

REPORT

DATE ISSUED: December 12, 2008 REPORT NO. HCR08-134

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of December 19, 2008

SUBJECT: Loan for Arbor Crest Supplemental Report (Council District 3)

REQUESTED ACTION:

Recommend Housing Authority approval of changes in the Housing Commission financing.

STAFF RECOMMENDATION:

Recommend to the Housing Authority:

1. Funding of the Housing Commission loan for acquisition of the site prior to approval of the Redevelopment Agency loan for the project.
2. Reimburse the Redevelopment Agency of the City of San Diego up to \$550,500 funded from its loan in the event the project does not obtain tax credit financing or otherwise fails to move forward and the Housing Commission obtains title to the property.

BACKGROUND:

A Housing Commission loan of up to \$4.9 million to Community Housing Works (CHW) for acquisition of the Arbor Crest site was approved by the Housing Commission on November 21, 2008 (see Attachment 1). Funding of the loan was contingent upon Redevelopment Agency funding of up to \$550,500 of its proposed \$3.8 million loan to CHW for development of the 83-unit affordable housing development. The \$550,500 draw from the Redevelopment Agency loan would be spent on relocation and demolition to prepare the site for construction of the new units.

The Redevelopment Agency is requiring environmental clearance for the development as a condition of approval for its proposed \$3.8 million loan and funding of the initial \$550,500 draw. The Housing Commission's general counsel determined that the Housing Commission can make a \$4.9 million loan for acquisition of the property without further environmental review or approval as detailed in the environmental review section of this report.

CHW is requesting Housing Commission funding prior to the Redevelopment Agency receiving approval of its \$3.8 million loan. This would allow CHW to meet the due diligence requirements of the seller and acquire the property. A significant delay in acquisition may result in the loss of site control by CHW and a subsequent loss of an opportunity to build affordable housing on the property.

CHW may pursue a bridge loan of \$550,500 from another lender to fund relocation and demolition to prepare the site for construction. If the Redevelopment Agency loan is approved, CHW would be reimbursed with proceeds of the Redevelopment Agency loan for the costs of the bridge loan financing. It is estimated that the Redevelopment Agency would be prepared to fund its loan on or before August 31, 2009. However, there is no guarantee that the Redevelopment Agency will, in fact, make a loan for the Arbor Crest development.

FISCAL CONSIDERATIONS:

The maximum Housing Commission participation in the financing would remain a \$4.9 million residual receipts loan. If the \$3.8 million Redevelopment Agency loan is approved, it would remain subordinate to the Housing Commission loan. Because the Housing Commission may foreclose on its deed of trust to obtain title to the property if the project fails to move forward after the Redevelopment Agency funds up to \$550,500 of its loan, it is recommended that the Housing Commission agree that, in such an event, it would reimburse the Redevelopment Agency. The reimbursement would be any amount up to \$550,500 expended for completion of relocation and site work. Reimbursement is appropriate because the relocation and clearing of the site would add value to the property.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The \$4.9 million Housing Commission loan to this project was approved on November 21, 2008 (HCR08-110).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On October 21, 2008, the North Park Planning Committee voted to support this development. Community group approval is not required for this proposed action.

ENVIRONMENTAL REVIEW:

Should HOME funds constitute a portion of the funding for the project, a final reservation of HOME funds shall occur only upon satisfactory completion of environmental review and receipt by the City of San Diego of a release of funds from the U.S. Department of Housing and Urban Development under 24 CFR Part 58 of the National Environmental Policy Act (NEPA). The parties agree that the provision of any HOME funds to the project is conditioned on the City of San Diego's determination to proceed with, modify, or cancel the project based on the results of subsequent environmental review under NEPA. If this activity requires compliance with NEPA, the project will undergo a combined review under NEPA and the California Environmental Quality Act (CEQA), with a joint EIR-EIS or Negative Declaration-Finding of No Significant Impact being prepared by the City of San Diego's Development Services Department.

