

**Centre City
Development
Corporation**

DATE ISSUED: February 21, 2007 REPORT NO. CCDC-07-04

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of February 27, 2007

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Sunburst Apartments (1640 Broadway) – First Implementation
Agreement to 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

COUNCIL DISTRICT(S): District 2

REFERENCE: None

STAFF CONTACT: Dale Royal, Senior Project Manager, (619) 533-7108
Eri Kameyama, Associate Project Manager, (619) 533-7177

REQUESTED ACTION:

Redevelopment Agency approval of a First Implementation Agreement to the Owner Participation Agreement between the Redevelopment Agency of the City of San Diego (“Agency”) and San Diego Lesbian, Gay, Bisexual, Transgender Community Center for the Sunburst Apartments project.

STAFF RECOMMENDATION:

That the Agency approve a First Implementation Agreement (“Amendment”) to the Owner Participation Agreement (“OPA”) with San Diego Lesbian, Gay, Bisexual, Transgender Community Center (“Center”) to increase the Agency loan by \$230,000 to cover the unanticipated increases in building rehabilitation costs and flood insurance for the Sunburst Apartments project located at 1640 Broadway in the East Village Redevelopment District.

SUMMARY:

The proposed Amendment modifies the OPA to increase the Agency loan from \$2,545,000 to \$2,775,000. The additional \$230,000 in funds will be used to cover the unanticipated increases in building rehabilitation costs and flood insurance.

FISCAL CONSIDERATIONS:

Funds in the amount of \$230,000 are available in the FY 2007 Centre City Low and Moderate Income Housing Fund.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:

On October 25, 2006, the Corporation Board of Directors approved the Amendment to increase the Agency loan from \$2,545,000 to \$2,775,000.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

BACKGROUND

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

- Expanding the supply of projects that serve homeless and special-needs populations;
- Assisting in the development of affordable, permanent-supportive housing; and
- Encouraging the rehabilitation and reuse of designated historic properties.

The Sunburst Apartments is a 24-unit apartment building located at 1640 Broadway, owned by the San Diego Lesbian, Gay, Bisexual, Transgender Community Center (“Center”), providing affordable, permanent-supportive housing for homeless youth (Attachments A and B). The building consists of 22 studios and 2 one-bedroom apartments. A total of 23 units are income-restricted, with 8 units affordable to persons at 30% area median income and 15 units at 50% of area median income.

On July 19, 2005, the Agency entered into an OPA with the Center to assist in financing the acquisition and rehabilitation of the building. The Agency provided a 55-year residual receipts loan with a simple interest rate of 3%, in an amount not to exceed \$2,545,000.

After the Center started the rehabilitation work on the 80-year old building, several major structural problems were discovered that required repair. In addition, the Center was required to obtain flood insurance based on a determination made by the County of San Diego. As a result, the total development cost increased by \$230,000. In June 2006, the Center notified staff of the cost increases and requested that the Agency increase its loan amount to cover the additional costs. Staff agreed to prepare a request for Agency consideration. If approved, disbursement of the additional Agency funds would be conditioned upon receipt of certification by the project architect that the project has been completed in a good and workmanlike manner and in accordance with the approved plans and specification.

In October 2006, the CCDC Board approved an Amendment to the OPA to increase the Agency funding by \$230,000. Because the Housing Commission also provided funding for the project, the change to the project financing requires joint approval by the Agency and Housing Authority. The Housing Commission did not have any regularly scheduled meetings in December 2006 or January 2007. As such, this item was not reviewed and considered by the Housing Commission until February 9, 2007. In the meantime, the Center paid for the additional costs (for which it is seeking reimbursement), and the project received its final inspection approval. The building is currently operating and fully occupied.

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)

ROLE/FIRM	CONTACT	OWNED BY
Property Manager The Association for Community Housing Solutions	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)
General Contractor Grondin Construction, Inc.	Anthony Grondin	Anthony Grondin (Privately Owned)

DISCUSSION

Scope of the Project – The scope included acquisition and rehabilitation of the building. The scope of rehabilitation included installation of an access ramp and hydraulic lift for wheelchairs, and remodeling of two ground-floor units for Americans with Disabilities Act (“ADA”) compliance.

Project Budget and Financing – The original projected cost for acquisition and rehabilitation of the building was approximately \$4,122,000. The actual cost was \$230,000 higher, for a total of approximately \$4,352,000. The Center is requesting an additional \$230,000 in Agency funds to cover the cost increases.

