

**REPORT**

**DATE ISSUED:** December 11, 2009 **REPORT NO:** HCR 09-122

**ATTENTION:** Chair and Members of the Housing Commission  
For the Agenda of December 18, 2009

**SUBJECT:** Townspeople 34<sup>th</sup> Street Apartments Loan Assignment (Council District 3)

**REQUESTED ACTION:**

Authorize the assignment and assumption of Housing Commission financing for the 34<sup>th</sup> Street Apartments from Townspeople, a 501(c)(3) corporation, to a single asset entity controlled by Townspeople.

**STAFF RECOMMENDATION:**

Authorize transferring the proposed Housing Commission financing of the 34<sup>th</sup> Street Apartments project from Townspeople Corporation, to a single asset entity controlled by Townspeople, and authorize the President and Chief Executive Officer or designee to execute necessary documents as drafted and approved by the General Counsel.

**BACKGROUND:**

The nonprofit Townspeople has the mission of developing affordable housing for persons living with HIV/AIDS. The 34<sup>th</sup> Street Apartments would make 34 mixed-income apartments affordable to low-income and very-low income families. Twelve units would be reserved for households affected by HIV/AIDS, including women with children.

On November 13, 2009 and November 23, 2009, the Housing Commission and Housing Authority, respectively, approved permanent and construction financing for the acquisition and rehabilitation of this project (Attachment). Townspeople has received clarification that one of the lenders, the California Housing Finance Agency (CalHFA), requires borrowers to be organized as a single asset entity as a condition of receiving Mental Health Services Act (MHSA) funding. The MHSA funding for this project constitutes \$370,000, or about five percent of the total development cost. Townspeople has since formed a single asset entity to comply with the CalHFA's single-asset entity requirement.

The documentation evidencing the loan shall be drafted by the Housing Commission's General Counsel, and will assign all rights, obligations, interests and responsibilities pursuant to the newly formed single-asset entity.

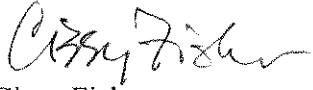
**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

The proposed development was reviewed by the Normal Heights Community Planning Group at its regular meeting on April 1, 2008. The group voted unanimously to support the project and issued a memorandum confirming its support on April 8, 2008.

**ENVIRONMENTAL REVIEW:**

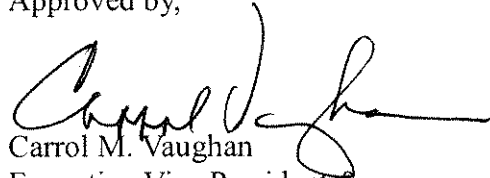
The assignment and assumption of loan documents is not a project within the meaning of the California Environmental Quality Act and is exempt under the National Environmental Policy Act.

Respectfully submitted,



Cissy Fisher  
Vice President  
Special Housing Initiatives

Approved by,



Carrol M. Vaughan  
Executive Vice President &  
Chief Operating Officer

Attachment: HCR09-090 (without attachments)



<b>REPORT</b>
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**DATE ISSUED:** November 6, 2009

**REPORT NO:** HCR 09-090

**ATTENTION:** Chair and Members of the Housing Commission  
For the Agenda of November 13, 2009

**SUBJECT:** Townspeople 34<sup>th</sup> Street Apartments (Council District 3)

**REQUESTED ACTION:**

Forward for Housing Authority approval a loan increase of up to \$880,000 for permanent financing and a not-to-exceed construction loan of \$2,128,189 for the Townspeople 34<sup>th</sup> Street Apartments.

**STAFF RECOMMENDATION:**

Seek Housing Authority authorization to:

1. Increase the Housing Commission's permanent financing from \$2,040,000 to \$2,920,000 and approve a construction loan of up to \$2,128,189 for the acquisition and rehabilitation of 34 units of mixed-income housing with 12 units reserved as permanent rental housing for very low-income persons living with HIV/AIDS.
2. Authorize the President and Chief Executive Officer to execute necessary documents, as drafted and approved by the General Counsel.

**BACKGROUND:**

Townspeople is a California 501(c)(3) nonprofit corporation established in 1994 with the mission of developing affordable housing for persons living with HIV/AIDS. Because their medical conditions inhibit or preclude full employment, this targeted tenant population is characteristically very low-income and has difficulty accessing decent rental housing at market-rate rents.

