Centre City Development Corporation

REPORT NO. CCDC-09-22

DATE ISSUED:	July 15, 2009
ATTENTION:	Honorable Chair and Members of the Redevelopment Agency Docket of July 21, 2009
ORIGINATING DEPT.:	Centre City Development Corporation
SUBJECT:	15th and Commercial Affordable Housing Project (north side of Commercial Street between 15th and 16th streets) – Approval of Terms and Conditions of Owner Participation Agreement – East Village Redevelopment District of the Expansion Sub Area of the Centre City Redevelopment Project
COUNCIL DISTRICT:	2
REFERENCE:	None
STAFF CONTACT:	Eri Kameyama, Associate Project Manager, 619-533-7177

REQUESTED ACTION: That the Redevelopment Agency of the City of San Diego ("Agency") approve the proposed Owner Participation Agreement (OPA) between the Agency and S.V.D.P. Management, Inc. ("Developer") for the 15th and Commercial affordable housing project ("Project") located on the north side of Commercial Street between 15th and 16th streets.

STAFF RECOMMENDATION: That the Agency approve the proposed OPA between the Agency and Developer as outlined in this report.

SUMMARY: The Developer proposes to demolish and replace the existing Bishop Maher Center (BMC) located within the St. Vincent de Paul Village on Commercial Street between 15th and 16th streets. The facility currently provides 150 transitional housing beds for single men. The proposed 12-story building will include 150 transitional housing beds, 64 living units, one manager's unit, three guest rooms and a child day care center. Staff recommends that the Agency approve the proposed OPA with the Developer for the development of 64 new affordable living units and 150 replacement transitional housing beds. An Agency subsidy in the amount not to exceed $7,300,000 is recommended to assist the development of the Project.

FISCAL CONSIDERATIONS: Agency funds in the amount of $7,300,000 are available in the Fiscal Year 2010 Low and Moderate Income Housing Fund for the Centre City Redevelopment Project.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On June 17, 2009, the Centre City Development Corporation ("Corporation") voted to recommend that the Agency approve the proposed OPA for the Project.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: On June 10, 2009, the Centre City Advisory Committee and the Project Area Committee voted to recommend that the Corporation recommend that the Agency approve the proposed OPA for the Project.

DEVELOPMENT TEAM

ROLE	**FIRM/CONTACT**	**OWNERSHIP**
Developer/Owner	S.V.D.P. Management Inc. Mathew Packard, Vice President of Development	Nonprofit Board of Directors, 501(c)3
Architect	Austin Veum Robbins Partners Tom Vorkoper, Project Architect David De Castro, Project Architect	Doug and Deen Austin, Chris Veum, Randy Robbins (Privately owned)
General Contractor	ROEL Construction Company Robert Cruden, Project Manager	Wayne Hickey (Privately owned)

BACKGROUND:

The proposed Project and companion OPA advance the Visions and Goals of the Downtown Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Expanding the supply of affordable rental housing;
- Adding to the range of downtown housing opportunities; and
- Developing affordable, permanent supportive housing units for the special needs population.

The Developer proposes to demolish and replace the existing BMC located at 15th and Commercial streets in the East Village neighborhood. The facility currently provides 150 transitional housing beds for single men. BMC is part of the St. Vincent de Paul Village and adjacent to the Joan Kroc Center (JKC), which provides services to homeless individuals and families. The Developer owns the land and improvements of both BMC and JKC. In December 1999, the Agency purchased affordability covenants of the 150 transitional housing beds at BMC for $1,000,000, and entered into an Agreement Affecting Real Property ("Original AARP") with the Developer. The Original AARP, dated December 23, 1999, restricts 150 transitional beds at

50 percent of Area Median Income (AMI) for 30 years from the date of recordation (December 28, 1999).

The Developer plans to demolish the existing two-story structure and develop a 12-story building to expand its current operations by adding 64 new affordable living units, one manager's unit, and a day care center for children residing in St. Vincent de Paul Village, in addition to replacing the 150 transitional housing beds. The project will increase the square footage of the existing transitional housing facilities by approximately 8,500 square feet in a better-organized and more functional space.

The Developer requested that the Agency provide a subsidy to replace the existing transitional housing beds and develop new affordable housing units. Because the approval of a Conditional Use Permit (CUP) for the new facility was not certain, staff suggested that the Developer obtain the design approval and CUP before staff initiates its review of the Developer's request for an Agency subsidy. The Agency and City Council approved the design and CUP on November 13, 2007. The Corporation's Real Estate Committee received a presentation from staff in March 2008 regarding the Developer's request for an Agency subsidy for the proposed development. The Real Estate Committee accepted the project concept and directed staff to return to the Real Estate Committee with the final proposal and financing plan.

