

## REPORT

DATE ISSUED: January 12, 2007 REPORT NO: HCR 07-03

ATTENTION: Chair and Members of the Housing Commission  
For the Agenda of February 9, 2007

SUBJECT: Request for Revision of Loan Agreement for the Acquisition, Rehabilitation and Permanent Financing of Sunburst Apartments (Council District 2)

### REQUESTED ACTION:

Revise the existing Loan Agreement in order to allow the Redevelopment Agency of the City Of San Diego to increase the amount of its senior loan financing from \$2,545,000 to \$2,775,000.

### STAFF RECOMMENDATION:

Recommend that the San Diego Housing Commission: (1) subordinate its deed of trust to an additional \$230,000 of senior financing; and (2) revise the existing Acquisition, Rehabilitation and Permanent Financing Loan Agreement loan terms to allow the Redevelopment Agency of the City Of San Diego to increase the amount of loan funds provided to pay for the unanticipated costs of flood insurance and additional rehabilitation work for the 24-unit Sunburst Apartments located at 1640 Broadway. The revised loan term would reduce the Housing Commission's pro-rata share from 24% to 23% of 50% of annual residual receipts. All other terms would remain in full force and effect.

Authorize the President and Chief Executive Officer to execute all necessary documents.

### BACKGROUND:

In October 2005, the Housing Commission funded a \$934,000 3 percent, 55-year residual receipts loan to the San Diego Lesbian, Gay, Bi-Sexual, Transgender Community Center, Inc. (d.b.a. The Center) to fund the acquisition and rehabilitation of a 24-unit apartment complex located at 1640 Broadway for use as permanent supportive housing. The rehabilitation construction work is now complete and received its final inspection approval on October 20, 2006. During the course of construction, the project experienced unanticipated costs in the rehabilitation of the 80 year-old structure. The developer paid for these costs as they were incurred.

During the initial application process it was discovered that a portion of this East Village site, located near 16<sup>th</sup> Street on Broadway, is within a flood zone. Due to this finding, the project's insurance payment has increased to include the costs for appropriate coverage.

There are two other local agency funders: The Redevelopment Agency of the City of San Diego (RDA) and the County of San Diego (County). The Housing Commission shares the security position and residual receipts with the other local lenders. The RDA originally financed a \$2,545,000 loan. Its pro-rata share is 66%. The Housing Commission loan is for \$934,000. Its pro-rata share is 24%. The County's \$400,000 loan is equal to a 10% share.

The Center has requested an additional \$230,000 from the RDA. If approved, the pro-rata share for the RDA would increase from 66% to 67%. The Housing Commission share would reduce from 24% to 23%. There would be no change in the County's share.

The Housing Commission's \$934,000 is secured by a deed of trust on the project, subordinate to the deed of trust in favor of the Redevelopment Agency of the City Of San Diego in the amount of \$2,545,000. The appraised "as-is" market value of the project at the time the Housing Commission loan was approved was \$3,100,000. If approved, the Housing Commission's deed of trust will be subordinate to a deed of trust in favor of the Redevelopment Agency of the City Of San Diego in the amount of \$2,775,000.

FISCAL CONSIDERATIONS:

The first residual receipts payment is not required until May 1, 2007. Therefore, there is no determination of actual residual receipts payment made to date. The project pro-forma has calculated that after one year of the initial loan term, the annual residual receipts payment to the Housing Commission would equal \$742. This is based on the pro-rata share of payment to the three agency lenders. The Housing Commission share is 24% of the 50% value of annual residual receipts. If the revised term is approved, the estimated Housing Commission annual payment would be reduced to 23% or \$711.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On May 6, 2005, the San Diego Housing Commission recommended Housing Authority approval of a loan of up to \$934,000. On July 8, 2005, the San Diego Housing Commission amended its recommendation to the Housing Authority approving a pro-rata sharing of the public agency loan repayment and potential annual waiver of the payment, if warranted, to support the buildings or programs. On May 25, 2005, the Redevelopment Agency of the City of San Diego approved a \$2,545,000 loan and is expected to consider a loan increase of \$230,000 in early 2007.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

This acquisition and rehabilitation proposal was presented to the project review committee of the East Village Association on March 3, 2005, where it was approved by a unanimous vote to support the proposed project. Following that meeting, the project went to the Centre City Projects Committee, the Centre City Advisory Committee for review, followed by the Center City Development Corporation board meeting where it was approved on May 25, 2005.

