Centre City
Development
Corporation

DATE ISSUED: March 21, 2007 REPORT NO. CCDC-07-08

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

ORIGINATING DEPT: Centre City Development Corporation

SUBJECT: Ninth & F Street Lofts (Leah Residence) (798 Ninth Avenue) – Second Implementation Agreement to Owner Participation Agreement with Catholic Charities 9th and F Street Apartments LP, a California limited partnership -- East Village Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project

COUNCIL DISTRICT(S): 2

REFERENCE: None

STAFF CONTACT: Eli Sanchez, Senior Project Manager (619)533-7121

REQUESTED ACTION:
Redevelopment Agency approval of a proposed Second Implementation Agreement to the Owner Participation Agreement ("OPA") with Catholic Charities 9th and F Street Apartments LP, a California limited partnership ("Catholic Charities") for the Ninth & F Street Apartments project located at 798 Ninth Avenue in the East Village Redevelopment District.

STAFF RECOMMENDATION:
That the Redevelopment Agency of the City of San Diego ("Agency"):

- Adopt a resolution approving the proposed Second Implementation Agreement to the Owner Participation Agreement with Catholic Charities for the Ninth & F Street Apartments project to revise the Method of Financing; and

- Authorize the Executive Director, or designee, to sign all documents necessary and appropriate to carry out and implement the OPA as amended by the Second Implementation Agreement and to administer the Agency's obligations, responsibilities and duties to be performed under said OPA.

SUMMARY:
The proposed Second Implementation Agreement modifies the Sources of Funds for the project under the OPA entered into by the Agency on September 4, 2002, as modified by the First Implementation Agreement dated February 12, 2004, to provide for an additional $852,500 from

the San Diego Housing Commission ("SDHC"). The project has completed construction and the Agency loan funds of $1,844,000 have been disbursed. The additional $852,500 will be used to retire the "bridge" financing funded by Catholic Charities to provide for the cost increases to the total development cost and to take out the Construction Loan.

FISCAL CONSIDERATIONS:
The OPA provides for a 55-year Agency loan ("Residual Receipts Loan") of $1,244,000, and a 55-year Agency loan, without interest ("Deferred Payment Loan"), for $600,000. The construction is complete and Agency low and moderate income funds have been disbursed in the amount of $1,844,000. As a result of the proposed revision of the Method of Financing under the Second Implementation Agreement, the principal of the Agency Residual Receipts Loan will not be reduced to $743,000 as anticipated by the financing structure under the First Implementation Agreement.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:
On February 28, 2007, the Centre City Development Corporation Board voted in favor of the staff recommendation.

OTHER RECOMMENDATIONS:
On February 9, 2007, the San Diego Housing Commission approved and forwarded to the Housing Authority a recommendation to increase an existing $75,000 loan to $927,500 for permanent financing for the Leah Residence project. The Housing Authority is scheduled to consider the increase to the loan at its March 20, 2007 meeting.

BACKGROUND

On September 4, 2002, the Agency entered into an OPA with Catholic Charities to develop and construct a 24-unit, residential development, with 23 units of affordable rental housing for very-low-income households. The Agency provided the Catholic Charities with the following two loans:

1) 55-year Agency loan ("Residual Receipts Loan") for $1,244,000, with a simple interest rate of 5%; and
2) A 55-year, non-interest, Agency loan ("Deferred Payment Loan") for $600,000.

The First Implementation Agreement, dated February 12, 2004, provided for an increase in the Construction Loan from $1,500,000 to $2,530,000, and an increase in the Permanent Loan from $244,000 to $745,000. In addition the First Implementation Agreement provided for changes for the disbursement of the Deferred Payment funds. Although the Agency undertook a greater risk during construction, the increased Permanent Loan was to be used partly to reduce the principal amount of the Residual Receipts Loan from $1,244,000 to $743,000. Attachment B provides a table comparing the existing permanent financing to the proposed permanent financing per the Second Implementation Agreement.

The Leah Residence facility, located at 798 Ninth Avenue, was completed in May 2005 and the units are leased and fully operational. The Leah Residence currently houses formerly homeless women and formerly homeless women with children. The special needs residents are those who are recovering from substance abuse or mental illness and those who are dually-diagnosed. The tenants have easy access to educational and case management services that help them maintain the ability to live independently.