Completion of this development would make 20 one-bedroom apartments and 13 two-bedroom apartments affordable to low-income and very-low income families. Twelve units would be reserved for households affected by HIV/AIDS, including women with children.

The following table outlines the development team:

ROLE	CONTACT	FIRM
<b>Owner, Developer and Property Manager</b>	Jon Derryberry, Executive Director	Townspeople, a 501(c)(3) nonprofit corporation
<b>Financial Consultant</b>	Jahi Akobundu	CA Housing Partnership Corporation
<b>Architect</b>	Caryn Bailey, AIA	rAd Architects
<b>Relocation Consultant</b>	Vince McCaw	Overland, Pacific, and Cutler, Inc.

This would be the third affordable housing project for Townspeople. In 1995, the Housing Commission loaned the nonprofit \$257,000 for acquisition and rehabilitation of an eight-unit apartment building

November 6, 2009

Loan Increase for Townspeople 34<sup>th</sup> Street Apartments

Page 2

located at 3845 Wilson Avenue in City Heights. In 2005, Townspeople obtained a \$1,570,000 Housing Commission loan as permanent gap financing to purchase and renovate a 24-unit complex on 51<sup>st</sup> Street in City Heights. The previous developments are successfully operated as HIV/AIDS permanent rental housing in compliance with Housing Commission loan requirements.

### **Original Financing Plan**

As approved in September 2008, the permanent financing consisted of a first position, amortized loan of Special Needs funds from California Housing Finance Agency (CalHFA); a second position residual receipts loan from the California Department of Housing and Community Development's Multifamily Housing Program (MHP); the proposed third position residual receipts Housing Commission loan; a residual receipts loan of Mental Health Services Act (MHSA) funds; a residual receipts loan of Federal Housing Opportunities For Persons With Aids (HOPWA) funds; a grant from the Federal Home Loan Bank Affordable Housing Program (AHP), and; a grant of Federal Supportive Housing Program (SHP) funds.

### **Loan Increase**

Due to the recent credit crisis and resulting economic downturn, Townspeople is unable to secure tax-exempt bond financing that was previously proposed to fund the costs of renovating the complex. The proposed permanent loan increase of \$880,000 and the \$2,128,189 construction loan by the Housing Commission would provide financing to pay costs of development until the rehabilitation is complete. Following completion of rehabilitation, permanent financing from the State MHP would supplant the Housing Commission construction loan making the Housing Commission funds available for other affordable housing development activities. The terms of the previously approved \$2,040,000 residual receipts Housing Commission permanent loan for this project would not be affected.

Approval of staff recommendations would increase the Housing Commission's permanent commitment in the project by \$880,000 from \$2,040,000 to \$2,920,000. The Housing Commission would provide an additional \$1,248,189 through construction, bringing the total construction loan to \$4,168,189. This is the gap financing necessary to fund the project's total development cost of \$6,663,093 (\$195,973 per unit).

In exchange for the proposed loan increase, Townspeople will provide an additional ten years of affordability by agreeing to extend the term of the Housing Commission loan from 55 to 65 years. Under the Housing Commission loan agreement, 65-year rent and occupancy restrictions will be recorded against the property establishing affordability of 12 one-bedroom units to tenants with annual incomes of 50 percent or less of Area Median Income (currently \$33,050 for a two-person household) and eight one-bedroom and 13 two-bedroom units to tenants with incomes at 60 percent of Area Median Income (currently \$44,580 for a three-person household). One two-bedroom unit would be reserved for occupancy by a resident manager and would not be rent-restricted.

