



City of Chula Vista

Staff Report

File#: 18-0186, **Item#:** 10.

RESOLUTION NO. 2018-076 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AND HA NO. 2018-002 OF THE HOUSING AUTHORITY (IN ITS CAPACITY AS THE SUCCESSOR HOUSING ENTITY) (1) APPROVING A LOAN OF UP TO \$858,740 FOR LAND ACQUISITION AND PRE-DEVELOPMENT EXPENSES AND \$1,036,425 FOR CONSTRUCTION-RELATED COSTS USING HOME INVESTMENT PARTNERSHIP ACT FUNDS FROM THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT TO WAKELAND HOUSING AND DEVELOPMENT CORPORATION OR AN AFFILIATED DEVELOPMENT ENTITY ("DEVELOPER") FOR A NEW DEVELOPMENT TO BE LOCATED AT 748, 750-752, AND 754-760 ANITA STREET; (2) AUTHORIZING THE CITY MANAGER OR HIS DESIGNEE TO NEGOTIATE A FIRST AMENDMENT TO THE EXISTING LOAN DOCUMENTS FOR 750-752 AND 754-760 ANITA STREET TO INCORPORATE 748 ANITA STREET, AND EXECUTE ALL DOCUMENTS RELATED TO THE LOAN AND THE ACQUISITION AND DEVELOPMENT OF THE ADDITIONAL SITE; (3) AUTHORIZING THE CITY MANAGER OR HIS DESIGNEE TO NEGOTIATE AND EXECUTE ALL HOME INVESTMENT PARTNERSHIP ACT DOCUMENTS RELATED TO THE HOME LOAN; AND (4) APPROPRIATING FUNDS IN THE 2017/2018 BUDGET THEREFOR (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council/Authority adopt the resolution.

SUMMARY

On October 10, 2017, through Resolution No. 2017-188, the City Council and Housing Authority approved \$3.3M in financial assistance for the development of an affordable housing project located at 750-752 and 754-760 Anita Street to Wakeland Housing and Development Corporation ("Developer") in the southwest area of Chula Vista ("Project").

Since the original date of approval, Developer has successfully negotiated a purchase and sale agreement to acquire 748 Anita Street. The Developer is requesting an additional \$858,740 loan commitment to acquire the additional parcel and for predevelopment costs. In addition, \$1,036,425 is requested for construction and related costs for a total of \$5,195,165. Approval of the recommended actions will enable Developer to assemble the necessary financing for the Project and increases the number of affordable housing units from 47 units to 72 units.

ENVIRONMENTAL REVIEW

Environmental Notice

The Director of Development Services has reviewed the proposed Project for compliance with the California Environmental Quality Act (CEQA) and has determined that the Project qualifies for a Class 32 infill development categorical exemption (15332) for new residential units on residential property consistent with the Residential Apartment (R-3) zoning designation, therefore no further environmental review or documentation is required.

The City's federal HOME funds from the United States Department of Housing and Urban Development (HUD) funds will also be a source of financial assistance. Therefore, as required by the federal entitlement funds, the project must also be reviewed under the National Environmental Protection Act ("NEPA"). Funding of the loan will be conditioned upon the completion of all required review under NEPA.

Environmental Determination

The Director of Development Services has reviewed the proposed Project for compliance with the California Environmental Quality Act (CEQA) and has determined that the Project qualifies for a Class 32 infill development categorical exemption (15332) for new residential units on residential property consistent with the Residential Apartment (R-3) zoning designation, therefore no further environmental review or documentation is required.

The City's federal HUD funds will also be a source of financial assistance. Therefore, as required by the federal entitlement funds, the project must also be reviewed under the National Environmental Protection Act ("NEPA"). Funding of the loan will be conditioned upon the completion of all required review under NEPA.

BOARD/COMMISSION RECOMMENDATION

On April 26, 2018, the Housing Advisory Commission voted (4-0) to recommend the approval of City housing funds to assist in the Project financing.

DISCUSSION

To facilitate and materially assist the housing industry in providing adequate and affordable housing shelter for all economic segments of the community and to provide a balance of housing opportunities for very-low income, low-income and senior households, the City of Chula Vista ("City") has adopted Chula Vista Municipal Code ("CVMC") Chapter 19.90 [Affordable Housing Incentives], consistent with Sections 65915 and 65918 of the California Government Code. Should an applicant agree to construct housing units to be restricted for occupancy by very-low and low-income households as set forth in CVMC §19.90.040, upon the request of the applicant, the City shall make incentives available, in accordance with CVMC §19.90.050, including paragraph (A)(2)(e) [Financial Incentives].