ENVIRONMENTAL REVIEW:

The acquisition and rehabilitation of the Sunburst Apartments development was previously determined to be categorically exempt by the City of San Diego under the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the CEQA guidelines.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

The owner and developer is The San Diego Lesbian, Gay, Bisexual, and Transgender (LGBT) Community Center. Other stakeholders include the lenders (RDA, San Diego Housing Commission, and the County) and homeless youth who are residents of Sunburst Apartments.

January 12, 2007  
Sunburst Apartments Loan Revision  
Page 3

Respectfully submitted,

**Signature on File  
With Original Document**

Cissy Fisher  
Director of Housing Finance and Development

Approved by,

Elizabeth C. Morris  
President & Chief Executive Officer

Attachment: Housing Authority Report 05-011

Information: Mr. Carlos C. de Baca (619)578-7586

G:\HFSHARE\REPORTS\SUNBURST\HCREPORT011907.DOC

# THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

**DATE ISSUED:** July 19, 2005

**REPORT NO.** HAR 05-011  
For the Agenda of July 19, 2005

**SUBJECT:** Proposed Housing Loan for Sunburst Apartments  
(Council District 2)

## SUMMARY

**Issue:** Should the Housing Authority approve a loan of up to \$934,000 to the San Diego Lesbian, Gay, Bi-Sexual, Transgender Community Center, Inc. (d.b.a. The Center) to fund the acquisition and rehabilitation of a 24-unit apartment complex located at 1640 Broadway for use as permanent supportive housing?

**Recommendation:** That the Housing Authority take the following actions:

- (a) Approve a 3% percent interest residual receipts loan of up to \$934,000, as outlined in this report; and,
- (b) Authorize the Chief Executive Officer of the Housing Commission, or designee, to execute all documents necessary to facilitate the financing.

**Fiscal Impact:** Approval of this recommendation would result in the issuance of an auditor's certificate and expenditure of up to \$934,000 in Housing Commission funds

## Certificate of Funding Availability:

|                 |                               |
|-----------------|-------------------------------|
| Certificate No: | 05-109                        |
| Amount:         | \$934,000                     |
| Revenue Source: | HTF and CallHTFP              |
| Division:       | Housing Finance & Development |
| Line Item:      | Loans & Grants                |

**Affordable Housing Impact:** This project will create Twenty-three (23) units for high-risk youth between the ages of 18 and 24 years who are either homeless or at extreme risk to become homeless. A resident manager will occupy one non-restricted, one-bedroom unit. 30% or eight units would be affordable to very-low income families at 30% or less of the AMI (\$14,500 for a family of one). 70% or 15 of the units would be affordable to extremely low-income households at 50% or less of the AMI (\$24,150 for a family of one). It is the developer's intention to keep all rents affordable at or below the 30% of AMI rent level. The following table describes the units by size and proposed initial rents:

| Unit Type    | Unit Size (sq. ft.) | No. Of Units | Initial Monthly Rent | Maximum Percent of Area Median Income of Eligible Households | Monthly Utility Allowance | Monthly Housing Cost | Monthly Market Rent | Annual Rent Savings Over Market Rate |
|--------------|---------------------|--------------|----------------------|--|---------------------------|----------------------|---------------------|--------------------------------------|
| Studio/1b    | 400                 | 7            | \$230                | 30%  | \$0                       | \$230                | \$617               | \$32,508                             |
| Studio/1b    | 400                 | 15           | \$230                | 50%  | \$0                       | \$230                | \$617               | \$69,660                             |
| 1br/1ba      | 500                 | 1            | \$335                | 30%  | \$0                       | \$335                | \$900               | \$6,780                              |
| 1br/1ba      | 500                 | 1            | MGR                  |  |                           |                      |                     |                                      |
| <b>Total</b> |                     | <b>24</b>    |                      |  |                           |                      |                     | <b>\$108,948</b>                     |

