



DATE ISSUED: July 13, 2005 REPORT NO. CCDC-05-23

ATTENTION: Chair and Members of the Redevelopment Agency
Docket of July 19, 2005

SUBJECT: Sunburst Apartments - Proposed Owner Participation Agreement with
San Diego Lesbian, Gay, Bisexual, Transgender Community Center
– East Village Redevelopment District of the Expansion Sub Area of
the Centre City Redevelopment Project

REFERENCE: Site Map
Site Photos
Owner Participation Agreement
KMA Financial Analysis

STAFF CONTACT: Dale Royal, Senior Project Manager

SUMMARY

Issue - Should the Redevelopment Agency approve the proposed Owner Participation Agreement with San Diego Lesbian, Gay, Bisexual, Transgender Community Center to develop a homeless youth housing project at 1640 Broadway, and authorize the Executive Director, or designee, to sign all documents necessary and appropriate to carry out and implement the Agreement, and to administer the Agency's obligations, responsibilities and duties to be performed under said Agreement?

Staff Recommendation - That the Redevelopment Agency approve the proposed Owner Participation Agreement between the Redevelopment Agency and San Diego Lesbian, Gay, Bisexual, Transgender Community Center to develop a youth housing project at 1640 Broadway and authorize the Executive Director, or designee, to sign all documents necessary and appropriate to carry out and implement the Agreement, and to administer the Agency's obligations, responsibilities and duties to be performed under said Agreement.

Centre City Development Corporation Recommendation - On May 25, 2005, the Corporation Board of Directors voted 5 in favor, 1 recused of the staff recommendation.

Centre City Advisory ("CCAC") Committee/Project Area Committee ("PAC") Recommendation - On May 18, 2005, the CCAC voted 23 - 0, and the PAC voted 20 - 0 in favor of the staff recommendation.

Other Recommendations - On March 3, 2005, the East Village Association voted unanimously to support the proposed project.

On May 4, 2005, the joint City/County HIV Housing Committee voted unanimously to recommend approval of a County of San Diego loan of \$400,000 to support the project.

On May 6, 2005, the San Diego Housing Commission voted 6-0 to recommend approval of a loan up to \$934,000 to support the proposed acquisition and rehabilitation.

On July 8, 2005, the San Diego Housing Commission voted 5-0 to recommend approval of amendments to the loan terms to accommodate additional public funders, including the Redevelopment Agency, and to approve the Relocation Plan.

Fiscal Impact - The proposed OPA provides for a 55-year Agency loan of up to \$2,545,000. Funds are available in the FY 2005 Centre City Redevelopment Project Low and Moderate Income Housing Fund.

BACKGROUND

The proposed project advances the Visions and Goals of the Centre City Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Providing housing for homeless and runaway youth to address a specific need identified in CCDC's Social Issues Strategy;
- Expanding and improving the supply of low- and moderate-income housing; and
- Facilitating an economically and socially balanced population.

In 1993, CCDC drafted a Social Issues Strategy to identify homeless issues that affect downtown and to suggest solutions to reduce the street population. Affordable housing was identified as a key solution to reducing homelessness.

One segment of the street population that was specifically called out as needing additional housing options is homeless and runaway youth. The San Diego Regional Task Force on Homelessness estimates that there are approximately 110 homeless youth on the streets at any given time. Although often considered the "hidden homeless" because they rarely congregate, youth impact downtown's street population because there is a strong link between adult homelessness and youth leaving the foster care system. According to the Corporation for Supportive Housing, up to 40% of youth leaving the foster care system without being adopted become homeless. That has long-term impact as about 40% of homeless adults were in the foster care system.

The Social Issues Strategy outlines the need for three types of housing for homeless and runaway youth: emergency shelter beds (housing for up to 60 days), transitional housing beds (housing for up to two years), and permanent affordable housing units (independent living linked to supportive services). To date, projects have been developed to address the first two levels, but nothing has been developed to provide permanent housing for youth leaving transitional or emergency housing or aging out of foster care.

EXISTING HOUSING FOR HOMELESS AND RUNAWAY YOUTH		
Emergency Shelter Beds	Transitional Housing Beds	Permanent Supportive Affordable Housing
20 beds operated by San Diego Youth and Community Services.	20 beds operated by San Diego Youth and Community Services. 30 beds operated by St. Vincent de Paul. 24 beds operated by YMCA Youth and Family Services.	None
20 beds	74 beds	None

The San Diego Lesbian, Gay, Bisexual, Transgender Community Center (“the Center”), a private, non-profit organization, is proposing to develop a permanent supportive affordable housing project to address the need for housing for homeless and runaway youth. Established in 1973, the Center is the nation’s second oldest and third largest center serving the lesbian, gay, bisexual, transgender community. The Center has more than 30 years of experience as a health and human services agency serving about 15,000 community members every year through its programs, events and activities.

The Center has been in the planning process for three years. They have conducted a needs assessment which included interviews of more than 400 homeless youth, consultation with local experts on best practices, and meetings with various property management and neighborhood groups.

