

Southeastern
Economic
Development
Corporation

Memorandum

Date Issued: October 24, 2007 Report No. SEDC 07-007
Meeting of: October 30, 2007
To: Honorable Chair and Members of the Redevelopment Agency
Council President and Members of the San Diego City Council
From: Carolyn Y. Smith, President
Subject: Approval of a Rehabilitation Loan Agreement and a Refinancing Loan Agreement
between the Redevelopment Agency of the City of San Diego (Agency) and Mayberry
Townhomes, LP, for the Mayberry Townhomes
Reference: None

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REQUESTED ACTION

That the Redevelopment Agency of the City of San Diego (Agency) and the City Council of the City of San Diego (City Council) take such actions as necessary to provide for the rehabilitation and refinancing loan agreements for the Mayberry Townhomes multi-family residential rental development.

STAFF RECOMMENDATION TO THE REDEVELOPMENT AGENCY AND THE CITY COUNCIL

That the Redevelopment Agency of the City of San Diego (Agency) adopts a resolution to:

- Approve a rehabilitation loan agreement and a refinancing loan agreement between the Redevelopment Agency of the City of San Diego (Agency) and the Mayberry Townhomes, A California Limited Partnership (Mayberry Townhomes, LP), to fund the residential rehabilitation and loan refinancing for the Mayberry Townhomes located at 44th and Mayberry Streets; and
- Make certain findings that the use of funds from the Southcrest Redevelopment Project Low and Moderate Income Housing Fund for the Mayberry Townhomes will be of benefit to very low and low income residents in the Southcrest Redevelopment Project Area.

And that the City Council of the City of San Diego adopts a resolution to:

- Make certain findings that the use of funds from the Southcrest Redevelopment Project Low and Moderate Income Housing Fund for the Mayberry Townhomes will be of benefit to the Southcrest Redevelopment Project Area.

SUMMARY

BACKGROUND

The Mayberry Townhomes are located at 4328-4490 Mayberry Street in the Southcrest community of San Diego. The project, constructed in 1984, consists of 18 buildings with 35 two-bedroom units and 35 three-bedroom units on approximately three acres. Approximately one-half of the site, containing 34 residential units, is located within the Southcrest Redevelopment Project Area. Sixty-nine of the units are restricted to be rented to very low, low and

moderate-income families as a result of the various funding sources. The current income restrictions have been allocated in the following income categories:

Area Median Income Level (AMI)	2007 San Diego AMI Limit (for a family of four)	Number of Restricted Units
50%	\$35,100	7
60%	\$42,120	21
80%	\$56,150	41
TOTAL		69 Units

It should be noted that the San Diego Area Median Income (AMI) is determined annually by the Department of Housing and Urban Development (HUD). The current AMI for a family of four in San Diego is \$69,400.

The existing rental restrictions are for 55 years from the date of acquisition of the site in 2003 by the Metropolitan Area Advisory Committee on Anti-Poverty of San Diego, Inc., (MAAC Project). The restrictions will terminate in 2058.

Since acquiring the site in 2003, the MAAC Project has completed those repairs that are related to health and safety issues, including:

- Tent and termite treatment for all 18 buildings
- Addition of gas line shut-off valves for earthquake safety
- Addition of handicap accessibility ramp to manager unit
- Painting of building exteriors; and
- Resealing of 150' retaining wall

In addition, two units have been rehabilitated in 2007 through the interim funding provided by the San Diego Housing Commission. MAAC retains one unit for the on-site manager.

DISCUSSION – The Mayberry Townhomes, LP, whose general partner is the Metropolitan Area Advisory Committee on Anti-Poverty of San Diego County, Inc., (MAAC Project) has requested from SEDC two (2) loans to be utilized for the rehabilitation of the property and for the refinancing of an existing higher interest loan. Following a period of negotiations with SEDC, MAAC and the Housing Commission, SEDC was ready to recommend approval of the loan agreements.

