Redevelopment Agency. The Housing Commission would be reimbursed only to the extent of equity remaining after the senior encumbrance is repaid. The Housing Commission will seek to obtain the cure rights to step in and assume responsibility for the borrower's obligation to the Redevelopment Agency and locate a successor nonprofit to acquire and operate the project in the event of a monetary default.

PREVIOUS ACTIONS:

This recommendation was approved by the Housing Commission on February 10, 2006.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The proposed development was presented to the Normal Heights Community Planning Committee for review and comments on July 5, 2005. The project was favorably received; no vote was taken because a planning group vote to approve the project is not required.

ENVIRONMENTAL IMPACT:

The proposed development was reviewed by the City and found to be exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15301 of Article 19 of CEQA Guidelines, and exempt from review under the National Environmental Policy Act (NEPA) pursuant to 24 CFR 58, Section 58.34(a)(12).

KEY STAKEHOLDERS & PROJECTED IMPACTS:

In its Housing Needs Assessment of the rental housing market, the City's Consolidated Plan identifies transitional housing and housing for persons at risk of homelessness as a high priority. In San Diego, high building costs and the inability of transitional housing residents to pay significant rents constrain affordable housing providers from developing transitional housing. Gap financing provided by this proposed loan of \$413,000 would allow the developer to reduce a shortage of transitional housing for young persons who are at risk of becoming homeless by leveraging a \$1,116,887 grant of local redevelopment funds that are earmarked specifically to provide housing for homeless residents. Improvements to the appearance of the property would have a positive impact on the neighborhood.

Housing Finance and Development

President and Chief Executive Officer

- Attachments:
1. Location Map
 2. Terms and Conditions
 3. Development Timeline
 4. Disclosure Statement *
 5. Financial Statements *
 6. 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, 2nd floor, 202 "C" Street.

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

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ATTACHMENT 2

TERMS AND CONDITIONS
February 21, 2006

Borrower: San Diego Youth and Community Services
 Development Location: 4760 35th Street
 Planning Area: Normal Heights (Council District 3)
 Description: Transitional Rental Housing For Homeless Young Adults
 Total Development Cost: \$1,529,887
 Proposed Loan Amount: \$ 413,000

| Item | Underwriting Standard For Special Purpose Housing | Proposal |
|------------------------------|--|--|
| Acquisition Cost: | Up to the appraised value (\$1,250,000 for this development) | \$1,150,000 (\$100,000 less than the appraised value) |
| Loan-to-Value Ratio: | 100 percent or less | 37 percent |
| Security: | 2 nd Trust Deed | 2 nd Trust Deed |
| Loan Term: | 55 years | 55 years |
| Period of Affordability: | 55 years | 55 years |
| Interest Rate: | three percent simple interest per year | three percent simple interest per year |
| Housing Commission Payments: | 50 percent of annual residual receipts with a balloon payment of unpaid principal and interest at the end of the loan term or forgivable | 50 percent of annual residual receipts with unpaid principal and interest forgiven at the end of the loan term |
| Development Expenses: | \$350 monthly per unit | \$300 monthly per unit |

ATTACHMENT 3

**SAN DIEGO YOUTH AND COMMUNITY SERVICES
ESTIMATED DEVELOPMENT TIMELINE**

| | |
|----------------|------------------------------|
| March 15, 2006 | Loan closing |
| March 30, 2006 | Start of rehabilitation |
| June 30, 2006 | Completion of rehabilitation |
| July 30, 2006 | Complete occupancy |