

**THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE**  
**July 16, 2014**  
**Staff Report**  
***REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR A***  
***QUALIFIED RESIDENTIAL RENTAL PROJECT***

*Prepared by: Sarah Lester*

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**Applicant:** Housing Authority of the City of San Diego

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**Allocation Amount Requested:**  
**Tax-exempt:** \$17,825,000

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**Project Information:**  
**Name:** San Diego Square Apartments  
**Project Address:** 1055 9th Avenue  
**Project City, County, Zip Code:** San Diego, San Diego, 92101

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**Project Sponsor Information:**  
**Name:** HDP Broadway, LP (HDP Broadway Management, LLC)  
**Principals:** Richard Gentry and Michael Pavco  
**Property Management Company:** SK Management

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**Project Financing Information:**  
**Bond Counsel:** Jones Hall, A Professional Law Corporation  
**Underwriter:** Not Applicable  
**Credit Enhancement Provider:** Not Applicable  
**Private Placement Purchaser:** Citibank, N.A.  
**TEFRA Adopted Date:** September 24, 2013

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**Description of Proposed Project:**  
**State Ceiling Pool:** General  
**Total Number of Units:** 154, plus 2 manager units  
**Type:** Acquisition and Rehabilitation  
**Type of Units:** Senior Citizens

The proposed Project is an existing senior development located in downtown San Diego and consists of a 156-unit occupied apartment building with commercial space constructed in 1980. The 154 residential rental units are located in one, 12-story tower building of concrete and steel construction. The building has two elevators serving all floors. The site is leased from the City of San Diego for a 50-year term scheduled to terminate in 2029. Attached to the building is a large single multi-purposed room and 2-story 10,262 square feet commercial space. The development was originally constructed as low-income senior housing under the HUD Section 202 Program, and has a regulatory agreement that restricts the rent levels and the income of all tenants. The property is age-restricted to residents 62 years and older. The residential units are all 1-bedroom units except for one 2-bedroom manager unit and are leased in accordance with a Section 8 HAP contract covering all 154 rentable units, which allows tenants to pay rents based on 30% of their incomes. The scope of rehabilitation will include: interior upgrades, exterior/cosmetic upgrades, site work, roof & attic (full roof replacements) and building systems (mechanical, electrical and elevators). Improvements to the commercial space will include: new roof, new mechanical and ballroom FF&E. Construction is expected to begin September/October 2014 with an anticipated completion date of the third quarter of 2015.

**Description of Public Benefits:**

**Percent of Restricted Rental Units in the Project:** 97%

21% (32 units) restricted to 50% or less of area median income households.

76% (117 units) restricted to 60% or less of area median income households.

**Unit Mix:** 1 bedroom

There will be no service amenities included in the proposed project.

**Term of Restrictions:**

**Income and Rent Restrictions:** 55 years

**Details of Project Financing:**

|   |               |                                      |
|---|---------------|--------------------------------------|
| <b>Estimated Total Development Cost:</b>      | \$ 37,672,219 |                                      |
| <b>Estimated Hard Costs per Unit:</b>         | \$ 66,809     | (\$10,288,642 /154 units)            |
| <b>Estimated per Unit Cost:</b>               | \$ 244,625    | (\$37,672,219 /154 units)            |
| <b>Allocation per Unit:</b>                   | \$ 115,747    | (\$17,825,000 /154 units)            |
| <b>Allocation per Restricted Rental Unit:</b> | \$ 119,631    | (\$17,825,000 /149 restricted units) |

| <b>Sources of Funds:</b> | Construction         | Permanent            |
|--------------------------|----------------------|----------------------|
| Tax-Exempt Bond Proceeds | \$ 17,825,000        | \$ 17,825,000        |
| Developer Equity         | \$ 9,070,000         | \$ 9,070,000         |
| LIH Tax Credit Equity    | \$ 9,160,636         | \$ 10,777,219        |
| <b>Total Sources</b>     | <b>\$ 36,055,636</b> | <b>\$ 37,672,219</b> |

  

| <b>Uses of Funds:</b>              |                      |
|------------------------------------|----------------------|
| Acquisition/Land Purchase          | \$ 21,070,000        |
| Hard Construction Costs            | \$ 10,288,642        |
| Architect & Engineering Fees       | \$ 465,000           |
| Contractor Overhead & Profit       | \$ 514,432           |
| Developer Fee                      | \$ 1,400,000         |
| Relocation                         | \$ 974,074           |
| Cost of Issuance                   | \$ 463,999           |
| Other Soft Costs (Marketing, etc.) | \$ 2,496,072         |
| <b>Total Uses</b>                  | <b>\$ 37,672,219</b> |

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**Description of Financial Structure and Bond Issuance:**

The financial structure for the proposed project will be a private placement transaction provided by Citibank, N.A. (the "Bank") for both construction and permanent financing. During the Moderate Rehabilitation Phase (construction phase), the loan term will be for 24 months with an amortization period during construction of 35 years (commencing at the time of closing). The interest rate will be a fixed rate equal to the sum of the 17 year LIBOR swap index plus a spread of 1.65%. The rate will be committed at the time of closing of the Moderate Rehabilitation Phase financing and will include a 5bps servicing fee. During the permanent financing phase, the loan term will be for 30 years with an amortization period of 35 years. At the end of the 17th year following the closing date, the Bank, in its sole discretion, can require repayment of the loan in full (upon not less than six (6) months prior written notice). The interest rate will be the same as during the Moderate Rehabilitation Phase. The bonds will be issued by the Housing Authority of the City of San Diego.

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**Analyst Comments:**

Not Applicable

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**Legal Questionnaire:**

The Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the application. No information was disclosed to question the financial viability or legal integrity of the Applicant.

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**Total Points:** 55 out of 130

[See Attachment A]

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**Recommendation:**

Staff recommends that the Committee approve \$17,825,000 in tax exempt bond allocation.

**ATTACHMENT A**

**EVALUATION SCORING:**

| Point Criteria  | Maximum Points Allowed for Non-Mixed Income Projects | Maximum Points Allowed for Mixed Income Projects | Points Scored |
|---|--|--|---------------|
| Federally Assisted At-Risk Project or HOPE VI Project   | 20   | 20   | 0             |
| Exceeding Minimum Income Restrictions:  | 35   | 15   | 30            |
| Exceeding Minimum Rent Restrictions<br>[Allowed if 10 pts not awarded above in Federally Assisted At-Risk Project or HOPE VI Project] | [10]   | [10]   | 10            |
| Gross Rents   | 5  | 5  | 5             |
| Large Family Units  | 5  | 5  | 0             |
| Leveraging  | 10   | 10   | 0             |
| Community Revitalization Area   | 15   | 15   | 0             |
| Site Amenities  | 10   | 10   | 10            |
| Service Amenities   | 10   | 10   | 0             |
| New Construction  | 10   | 10   | 0             |
| Sustainable Building Methods  | 10   | 10   | 0             |
| Negative Points   | -10  | -10  | 0             |
| <b>Total Points</b>   | <b>130</b>   | <b>100</b>                                       | <b>55</b>     |

The criteria for which points are awarded will also be incorporated into the Resolution transferring Allocation to the Applicant as well as the appropriate bond documents and loan and finance agreements.