Funding Request - The funding requested by the Mayberry Townhomes, LP, will be utilized for two purposes: 1.) The rehabilitation of the property and the residential units, and; 2.) The refinancing of an existing, higher-interest loan from the Low Income Investment Fund. The existing and proposed debt for the property is as follows:

MAYBERRY TOWNHOMES - FINANCING SUMMARY			
Current Financing		Proposed Financing	
ARCS / Tax Exempt Bonds	\$3,400,000	ARCS / Tax Exempt Bonds	\$3,400,000
ARCS Commercial Loan	\$1,900,000	ARCS Commercial Loan	\$1,900,000
Low Income Investment Fund (LIIF)	\$770,957	Agency Refinancing Loan	\$799,956.80
Wells Fargo	\$500,000	Wells Fargo	\$500,000
San Diego Housing Commission	\$670,000	San Diego Housing Commission	\$670,000
		Agency Rehabilitation Loan (rounded)	\$799,370

Total Proposed Agency Assistance (rounded) \$1,599,327 Per Unit \$22,848

Refinance Loan – The refinancing funds requested total approximately \$799,956.80 (including closing costs), and will reduce current debt payments of \$59,316 by \$31,000 per year (this due to the new Agency loan), which reduces the interest rate from 7% to 3%. The new annual debt service will be paid to the Agency in the amount of \$28,000. The term of the proposed refinancing loan will be 55 years.

Rehabilitation Loan - Rehabilitation funds requested total approximately \$799,370. The Housing Rehabilitation Loan Agreement provides for a loan of the Low- and Moderate-Income Housing funds for repair and construction work to both the interior of the residential units and the common areas of the property. The loan is proposed at a 3% interest rate for a term of 55 years. Annual payments are to be made from a portion of the residual receipts. Fifty percent (50%) of the residual receipts are to be returned to Mayberry Townhomes, LP, and 50% of residual receipts are to be distributed on a pro-rata share to the Housing Commission and the Agency, based on the level of funding provided by each agency. The following is a break down of the repayment via residual receipts.

Pro-Rata Return of Residual Receipts		
	<u>Level of Funding Provided to Project</u>	
Redevelopment Agency	\$ 799,370	54%
San Diego Housing Commission	\$ 670,000	46%
Total	\$1,469,370	100%

The proposed rehabilitation work is scheduled to be completed within a six-month time period. The proposed budget for rehabilitation work is as follows:

Proposed Budget for Mayberry Townhomes

Rehabilitation Items	Total Cost
Hard Costs	
Rehabilitation of units	
Painting	\$ 79,300
Plumbing	\$ 174,260
Electrical	\$ 22,100
Flooring	\$ 143,000
Finishes	\$ 15,600
Appliance Allowance	\$ 96,000
Kitchen Repair Allowances	\$ 60,000
Bathroom Repair Allowances	\$ 4,000
Mold Remediation	\$ 4,000
General Roof Repairs at penetrations	\$ 6,500
Landscaping	\$ 20,000
Asphalt Repair in Parking Lot	\$ 14,500
Sub Total	\$ 639,260
15% Contingency	\$ 95,889
Total Hard Costs	\$ 735,149

Soft Costs	
Construction Management	\$ 36,000
Relocation Costs (temporarily relocate to new unit in project)	\$ 21,350
Studies/Contracts including Development Consultant	\$ 5,000
Sub Total	\$ 62,350
3% Contingency	\$ 1,871
Total Soft Costs	\$ 64,221
TOTAL REHABILITATION REQUEST	\$ 799,370

Affordability Restrictions - The Agency's proposed use of its 20% tax increment housing set-aside requires the restriction of the units in accordance with California Community Redevelopment Law (CRL). The current level of affordability restrictions on all 69 units will extend for 55 years after the completion of the rehabilitation work (from the date of the recordation of the Release of Construction Covenants). These restrictions are enforced through the Agreement Affecting Real Property to be recorded at the San Diego County Recorder's Office. Due to the fact that the units are currently income restricted and have 51 years remaining, the new restriction will add an additional 4 years of affordability. It is SEDC's intent to have the Housing Commission monitor the on-going affordability requirements.

The Agency has the right to enforce the provisions contained in the Agreement Affecting Real Property, including:

- Restrictions on 69 of the units to families of very low, low and moderate-income at the same level of affordability as currently restricted - to families earning 50%, 60% and 80% of Area Median Income.
- Provides for those persons who have been displaced by any redevelopment project to have first priority to rent the available units.
- Requires the owner to comply with the Agency and/or Housing Commission monitoring program to enforce the affordability and priority covenants on the property.
- Requires the owner to comply with the Employment and Training Agreement to recruit employees who are southeastern San Diego area residents.
- Requires the owner to maintain the property and in the event the owner fails to maintain the property, the Agency has the right to correct any violation at the expense of the owner.
- Requires the owner to be responsible for the operation of the property, gives the Agency the right to review and approve the property manager, and provides for termination of the property manager in the event the property manager does not cure any violations occurring on site.

ALTERNATIVE - Do not approve the requested loan agreements with the Mayberry Townhomes, LP. This alternative would not allow the project to proceed and would prevent an opportunity to assist and preserve a significant affordable housing resource.