**Environmental Review:** The proposed acquisition and rehabilitation of the Sunburst Apartments development has been determined to be categorically exempt by the City of San Diego under the California Environmental Quality Act (CEQA) pursuant to Section 15301 of the CEQA guidelines. A copy of the Determination of Environmental Exemption is attached.

**Community Planning Group Review:** This acquisition and rehabilitation proposal was presented to the project review committee of the East Village Association on March 3, 2005, where it was approved by a unanimous vote to support the proposed project. The project next goes to the Centre City Advisory Committee for review, followed by the Center City Development Corporation board meeting.

**Previous Related Action:** On May 6, 2005, the San Diego Housing Commission recommended Housing Authority approval of a loan of up to \$934,000. On July 8, 2005, the San Diego Housing Commission amended its recommendation to the Housing Authority approving a pro-rata sharing of the public agency loan repayment and potential annual waiver of the payment. The Commission also approved the relocation plan.

## BACKGROUND

The sponsor of the proposed development, San Diego Lesbian, Gay, Bi-Sexual, Transgender Community Center, Inc. (d.b.a. The Center) submitted a loan application for gap financing of acquisition and rehabilitation under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. The application was reviewed by staff and deemed to be complete.

## DISCUSSION

The San Diego Housing Commission is recommending Housing Authority approval of a three percent interest residual receipts loan of up to \$934,000 to The Center to fund the acquisition and rehabilitation of a 24-unit apartment complex located at 1640 Broadway for use as permanent

supportive housing. Details regarding the building, the developer, and the funding plan can be found in the body of this report.

#### THE DEVELOPER

The mission of The San Diego Lesbian, Gay, Bisexual, and Transgender Community Center is to enhance and sustain the health and well-being of the lesbian, gay, bisexual, transgender (LGBT) and HIV communities by providing activities, programs, and services that create community, empower community members, provide essential resources, advocate for civil and human rights, and embrace, promote and support cultural diversity.

Incorporated in 1973 as a community-based non-profit 501(c)(3) agency, The Center has more than thirty years of experience as a health and human services agency. In 2003, The Center provided direct services to more than 13,000 community members through its programs, events and activities.

For the past five years, the Center has provided services to 18-24 year old LGBT youth in San Diego County at the Hillcrest Youth Center (HYC). HYC is committed to providing safe space, adult leadership and educational opportunities for high-risk youth to develop into responsible, productive and fully participating citizens. It is the only drop-in facility for LGBT youth in San Diego County.

The Center's CEO, Dr. Delores Jacobs, along with the senior management team, will oversee the renovation of the Sunburst Apartments. Financial consulting and planning services are being provided by Pat Getzel & Associates. Jean Zagrodnik, a principal of Zagrodnik & Thomas Architects is providing architectural design services. Selections of a general contractor and a construction project management firm are pending.

Partnering with The Center to provide residential property management in this project is The Association for Community Housing Solutions (TACHS), a non-profit 501(c)(3) housing developer with corporate offices in the City of San Diego, and properties throughout the county. As one of a very few housing developers in San Diego County focusing solely on the development of permanent supportive housing for low-income, special-needs individuals, TACHS offers extensive experience in the residential management of this type of program. TACHS has previously worked with the San Diego Housing Commission on the Parker-Kier Apartments and Reese Village.