After searching for over a year for a suitable building, the Center found the subject property located at 1640 Broadway in downtown San Diego. The building is located on the northwest corner of 17th Street and Broadway in the East Village neighborhood, next to City College. It is an existing 24-unit apartment building built in 1926, known as the Sunburst Apartments. The property is improved with a four-story building and small courtyard in the back. The building was completely remodeled and modernized in 2004. A site map and photos are attached as Exhibits A & B.

In December 2004, the Center contacted CCDC to discuss the possibility of applying for Agency financial assistance to acquire and convert the apartment building into affordable supportive housing for homeless youth. To avoid the possibility of the property being sold to other prospective buyers, the Center secured short-term acquisition loans from the Low Income Investment Fund and the Corporation for Supportive Housing to acquire the property in January 2005. The Center is requesting financial assistance from the Agency to provide long-term permanent financing to replace its short-term acquisition loans.

On March 23, 2005, a joint meeting of the Centre City Development Corporation's Budget/Finance and Real Estate (Planning and Projects) Committees considered the Center's request for funding. The Committee raised questions about the project's subsidy level and proposed loan terms. The Committee directed staff to return with more information about the project's benefits and a cash flow analysis.

DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Developer/Property Owner San Diego Lesbian, Gay, Bisexual, Transgender Community Center	Dr. Delores Jacobs, CEO Amber Cyphers	Non-profit Corporation (Privately Owned)
Property Manager The Association for Community Housing Solutions ("TACHS")	Kimberly Russell-Shaw	Non-profit Corporation (Privately Owned)
Architect Zagrodnik + Thomas Architects LLP	Jean Zagrodnik	Jean Zagrodnik (Privately Owned)
Development Consultant Pat Getzel & Associates	Pat Getzel	Pat Getzel (Privately Owned)

DISCUSSION

Scope of the Project - The building rehabilitation would provide improved access via a ramp and a wheel chair lift. The improvements to the building entrance and to two residential units would be designed and retrofitted to American with Disabilities Act ("ADA") standards and the principles of universal design.

Project Budget & Financing - The Center owns and operates the property, which has been appraised at \$3,100,000. The applicant proposes to finance acquisition and rehabilitation with a combination of private equity, financing and public subsidy, as follows:

Sources of Funds (by order of lien position)	Amount	Terms
Redevelopment Agency (CCDC)	\$2,545,000	55-year residual receipts loan, 3% interest
San Diego Housing Commission	\$934,000	55-year residual receipts loan, 3% interest
County of San Diego Housing Opportunities for People With AIDS ("HOPWA")	\$400,000	55-year residual receipts loan, 3% interest
Loan from The Center (loan proceeds secured through refinancing of office building at 3909 Centre Street)	\$194,000	8-year loan, 6.33% interest
Equity from The Center (owner contribution)	\$50,000	cash contribution
TOTAL	\$4,123,000	

Uses of Funds	Amount
Acquisition	\$3,348,000
Direct Costs for Building Rehabilitation	\$229,000
Indirect Costs	\$368,000
Financing Costs	\$178,000
TOTAL	\$4,123,000

Participation by Agency - The Center is requesting Agency assistance in the amount of \$2,545,000 to finance the acquisition and rehabilitation of the property at 1640 Broadway. The total project cost is estimated to be \$4,123,000, which includes approximately \$3,348,000 for acquisition.

Proposed Schedule of Performance -

Start of Building Rehabilitation	August 2005
Completion of Rehabilitation	November 2005
Full Occupancy	December 2005

Project Benefits - The Project will add to the much-needed supply of housing for homeless and runaway youth, and CCDC's affordable housing production requirements.

PROJECT DESCRIPTION

The proposed project would convert the existing 24-unit apartment building into permanent rental housing serving homeless youth between the ages of 18-24 years with mental illness, substance abuse or HIV/AIDS diagnosis as a disabling condition. A total of 23 units would be reserved for very low-income persons with 55-year affordability restrictions, and there would be one unit without income restrictions to serve as a manager's unit.

Residential Project -

Type of housing	Special purpose rental housing
Total number of units/total square feet	24 units/13,900 total square feet
Number of bedrooms/unit (and unit size)	22 studios (400 square feet) 2 one-bedrooms (500 square feet)
Rent Range	\$230 to \$335 per month
Land Area	5,000 square feet
Number of units forecast for site/block	200 units
Number of units demolished	None
Ratio of housing cost to income ¹ (median household income = \$63,400 ²)	Rent-restricted to 30% of income

Essential Terms and Conditions

Staff recommends that the Agency support the proposed homeless youth housing project with a loan of up to \$2,545,000. The project would result in an Agency subsidy of approximately \$110,652 per affordable unit.

Given that homeless housing projects generate very little cash flow and have higher operating expenses than standard residential projects, it is recommended that the residual receipts loan be structured with no expectation of repayment. The Agency's share of the project's annual net operating income would be retained by the Center to cover operating expenses.

¹ Ratio should be based on gross monthly income to estimated monthly mortgage/rent payment.

² Citywide median income according to 2004 United States Census Department information.