Wakeland Housing and Development Corporation ("Developer") has proposed the development and construction of an affordable rental housing development for very-low and low-income households on property located at 748, 750-752 and 754-760 Anita Street in the southwestern area of Chula Vista ("Project"). To facilitate the development and financing of the Project, Developer has requested, in accordance with CVMC Chapter 19.90, a land acquisition, predevelopment, and construction loan of up to (or not to exceed) five million one hundred ninety-five thousand one hundred sixty-five dollars (\$5,195,165) to support creation of new affordable rental homes. Project specific predevelopment costs may include feasibility studies, consulting fees, architects, engineers, legal fees and site control expenses such as title reports. Land acquisition costs may include costs for the land, title and recording and any reasonable carrying costs. Construction costs may include building materials, permit costs, and labor costs.

In today's competitive land market, developers have found it difficult to negotiate long option periods to acquire land necessary for development of affordable housing, which typically involves a minimum of 18 months to receive a commitment of the differing layers of financing and to secure land-use entitlements. If a long-term option is negotiated, the land price is costlier because of the extended period. Nonprofit affordable housing developers, such as Wakeland, have difficulty in accumulating sufficient cash resources to pay for predevelopment work that can take several years or to acquire land in a competitive real estate market.

Acquisition of land at the full cost to the developer or with a long-term option can serve as an impediment to the production of affordable housing. With the Housing Authority's assistance, the affordable housing developers' carrying costs are reduced while seeking funding from other sources, which contributes to lower overall project costs. Staff is supportive of assisting affordable housing developers with acquisition funding earlier in the predevelopment phase of a project to make them more competitive in securing site control of land and reduce land acquisition costs.

The Property & Project

Sites A and B were acquired October 2017 using Housing Authority funding. A Loan Agreement and Related Covenants is recorded against these properties ("A & B") to ensure they can only be used for affordable rental housing per previous Council approval (Resolution No. 2017-188). The additional financial assistance of the Housing Authority's Low and Moderate-Income Housing Asset Fund (LMIHAF) totaling \$858,740 will be used to acquire Site C. With the acquisition of Site C, the three separate parcels total approximately 2.06 gross acres as follows (see Attachment 1):

Description	Site A	Site B	Site C
Address	750-752 Anita Street	754-760 Anita Street	748 Anita Street
APN	APN 622-072-32-00	APN 622-072-34-00	APN 622-072-33-00
Lot Size	0.62 acres	0.92 acres	0.52 Acres
Zoning	Palomar Residential Village	Palomar Residential Village	Palomar Residential Village
General Plan	Residential High	Residential High	Residential High
Existing Uses (Attachment 2)	1 single family home 3 bed, 2 baths	7-unit multifamily structure Totals 11 bedrooms, 8 baths	1 single family home 2 bed, 1 bath
Adjacent Uses	Residential homes	Residential homes	Residential homes
Ownership	Wakeland Housing Acquired October 2017	Wakeland Housing Acquired October 2017	Acquisition Pending 6/2018

Site C is owner occupied and Wakeland has reached an agreement with the Property Owner for the sale, with escrow scheduled to close in early June 2018. As part of the escrow process, the City will record additional loan and related covenants on Site C to ensure that this parcel is used for affordable rental housing. HOME funds in the amount of \$1,036,425 will be used for construction and related costs.

Zoning for the properties is currently Palomar Gateway District - Palomar Residential Village (PRV)

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permitting residential apartments with a General Plan designation of Residential High. The parcels are flat and present no significant impediments to future redevelopment of the sites.

The properties are in an ideal location for the convenience of residents and for competitive financing programs. The Project is within walking and biking distance to recreational and education opportunities and neighborhood services and has direct access to public transportation. Nearby amenities and services include:

- ½ Mile from Palomar Transit Center
- ½ Mile from Food 4 Less and other shopping
- ¾ Mile from Elementary and High School and Harborside Park
- 1 Mile from South Chula Vista Library

The Project site supports a healthy living environment with its close proximity to amenities and services.

A Broker Price opinion was used to determine the value of Site C using the September 2017 appraisal from Sites A and B. This value is based on a highest and best use as vacant land for redevelopment to multifamily residential. The Broker found that the existing improvements contribute no value to Site C. The Land Acquisition Loan of \$858,740 is set at a maximum of the value and additional costs associated with predevelopment costs associated with the proposed acquisition and development.

A Phase I Environmental Site Assessment has been prepared. The purchase and sale contract stipulates that the seller represents to the best of its knowledge that the site is free of contamination and that the seller is responsible for any contamination of which it is aware or subsequently discovered on the site.

Future development plans anticipate the removal of all existing buildings to be replaced with 72 affordable rental homes (1-unit reserved for the resident manager) for very low and low-income households, in a mix of bedroom unit sizes, a small community room and laundry facilities. A small percentage of the project will be restricted for occupancy by persons with special needs at an extremely low-income level, such as persons with disabilities or veterans. The Project is proposed as a joint partnership with Developer to bring their strengths and financing skills to the Project and its experience in providing housing for a special needs population.

