

DATE ISSUED: July 14, 2000

REPORT NO. 00-145

ATTENTION: Land Use and Housing Committee
Agenda of July 19, 2000

SUBJECT: Year Round Emergency Family Shelter

REFERENCE: Manager's Report 00-121 (Revised)

SUMMARY

Issue(s) - 1) Should the City Council direct the City Manager to explore the identification of a non-profit corporation to pursue financing for acquisition of a facility for the year round family shelter and return with a proposed financing package which could be submitted to California Statewide Community Development Authority ("CSCDA") for consideration within 90-120 days? 2) Should the City Council direct the City Manager to negotiate a lease with an option to buy with Sprung Structures, Inc. as an interim measure for a year round family shelter? 3) Should the City Council direct the City Manager to apply for State Emergency Housing Assistance Program (EHAP), CCDC, Housing Commission, Workforce Partnership grant and County Health and Human Service Agency funds to finance the facility acquisition and operation costs for the year round family shelter? 4) Should the City Council direct the City Manager to pursue private donations in a manner that does not directly impact existing private donations received by nonprofit organizations serving homeless families?

Manager's Recommendation(s) - 1) Direct the City Manager to explore the identification of a non-profit corporation to pursue financing for acquisition of a facility for the year round family shelter and return with a proposed financing package which could be submitted to California Statewide Community Development Authority ("CSCDA") for consideration within 90-120 days. 2) Direct the City Manager to negotiate a lease with an option to buy with Sprung Structures, Inc. as an interim measure for a year round family shelter. 3) Direct the City Manager to apply for State Emergency Housing Assistance Program (EHAP), CCDC, Housing Commission, Workforce Partnership grant and County Health and Human Service Agency funds to finance facility acquisition and operation costs for the year round family shelter. 4) Direct the City Manager to pursue private donations in a manner that does not directly impact existing private donations received by nonprofit organizations serving homeless families.

Other Recommendation(s) - If sufficient funds are identified to support a bond financing to purchase Bay View Center in Fiscal Year 2001, direct the City Manager to pursue a lease agreement with the current owners of Bay View Center to provide for the Fiscal Year 2001 winter family shelter.

Fiscal Impact - There is currently \$352,000 available to fund the shelter which consists of a one time \$90,000 CDBG allocation, a one time \$30,000 FY00 Emergency Shelter Grant Fund allocation, \$160,000 annual Emergency Shelter Grant Funds and a \$72,000 annual Housing Commission allocation. Bay View Center's listed sale price is \$7,200,000 with a listed annual revenue stream of \$1,020,000. Real Estate Assets Department's estimated value of the property is \$6,000,000 to \$7,000,000 which does not include any rehabilitation costs. They also estimate the stable net revenue stream to be approximately \$465,000 annually. The purchase price of a sprung structure is estimated to be \$600,000 with additional costs of \$75,000 (\$50,000 annual lease and \$25,000 for one time miscellaneous expenses). The Imperial Project Proposal would cost the City approximately \$7,000,000 and would require the lease and or purchase of a sprung structure until the facility would be available. The EZ-8 Motel is owned by Caltrans who has indicated to Real Estate Assets Department that the property is for motel use only. Operations costs are estimated at \$500,000 annually. A recent meeting held with County Health and Human Services Agency staff resulted in a verbal commitment to identify available County funds and jointly pursue state funds for operations costs. A follow-up meeting has been scheduled for late August. Additional financial information is provided in the Discussion portion of this report.

BACKGROUND

At the June 7, 2000 Land Use and Housing Committee meeting staff presented property options for a year round homeless family shelter. During the meeting, direction was given to provide additional information on four specific options which included Bay View Center, acquisition of a sprung structure, Imperial Project proposal from St. Vincent de Paul and EZ-8 Motel. This report responds to that direction.

DISCUSSION

Listed below is a brief description of each site (with the exception of the EZ-8 Motel which is no longer a viable option), its financial considerations, potential funding and related critical issues. Also included is a detailed potential financing structure for Bay View Center prepared by Financing Services.

Bay View Center

Description: Bay View Center is located at 446 26th Street on three acres of land. The building size is 120,000 square feet with 66 vacant rooms. It is across the street from Grant Hill Park and within two blocks of public transportation (bus and trolley). There are a number of social service programs currently operating in the building (e.g. Women Infant Children, Bay View Nutritional, Neighborhood House Association kitchen, etc.) There is also a police storefront. It also has the capability of providing additional family shelter beds if the City chose to expand the program.