### **FISCAL CONSIDERATIONS:**

The sales price of the property was adjusted to the new appraised value (September 4, 2009) of \$3,520,000, which is a reduction from the original sales price of \$4,190,000, and the owner and buyer agreed to extend close of escrow to November 30, 2009. The following table summarizes the proposed sources of financing for the project:

<b>Debt Position</b>	<b>Acquisition/Rehabilitation Sources</b>	<b>Amount</b>	<b>Terms</b>
1 <sup>st</sup>	SDHC Loan – HOME Funds	\$ 4,168,189*	4% amortized, 12 months
3 <sup>rd</sup>	HOPWA Loan	\$ 1,200,000	3% amortized, 12 months
3 <sup>rd</sup>	SHP Capital Grant	\$ 400,000	0%, revocable grant
4 <sup>th</sup>	MHSA Loan	\$ 370,610	3% amortized, 12 months
	Costs Deferred Until Conversion	\$ 524,294	
	<b>Total Development Costs</b>	<b>\$ 6,663,093</b>	

\* \$2,040,000 of this loan will be 3 percent, residual receipts

<b>Debt Position</b>	<b>Permanent Sources</b>	<b>Amount</b>	<b>Terms</b>
1 <sup>st</sup>	MHP Loan	\$ 1,772,483	3%, 55 years, residual receipts
2 <sup>nd</sup>	SDHC Loan – HOME Funds	\$ 2,920,000	3%, 65 years, residual receipts
3 <sup>rd</sup>	HOPWA Loan	\$ 1,200,000	3%, 55 years, residual receipts
4 <sup>th</sup>	SHP Capital Grant	\$ 400,000	0%, revocable grant
5 <sup>th</sup>	MHSA Loan	\$ 370,610	3%, 55 years, residual receipts
	<b>Total Development Costs</b>	<b>\$ 6,663,093</b>	

Project income will produce net cash flow sufficient to fund residual receipts payments at the end of the first year of the project. When residual receipts payments commence, Townspeople would retain 50 percent of the residual cash flow and the remaining 50 percent would be used to make payments on the MHP, Housing Commission, HOPWA and MHSA loans commensurate with each loan’s percentage of participation in the financing. Unpaid principal and interest on the Housing Commission loan would be due and payable upon sale, refinancing, or the maturity of the first position loan, whichever occurs first. In addition, there would be a required minimum annual payment to MHP of .42 percent of the MHP loan amount (\$7,444) and a required minimum annual payment to MHSA of .42 percent of the MHSA loan amount (\$1,557).

The Housing Commission permanent loans would be senior to the HOPWA financial participation; however, the Housing Commission’s Declaration of Covenants, Conditions, and Restrictions would be subordinate to the HOPWA regulatory agreement. Because the HOPWA rent and affordability restrictions would meet or exceed the level of Housing Commission requirements, this would have no effect on the Housing Commission’s ability to restrict occupancy and rents for the development.

**PREVIOUS COUNCIL and/or COMMITTEE ACTION:**

On August 15, 2008, and on September 9, 2008, the Housing Commission and the Housing Authority authorized a loan of up to \$2,040,000 for the acquisition and rehabilitation of this project (Attachment 8 – HCR 08-071). The Loan Committee will review this item on November 4, 2009.

**COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:**

The proposed development was reviewed by the Normal Heights Community Planning Group at its regular meeting on April 1, 2008. The group voted unanimously to support the project and issued a memorandum confirming its support on April 8, 2008.

**ENVIRONMENTAL REVIEW:**

This project is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA guidelines Section 15301 (existing facilities). This proposed activity is Categorically Excluded under the National Environmental Policy Act pursuant to 24 CFR 58.35(a)(3)(ii).

**KEY STAKEHOLDERS & PROJECTED IMPACTS:**

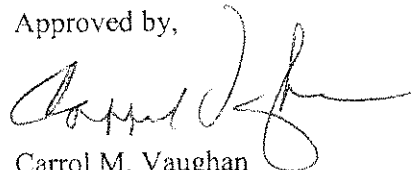
Stakeholders include Townspeople as the nonprofit developer and its clients. The project is expected to have a positive impact on the community because it will contribute to the quality of the surrounding neighborhood and provide much-needed rental housing affordable to extremely low-income individuals and families affected by HIV/AIDS.

Respectfully submitted,



Cissy Fisher  
Vice President  
Special Housing Initiatives

Approved by,



Carrol M. Vaughan  
Executive Vice President &  
Chief Operating Officer

- Attachments:
1. Location Map
  2. Development Summary
  3. Development Timeline
  4. General Application Form
  5. Developer Disclosure Statement\*
  6. Developer Financial Information\*
  7. Housing Commission Loan Terms
  8. HCR 08-071

\*Distribution of these attachments may be limited. 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](http://www.sdhc.org).