Section 33413.5 of the Health and Safety Code requires the Agency to adopt a replacement housing plan not fewer than 30 days prior to executing an owner participation agreement if it would lead to destruction of low- and moderate-income housing units. A Replacement Housing Plan ("Plan") was prepared to examine the impacts of the proposed demolition of 150 transitional housing beds and the measures to ensure production of the appropriate replacement housing. The Agency approved the Plan on June 23, 2009.

The Developer submitted a funding application for the Low Income Housing Tax Credit Program (9 percent) on June 9, 2009. The Program requires the Developer to submit evidence of local funding approvals by August 17, 2009. To meet the deadline, staff was requested to bring this item to the Agency in July 2009.

<u>EQUAL OPPORTUNITY</u> – Per the DDA, the Developer and its contractors, subcontractors, consultants, subconsultants, vendors and suppliers are required to comply with the City's Equal Opportunity Contracting Requirements. Prior to commencement of construction the Developer is required to submit its workforce report / EO Plan and Report to the Agency as provided in the City's Equal Opportunity Contracting Requirements.

DISCUSSION

Project Description – The existing BMC structure is located on the southern one third of the block bounded by Commercial, 15th, 16th and L streets. A site map is included with this report as Attachment A. Adjacent to the St. Vincent de Paul Village, where the proposed site is located, are the Paul Mirabile Center, owned and operated by the Developer, and Studio 15, the Agency-funded affordable housing project (275 units) developed by Affirmed Housing Group (completed in April 2009).

The new 12-story building will accommodate different uses, including transitional housing (150 beds), rental housing units (64 affordable living units and 1 unrestricted manager's unit), three guest rooms for visiting staff and a child day care/school facility that is currently located in the JKC. The building would segregate uses by floor with separate entries and circulation corridors. The child care facility/school will occupy the first, second and third floor. The transitional housing will be located on the fourth through seventh floors. Sixty-four living units and a manager's unit will occupy floors 8-11 and three guest rooms will be located on the 12th floor. The Developer will be constructing a separate one-story building for toddlers as part of the child care facility next to the 12-story building.

Currently, 125 parking spaces exist under the JKC building, primarily as parking for facility staff and as residential parking on an as-needed basis. The new building will provide one level of underground parking with 15 spaces of additional staff parking (not required) and one space for the resident manager (required).

The building will feature various community spaces for the tenants. Each floor with transitional housing beds (floors 4-7) will include a gathering room (252-410 square feet) with a balcony. The affordable housing floors (8-11) will include an outside terrace (913 square feet) and two community rooms with balconies (728 square feet). In addition, all residents will have access to the roof terrace (1,742 square feet), exterior meditation area (555 square feet), dog area (1,635 square feet) and gathering room (797 square feet) on the roof level. These community spaces will allow the residents to gather and socialize outside of their units.

One hundred-fifty transitional beds and 64 living units will be restricted to very low-income individuals earning no more than 40 percent of AMI. Of the 64 living units, 49 will be permanent supportive housing units for individuals with disabilities who are homeless or at risk of homelessness. The tenants of the 150 transitional housing beds are expected to pay a small amount of their income as "shared living expense." The Developer is committed to providing an operating subsidy to pay for the operating expenses. Maximum rents for the living units will range from $429 to $574 based on the 2009 income limits. The affordability mix is shown below:

Unit Type	No. of Units	Affordability	Target Population
Transitional Beds	150	Restricted at 30% AMI, but tenants will pay only a small portion of their incomes as shared living expense	Homeless individuals (single men)
Supportive Housing* (Living Units)	35	30% AMI	Individuals with disabilities (mental illness, HIV/AIDS) who are homeless or at risk of homelessness
	14	40% AMI	
Nonsupportive Living Units	15	40% AMI	Very-low-income individuals
One Bedroom Unit	1	No restrictions	Manager's unit
TOTAL	150 beds, 65 Living Units		

* For MHSA units, rents will be charged as 30% of tenants' actual incomes (estimated as $246), up to the maximum rent limit.