Financial Information: The listed sales price of the property is \$7,200,000 and the sales information reflects an annual net revenue stream of \$1,019,047. The City's Real Estate Assets Department has analyzed this information and determined that the true net tenant revenue is

approximately \$465,000. They also estimate that the value of the property is \$6.0 million to \$7.0 million excluding any rehabilitation costs. A financing structure is provided for the purchase of this site. However, currently identified revenue sources are not sufficient to cover all costs of acquisition, rehabilitation, and operation.

Potential Funding Sources: The Fiscal Year 2001 State budget includes \$35 million in **Emergency Housing Assistance Program (EHAP) funds**; \$10 million to \$14 million of this amount is earmarked for operations and \$25 million is earmarked for capital costs. The operations funding will be allocated by formula to the various regions, while the funds for capital costs will be allocated through competition. County Health and Human Services Agency staff have agreed to participate in a joint City/County application for funding for both additional operations and capital costs. City staff will be preparing an application requesting a total of \$1.5 million, \$1 million for capital costs and the remaining funds for operations. A private citizen has agreed to raise **private donations** for facility costs only. It is anticipated that this individual will be prepared to move forward once a site has been selected. If the Bay View Center is the site selected, **CCDC** and the **Housing Commission** have verbally committed to partnering to purchase part of the land to build affordable housing units if this additional use is acceptable. City staff is also pursuing a grant from the **Workforce Partnership** to assist with incorporating a work experience and placement pilot project as part of the shelter implementation plan. These funds, if awarded, would go toward operations costs.

Potential Financing Structure for Purchase of Bay View Center

A potentially cost-effective financing vehicle for the purchase of Bay View Center is the issuance of tax-exempt non-profit conduit revenue bonds by the CSCDA. The CSCDA, a joint exercise of powers of California cities and counties sponsored by the League of California Cities (the "League") and the California State Association of Counties (the "CSAC"), was formed to jointly pursue programs that improve the quality of life and economic vitality of communities throughout the state. It is recommended that a 501(c)(3) non-profit corporation ("non-profit corporation") be identified to serve as the entity that would purchase and operate Bay View Center. The CSCDA would issue conduit revenue bonds on behalf of the non-profit corporation and the non-profit corporation would serve as the "borrower" under the financing structure. This would preserve the City's bonding capacity for financing future City projects and would help ensure that the City will be able to maintain its excellent credit rating.

I. Agency Project Sponsorship

The non-profit corporation would be responsible for completing the CSCDA application for financing. As part of the CSCDA process, a sponsoring agency that is a member of the League or CSAC and that is located in the same jurisdiction in which the facility is located, is required to approve the project by adopting a resolution and holding a TEFRA hearing, if required. TEFRA hearings, required by the Tax Equity and Fiscal Responsibility Act of 1982, must be held by the sponsoring government agency prior to the issuance of non-profit conduit revenue bonds. However, if the bonds issued by CSCDA are not tax-exempt, the sponsoring government agency is not required to hold a TEFRA hearing. The City, as a member of the League and as an agency

governing the area in which Bay View Center is located, could act as the sponsoring agency for the project and the City Council could adopt a resolution qualifying the project to be financed through the issuance of tax-exempt bonds.

II. Credit Enhancement

Procurement of a letter of credit (LOC) from a rated bank, bond insurance, or other guarantee acceptable to the CSCDA as credit enhancement will be required to insure that bonds issued by the CSCDA on behalf of the non-profit corporation are rated at least “A” at the time of the sale. Bonds issued with credit enhancement are rated the same as the bank or insurance agency providing the credit enhancement. This requirement can be waived if the non-profit corporation has an underlying rating of at least “A.” The non-profit corporation would pursue credit enhancement as required by CSCDA using one of the above methods.

An LOC is a credit provider’s promise to pay, for a certain length of time, principal and interest payments for the benefit of bondholders if the borrower becomes bankrupt or otherwise defaults on its payment obligations. An LOC is typically negotiated for a period of three to five years and must be renegotiated and renewed upon expiration for longer-term bonds. The cost of an LOC is quoted as a credit facility fee, and is determined based on the time the LOC is valid, the credit standing of the borrower, and the likelihood the LOC will be used. The credit facility fee is typically between 1.50% to 3.00% of the outstanding debt issuance. This fee would be budgeted and paid annually by the non-profit corporation from project related revenues.