Approval of the proposed activity does not implicate a requirement for further environmental review under CEQA. This action is not an "approval" under CEQA because it does not "commit the agency (the City of San Diego, the Housing Authority of the City of San Diego, the San Diego Housing Commission, or the Redevelopment Agency of the City of San Diego) to a definite course of action" with regard to the project and performing an environmental review at this stage of development (the change of title from one owner to another to allow the developer

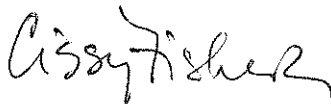
three years to file applications for a highly discretionary award of nine percent low-income housing tax credits) would not provide meaningful information for an environmental assessment. (See CEQA Guidelines Subsections 15004(b) and 15352 and Save Tara v. City of West Hollywood (2008) 45 Cal. 4th 116 and Stand Tall for Principles v. Shasta Union High School District (1991) 235 Cal. App. 3d 772 [overruled on other grounds by Save Tara v. City of West Hollywood].) Furthermore, a Mitigated Negative Declaration was issued for the property in June 2006, allowing construction of 72 dwelling units on the property, as Project No. 89329, which will be relied on, amended, addended and/or revised, as needed, for any future development and use of the property.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

Stakeholders include CHW as the nonprofit developer and the Community of North Park. The project is expected to have a positive impact on the community because it will contribute to the quality of the surrounding neighborhood and provide much-needed rental housing affordable to low-income and very low-income families.

Respectfully submitted,

Approved by,



Cissy Fisher
Director of Housing Finance



Carrol M. Vaughan
Executive Vice President and Chief
Operating Officer

Attachments:

1. Previous Report (HCR08-110)
2. Development Timeline

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

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



REPORT

DATE ISSUED: November 19, 2008 REPORT NO. HCR08-110

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of November 21, 2008

SUBJECT: Loan for Arbor Crest (Council District 3)

REQUESTED ACTION:

Recommend Housing Authority approval of a loan for development of 83 units of affordable rental housing for low-income and very low-income families in the community of North Park.

STAFF RECOMMENDATION:

Recommend to the Housing Authority:

1. A permanent loan to Community Housing Works of up to \$4,900,000 for site acquisition.
2. An amendment to the FY2009 Housing Commission Rental Housing Finance budget to reflect the addition of \$70,976 of Coastal Funds and \$1,986,515 of Inclusionary Funds.
3. Authorization for the President and Chief Executive Officer, or designee, to execute necessary documents.

BACKGROUND:

Community Housing Works (CHW), submitted a loan application for Arbor Crest in response to the current Notice Of Funding Availability (NOFA) for Construction, Acquisition, and Operation of Affordable Rental Housing dated March 14, 2008. CHW is a California 501(c)(3) nonprofit corporation certified as a Community Housing Development Organization (CHDO). Established in 1988 with the mission of developing and operating affordable rental housing for low-income households throughout San Diego County, CHW focuses on services to tenants and benefits to communities. The nonprofit has completed 29 developments (1,519 units) of affordable rental housing including units designed specifically to assist individuals and families with special needs. In 2007, CHW obtained a \$3.8 million loan from the Housing Commission for Alabama Manor, a recently completed acquisition and rehabilitation of 67 units of existing senior housing that lies less than one block east of the Arbor Crest site. The following table outlines the Arbor Crest development team:

ROLE/FIRM	CONTACT	OWNED BY
Developer- Community Housing Works	Ms. Anne B. Wilson, Vice President	CHW / a 501(c)(3) nonprofit corporation
Legal Counsel	Ms. Natalie L. Gubb	Gubb & Barshay, LLP
Architect – M.W. Steele Group	Mr. Mark Steele	M.W. Steele Group, Inc.
Relocation Consultant – Overland, Pacific and Cutler	Mr. Vince McCaw	Overland, Pacific, and Cutler, Inc.

Located at 3783 – 3825 Florida Street within the North Park Redevelopment Project Area, the Arbor Crest site is less than one block south of public transportation access and retail services on University Avenue and within walking distance of a grocery store, a pharmacy, schools, and a recreation area (see Attachment 1). The seller is Northcrest Partners, LLC represented by its agent, Mr. Michael Kootchick. The seller previously obtained a development permit to construct 71 condominium units on the property.

The proposed construction would cost approximately \$19 million including architect fees, engineering fees, and a contingency. The scope of work includes subterranean parking, energy conservation systems, and the implementation of “green” building technologies such as on-site generation of electrical power utilizing photovoltaic panels, and water conservation measures.

Arbor Crest would provide 15 one-bedroom units, 41 two-bedroom units, and 26 three-bedroom units. One two-bedroom unit reserved for occupancy by a resident manager would not be rent restricted. The Housing Commission would record 55-year rent and occupancy restrictions against the property establishing affordability of 63 units to households with annual incomes of 50 percent or less of Area Median Income (currently \$35,500 for a three-person household) and 19 units to households with incomes at 60 percent or less of Area Median Income (currently \$42,660 for a three-person household). The actual rents would be calculated to meet the more stringent tax credit requirements and, as a result, would be affordable to tenants with incomes as low as 31 percent of Area Median Income. The proposed rent structure is outlined in detail in the San Diego Housing Commission General Application Form (see Attachment 4).