#### THE PROPERTY

The Center's proposed project is one of the first of its kind in the nation to provide affordable housing to homeless, at-risk and HIV-positive youth. In the past three years, local community leaders, The Center and its project collaborators - YMCA Youth and Family Services, Metropolitan Community Church, Walden Family Services, and Children's Hospital – focused on the issue of homelessness among LGBT and HIV-positive youth. A needs assessment was commissioned to study the most effective means of providing appropriate housing and services to this underserved population group. The study was made up of more than 400 homeless youth.

Most of the survey participants said they didn't utilize other services or had difficulty when they did, because of their sexual orientation, gender or HIV status. In order to protect themselves from discrimination from providers or violence from other youth service recipients, most said they felt the need to hide the truth about who they are.

The needs assessment found that individual living spaces would be optimal for youth 18-24. The individual apartments in this existing 24-unit apartment building offer tenants a chance to learn the skills and experience necessary for self-support and independent living. In addition, San Diego City College, San Diego High School, public transportation, and stores offering groceries and basic necessities are all within blocks of the building.

The 1926 building contains 22 efficiency units and two one-bedroom apartments and is located at 17<sup>th</sup> Street and Broadway in downtown San Diego. It will be retrofitted to provide improved access via a ramp and a wheel chair lift. These improvements, as well as two living units, will be designed and retrofitted to Americans with Disabilities Act (ADA) standards and the tenets of universal design. In the late 1990's, the previous owner made extensive improvements to the structure including upgrading the electrical, plumbing, roofing, and all finishes. The windows are dual-pane, energy efficient units. The original plaster-finished, lead-paint covered, common area and individual unit walls and ceilings have all been replaced with new gypsum wallboard and paint. The kitchen cabinets, appliances, plumbing fixtures, and asbestos-containing flooring have been replaced with highly upgraded replacements. The bathrooms were all similarly improved.

#### THE FUNDING REQUEST

The Center is requesting approval of a \$934,000 loan. The developer is also applying for a \$144,000 loan from the Federal Loan Bank's Affordable Housing Program (AHP) through the Bank of America, as applicant. If this application is approved, the requested San Diego Housing Commission loan amount will be reduced by an equivalent value to \$790,000.

The Center has received approval for predevelopment funding of \$610,000 from the Corporation for Supportive Housing that will be used to take out The Center's own funding utilized during the acquisition phase. The Center will contribute \$50,000 towards the development costs. The borrower is applying for financial assistance from the following sources with anticipated funding as follows:

| <b><u>FUNDING SOURCE (By order of Lien Position)</u></b> | <b><u>AMOUNT</u></b> |
|--|----------------------|
| 1. Centre City Development Corporation (CCDC)            | \$2,544,747          |
| 2. San Diego Housing Commission                          | 934,000              |
| 3. Housing Opportunities For People With Aids (HOPWA)    | 400,000              |
| 4. 8-year, amortizing loan from The Center to project    | 193,680              |
| 5. Owner Contribution                                    | <u>50,000</u>        |
| <b>TOTAL FUNDING SOURCES</b>                             | <b>\$4, 122,427</b>  |

The borrower is requesting approval of a 55-year, 3% interest residual receipts loan in the amount of \$934,000. The source of funds for this loan will be \$497,000 from the San Diego Housing Commission Housing Trust Fund and \$437,000 from the State's Local Housing Trust Fund Program (LHTFP). The loan will be in second position (behind the 55-year, 3% deferred interest, forgivable CCDC loan). The combined value of the three public agency loans in the first ordering of lien position is \$3,878,746.

The Center now owns and operates the property, which has been appraised at \$3,100,000. The Total Development Cost is \$4,122,427, with a per-unit cost of \$171,768. The per-unit cost to the San Diego Housing Commission (including the LHTFP funds) is \$38,917. The current estimated rehabilitation cost is based on applicable state prevailing wages.