III. Sources of Revenues

The non-profit corporation, as the borrower, would be directly responsible for debt service payments. The City and CSCDA would not be liable for debt service on the bonds or any default by the borrower. Several potential revenue sources have been identified which could be used to pay the annual debt service on the bonds. These sources include net revenues from existing Bay View Center tenants. Based on a preliminary review by the City’s Real Estate Assets Department, it is estimated that existing net tenant revenues from the facility could total \$465,000 annually. In addition, the City Council could allocate \$232,000 annually from the Emergency Shelter Funds entitlement received from HUD as part of the City’s Community Development Block Grant (CDBG) program. This is a portion of the funds currently allocated to the City’s Emergency Winter Shelter Program. Thus, the revenues that have been identified that could be allocated to pay debt service on the bonds total \$697,000 on an annual basis.

The identified revenue sources may be deemed less credit worthy due to certain characteristics of the revenue streams. Specifically, the Bay View Center tenant leases are short term--the lease terms range from month-to-month to a maximum term of approximately three years. Also, the annual CDBG allocation cannot be relied upon as a “guaranteed” revenue stream.

IV. Debt Service Payments

A bond financing to acquire Bay View Center could be structured for a maximum maturity not to exceed the useful remaining life of the facility. Bay View Center consists of two buildings—the South Building and the North Building. The South Building was built in 1972, and the North Building was built in 1962. Due to the age of the buildings, it is not clear if a 30-year financing term would be feasible. It is also difficult to derive preliminary debt service costs for a project of this type because credit enhancement costs can range from 1.50% to 3.00% annually, and smaller, less credit-worthy projects typically cost more than larger, more credit-worthy projects.

Bay View Center is currently listed at a sales price of \$7.2 million. Assuming a \$7.2 million purchase price, a 20-year financing term, and an 8.00% tax-exempt interest rate (including the annual credit enhancement premium), a bond issuance size of \$8.3 million would be required to generate sufficient proceeds to purchase the facility and pay certain required closing costs. Due to debt service coverage requirements that are likely to be imposed for this type of financing, an estimated annual revenue stream of \$1.04 million would have to be identified to provide sufficient coverage for the annual debt service on an \$8.3 million bond issuance. The identified revenues do not provide sufficient coverage. As depicted in the table below, the estimated annual revenue shortfall totals \$343,000.

Annual Debt Service Revenue Requirements	(\$1,040,000)
Annual Net Lease Revenues from Facility	\$465,000
Annual Emergency Shelter Grant Allocation	<u>\$232,000</u>
<u>Annual Revenue Shortfall</u>	(\$343,000)

The identified revenue streams would only support a bond issuance size of \$5.5 million, which would provide approximately \$4.7 million of net proceeds for the purchase of the facility. The difference between the purchase price of the facility (\$7.2 million) and the available bond proceeds (\$4.7 million) is \$2.5 million. The \$2.5 million shortfall could be offset with an equity contribution, or contributions. (Less equity would be required if the property could be purchased for less than the listed price.)

A \$90,000 one-time allocation from Fiscal Year 1999 CDBG District funds and \$30,000 of Fiscal Year 2000 Emergency Shelter Grant Funds have been identified which may be used as an equity contribution for the purchase of the facility. Additional equity must be identified to provide for the remaining shortfall (\$2.4 million). The Centre City Development Corporation and the San Diego Housing Commission have indicated a willingness to purchase a portion of the Bay View Center property to build affordable housing. Depending on the terms, such a transaction could help offset the remaining equity requirement. Also, a private contribution, or contributions, could further assist with the necessary infusion of equity.

V. Other Costs

It is anticipated that additional funds may be required to cover potential rehabilitation costs (e.g., seismic safety improvements) and capital improvements relating to the Year Round Emergency Family Shelter. It is recommended that the estimated costs for these improvements be identified prior to commencing with a financing to purchase the facility. Further, funding sources to cover such costs must also be identified.