The Applicant

With over 6,000 housing units in its portfolio across California, Developer has significant experience in developing affordable housing. Developer's developments are diverse in housing type, unit type and financing structure, and they vary in size from 6 units to 504 units. Recent projects in San Diego County include: "Atmosphere", a 205-unit rental project including 51 units for supportive housing for special needs residents in downtown San Diego and Talmadge Gateway, a 100 percent permanent supportive housing community for seniors in partnership with City Heights Community Development Corporation. In Chula Vista, Developer has partnered with the City and Family Health Centers for "Lofts on Landis", a 33-unit rental project in the heart of Third Avenue Village in Chula Vista and the award winning "Los Vecinos", a 42-unit rental project in Southwest Chula Vista. Developer is well-qualified and has demonstrated their desire and commitment to partner with the City, to develop a

project that meets the City's affordable housing objectives and to work cooperatively on the design of the project.

Project Financing

Project development costs are estimated to total \$23,184,474, inclusive of the land acquisition. Major funding for the Project will be through the Low-Income Housing Tax Credit (LIHTC) program (Attachment 3: Source and Uses). As with affordable housing developments with restricted rents, leveraging of various financial resources is necessary for financial feasibility. To assist in closing the financing gap, Wakeland has requested financial assistance from the Housing Authority's LMIHAF funds. HOME funds are also being requested for construction and related costs.

The use of LMIHAF funds will necessitate a number of the units be restricted to households with special needs at 30 percent or less of the area median income (AMI), or \$25,500 for a family of four, and those households below 50 percent AMI, or \$42,500 for a family of four. As required by State Health and Safety Code 34176.1 (a)(3), at least 30 percent of the expenditures of the LMIHAF must be used for the development of housing affordable to, and occupied by, households earning 30 percent or less of the area median income (AMI) and 50 percent of the expenditures for households earning 30-50 percent AMI. HOME funds will require 11-units to be restricted to households servicing less than 50% of the Area Median Income. With deeper affordability levels, the City and Housing Authority's business terms will require the Developer to pursue other available funds for financial feasibility, specifically funds targeted to supportive or special needs housing development and operations, such as Mental Health Services Act Housing Program (MHSA) or Veterans Housing and Homelessness Prevention (VHHP) funding, or the Affordable Housing and Sustainable Communities (AHSC) Grant Program. However, due to the competitive nature of these funding programs, the financial analysis assumes such funds may not be received.

The Housing Authority's and City's financial assistance to fill the financing gap will be necessary to demonstrate local commitment and leveraging of local funds in Developer's application for the LIHTC. Additionally, the timely encumbrance and expenditure of LMIHAF funds is necessary or the funds will be required to be transferred to the State's Department of Finance and distributed to taxing entities. In addition, the HOME funds can be subject recapture by HUD if not committed to an eligible project that is owned by a City certified Community Housing Development Organization.

With the acquisition of the third parcel (Site C), and increasing interest rates and construction costs, additional assistance of approximately \$1.9 million is required to fill the remaining need. Staff is proposing the use of the City's HOME funds in an estimated amount of \$1,036,425 for constructed and related costs and \$858,740 from LMIHAF to acquisition and pre-development costs for Site C.

The Housing Authority and City's commitment averages \$72,155 for each of the 72 units. This cost is consistent with the per unit subsidy for this type of development in high-cost markets. Given that this Project will also restrict approximately 10 percent of the units to residents with special needs at 30 percent of AMI, the deep affordability of the Project increases the needed public subsidy. The financial assistance requested by Developer, in accordance with CVMC §19.90.050, is necessary to provide for affordable rents and to lower development costs. The Project cannot be built without such assistance. For each dollar of Housing Authority and City subsidy, approximately \$4 of other private/public investment is leveraged. The first mortgage on the project and 9% tax credits would bring approximately \$16,751,309 to the project (approximately 72% of the development costs). Therefore, there remains a financing gap of approximately \$6,430,165. A portion of the developer fee will be contributed back as a source. As a gap lender, the City and Housing Authority total commitment needed is \$5,195,165 to fill the remaining gap. Please see Attachment 3 for a comprehensive listing of the Project's sources and uses of funds.

The City and Housing Authority will execute and record an Amendment(s) to the existing loan agreements and all associated loan documents, in accordance with the Authority's approval, if granted, for this Project, with terms reviewed by the City Attorney's office and satisfactory to the Authority. Assistance will be in the form of a land acquisition, predevelopment loan, and construction loan, in an amount not to exceed \$5,195,165 and secured by a note, deed of trust, and regulatory agreement recorded against the property. The principal and interest on the loan would be amortized over fifty-five years and repaid from cash surplus in annual installments. As with all the Housing Authority gap loan amounts, disbursements are made on a reimbursement basis as evidenced by expenditure receipts; therefore, if the full approved loan amounts are not needed, the amounts disbursed will be less than the approved amount. The City's commitment of HOME Investment Partnership Act funds also requires separate loan and related documents once all of

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the other financing sources have been secured for the Project.