Of the 49 supportive housing units, 25 units will be financed by the State's Mental Health Services Act (MHSA) program, and will be designated for mentally disabled individuals with diagnosis under the program guidelines. Two service providers, Heritage Clinic and Mental Health Systems, Inc. (MHS), contracted by San Diego County for the MHSA program (full service partnership) will provide supportive services to the 25 tenants. Both providers specialize in providing supportive services to individuals with mental illness. Heritage Clinic will work with the older adult population (60 and older) and MHS will work with the remaining adult population. The services to be provided to the MHSA tenants include case management, therapy, psychiatric evaluations, medication support, employment counseling, recovery services, life skills, money management, benefits assistance, transportation assistance, 24-hour crisis intervention and peer mentoring.

St. Vincent de Paul Village will provide supportive services to the tenants of non-MHSA supportive housing units (24 units) and transitional housing (150 beds), which include case management, recovery counseling, mental health counseling, career counseling, adult education, physical health care, dental care and meal service. The Developer will hire a full-time staff to coordinate supportive services for all units.

Housing Impact – The proposed Project will provide 150 transitional housing beds for extremely low-income persons earning incomes below 30% of area median income and 64 living units for very low- income persons earning incomes below 40% of area median income. Of the 64 units, 49 units will be set aside as supportive housing units combined with on-site/off-site supportive services for special needs population who are at risk of being homeless.

Project Budget and Financing

Development Cost Allocation

The Agency's Low and Moderate Income Housing Fund will be used to assist the development of the affordable housing component, and will not fund the costs to build the separate toddler building, first to third levels (child day care center) of the main building and three guest rooms on the roof level. The allocation of direct costs is based on the square footage of each component within the building after subtracting the estimated construction costs of the toddler building from the total construction costs. The allocation of indirect and financing costs is generally based on the overall square footage of each use, including the toddler building. Staff considers the allocation method to be reasonable and appropriate.

Development Cost Estimates

The total direct costs of the housing component are $26.8 million, which equals $376 per square foot for gross building area (GBA). This figure is significantly higher compared to the recent affordable housing projects approved by the Agency, including Parkside ($253 per square foot GBA), Ten Fifty B ($263 per square foot GBA) and Cedar Gateway ($290 per square foot GBA). A factor contributing to the high overall construction costs for the project is the seismic fault that cuts through the project parcel and reduces the usable portion of the site, resulting in a taller building with irregular floor plates. Another factor is the inefficiency of the building in which separate entrances and elevators are provided for different uses (child care facility, transitional housing and permanent housing). Efficient stacking of units is also not possible due to the mix of uses and unit types.

The Developer's direct costs are based on the estimates prepared by ROEL Construction Company (ROEL). ROEL's initial estimate for the entire project was $41.7 million, but was later reduced to $39.2 million. Hunter Pacific Group, a subconsultant to Keyser Marston Associates (KMA), prepared cost estimates for the project with consideration for these unique factors and compared them to ROEL's numbers. Hunter Pacific Group's analysis is attached to this report as Attachment C. According to the analysis, ROEL's final costs are higher than the consultant's estimates by $3.1 million (8.5 percent), or $24 per square foot. Hunter Pacific Group indicates that this level of discrepancy is acceptable and ROEL's costs are within the industry standard.

Funding Sources

The Developer has been seeking diverse funding sources to finance the project, and has secured $7 million from the First 5 Commission of San Diego (also known as the California Children and Families Commission) for the child care center; $1.5 million from the Affordable Housing Program (AHP); $1 million from the State Emergency Housing & Shelter Program-Capital

Development (EHAP CD); $291,000 from Community Development Block Grant (CDBG) program; and $5.5 million in deferred land contract from S.V.D.P. Management.

The Developer submitted applications for the Transit Oriented Development (TOD) Housing Program in the amount of $6.6 million and the Infill Incentive Grant Program in the amount of $3.1 million in April 2009. Both programs are funded by Proposition 1C and the allocation is expected to be announced by the State Department of Housing and Community Development (HCD) within the next two months. The Developer submitted application for the 9 percent Low-Income Housing Tax Credit Program on June 9, 2009, and plans to apply for $2.4 million in MHSA and $583,000 in California Recycle Underutilized Sites (CALReUSE) Remediation Program. The San Diego Housing Commission (SDHC) is currently reviewing a funding request of $3.5 million.