VI. Critical Financing Issues

There are at least four critical issues relating to the feasibility of a tax-exempt financing for this project:

- 1. Non-profit Owner/Developer/Borrower:** A non-profit organization must be identified to provide a full range of social and housing services for the Year Round Emergency Family Shelter. The organization must also have the capacity to serve as an owner/developer for the entire project.
- 2. Tax-Exemption** – The Bay View Center tenant revenues must be predominately (at least 90%) from non-profit organizations, or utilization of the facility must be predominantly (at least 90%) by non-profit organizations over the term of the bonds. If this condition is not satisfied, a tax-exempt financing structure may not be feasible. If taxable bonds are issued in lieu of tax-exempt bonds, the interest rate and annual debt service payments relating to the financing will be significantly higher, and will result in the need for an increased equity contribution or the identification of additional annual revenue streams.
- 3. Credit Enhancement** - A public sale of non-profit conduit revenue bonds is not possible without economically feasible credit enhancement, usually in the form of a bank LOC. Most non-profit corporations do not have the capacity to be rated “A” on their own, and most real estate project financings are not able to qualify for an “A” rating. If the issuance size of the bonds is less than \$5 million, it may be difficult to obtain a cost-effective bank LOC because transactions of this size may not generate sufficient profit for a commercial bank.
- 4. Equity or Annual Revenue Streams** - The identified revenue streams are not sufficient to execute a financing that would fully fund the purchase of Bay View Center. Additional recurring revenue sources, or a significant additional equity contribution, is required to fully fund the purchase of the facility.

VII. Other Critical Issues

Other critical issues related to the selection of Bay View Center include:

- 1. Community Support** - Some community members strongly oppose selection of this site.
- 2. Rehabilitation Costs** - Estimated costs to provide site improvements are not known at this time. Such costs should be determined prior to proceeding with the purchase of the site, and additional funding must be identified to provide for such costs.
- 3. Operating Costs** - As with the other potential sites, the source of funds to cover the

estimated annual cost (\$500,000) to operate the Year Round Emergency Family Shelter should be finalized with the County prior to proceeding with any financing to purchase Bay View Center.

Sprung Structure

Description: The proposed sprung structure is 60 ft. X 180 ft. and requires a 14,000 sq. ft. lot. It is insulated includes heating and air conditioning with vinyl and concrete flooring. This size structure would provide 39 rooms and 2 10 X 10 offices with windows and doors. Each room would have electrical outlets and doors. Restrooms and showers would be on each end of the structure. A potential City-owned site has been identified, which is located in the downtown area.

Financial Information: The purchase price for a fully equipped and erected sprung structure would be approximately \$600,000. Attachment 2 is a copy of the preliminary proposal submitted by Sprung Structures, Inc. A 3-5 year lease of City-owned property would cost approximately \$50,000 annually. Sprung Structures, Inc. has indicated they would be willing to pursue additional cost savings on the purchase price should this option be selected. In addition they have indicated the ability to provide a purchase option that would include a lease option to buy at approximately point above the prime rate. A lease-purchase option under the City's Master Lease Program can also be evaluated. The purchase price excludes permitting fees, demolition and/or removal of existing site conditions, permanent/exterior fencing, soils engineering/testing and computer wiring. Some of these services can be provided by City staff. Approximately \$25,000 has been identified in additional miscellaneous costs and fees. The total cost for the structure is expected to be approximately \$675,000.

Potential Funding Sources: This year's State budget includes \$35 million in **Emergency Housing Assistance Program (EHAP) funds**, \$10-14 million earmarked for operations and \$25 million earmarked for capital costs. The operations funding will be allocated by formula to the various regions, while capital costs will be allocated through competition. County Health and Human Services Agency staff have agreed to participate in a joint City/County application for both additional operations and capital costs. We will be preparing an application for a total of \$1.5 million with \$1 for capital costs and the remaining funds for operations. A private citizen has agreed to raise **private donations** for facility costs only. This individual will be prepared to move forward once a site has been selected. If the sprung structure was selected as an interim measure, the one time FY00 and FY01 Emergency Shelter Grant funds, additional Housing Commission and private donations could be used to lease with an option to buy the structure. The current available funds total \$262,000 leaving a gap of \$413,000. The month to month lease could be executed until private and/or state funds become available to fill the gap. City staff is also pursuing a grant from the **Workforce Partnership** to assist with incorporating a work experience and placement pilot project as part of the shelter implementation plan. These funds, if awarded would go toward operations costs.

Critical Issues:

1. City owned property is currently under a month to month permit to the San Diego Homeless Coalition for feeding the homeless. This activity would have to be relocated.
2. Limits facility funding options as it is not considered a “permanent” facility.
3. Limits the number of individuals served to 150.
4. Once purchased, would be an asset for the City, which could be leased or sold if a more permanent facility is built or purchased.
5. Location of the site may create opposition from the displaced nonprofit organization and the community.

