

# HDP EXIT FROM THE ISLAND VILLAGE PARTNERSHIP

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Housing Development Partners

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# Island Village Partnership Exit Summary

- Affordable rental housing development at 1245 Market St., San Diego, 92101, for households with low income.
  - 281 residential units with rents restricted between 50% to 60% of AMI.
  - Originally developed in 2004 with tax-exempt bonds, low-income housing tax credits, and loans from various governmental entities, including the San Diego Housing Commission (SDHC) and California Housing Finance Agency (CalHFA).
- Island Village initially included a tax credit investment partner, which exited the partnership in 2015 after receiving the benefit of tax credits awarded to the project.

# Island Village Partnership Exit Site Photo



# Island Village Partnership Exit

## Compliance and Partnership

- SDHC monitors compliance with the DCC&Rs and Tax-Exempt Bond Regulatory Agreement.
- CalHFA and the California Tax Credit Allocation Committee monitor compliance with their respective agreements.
- In 2015, HDP formed HDP Island Village LLC, a California limited liability company, to act as the managing general partner for a new limited partnership, East Village West LP, to acquire and operate Island Village in accordance with the deed restrictions.
- East Village West LP admitted three family trusts as limited investment partners and East Village West, LLC, as a co-general partner.

# Island Village Partnership Exit Ownership Structure

- In 2022, one limited partner divided its interest among four family trusts in accordance with the Limited Partnership Agreement (LPA), resulting in the current ownership structure below:

Name	Partnership Interest
<b>GENERAL PARTNERS:</b>	
East Village West LLC	0.06%
HDP Island Village LLC	0.04%
<b>LIMITED PARTNERS:</b>	
Jonathan Roper and Ugne Skripkus Roper, as Trustees of the Roper Living Trust dated February 24, 2012	0.10%
Birch Trust dated September 16, 2022	39.80%
Paulius Kudirka and Victoria Kudirka, as Trustees of the P. and V. Revocable Living Trust dated May 21, 2009	0.10%
Amber VJ Irrevocable Trust, dated September 7, 2022	19.90%
Hal Gregory Kuykendall and Denise Lynette Kuykendall, as Trustees of the Kuykendall Family Trust dated May 8, 1998	20.00%
David Stapleton, as Trustee of the Stapleton Family Trust dated September 16, 2015	20.00%
Total:	100.00%

# Island Village Partnership Exit

## Managing General Partner

- As the Managing General partner, HDP Island Village, LLC, receives an annual fee of \$30,000 to perform the following duties:
  - Monitor compliance with government regulations.
  - Obtain annual property tax welfare exemptions.
  - Participate in and execute partnership management major decisions, which are determined by general partners' vote based on percentage ownership interest.
- The annual Asset Management fee offsets all HDP costs associated with this property's Asset Management, Financial and Legal oversight.
- Significant staff time and legal resources are allocated to this asset.

# Island Village Partnership Exit

## HDP Oversight Obligations

- Island Village is in HDP's real estate portfolio but has a unique ownership and financial structure from typical HDP partnerships.
  - Investment partners do not receive any tax credits and have the authority to obtain supplemental financing with no remaining government agency loans.
- The investment partner's return on investment is cash flow distributions, which may include proceeds from supplemental financing.
- No requirement for an annual financial audit by a third-party auditor.
- HDP primarily meets its oversight and monitoring obligations through third-party audits.

# Island Village Partnership Exit HDP Oversight Obligations (Continued)

- HDP would have to incur audit expense if one is conducted, anticipated to exceed the annual fee HDP receives.
- Major partnership decisions are decided by a General Partner vote based on partnership interest, and so controlled by the co-General Partner, East Village West, LLC.
- Major decisions defined in the Limited Partnership Agreement include determining excess cash distributions, borrowing money, refinancing, and modifying any deed restrictions.



# Island Village Partnership Exit

## Affordable Housing Status

- The property is well-maintained, secured with strong occupancy.
- Royal Management, the third-party property management company, oversees the daily operations at Island Village.
- All 281 units at Island Village will continue to operate as affordable housing through December 21, 2060.
- SDHC's Compliance and Monitoring department will continue to monitor the project for the compliance of the terms of the deed restrictions.

# Island Village Partnership Exit

## Partnership Expiration

- The limited partnership agreement expires in 2064.
  - Upon expiration, the co-General Partner controls partnership assets through liquidation.
  - Net proceeds after debt repayment are distributed to partners based on ownership interest.
- HDP's 0.04% interest equates to \$400 for every \$1,000,000 of net profit.
- The absence of an audit requirement on financial statements and the limited authority of HDP Island Village, LLC as a managing general partner present significant challenges for HDP in overseeing this asset.

# Island Village Partnership Exit

## HDP Oversight Limitations

- HDP's oversight is restricted to property site inspections, reviewing the financial reports as provided, and conducting the annual welfare exemption paperwork.
- HDP lacks the ability to influence the future directions of the property and partnership.
- HDP would be assigning their partnership interest to a replacement nonprofit at HDP's sole discretion, with a planned exit date of December 31, 2024.
- Recruitment of a local nonprofit housing and homelessness service providers who currently support tenants at the property as the substitute nonprofit partner.
- Such a partnership will benefit the property by enhancing the service provider's involvement.

# Island Village Partnership Exit Fiscal Considerations

- Approval of this action will reduce the Asset Management fees collected by \$30,000.
- Approval of this action will reduce the associated Asset Management, Fiscal and Legal costs associated with the oversight and monitoring of this property.

# Island Village Partnership Exit Staff Recommendations

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

1. Approve HDP's exit from the Island Village Partnership.
2. Find that the foregoing action just and reasonable as to HDP for purposes of California Corporations Code Section 5234.

# Island Village Partnership Exit

Questions/Comments