

HDP OPERATING DEFICIT SUBORDINATE LOAN TO KNOX GLEN

Housing Development Partners (HDP)

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HDP Operating Deficit Subordinate Loan to Knox Glen Summary

- January 22, 2024: The San Diego region experienced unprecedented rainstorms.
- Knox Glen sustained storm-related damage.
 - 54-unit affordable rental housing property
 - 4754 Logan Ave., San Diego, in Council District 4
 - Significant water damage to 18 units
- Damage required extensive remediation and rebuilding.
 - Affected households were relocated and provided food per diem, if necessary.
- All residents have returned to their homes.

HDP Operating Deficit Subordinate Loan to Knox Glen Expenses

- Remediation and build-back expenses: Approximately \$545,000.
 - Operating Reserve: \$216,304
 - Replacement Reserve: \$71,449
 - Shortfall: Approximately \$254,000
- To continue operations at the site and to pay vendors that have completed repairs, HDP has provided Knox Glen a cash infusion loan of \$150,000 and the remaining \$104,000 will be disbursed on an as-needed basis.

HDP Operating Deficit Subordinate Loan to Knox Glen Loan

- Subordinate loan:
 - Non-interest bearing
 - Paid by the partnership through available excess cash flow after other required payments are made
- Philadelphia Insurance has denied coverage of this loss event.
- HDP is working with Legal Counsel (Christensen & Spath) and HDP's insurance carrier to understand the basis for the determination.



HDP Operating Deficit Subordinate Loan to Knox Glen Storm Drain

- After the storms, vendors completing repairs discovered a large storm drain north of the property was covered in debris.
- The storm drain is on San Diego Unified School District-owned land and is maintained by the City of San Diego.
- The City of San Diego cleared the drain after HDP notified the City.
- HDP believes this clogged storm drain contributed to flooding on the property.

Clogged Drain



Clean-up in Process



Cleared Drain



HDP Operating Deficit Subordinate Loan to Knox Glen Storm Drain (Continued)

- April 11, 2024: HDP filed a Government Code Claim for the damages incurred at the property as a result of the clogged drain.
- The City of San Diego has 45 days to provide a response.
 - As of the date of this report, the City has not provided a response.
- HDP alongside SDHC and the City of San Diego are working on submitting an application to the California Governor's Office of Emergency Services to send to the Federal Emergency Management Agency (FEMA).
- Proceeds received through the insurance carrier, Government Code Claim, or FEMA will go directly to replenishing the Operating Reserve to adequate levels and paying back HDP for the subordinate loan.

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Fiscal Considerations

- The funding sources and uses proposed for approval by this action are not included in the approved 2024 HDP operating budget or the 2024 Knox Glen property budget.
- Approving this action will amend the respective budgets by the following amounts:

<u>HDP</u>		<u>Knox Glen</u>	
<u>2024 Funding Sources:</u>		<u>2024 Funding Sources:</u>	
Unrestricted Reserves	\$ 254,000	Loans Payable	\$ 254,000
<u>2024 Funding Uses</u>		<u>2024 Funding Uses</u>	
Loans Receivable	\$ 254,000	Property Expenditures	\$ 254,000

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Staff Recommendations

That the Housing Development Partners (HDP) Board of Directors (Board) take the following actions:

1. Approve recommendation for HDP to provide Knox Glen Town Homes with a Subordinate Loan to cover repair and remediation expenses as a result of the January 22, 2024, storms.
2. Find that the foregoing action is just and reasonable as to HDP for purposes of California Corporations Code Section 5234.

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Questions/Comments