



SAN DIEGO
HOUSING
COMMISSION

HOUSING AUTHORITY REPORT

DATE ISSUED: February 22, 2012

REPORT NO: HAR12-021

ATTENTION: Members of the Housing Authority of the City of San Diego
For the Agenda of April 10, 2012

SUBJECT: Hotel Churchill Development Plan

COUNCIL DISTRICT: 2

REQUESTED ACTION:

That the Housing Authority of the City of San Diego (“Housing Authority”) approve the following staff recommendations to continue predevelopment and due diligence activities relating to the potential rehabilitation of Hotel Churchill.

STAFF RECOMMENDATION:

That the Housing Authority:

1. Ratify the issuance of a Request for Proposals/Qualifications (“RFP/Q”) seeking a developer/tax credit partner/contractor team (“Developer”) to partner with the San Diego Housing Commission (“Housing Commission”) to pursue the viability of acquiring financing, rehabilitating and operating the Hotel Churchill.
2. Authorize the President & Chief Executive Officer (“CEO”) of the Housing Commission, or designee, to select the Developer based upon responses to the RFQ and subsequent RFP, subject to subsequent approval by the Housing Commission Board and the Housing Authority and subject to the approval of the Housing Authority of the subsequent approval of the Capital Budget for the project.
3. Approve a Capital Costs Budget in an amount not to exceed \$250,000, to be used to pay for predevelopment and due diligence expenses needed to continue due diligence efforts for the development of Hotel Churchill. Approve a contingency amount of up to an additional \$100,000.00 to be utilized by the Housing Commission upon the approval of the President & CEO or designee, with advice from General Counsel.
4. Authorize the President & CEO of the Housing Commission, or designee:
 - a. To execute the contract documents and any and all necessary or convenient documents and instruments required to implement the above actions and approvals in connection with the Hotel Churchill project in a form approved by General Counsel, and further authorize the President & CEO, or designee, to take such actions as are necessary, convenient and/or appropriate to implement these approvals by the Housing Commission and the Housing Authority.

SUMMARY:

The Project

Hotel Churchill is a 94-unit Single Room Occupancy (“SRO”) Hotel located at 827 C Street between 9th and 10th Street. Hotel Churchill is a seven-story structure (over a basement) that is approximately 100 years old and is designated as a historic building by the City of San Diego (Historic Site Number 634). Hotel Churchill was acquired by the Housing Commission on August 16, 2011 by a Deed in Lieu of Foreclosure as the result of foreclosure proceedings initiated by the Housing Commission in response to non-compliance by the previous owner, J&J Properties A, LLC.

The property was in significant disrepair and was not in safe and habitable condition. Since acquisition of the property, Housing Commission staff has taken the immediate and necessary actions to safeguard the property. These actions include limited bio-hazard remediation, removal and prevention of re-infestation of feral pigeons, temporary roof repairs, clean up and removal of unwanted building contents, and additional security to keep trespassers from occupying the building. Maintenance and operation actions will continue until the rehabilitation process commences.

Predevelopment Budget

To date, Housing Commission staff has expended \$100,290 in predevelopment capital expenses (non-maintenance related) to assist the Housing Commission in determining the feasibility of Housing Commission development of the property, including initiating environmental review of the property (including a Phase 1 Environmental Site Assessment Report), preparing draft performance specifications, and hiring a consultant to provide a preliminary rehabilitation estimate. The preliminary rehabilitation estimate is approximately \$15,000,000.

The preliminary potential proposed scope of work will include the following adaptive reuse and/or rehabilitation improvements:

- Restoration of historic features
- Installation of a fully accessible second elevator (existing elevator is non-ADA compliant)
- Construction of a second stairwell for emergency egress
- Addition of toilets to each unit
- Installation of new warming kitchen and dining space
- Creation of eight (8) new ground-floor ADA-accessible dwelling units
- Remediation of asbestos containing materials (ACMs), lead-based paint (LBP), mold, bio-hazards and pests
- Provision of select sustainability features

The preliminary estimated total development cost is \$19,000,000, which includes the potential rehabilitation of the property, financing costs, soft costs, and developer fee. Final development costs will be known after final negotiation between the Housing Commission and the selected Developer.