Imperial Project Proposal (St. Vincent de Paul)

Description: The Imperial Project Proposal is located at 1501 Imperial Avenue. It would provide 180 family shelter beds in the existing Joan Kroc Center and has the potential of expanding to 480 shelter beds. It is within two blocks of public transportation (across the street from bus and two blocks from trolley). It currently is used as a family transitional housing shelter (300 beds), family living center (110 beds) and single women’ center (70 beds) all of which would be relocated to a new facility included in the proposal. Centre City Development Corporation had been discussing some form of this project with St. Vincent de Paul for the past two years. Due to certain circumstances at the time, the proposal was withdrawn. CCDC has indicated a willingness to work with St. Vincent de Paul on this project should they reconsider their withdrawal.

Financial Information: The project proposes the acquisition of three properties and construction of two structures. The properties in question front the south side of Imperial Avenue from 14th Street and are owned by Matusas, Bartel and IT&T. The proposal includes a request for Centre City Development Corporation to purchase and if necessary mitigate the three properties in order to expand St. Vincent de Paul Village and relocate the existing programs in the Joan Kroc and Paul Mirabile Centers and expand the space of their Medical Clinic, Counseling and Resources Programs. The estimated cost is \$20,000,000. St. Vincent de Paul has requested approximately \$7,000,000 from the City while they raise the remaining amount required to finance the project.

Potential Funding Sources: This year’s State budget includes \$35 million in **Emergency Housing Assistance Program (EHAP) funds**, \$10-14 million earmarked for operations and \$25 million earmarked for capital costs. The operations funding will be allocated by formula to the various regions, while capital costs will be allocated through competition. County Health and Human Services Agency staff have agreed to participate in a joint City/County application for both additional operations and capital costs. We will be preparing an application for a total of \$1.5 million with \$1 for capital costs and the remaining funds for operations. A private citizen has agreed to raise **private donations** for facility costs only. This individual will be prepared to move forward once a site has been selected. If the sprung structure was selected as an interim measure, the one time FY00 and FY01 Emergency Shelter Grant funds, additional Housing

Commission and private donations could be used to lease with an option to buy the structure. The current available funds total \$352,000 leaving a gap of \$7,323,000 which includes the purchase of a sprung structure needed to provide the shelter beds during the acquisition and construction phase. If this option is selected and the City receives the capital costs from the state grant funds, an additional \$1,000,000 would be added to the available funds leaving a gap of \$6,323,000. There is a potential for private funds to fill this gap, however, staff is unsure whether this amount can be raised. In addition, the funds would be required up front. In addition, there is a lease with an option to purchase option available for the sprung structure which would significantly reduce those up front costs. The proposer has indicated that theoretically CCDC could receive tax credits and could potentially buy covenant on the Joan Kroc Center. City staff is also pursuing a grant from the **Workforce Partnership** to assist with incorporating a work experience and placement pilot project as part of the shelter implementation plan. These funds, if awarded would go toward operations costs.

Critical Issues:

1. Requires up front funding of \$7,000,000 - CCDC has advised that they do not have the funds available.
2. Does not include mitigation costs.
3. Centre City East strongly opposes adding new shelter beds in this area.
4. Requires lease/purchase of sprung structure as an interim measure.

CONCLUSION

There are a number of financial issues related to the purchase of any facility under consideration. Therefore, staff recommends negotiating a lease/option to buy agreement with Sprung Structures, Inc. as an interim solution for a year round family shelter. It is also recommended that staff explore the identification of a non-profit corporation to pursue financing for acquisition of a facility for the shelter while concurrently pursuing and finalizing additional state, county and private funds to fill the financial gaps of purchasing and operating the shelter. Should additional funding become available for a facility acquisition prior to next May, staff recommends pursuing a lease agreement with the current owners of Bay View Center for the Fiscal Year 2001 winter family shelter.

ALTERNATIVE(S)

None. Respectfully submitted,	
_____ Hank Cunningham Director,	Approved: George I. Loveland

Economic Development & Community Services	Assistant City Manager
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CUNNINGHAM/DFP

Attachment(s): 1.Option Matrix
 2. Sprung Structure Preliminary Proposal

Note: Attachments not available in electronic format. A copy is available for review in the Office of the City Clerk.