

REPORT

DATE ISSUED: June 6, 2024

REPORT NO: HDP24-003

ATTENTION: Chair and Members of the Board of Directors of
Housing Development Partners of San Diego
For the Agenda of June 13, 2024

SUBJECT: Approve the HDP Operating Deficit Subordinate Loan to Knox Glen

STAFF RECOMMENDATION

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

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

Please note a Conflict Disclosure Statement at the end of this report has been included because HDP is the Housing Commission's nonprofit affiliate, and these transactions otherwise involve the Housing Commission.

SUMMARY

On January 22, 2024, the San Diego region experienced rainstorms that had a significant impact on areas of the County of San Diego, causing substantial property destruction to homes and businesses. Knox Glen, a 54-unit affordable rental housing property in City Council District 4 at 4754 Logan Ave., San Diego, 92113, which is in HDP's real estate portfolio, sustained substantial storm-related damage.

The building systems, gutters, drains, etc., at Knox Glen have been adequate for the property with prior rain events; however, the weather event in January of 2024 caused significant water damage to 18 units. This required extensive remediation and rebuilding. Affected households were relocated and provided food per diem, if necessary.

Remediation and build back resulted in expenses costing approximately \$545,000. Knox Glen has been in communication with its investors and lenders, obtaining approval to utilize \$216,304 from the Operating Reserve Account and \$71,449 from the Replacement Reserve Account, held by Chase Bank. This left a shortfall of approximately \$254,000 to cover the expenses, which HDP would provide in the form of a subordinate loan if the staff-recommended action in this report is approved. To continue operations at the site and to pay vendors that have completed repairs, HDP has provided Knox Glen a cash infusion of \$150,000 and the remaining \$104,000 will be disbursed on an as-needed basis.

Pursuant to the terms of the November 1, 2012, partnership agreement between Logan Development Management LLC (HDP) and Boston Capital, the subordinate loan will be non-interest bearing and will be paid by the partnership through available excess cash flow after other required payments are made.

To date, 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. After the storms, it was discovered, by vendors completing repairs, that a large storm drain to the north of the property was covered in debris. This 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 storm drain contributed to the flooding on the property. On April 11, 2024, HDP filed a Government Code Claim against the City of San Diego for the damages incurred at the property as a result of the condition of the drain. The City of San Diego has 45 days to provide a response, and as of the date of this report, the City of San Diego has not provided a response. Lastly, in a continued effort to be reimbursed for damages, HDP is working on submitting an application to the Federal Emergency Management Agency (FEMA). Any 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.

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:

HDP		Knox Glen	
<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

KEY STAKEHOLDERS and PROJECTED IMPACTS

The key stakeholders of this action are Knox Glen residents, Knox Glen ownership partners, Chase Bank as the lender, and the HDP Board of Directors.

CONFLICT DISCLOSURE STATEMENT:

Two San Diego Housing Commissioners (Commissioners), Eugene “Mitch” Mitchell and Ryan Clumpner, and the San Diego Housing Commission’s (Housing Commission) President and Chief Executive Officer (President and CEO), Lisa Jones, are each directors of Housing Development Partners (HDP), a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c)(3) corporation for federal purposes. Any Commissioner who is also a director of HDP as of the date of this staff report and President and CEO Jones have no conflict of interest as discussed below. After approval of action before the HDP Board on June 13, 2024, Councilmember/Housing Authority Member Stephen Whitburn will become a Director of HDP. As a member of the Housing Authority, he has responsibilities for oversight of the Housing Commission. The Councilmember/Housing Authority Member receives no compensation for his service on the HDP Board and/or as an officer of HDP. Pursuant to the provisions of 1091.5(a)(9), the City Councilmember/Housing Authority Member has a non-interest as described in Government Code Section 1091.5 for purposes of his action on Housing Authority matters associated with this matter, if

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any. This disclosure shall be incorporated into the record of the Housing Authority, if and when this matter is heard by the Housing Authority, if ever.

The Commissioners and President and CEO Jones receive no compensation for their service on HDP's Board of Directors and/or as officers of HDP. Pursuant to the provisions of Government Code Sections 1091.5(a)(7) and 1091.5(a)(8), the Commissioners and President and CEO Jones each have a "non-interest" as described in Government Code Section 1091.5 for purposes of their action on Housing Commission matters associated with this matter, if any. This disclosure shall be incorporated into the record of the Housing Commission, if and when this matter is heard by the Housing Commission.

Further, as members of the Housing Commission Board of Commissioners or the Housing Authority, the Commissioners and the Councilmember/Housing Authority Member are legally entitled to vote and be counted for quorum purposes in this HDP matter. Further, Ms. Jones is not compensated by HDP, and she sits on the HDP Board of Directors. She is legally entitled to vote and to be counted for quorum purposes for this HDP matter.

None of HDP's Board members has a financial interest in this action item that would legally preclude their participation under the provisions of Government Code Sections 1090 and/or 87100 et. seq. Further, the Housing Commission, the Housing Authority, which are both public agencies, and their respective Commissioners are not compensated for their service as Commissioners of the Housing Commission or the Housing Authority. Further, Ms. Jones' compensation from a public agency, the Housing Commission, is a non-interest under the provisions of Government Code Section 1091.5(a)(9) as well as for the purposes of Government Code Section 87100 et. seq. Ms. Jones' compensation with the Housing Commission is not a financial interest that would, in any way, preclude him being counted for quorum purposes or voting on these matters before HDP.

Further, to the extent that HDP is a public agency for local Ethics Ordinance purposes, neither the Commissioners nor Director Jones has any conflicts of interest under the local ethics ordinance that would preclude their, or any of their, actions in this matter or from being counted for quorum purposes. This disclosure shall be and is hereby documented in the official records of the HDP. Similar disclosures will be made in the records of the Housing Commission, if and when this matter his heard by the Housing Commission and/or the Housing Authority.

MUTUAL DIRECTORS STATEMENT:

To the extent that Commissioners may be considered to be "directors" of the Housing Commission or Housing Authority Members may be considered "directors" of the Housing Authority for purposes of California Corporations Code Section 5234 and, hence, common directors with HDP, a vote on this matter should incorporate a finding that these transactions are just and reasonable as to HDP.

Respectfully submitted,



Emmanuel Arellano
Vice President of Asset Management
Housing Development Partners

Approved by,



Jeff Davis
Deputy Chief Executive Officer
Housing Development Partners

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Docket materials are available on HDP's website at www.hdpartners.org