Keyser Marston Associates (“KMA”), economic consultants to the Agency, conducted a feasibility analysis of the proposed project (see Exhibit D - KMA Analysis). Based on KMA’s analysis, the project’s minimal cash flow could support debt of approximately \$190,000. As requested by staff, the Center approached several private lenders to ask them to provide a loan, but no lenders expressed interest saying that the loan amount was too small. As an alternative, the Center has proposed to use its own funds secured from the refinancing of its office building in Hillcrest to provide a loan to the project. The loan would be repaid from the project’s net operating income with a 6.33% interest rate to cover the cost of funds with no additional financing costs.

The following is a summary of the proposed OPA (attached as “Exhibit C”):

- The Agency will make a residual receipts loan to the Center in an amount not to exceed \$2,545,000 with a 55-year term and simple interest rate of 3%, with repayment from the project’s cash flow. The residual receipts shall be divided as 50% to the Center and the remainder a pro-rate sharing with the three public funding agencies: Redevelopment Agency, San Diego Housing Commission, and County of San Diego;
- The Agency’s share of residual receipts (66%) shall be retained by the project to cover future operating expenses or to make payments to Operating Reserves;
- Agency funds will be allocated in two disbursements \$2,445,000 at closing and \$100,000 at completion;
- The loan will be in first position secured by a lien on the property with a first deed of trust recorded in favor of the Agency;
- The Agency will record covenants against the property to restrict the income and affordability restrictions for 55 years on 23 rental units;
- Twenty-three of the units shall be income-restricted as follows:

<u>Unit Type</u>	<u>Income Restrictions</u>
7 Studio	@ 30% AMI (\$13,320 for 1 person)
15 Studio	@ 50% AMI (\$22,200 for 1 person)
1 One-Bedroom	@ 30% AMI (\$25,350 for 2 persons)

- The Center shall be responsible for the cost of developing the Project, including any off-site or on-site improvements required by the City; and
 - The Center shall be responsible for any potential relocation claims or costs related to the project.
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PROJECT ANALYSIS AND IMPACT ASSESSMENT

Housing Impact -

- The project would address a specific need identified in the CCDC Social Issues Strategy to provide permanent supportive affordable housing to homeless youth.
- Housing these homeless youth in a single building, rather than scattered sites, allows the program manager to provide stronger management and higher quality services at a lower cost.
- KMA’s feasibility analysis of the proposed project concluded that the development budget and the amount of Agency gap funding requested are acceptable for a project of this type.
- The project could be funded through the Agency’s Low and Moderate Income Housing Fund, but would not be a good candidate for the collaborative Notice of Funding Availability (“NOFA”) process because the NOFA prioritizes projects that expand housing supply with new construction rather than rehabilitation of existing units, as proposed.
- The project represents a cost-effective way to provide homeless housing through the acquisition of a building which can serve hundreds of individuals over the 55-year period of affordability restrictions. Assuming each tenant stays an average of 18 months, the 24-unit project would serve over 800 persons over 55 years.
- The building is designated a historic structure and a storm drain easement is located immediately to the west of the property. Both factors limit the redevelopment potential of this corner of the block. The proposed project would preserve the historic building and provide affordable housing without hindering redevelopment activities proposed on the balance of the block.
- At \$151,000 per affordable unit, the proposed total local public subsidy (\$2,545,000 from Agency + \$934,000 from Housing Commission) is higher but still within the range of recent special purpose affordable housing projects. The table below provides five examples:

Year	Special Purpose Housing Project (Developer)	Target Group	Location	Affordable Units *	Total Local Subsidy	Subsidy per Unit
1994	Wing Street (SDYCS)	Youth	Point Loma	15	\$1,360,000	\$91,000

Year	Special Purpose Housing Project (Developer)	Target Group	Location	Affordable Units *	Total Local Subsidy	Subsidy per Unit
1998	Del Mar Apartments (TACHS)	Mentally-ill	West Park	17	\$2,500,000	\$147,000
2002	The Storefront (SDYCS)	Youth	West Park	5	\$500,000	\$100,000
2003	Leah Residence (Catholic Charities)	Women	Downtown	23	\$1,975,000	\$86,000
2004	Veteran's Village (VVSD)	Homeless Veterans	Midway	28	\$2,282,000	\$81,500

* Reflects affordable units counted towards redevelopment production goals (i.e. half-credit for units outside of downtown).

- The project's location inside the Centre City Redevelopment Project means that the Agency would get full credit for all 23 affordable units created to count towards CCDC's affordable housing production requirements.

Environmental Impact - This activity is categorically exempt from CEQA pursuant to State CEQA Guidelines Section 15301.

SUMMARY/CONCLUSION

Staff recommends that the Agency approve the proposed Owner Participation Agreement with the Center to develop a homeless youth housing project at 1640 Broadway.

Respectfully submitted,

Dale Royal
Senior Project Manager

Approved: Peter J. Hall
President

Attachment(s):

- Exhibit A - Site Map
- Exhibit B - Site Photos
- Exhibit C - Owner Participation Agreement
- Exhibit D - KMA Financial Analysis