To continue efforts to proceed with the development of Hotel Churchill, Housing Commission staff is seeking a Predevelopment Capital Costs Budget in the amount not to exceed \$250,000 plus an additional \$100,000 contingency. It is anticipated that a Phase 2 Environmental Site Assessment Report will be needed as well as additional environmental consultant work to perform a National Environmental Policy

Act (“NEPA”) review, should federal funds be implicated, which has not been determined at this time. Additional geotechnical services may be needed dependent upon the findings of the Phase 2 Environmental Site Assessment Report. Completion of this work will be beneficial to the Housing Commission whether or not, after due diligence is completed and the final estimates to rehabilitate and operate the property are received, the Housing Commission decides to proceed or to pursue other options (e.g., demolition or sale of the property).

Funds will also be used for a Tax Credit Consultant to provide the Housing Commission with expert advice on 9 percent tax credits and historic tax credits. These additional costs are included in the requested \$250,000 Predevelopment Capital Costs Budget. A copy of capital cost expenditures to date is included as Attachment 1.

Project Sustainability

Sustainable project improvements will be included in the final rehabilitation scope of work. Rehabilitation will comply with Title 24, the 2010 California Green Building Standards, and the Housing Commission’s Sustainability Guidelines. The following sustainable improvements are planned:

- Solar hot water assist
- Solar photovoltaic electric for common area lighting
- High-efficiency water heaters/boilers
- High-efficiency toilets and plumbing fixtures
- Rainwater clarifier
- Green Label Plus-rated carpets
- Low-E glazing
- Low- or no-VOC paints
- 70 percent diversion of landfill waste

Tax Credit Consultant

An Ad Hoc Finance Committee was formed comprised of Housing Commission staff from various departments. The role of the Ad Hoc Committee was to review the financing options including 4 percent and 9 percent tax credits as well as the viability of developing the property without tax credits. Due to the estimated scope of rehabilitation required, the Ad Hoc Committee recommended financing the project with 9 percent tax credits and to utilize an experienced Developer who can maximize scoring under a California Tax Credit Allocation Committee 9 percent tax credit application.

A Tax Credit Consultant will be needed to provide the Housing Commission with advice in structuring the financing as it relates to tax credit financing, and to assist the Housing Commission in the preparation of the Developer Request for Proposals (“RFP”) and review of developers’ responses pertaining to their tax credit financing experience. A solicitation will be issued for a Tax Credit Consultant following established Housing Commission procedures. The contract for this Tax Credit Consultant is estimated to be no more than \$50,000.

Developer RFP/RFQ

The Housing Commission will issue an RFP/RFQ to find an experienced developer/tax credit partner/contractor team (“Developer”) who will oversee all aspects of the rehabilitation. The Developer

will be responsible for developing the final finance plan, applying for all funding identified in the finance plan including applying for tax credits and securing a tax credit investor, issuing the construction bid, selecting the general contractor, permit processing, and construction monitoring. The Housing Commission will have final approval and oversight regarding the financing and construction/rehabilitation of the property, however. A formal partnership will be formed between the selected Developer and the Housing Commission which will include the planned exit of the Developer after the 15-year tax credit compliance period, with the Housing Commission having an option and first right of refusal to acquire the property at the end of the tax credit compliance period. The limited partnership agreement will be in a form as approved by the General Counsel of the Housing Commission with input from tax credit counsel.

Affordable Housing Impact

The property is subject to an amended Replacement Housing Agreement that requires 57 of the units remain affordable to very low-income households (50 percent of Area Median Income) for a period of 30 years under the terms of the City's SRO ordinance. It is anticipated that the remaining 35 units will be affordable to low-income households (60 percent of Area Median Income) and the term of affordability will be extended to 55 years to be competitive for 9 percent tax credits, or 65 years if a ground lease is utilized. The ultimate affordability mix selected may change to allow for a competitive tax credit application.

Future Actions

Approval of the requested actions will enable the Housing Commission to proceed with due diligence efforts and feasibility analysis, and select a Developer to rehabilitate the Hotel Churchill in the most expeditious manner possible. An estimated timeline for development is provided as Attachment 2.

Housing Commission staff will seek subsequent Housing Commission and Housing Authority approval of the final Development Plan and Budget in approximately 6 months.

FISCAL CONSIDERATIONS:

Approval of this action will result in the expenditure of up to \$250,000, plus an additional \$100,000 contingency, of SRO in lieu fees included in the approved 2012 budget, for predevelopment capital expenses (non-maintenance related) to assist the Housing Commission in determining the feasibility of Housing Commission development of the property, including environmental review of the property, preparing draft performance specifications, hiring a consultant to provide a preliminary rehabilitation estimate, and the hiring of a Tax Credit Consultant.