#### REVISION TO LOAN REPAYMENT TERMS

Normally, public agency loan terms would allow The Center to retain 50% of the annual residual receipts and 50% would be paid to the public agencies. Of the 50% public agency payment, the pro-rata share would be based on the respective loan values: 25% to the San Diego Housing Commission, 65% to CCDC, and 10% to the County. The pro forma analysis reflected first year net cash flow of \$6,185; the 50% residual receipts payment in the first year is \$3,093. Based on the first year estimate, the pro-rata share would equal \$773 to the San Diego Housing Commission; \$2,010 to CCDC; and \$310 to the County.

On May 25, 2005, the CCDC Board voted to recommend Redevelopment Agency approval of a 55-year, 3% interest Agency loan of up to \$2,545,000. CCDC recommended that the Agency's pro-rata share of the residual receipts be retained by the Center to cover operating expenses or to make payments to operating reserves.

On June 14, 2005, The County of San Diego Board of Supervisors approved on consent a Housing Opportunities for People With Aids (HOPWA) loan of \$400,000. The HOPWA loan terms are to be on parity with the other public agency lending partners.

On July 8, 2005, the Housing Commission voted to amend its recommendation to the Housing Authority to approve a 55-year, 3% residual receipts loan of up to \$934,000. The Housing Commission recommends that the San Diego Housing Commission accept a pro rata share of the residual receipts and that staff be authorized to waive the residual receipts payment each year if warranted to support the buildings or programs.

#### The Financial Plan

|                               |  |
|-------------------------------|--|
| Total Development Cost (TDC): | The total development cost is \$4,122,427, which includes all development costs.                 |
| Appraised Value:              | The "as-is" Market Value is \$3,100,000.   |
| Security:                     | The San Diego Housing Commission loan (\$934,000) will be subordinate to the CCDC loan. The loan |

amount will be secured by a second trust deed against the property.

First Trust Deed: A 55-year, 3% deferred interest, \$2,544,747 residual receipts loan from CCDC.

Payments on the First Trust Deed: Annual debt service payments will equal a pro rata share (65%) of the lenders' share of residual receipts. CCDC's pro-rata share of the residual receipts would be retained by the Center to cover operating expenses or to make payments to operating reserves.

Second Trust Deed: A second deed of trust in favor of the San Diego Housing Commission for \$934,000.

Payments on the Second Trust Deed: Annual debt service payments will equal a pro rata share (25%) of 50% of the lenders' share of residual receipts. However, the Housing Commission directed staff to review residual receipts each year and determine whether payment should be waived to support program operations.

Payments on Subordinate Trust Deeds: The third position HOPWA loan is a 55-year loan. Annual debt service payments will equal a pro rata share (10%) of 50% of the lenders' share of residual receipts.

The eight-year, 6.33% fourth position loan is from The Center to the project. The loan proceeds were secured through the refinancing of the developer's office building. Repayment will be made out of project cash flow.

Rent Restrictions: A Declaration of Covenants and Restrictions with a 55-year term will be recorded against the property. 30% or eight of the 24 units will be affordable to households earning 30% of area median income (AMI) or less. 70% or 15 of the units will be affordable to households earning 50% of area median income (AMI) or less.

Occupancy Restrictions: Occupancy of 30% or eight of the units will be restricted to families earning no more than 30% of AMI. Occupancy of 15 units will be restricted to families earning no more than 50% of AMI.

Recourse: The loan will be a recourse loan to the San Diego Lesbian, Gay, Bi-Sexual and Transgender Community Center, Inc.

Term: Fifty-five years.

Management Plan: A Management Plan has been approved.

Operating Expense: Average operating expense of \$335 per unit per month.

Pro Forma Assumptions: Income increases are projected at 2.5 percent per year; expense increases are projected at 3.5 percent per year; vacancy is projected at 5.0 percent per year.

Risks and Mitigations

This loan has risk because long term operating funds for special purpose housing are not guaranteed. However, The Center has been approved for a five-year contract (with annual renewals) for additional rent payment guarantees for 18 studio units through the Shelter Plus Care program. The proposed second position San Diego Housing Commission loan is covered approximately 70% within the current appraised value. This factor helps to reduce the risk of exposure. This potential development is also strengthened by the applicant's partnership with TACHS which has a portfolio record with similar types of projects. The proposed loan represents 23% of the project cost.