Rents will be restricted for all 72 units for lower income households (except for one unit reserved for the resident manager) for the required 55-year term, inclusive of serving a special needs population of extremely low-income, and incorporated into the various deed restrictions for the property and maintained for the full 55-year term known as the period of compliance. Such restrictions would bind all subsequent owners so that the commitment remains in force regardless of ownership. Compliance with these restrictions would be subject annually to a regulatory audit and annual tax credit certification.

Tonight's action will direct staff and the City Manager, in consultation with the City Attorney's office, to take the following actions to meet State and HUD requirements for the use of Low and Moderate-Income Housing Asset funds and HOME Investment Partnership Act funds:

- Enter into all necessary documents, including but not limited to an amendment(s) of all existing Low and Moderate-Income Housing Loan Agreements, any associated HOME Investment Partnership Act loan documents and regulatory agreements to commit additional funds to the project with an amount not to exceed \$858,740 from the Low and Moderate-Income Housing Asset Fund to acquire Site C and \$1,036,425 in HOME funds for construction and related Project costs.
- The total assistance to the project will not exceed \$4,158,740 from the Low and Moderate-Income Housing Asset fund and \$1,036,425 in HOME Investment Partnership Act funds from the U.S Department of Housing and Urban Development for a total of \$5,195,165.

Public Outreach

Developer hosted a community meeting on August 8, 2017 to engage with the community, to provide information on their proposed development, to answer questions, and to better understand the concerns of neighborhood residents and businesses. Invitations were sent to those residents and property owners within a 500-foot radius of all the Sites. Approximately 6 persons were in attendance, of which 3 were residents of the subject property. Residents voiced concerns regarding the timing of development and their rents. Developer communicated their intent to maintain existing rents and demolition of units not occurring until all financing was secured. In accordance with the financing provided, relocation assistance would be offered by Developer.

As the Project moves forward, the project will be subject to the City's public notification process. In addition, Developer will continue to engage with the community by mailing informational updates on the project and sending an email newsletter during the construction phase that alerts them to construction-related impacts in the neighborhood.

Conclusion

The Project offers opportunities to provide quality affordable housing to Chula Vista's working families consistent with City housing goals in a location within walking distance to neighborhood services, employment centers, and transportation links. In addition, the Project will revitalize existing underutilized and blighted properties. The requested additional financial assistance, in an amount not to exceed \$1,895,165, provides significant leveraging of the City's resources and is necessary to obtain primary financing for the Project. Furthermore, staff recommends approval of a City land acquisition, predevelopment, and construction loan for the following reasons: 1) Developer has done much of the active advance work associated with the Development; and 2) a land acquisition and predevelopment loan for Site C is necessary, given the significant need for advance community communication, consideration of needed community amenities and development requirements, and competitive real estate market; 3) the proposed LMIHAF and HOME funds are available and the Project provides an opportunity for these funds to be used for a viable affordable housing costs instead of being recaptured by the respective agencies; and 4) with the acquisition of Site C, an additional 24 units will be available for very low income households.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the Housing Authority members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

Staff is not independently aware, and has not been informed by any Housing Authority member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. The development and provision of quality affordable housing for low income households supports the Connected Community goals as it provides housing to meet residents' needs and priorities.

CURRENT YEAR FISCAL IMPACT

The funds needed to assist with the acquisition and pre-development costs for the acquisition of Site C, in an amount not to exceed \$858,740, are available from the Housing Authority's Low and Moderate-Income Housing Asset Fund balance. Of the requested amount, \$358,740 is available in the adopted 2017/18 budget. An additional appropriation of \$500,000 to provide the full \$858,740 is recommended with this action. The pre-commitment of HOME funds for construction and related costs is needed with this action; however, the HOME funds will not be spent until fiscal year 2018/19. Hence, no appropriation of HOME funds is requested in the current fiscal year.

There is no financial impact to the City's General Fund as the project and staff costs are covered by the available Housing fund balance.

ONGOING FISCAL IMPACT

The one-time use of Housing Fund balances will result in a negative fiscal impact to the available fund balance. However, these funds are restricted solely for the creation or improvement of permanent or transitional affordable housing opportunities. There is no ongoing expense associated with this action. The HOME funds for construction and related costs will be appropriated as part of the 2018-2019 City Manager's Budget.

ATTACHMENTS

1. Locator Map
2. Existing Sites
3. Summary of Project Sources & Uses
4. Disclosure Statement

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