Maintenance and operating expenses for the Churchill Hotel will be incurred by the Housing Commission during the period of the predevelopment activities and potentially up through the time of completion of the rehabilitation of the Hotel Churchill.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On November 20, 2007, the City Council voted unanimously in Closed Session on Item CS-1 to approve a settlement of San Diego Superior Court (Case No. GIC 858800). This action resulted in a Single Room Occupancy Replacement Housing Agreement for this project and the permanent designation of fifty-seven low-income single room occupancy units under the provisions of the SRO Ordinance.

On August 15, 2008, and November 13, 2009, the Housing Commission Board approved time extension requests by the Owner to complete the rehabilitation work by November 30, 2009, due to delays in replacing the elevator equipment.

On May 13, 2011, the Housing Commission Board approved settlement of the pending litigation for judicial foreclosure against J&J Properties A, LLC and authorized the Housing Commission to accept a Deed in Lieu of Foreclosure in accordance with the terms of the settlement approved by the City Council on November 20, 2007. Based upon this settlement, the Housing Commission accepted the Deed in Lieu of Foreclosure on August 16, 2011. The Housing Commission Board approved this item at the Regular Meeting of February 17, 2012.

KEY STAKEHOLDERS and PROJECTED IMPACTS:

Stakeholders for this project include the Housing Commission (owner), the City of San Diego and low-income residents who would benefit from having these single room occupancy units available for rent, in addition to the development community who will have work opportunities as a result of this action.

ENVIRONMENTAL REVIEW:

This activity is Statutorily Exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15262 (Planning and Feasibility). The project is categorically excluded from the National Environmental Policy Act pursuant to 24 CFR 58.35(b)(6) as affordable housing pre-development which will not have a physical impact and would not alter conditions at the property. Additionally, most of the activities contemplated in this report are exempt from NEPA as studies and development of plans and strategies under 24 CFR §58.34(a)(1); engineering and/or design costs under 24 CFR §58.34(a)(8); and inspections and testing of the property for hazards or defects under 24 CFR 58.34(a)(5).

Respectfully submitted,



Ann E. Kern
Director, Housing Development & Finance
San Diego Housing Commission

Approved by,



Deborah N. Ruane
Senior Vice President
San Diego Housing Commission

Attachments:

1. Capital Cost Expenditures
2. Development Timeline

Hard copies are available for review during business hours in the main lobby of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials on the San Diego Housing Commission website at www.sdhc.org.

ATTACHMENT 1

Hotel Churchill Pre-Development Contract Matrix

Project	Project No.	Contractor Name	Contract Type	Capital Cost	Actual Completion	Project Status/Progress
NEPA Review		AECOM	RFP	21,850.00	TBD	Pending completion of Phase 1 Environmental Assessment Report
ALTA Survey		TBD	TBD	-	TBD	
Estimating & BIM	HC-12-08	Urban Construction	PO203:100/24 CFR 85.36(d)(4)(i) Amendments	23,040.00	Pending	- Initial scope of work is completed. - Contract scope extended to accommodate Project's expanded scope of work. Cost added: \$24,800.00. Completion date extended to 01/20/12.
Performance Specifications	HC-12-06	Rodriguez & Associates	RFQ	24,800.00 14,500.00	Pending	- Initial scope of work is completed. - Contract extended to provide RFI assistance during bid process. Cost added: \$4,200.00. Completion date extended to 02/13/12. - Contract to be further modified to accommodate Project's additional scope of work. Cost added: Pending.
Phase 1 Environmental		Leighton Consulting, Inc.	Amendments Existing RFQ	4,200.00 11,900.00	Pending	- Work is in progress. - Estimated completion date is February 29, 2012
			Totals	100,290.00		

ATTACHMENT 2

HOTEL CHURCHILL PRELIMINARY TIMELINE*

Issue Developer RFP/Q	March 2012
Developer Proposals Due	April 2012
Proposal Review	April-June 2012
Determination to Proceed/Developer Selection	June 2012
Environmental Review Completed	June 2012
Housing Commission Approval	August 17, 2012
Housing Authority Approval	September 18, 2012
Project Design and Plan Check	November 2012
CDBG Application	December 2012
CDBG Award	March 2013
9% Tax Credit Application	March 2013
9% Tax Credit Award	June 2013
Rehabilitation Start	August 2013
Rehabilitation Completion	October 2014

* Contingent upon securing all necessary funding awards