DEVELOPMENT TEAM

| ROLE/FIRM | CONTACT | OWNED BY |
|---|---|---|
| **Owner-** Catholic Charities, 9th and F Street Apartments LP, a California limited partnership | RayMonda DuVal | Catholic Charities Diocese of San Diego (general partner) a California non-profit corporation ("CCDSD") |
| **Fee Developer-** OliverMcMillan Company | Vince Nicholas | James L. McMillan, Morgan Dene Oliver, and William P. Persky (privately owned) |
| **General Contractor-** Harper Construction | Rick Zanchetta | Ron Harper, Sr. (privately owned) |
| **Architect-** Studio E | John Shehan | John Shehan and Brad Burke (privately owned) |
| **Tax Credit Investor-** Enterprise Community Investment, Inc. | a corporation | Limited Partner |

DISCUSSION

The cost of construction increased the total development cost of the project from the original estimate of $5.9 million to approximately $6.8 million. Significant increases occurred in material and labor costs, excavation, shoring and related soils work, on- and off-site construction costs, a much higher operating reserve requirement by the tax credit investor and construction related insurance. Total residential income was also reduced because of two significant changes: 1) the project only realized a 25% Project Based Section 8 participation by HUD rather than the anticipated 100%; and 2) all 23 units were anticipated to be restricted at 40% AMI, however to meet TCAC competitive standards, 10% (3) of the units across all bedroom sizes had to be restricted at 30% AMI instead of at 40%.

Catholic Charities, with support from its conventional lenders and tax credit investor, agreed to eliminate the permanent 10-year amortizing loan from the conventional lender because the decreased income and increased operating expenses did not make it feasible to support an amortizing loan. Catholic Charities has applied to SDHC for an increase of $852,500 to an existing $75,000 loan resulting in a $927,500 zero-interest, 55-year deferred payment loan from funds collected through the Inclusionary Housing In-lieu Fee program. The additional SDHC funds will be used to retire the "bridge" financing funded by Catholic Charities to provide for the cost increases to the total development cost and to take out the Construction Loan.

A summary of the essential terms of the proposed Second Implementation Agreement follows:

- Modify the Method of Financing to revise the permanent sources of financing to:
  - Delete the Conventional Permanent Loan;
  - Increase the Agency Residual Receipts Loan to the original principal amount of $1,244,000;
  - Delete Accrued/Deferred Interest;
  - Delete Income from Operations;
  - Decrease Deferred Developer Fee to $200,000;
  - Decrease Developer Equity from $725,931 to $514,760;
  - Increase SDHC Loan from $75,000 to $927,500; and
  - SDHC Loan to be a zero-interest, 55 year deferred payment loan.

Project Benefits – The financing restructure proposed by the Second Implementation Agreement allows Catholic Charities to retire the "bridge" financing of $848,327 advanced by CCDSD to fund the cost increases and to take out the Construction Loan. Without the Housing Commission loan increase, CCDSD would have to maintain its significant cash equity position in the development. The nonprofit would have fewer financial resources available to support its programs or expand its facilities, resulting in less assistance for the needy population it serves.

PROJECT ANALYSIS AND IMPACT ASSESSMENT

Housing Impact – The project is obligated to maintain 55-year affordability restrictions making twelve studio apartments affordable to tenants with annual incomes at 40 percent of AMI (currently $19,300), five one-bedroom apartments affordable to tenants with annual incomes at 40 percent of AMI (currently $22,100), and six two-bedroom apartments affordable to tenants with annual incomes at 40 percent of AMI (currently $24,850). Notwithstanding income level, tenants would pay no more than 30 percent of their incomes in rent.

Environmental Impact – The Agency certified, on July 9, 2002, by Resolution No. 03500, that the Agency had reviewed and considered information in the Master Environmental Impact Report (MEIR) for the Centre City Redevelopment Project, the Subsequent Environmental Impact Report (SEIR) for the Proposed Ballpark and Ancillary Development Projects and the Environmental Secondary Study for the Catholic Charities Mixed Use Development Project. No further environmental review is required.

CONCLUSION

The twenty-four unit Leah Residence (9th & F Street Lofts) completed construction in September 2005. The completed project assists with the elimination of blight, provides social services to the community, and provides housing of twenty-three units exclusively for occupancy by persons or families of very low income whose income does not exceed forty percent (40%) of the area median income. The financing restructure proposed by the Second Implementation Agreement allows Catholic Charities to retire the "bridge" financing funded by CCDSD to provide for the cost increases to the total development cost and to take out the Construction Loan.

Respectfully submitted,

Eli Sanchez
Senior Project Manager

Concurred by:

Nancy C. Graham
President

Attachment(s):

A – Second Implementation Agreement
B – Permanent Financing Comparison Table