Disposition of Property – The Center is both the property owner and owner of the building.

Participation by Agency – The OPA provides for a 55-year Agency loan in the amount of \$2,545,000. The proposed Amendment would increase the loan by \$230,000 to \$2,775,000, which equates to a subsidy of approximately \$121,000 per-affordable unit.

Proposed Schedule of Performance – The rehabilitation of the building was completed in the summer of 2006, and received final inspection approval in October 2006. Currently, the building is operating and fully occupied.

Project Benefits –

- The project addresses a specific need in the Downtown Community Plan and the City’s Plan to End Chronic Homelessness by providing permanent-supportive affordable housing to homeless youth;
- 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 23-unit project would serve over 700 persons over 55 years;
- Housing homeless youth in a single building, rather than scattered sites, allows a program manager to provide stronger management and higher-quality services at a lower cost; and

- 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 project has provided for reuse of a historic structure.

PROJECT DESCRIPTION

During the course of rehabilitation, significant cost increases occurred when several major, previously undisclosed, structural problems were discovered by the general contractor that required repair. The general contractor also issued several change orders for costly repairs for items such as plumbing leaks, improperly routed water-supply lines, gas-line leaks, inadequate soundproofing, and additional requirements for ADA compliance in the kitchen/bath areas. The final rehabilitation cost was \$110,000 above the originally-budgeted amount.

In addition, the County of San Diego's risk assessment staff determined that the building is located in a flood plain, which requires the property owner to obtain flood insurance. The additional annual expense is \$12,000.

The Center is requesting funds for ten years of flood insurance at \$120,000 and \$110,000 to cover the building rehabilitation cost increases, for a total of \$230,000.

The essential terms and conditions of the proposed First Implementation Agreement are:

- 1) Revise the Project Budget to include the building rehabilitation and flood insurance cost increases.
- 2) Modify the Sources of Financing in the Method of Financing to increase the Agency loan by \$230,000 from \$2,545,000 to \$2,775,000, as shown:

SOURCES OF FUNDS (by lien position)	AMOUNT	TERMS
Redevelopment Agency	\$2,775,000	55-year residual receipts loan, 3% interest
San Diego Housing Commission	\$934,000	55-year residual receipts loan, 3% interest
County of San Diego	\$400,000	55-year residual receipts loan, 3% interest
Private Loan from The Center	\$193,000	8-year loan, 6.33% interest
Owner Equity	\$50,000	Cash contribution
TOTAL	\$4,352,000	

- 3) Modify the Percentage Share of Residual Receipts in the Method of Financing for repayment of the three residual receipts loans to reflect the new proportional share of debt as follows:

LENDER	PERCENTAGE SHARE OF RESIDUAL RECEIPTS
Redevelopment Agency	50% x 67%
Housing Commission	50% x 23%
County of San Diego	50% x 10%

- 4) Revise the Schedule of Performance to extend the deadline for Completion of Rehabilitation to occur within 450 days after the Agency loan closing date.

PROJECT ANALYSIS AND IMPACT ASSESSMENT

Housing Impact – The completed project maximizes the number of affordable units by restricting 23 out of 24 units as low-income units available for homeless youth. The project contributes to the Agency’s goal of expanding the existing stock of affordable housing in the City, and also meets priorities identified in the Downtown Community Plan. By preserving and utilizing the existing historic building, the project advances the objectives of the Centre City Redevelopment Project.

Environmental Impact – The City of San Diego determined that the acquisition and rehabilitation of the project was categorically exempt under the California Environmental Quality Act (“CEQA”) pursuant to Section 15301 (Existing Facilities) of the CEQA guidelines and that this activity is not a separate project for purposes of CEQA review per CEQA Guidelines Sections 15060(c)(3) and 15378(c).

CONCLUSION


The Sunburst Apartments serves a critical need in downtown by providing 23 units of affordable, permanent-supportive housing for homeless youth. The proposed First Implementation Agreement will provide the Center additional financial assistance to cover the unanticipated cost increases for building rehabilitation and the unanticipated cost for flood insurance.

Respectfully submitted,

Concurred by:



Dale Royal
Senior Project Manager



Nancy C. Graham
President



Eri Kameyama
Associate Project Manager

Attachment(s):

- A – Site Map
- B – Site Photos
- C – First Implementation Agreement to Owner Participation Agreement