The summary of permanent sources proposed by the Developer is shown below:

SOURCES OF FUNDS	**Residential**	**Total**
Low Income Housing Tax Credit Program (9%)	**$10,753,000**	**$19,980,000**
Mental Health Services Act Program	$2,380,000	$2,380,000
TOD Housing Program (Prop 1C)	$6,638,000	$6,638,000
Infill Incentive Grant Program (Prop 1C)	$2,013,000	$3,089,000
CALReUSE Remediation Program (Prop 1C)	$380,000	$583,000
San Diego Housing Commission	$3,500,000	$3,500,000
First 5 Commission (Committed)	$0	$6,968,000
Affordable Housing Program (Committed)	$1,500,000	$1,500,000
CDBG (Committed)	$0	$291,000
EHAP (Committed)	$1,000,000	$1,000,000
Deferred Land Contract (Committed)	$3,885,000	$5,500,000
Deferred Developer Fee	$0	$0
Proposed Agency Subsidy	**$7,300,000**	**$7,300,000**
Total	**$39,350,000**	**$58,730,000**

KMA, economic consultant to the Agency, conducted a financial analysis and prepared the attached pro forma (Attachment B), which includes development budget, sources, operating budget, affordability mix, financing assumptions and 55-year cash flow.

Participation by Agency – The Agency will enter into an OPA with the Developer to provide financial assistance to develop affordable housing units. A ground lease structure will not be used for this project considering that it is part of the larger St. Vincent de Paul Village owned by the Developer and uses of the building are integrated into the functions of the Village as a whole. Because the project does not function independently, it is expected to cause disruptions to the operations of the Village if the Agency becomes a land owner of the building and the Developer loses the permanent site control of that portion of the Village. In addition, a ground lease structure does not seem to be appropriate for the mixed-use project with a child day care center that occupies one-third of the building and is financed separately.

The Agency will be allowed to count a total of 64 new very-low-income units toward its production requirement (inclusionary requirement) under the Redevelopment Law. The 150 transitional beds (counted as 75 units) were restricted by the Original AARP and will be considered replacement units. The original AARP will be terminated and a new AARP with a 55-year term, restricting 64 living units and 150 transitional beds, will be recorded against the property. Because the term of the existing AARP is 30 years (expiring in 2029), the affordability term of the 150 beds will be extended for 37 to 38 years (depending on the timing of recordation of the new AARP).

The proposed total Agency subsidy is $7,300,000, or $114,100 per new affordable unit. Inclusive of the previous Agency contribution of $1 million for the existing 150 beds, the cumulative Agency subsidy per affordable unit is $59,700.

The essential terms and conditions of the OPA are as follows:

- Agency Assistance: The Agency subsidy in the amount of $7,300,000 will be provided in the form of a loan to be secured by a subordinate deed of trust.

  If the Developer is awarded Community Development Block Grant Recovery (CDBG-R) funds through the American Recovery and Reinvestment Act of 2009 from the City of San Diego, the financial gap will be reduced by the amount of the CDBG-R award amount, resulting in a lower required Agency subsidy. Therefore, the Agency subsidy shall be reduced in an amount equal to the reduction in financial gap of up to $800,000, or a revised total subsidy of $6,500,000. If the award amount is in excess of $800,000, the Agency and SDHC subsidies shall be reduced by the excess amounts in proportionate to the respective loan amounts.

The Agency shall have the opportunity for a look-back prior to the Agency loan closing to decrease the Agency loan amount if the Developer secures additional sources, including a higher amount of tax credit equity and CDBG-R funds. There shall be a second look-back opportunity prior to conversion to permanent financing if the total sources exceed the actual acquisition and development costs. The excess amount shall be returned to the Agency and SDHC in proportion to each loan amount as loan repayments.

- Agency Loan Term: The Agency loan shall have a 55-year term and a simple interest rate of 3 percent with repayment from the project's cash flow.

- Residual Receipt Split: From Year 1 to 30, the residual receipts shall be divided as 50 percent to the Developer and 50 percent to the Agency and other public agencies that require residual receipt payments in proportion to each loan amount. From Year 31 to 55, the Developer shall receive 20 percent and the Agency and other public agencies shall receive 80 percent.

- Disbursement of Agency funds: The Agency shall disburse up to 80 percent of the total loan amount during construction. Disbursements during construction shall be made pari passu with the construction lender. Upon completion, the Agency shall release 10 percent of the retention. The remaining 10 percent shall be released at permanent loan closing.

- Developer Fee: The total developer fee shall not exceed $1,400,000. Considering that the project will have negative cash flow without the Developer's operating subsidy, no fee deferral shall be required.