A permanent loan of up to \$4.9 million from the Housing Commission would fund acquisition of the property. Construction would not proceed until the developer receives a construction loan and nine-percent tax credit financing. The land would provide security for the \$4.9 million Housing Commission loan and ensure the use of the property for affordable housing. However, there is a possibility that after the Housing Commission loan is funded the developer may not receive an allocation of tax credits or otherwise obtain adequate financing. Should this occur, CHW is unlikely to have adequate resources to repay the loan and would deed the land to the Housing Commission.

This development would require the relocation of approximately fifteen households and removal of eight existing structures from the one-acre site. Under Federal Law, CHW’s relocation

consultant would conduct tenant interviews and administer advisory services and monetary compensation to the displaced households. CHW budgeted \$300,000 for relocation and \$58,500 for relocation consultant fees. CHW would have twelve months to relocate site residents and demolish the buildings. Because the existing residential improvements on the site were deemed to have insignificant historical value and are in poor condition, their demolition would be a benefit to the surrounding neighborhood and contribute to meeting the objectives of the City's Redevelopment Plan.

In 2006, the Housing Commission made a \$6.7 million loan to Arbor Terrace, LP for the new 71-unit Arbor Terrace development adjacent to the Arbor Crest site. Arbor Terrace, scheduled for completion early next year, will be affordable rental housing for low-income families. Because of the high demand for affordable rental housing in San Diego, Arbor Crest is not likely to experience significant market competition from Arbor Terrace. CHW is in contact with Los Angeles-based Advanced Development & Investment, Inc., the developer of Arbor Terrace, regarding preferential placement of eligible residents of the development site to the waiting list for units at Arbor Terrace.

Arbor Crest's tenants would be provided with access to services tailored to their specific needs. CHW's resident services staff would include a part-time services coordinator assigned to the property. CHW works to enhance the lives of the residents of its facilities by offering training in economic self-sufficiency, first-time homebuyer skills, after-school tutoring for children, computer classes, and other educational activities. In support of the neighborhood, CHW would explore the benefits of Arbor Crest's proximity to their Alabama Manor senior housing facility by encouraging the establishment of intergenerational support programs such as senior mentors for youth and youth outreach to seniors. CHW would contract with a professional firm to provide day-to-day property management for the complex.

FISCAL CONSIDERATIONS:

The \$4.9 million sales price for the property is less than the appraised value of \$5.7 million. Housing Commission participation would be in the form of a 55-year residual receipts loan of up to \$4.9 million at three percent (3%) simple interest per year. A 55-year, three percent simple interest residual receipts loan of \$3.8 million from the Redevelopment Agency would be subordinate to the Housing Commission loan.

Financing at acquisition would consist of the \$4.9 million permanent loan from the Housing Commission and a \$3.8 million permanent loan from the Redevelopment Agency. The Redevelopment Agency would make an unsecured funding of approximately \$550,500 at closing to fund relocation, and demolition costs. The Housing Commission loan would fund at closing to pay the cost of the land and would be secured by the value of the property. Upon funding of the Housing Commission loan, CHW will not have obtained a tax credit allocation or other financing necessary to construct the project. The following table outlines the estimated sources of funding for acquisition:

Acquisition Sources	Amount	Terms
Housing Commission Loan	\$ 4,900,000	55 yrs. @ 3% simple interest; residual receipts
Redevelopment Agency Loan	\$ 550,500	55 yrs. @ 3% simple interest; residual receipts
Total	\$ 5,450,500	

The Housing Commission would add \$2,057,491 to its FY2009 Rental Housing Finance budget to fund the cost of the loan (see Attachment 8). The following table outlines the various funding sources for the proposed loan:

Proposed Sources of Housing Commission Funds	Amount
Coastal Funds	\$ 323,029
Inclusionary Housing Funds	\$ 4,476,971
Housing Trust Fund	\$ 100,000
Total	\$ 4,900,000

The estimated total development cost is \$30,503,300 including site acquisition, predevelopment costs, building construction, contractor overhead and fees, and a developer fee (a detailed analysis of project costs is included in Attachment 4).