The structure is approximately 80 years old. The developer is cognizant of the building's age and has budgeted a \$300 (per unit) annual replacement reserve to assure that the structure will remain in good condition.

**ALTERNATIVES**

The Housing Authority could deny this request for financing. However, the project is consistent with the Housing Trust Fund's Transitional Housing/Special Purpose housing program criteria and provides an opportunity to benefit from \$437,000 in State LHFP program funds and leverage an additional \$3,188,427 (77%) in resources for affordable housing development.

The Housing Authority could recommend that the Agency's pro-rata share of the residual receipts be retained every year by the Center without Housing Commission staff review to cover operating expenses or to make payments to operating reserves on parity with the CCDC loan payment term. Or, the Housing Authority could require the standard residual receipt payment without waivers.

Respectfully submitted,

Approved by,

Cissy Fisher  
Director of Housing Finance & Development

Elizabeth C. Morris  
Chief Executive Officer

Attachments

1. Development Timeline
2. Development Summary
3. SDHC Application Form
4. Location Map
5. Disclosure Statement\*
6. Financial Statements\*
7. Appraisal Summary\*
8. Determination of Environmental Exemption\*

\*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue.

INFORMATION: Carlos C.de Baca, 619-578-7586  
Cissy Fisher, 619-578-7585

G:\Hfshare\REPORTS\sunburst apts\HAreport071905

## ATTACHMENT 1

### Sunburst Apartments The LGBT Center of San Diego ESTIMATED DEVELOPMENT TIMELINE

|   |                 |
|---|-----------------|
| Loan Committee Approval                           | April 12, 2005  |
| Housing Commission Recommendation for HA Approval | May 6, 2005     |
| CCDC Recommendation for RDA Approval              | May 25, 2005    |
| Housing Commission Revision to Loan Terms*        | July 8, 2005    |
| Housing Authority Consideration*                  | July 19, 2005   |
| SDHC Loan Closing Date                            | August 10, 2005 |
| Construction Start                                | September 2005  |
| Estimated Rehab Construction Completion           | November 2005   |

\* Each subsequent consideration is contingent on affirmation of the project from the prior recommending or approval body.

**ATTACHMENT 2**  
**Development Summary**  
**April 12, 2005**

Name: Sunburst Apartments  
 Location: 1640 Broadway  
 Description: Housing for Homeless or Previously Homeless Youth  
 Sponsor(s): The Lesbian Gay Bi-sexual Transgender Center of San Diego

**Unit Affordability**

Total # of units: 24  
 Assisted units: 23  
 Restricted rents: 7 – Studios @ \$363; 1 – one bedroom @ 414 (30%)  
 15– Studios @ \$604 (50%)  
  
 Market rent: Studio @ \$617  
 1 Bedroom @ \$900  
  
 Percent of AMI: 8 units @ 30 percent  
 15 units @ 50 percent  
  
 Affordability: 55 years

**Development Cost**

Total development cost: \$4,122,427 \$ 294 per square foot  
 HC development cost: \$ 790,000  
 Total development cost per unit: \$ 171,768  
 HC cost per unit (24 units): \$ 32,917  
 HC subsidy per bed @ 23 beds: \$ 34,348

**Sources of Funds**

Centre City Development Corp \$2,544,747  
 San Diego Housing Commission \$ 790,000  
 County of SD HOPWA Grant \$ 400,000  
 AHP \$ 144,000  
 The Center (Loan to Project) \$ 193,680  
 The Center (Owner Equity) \$ 50,000  
 Total Development Cost \$4,122,427

**Pro Forma Summary**

Estimated net annual income: \$ 49,102 (year 1)  
 Estimated annual expense: \$ 42,918 (year 1): \$3.06 per square foot  
 Estimated residual receipts: \$ 6,184 (year 1)