- Operating Subsidy: The Developer does not expect the transitional housing tenants to pay rents and plans to subsidize its operation (approximately $420,000 in Year 1). The Developer is committed to providing additional operating subsidy ($57,300 in Year 1) for the overall operation of affordable housing to offset the negative cash flow projected. The OPA includes language requiring the Developer to subsidize the operation of the housing component to formalize its commitment.

- Affordability Restrictions: One hundred-fifty beds shall be restricted to extremely low-income persons earning incomes at or below 30 percent AMI. Sixty-four living units shall be restricted to very low-income persons (thirty-five units at or below 30 percent TCAC AMI and twenty-nine units at or below 40 percent TCAC AMI). The Original AARP shall be terminated and a new Agreement Affecting Real Property shall be executed and recorded against the property to restrict the 150 beds and 64 units for 55 years.

- The Developer shall include 49 supportive housing units.

- The Developer shall obtain GreenPoint Rated certification by Build It Green within nine months after completion of construction. In addition, the Developer shall submit a completed LEED checklist to the Agency prior to completion of construction.

- The Developer shall construct all on-site improvements, design, install, and maintain all surface off-site improvements.

The proposed OPA documents are attached to this report as Attachment D.

Proposed Schedule of Performance

Action	Completion Date
Redevelopment Agency Review of OPA	July 28, 2009
9%Tax Credit Local Funding Commitment Due	August 17, 2009
Start Construction	November 2009
Complete Construction	Summer 2011

Project Benefits – The proposed Project would provide:

- Sixty-four affordable living units for very low-income persons, including forty-nine supportive housing units for the special needs population who are homeless or at risk of being homeless; and
- Replacement of 150 transitional beds for single men and expansion of the transitional housing facility.

PROJECT DESCRIPTION

The following is a summary of the project:

Site Area	60,329 sq. ft.
Maximum Floor Area Ratio (FAR) Permitted Proposed FAR	3.0 2.93
FAR Bonuses Proposed	None
Stories/Height	12 stories/140 feet
Amount of Child Day Care/School Space	19,408 sq. ft.
Type of Housing	150 Transitional Housing Beds, 64 Supportive Living Units, 1 Manager Unit (1 BD)
Total Number of Units/Total Residential sq. ft.	65 units plus 150 beds (75 dorms) / 48,292 sq. ft.
Types of Units (sizes)	75 dorms -150 beds (244 sq. ft.) 64 Living Units (300 sq. ft.) 1 One-Bedroom (714 sq. ft.)
Projected Rental Rates	$246* – $540 for living units (based on 2009 income limits)
Number of Units Demolished	75 units (150 beds) – To be replaced for one to one unit.
Inclusionary Housing Ordinance Compliance/ Number of Affordable Units	Provision of 64 affordable apartments
Parking Required Proposed	1 space 16 spaces
Assessor's Parcel Nos.	535-622-06

* For MHSA units, rents will be charged as 30% of tenants' actual incomes.

Environmental Impact – This activity was analyzed in the Environmental Secondary Study dated September 2007 which was certified by the City Council by Resolution No. 303174 on November 13, 2007. No changes are proposed to the activity studied in the previous environmental document, and no new or more severe significant impacts will result from the activity. Furthermore, there have been no substantial changes in the circumstances surrounding the project which will require major revisions of the previous environmental document, nor is there new information of substantial importance, which was not known and could not have been known with the exercise of reasonable diligence at the time the previous environmental document was certified, that shows the activity would have new or more severe significant environmental effects. Therefore, pursuant to Public Resources Code Section 21166 and CEQA Guidelines Sections 15162-16164, no further environmental review is required.

CONCLUSION: The proposed 15th and Commercial project meets the goals identified in the Downtown Community Plan and Centre City Redevelopment Plan. Staff requests that the Agency approve the proposed OPA with the Developer.

Respectfully submitted,

Eri Kameyama
Associate Project Manager

Jeff W. Graham
Vice President, Redevelopment

Concurred by:

Frank J. Alessi
Executive Vice President & Chief Financial Officer

Attachments:
A – Site Map
B – Project Proforma by KMA
C – Construction Cost Analysis by Hunter Pacific Group
D – Owner Participation Agreement

S:\Kameyama\Projects\15th & Commercial\Staff Report\OPA\Agency\15th And Commercial OPA Agency Report 7-14-09.Doc