Permanent financing would consist of a secured first position loan from a private lender, the Housing Commission loan in second position, the Redevelopment Agency loan in third position, equity from the sale of nine-percent Low Income Housing Tax Credits, cash from energy efficiency rebates, and cash equity from CHW. Upon completion of permanent financing, the borrower would be a tax credit limited partnership formed by CHW with Arbor Crest as its sole asset. The following table summarizes the estimated sources of permanent financing outlined in Attachment 4:

Permanent Sources	Amount	Terms
Institutional Loan	\$ 4,350,000	35 yrs. / 6.75% interest; amortized
Housing Commission Loan	\$ 4,900,000	55 yrs. / 3% simple interest; residual receipts
Redevelopment Agency Loan	\$ 3,800,000	55 yrs. / 3% simple interest; residual receipts
Tax Credit Equity	\$16,998,300	
Energy Efficiency Rebates	\$ 205,000	
Developer Equity	\$ 250,000	
Total Development Cost	\$30,503,300	

At the end of the first full year of the project, the borrower would retain 50 percent (50%) of the residual receipts and the remaining 50 percent (50%) would be used to make annual payments on the Housing Commission and Redevelopment Agency loans in pro-rata shares based upon their percentage of participation in the public financing of the project (28 percent to the Housing Commission and 22 percent to the Redevelopment Agency). However, the borrower would be

required to make an annual minimum payment to the Housing Commission of \$2,218 based upon 28 percent of the estimated residual receipts at the end of the first full year. In the event that residual receipts are less than (fall below) the established required minimum annual payment, then the Housing Commission would take up to 78 percent (78%) of the residual receipts of the project to satisfy the minimum payment requirements.

Unpaid principal and interest on the Housing Commission loan would be due and payable upon refinancing or maturity of the first position loan, whichever occurs first. The Housing Commission will have an option to acquire the development for an amount equal to the greater of the appraised fair market value (taking into account the requirement that the project remain low-income housing); or the sum of outstanding Housing Commission loan interest, limited partner exit taxes, and the principal of outstanding debt secured by the property.

CHW will submit a tax credit application in July of 2009. The Housing Commission's loan commitment would limit CHW to three tax credit rounds. If tax credit financing and construction financing are not closed within 36 months from the date of funding of the Housing Commission loan, all principal and interest shall be due and payable immediately in a balloon payment. However, the balloon payment may be deferred at the sole discretion of the President and Chief Executive Officer of the Housing Commission until title to the property can be transferred to the Housing Commission.

This loan would be contingent upon CHW receiving financing from the Redevelopment Agency, Housing Commission review and acceptance of environmental reports and a soils study, and CHW obtaining clear title to the property upon acquisition.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On October 21, 2008, the North Park Planning Committee voted to support this development. The community group will receive project progress updates from CHW.

ENVIRONMENTAL REVIEW:

Should HOME funds constitute a portion of the funding for the project, a final reservation of HOME funds shall occur only upon satisfactory completion of environmental review and receipt by the City of San Diego of a release of funds from the U.S. Department of Housing and Urban Development under 24 CFR Part 58 of the National Environmental Policy Act (NEPA). The parties agree that the provision of any HOME funds to the project is conditioned on the City of San Diego's determination to proceed with, modify, or cancel the project based on the results of subsequent environmental review under NEPA. If this activity requires compliance with NEPA, the project will undergo a combined review under NEPA and the California Environmental Quality Act (CEQA), with a joint EIR-EIS or Negative Declaration-Finding of No Significant Impact being prepared by the City of San Diego's Development Services Department.

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Stakeholders include CHW as the nonprofit developer and the Community of North Park. The project is expected to have a positive impact on the community because it will contribute to the quality of the surrounding neighborhood and provide much-needed rental housing affordable to low-income and very low-income families.

Respectfully submitted,



Cissy Fisher
Director of Housing Finance

Approved by,



Carrol M. Vaughan
Executive Vice President and Chief
Operating Officer

- Attachments:
1. Location Map
 2. Development Summary
 3. Development Timeline
 4. General Application
 5. Developer Disclosure Statement
 6. Developer Financial Information
 7. Appraisal Summary
 8. Rental Housing Budget Summary

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

ATTACHMENT - 2

**ARBOR CREST
AFFORDABLE RENTAL HOUSING FOR FAMILIES
ESTIMATED TIMELINE**

January 13, 2009	Housing Commission loan to the Housing Authority for approval
February 27, 2009	Housing Commission loan and property acquisition closing
June 30 , 2009	Completion of CEQA environmental review for 83-unit project
July 13, 2009	Tax credit application
August 31, 2009	Redevelopment Agency loan funding
September 23, 2009	Tax credit award
September 30, 2009	Start of relocation
December 31, 2009	Completion of relocation
February 20, 2010	Start of construction
August 30, 2011	Completion of construction