FISCAL CONSIDERATION - The Mayberry Townhomes, LP, whose general partner is the MAAC Project is requesting funds totaling \$1,565,370, consisting of a rehabilitation loan in the amount of \$799,370 and a refinancing loan in the amount of \$799,956.80. Funding for the loans has been included in the FY 07/08 SEDC Project Budget approved by the SEDC Board on April 25, 2007, and by the City Council/Agency on May 15, 2007. Funding of the

\$799,370 rehabilitation loan has been identified from the FY 2007 Southcrest Series B Tax-Exempt, Tax Allocation Bonds Low-Mod Housing Fund. Funding of the refinance loan has been identified from the FY 2007 Southcrest Series A Taxable, Tax Allocation Bonds Low-Mod Housing Fund.

PREVIOUS AGENCY and/or COMMITTEE ACTION - None.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS – On May 30, 2007, the SEDC Board of Directors approved the recommendation that the Agency approve the rehabilitation and refinancing loan agreements to fund the residential rehabilitation and loan refinancing for the Mayberry Townhomes located at 44th and Mayberry Streets.

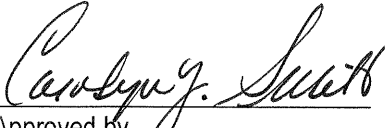
On June 15, 2007, the San Diego Housing Commission approved the revisions to the terms of the Housing Commission loan to allow for the Agency loans and approved the pro-rata sharing of residual receipts payments.

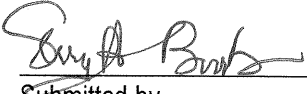
KEY STAKEHOLDERS - The key stakeholders for the project are current and future very low, low and moderate-income residents of the Mayberry Townhomes, residents of the Southcrest Redevelopment Project Area, and the MAAC Project.

ENVIRONMENTAL IMPACT - This activity is exempt from the California Environmental Quality Act (CEQA) pursuant to the State CEQA Guidelines Section 15301 Existing Facilities, subsections (a) and (d).

FINDINGS - Thirty-six (36) of the 70 Mayberry Townhomes residential units are located outside the Southcrest Redevelopment Project Area. California Community Redevelopment Law (CRL) allows the Agency to use Low and Moderate Income Housing funds outside the adopted redevelopment project area if the City Council and Agency can make certain Findings of Benefit to the project area. The Findings of Benefit are contained in Attachment A.

CONCLUSION - SEDC supports the preservation and rehabilitation of existing affordable residential units throughout the SEDC Area of Influence. Given the high cost of housing in San Diego, assistance to the Mayberry Townhome development provides long-term affordable housing to very-low, low, and moderate-income families in and around the Southcrest neighborhoods will be a positive benefit to the area.


Approved by
Carolyn Y. Smith
President


Submitted by
Sherry A. Brooks
Project Coordinator

CYS:eb
Attachments – Findings of Benefit
Housing Rehabilitation Loan Agreement
Refinance Loan Agreement

**FINDINGS OF BENEFIT TO THE SOUTHCREST
REDEVELOPMENT PROJECT AREA**

The use of funds from the Southcrest Redevelopment Project Area Low and Moderate Income Housing Fund to assist the multi-family housing Mayberry Townhomes located at 44th and Mayberry Streets (Site) on property located outside of the Southcrest Redevelopment Project Area for the purpose of rehabilitation, loan refinancing and preservation of existing multi-family housing available to families earning 80 percent or less of median area income will be of benefit to the Southcrest Redevelopment Project Area, in that:

- Funds from the Southcrest Redevelopment Project Area will enable the Redevelopment Agency to improve and preserve the community's supply of very-low, low- and moderate-income housing available at affordable housing cost to persons and families of very-low, low, and moderate-income. Particularly those eligible households currently residing in the Southcrest Project Area.
- Funds from the Southcrest Redevelopment Project Area will enable the Redevelopment Agency to provide long-term affordability by restricting the rental of the units to persons of very-low, low- and moderate-income for a period of 55 years.
- The Southcrest Redevelopment Project Area will benefit from the improvement and preservation of the supply of low- and moderate-income housing due to the 36 units being located directly adjacent to the Southcrest Redevelopment Project Area. The Southcrest Redevelopment Project Area eastern boundary (44th Street) divides the Site. Thirty-four of the total seventy units of the Mayberry Townhomes are located within the Southcrest Redevelopment Project Area and the remaining thirty-six units are located outside the project area, east of 44th Street.