



THE CITY OF SAN DIEGO
Redevelopment Agency's Report

DATE ISSUED: July 19, 2006 REPORT NO. RA-06-18

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of July 25, 2006

SUBJECT: Financing for the Affordable Housing Collaborative Program

REFERENCE: Redevelopment Agency Report (RA-06-03), issued January 18, 2006;
Redevelopment Agency Report (RA-05-37), issued December 2, 2005;
Redevelopment Agency Report (RA-02-17), issued July 31, 2002

REQUESTED ACTION:

1. Authorize the issuance of a Request for Proposals to secure a bank line of credit in an estimated amount of \$35 million to provide funding for an Affordable Housing Collaborative Opportunity Fund.
2. Approve the treatment of low- and moderate-income housing set-aside funds from the Redevelopment Division's project areas as a revenue pool for an Affordable Housing Collaborative Opportunity Fund.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

In August 2002, the Redevelopment Agency, Housing Authority and City Council approved a Comprehensive Affordable Housing Strategy, which included the concept of leveraging and aggregating the Redevelopment Agency's Low- and Moderate-Income Housing Funds (LMIHF) to create up to \$55 million in affordable housing financing to fund the Affordable Housing Collaborative Program through a Notice of Funding Availability (NOFA). In January 2003, the Agency issued the NOFA to seek proposals to develop new affordable housing units within the City of San Diego. The City's Redevelopment Division, the Centre City Development Corporation (CCDC), the Southeastern Economic Development Corporation (SEDC) and the San Diego Housing Commission have been working together as the Affordable Housing Collaborative to implement projects submitted in response to the NOFA.

The Comprehensive Affordable Housing Strategy (RA-02-17) identified a five-year (1999-2004) affordable housing goal of 2,185 units. This goal was 10% of the estimated five-year affordable housing need. The \$55 million NOFA was released in January 2003 in order to meet that goal.

In June 2003 and July 2004, the Agency issued housing bonds for the Horton Plaza and Centre City Redevelopment Project Areas, respectively, to provide a \$40 million contribution from the CCDC-administered project areas. The City's Redevelopment Division committed to providing the remaining \$15 million. In December 2003, the Agency issued housing bonds for the City Heights Project Area which provided \$2 million towards this \$15 million commitment. On April 4, 2006, the Agency approved an affordable housing subsidy of \$5.245 million for the CentrePoint project in the Crossroads Project Area, which was credited toward the Redevelopment Division's commitment, leaving a remaining Redevelopment Division commitment of \$7.8 million to the Affordable Housing Collaborative Program. The Veterans Village Phase III project in the North Bay Project Area is seeking approximately \$4 million. If approved, the approximate \$4 million LMIHF contribution from North Bay would reduce the remainder of the Division's unfunded commitment to \$3.8 million under the initial \$55 million.

To date, approximately \$48 million of the original \$55 million NOFA has been approved for expenditure by the Agency to create 720 affordable units (Attachment 1) and there remains an additional \$57 million in requested subsidies in the pipeline (Attachment 2). If the La Entrada Family Apartments project is approved for funding by the Agency, the total requested subsidies in the pipeline will be reduced to approximately \$44 million. The demand for affordable housing funding exceeds the original \$55 million Program funding by \$50 million. Specifics with regard to the pipeline projects, especially the long-term subsidy requests, number of units and level of affordability, are still subject to change and subject to approval by the Redevelopment Agency.

Affordable Housing Opportunity Fund

LMIHF are defined by California Community Redevelopment Law and may be used across project area boundaries. Prior to the approval of the Comprehensive Affordable Housing Strategy, the three organizations within the Agency (Redevelopment Division, CCDC, and SEDC) had historically overseen the use of LMIHF for each of their respective project areas. When the City Council, Redevelopment Agency and Housing Authority approved the Comprehensive Affordable Housing Strategy, a substantial amount of LMIHF from all Redevelopment Division- and CCDC-managed project areas was committed to fund citywide low-and moderate-income housing. Managing this commitment through the Affordable Housing Collaborative resulted in a more efficient application process and reduced the need for developers to seek funds from several public agencies, each with its own unique application, underwriting and documentation requirements. The Affordable Housing Collaborative Program has also provided the three entities of the Redevelopment Agency and the Housing Commission with an opportunity to work more efficiently and collaboratively on affordable housing projects.

Continued treatment of the LMIHF as a revenue pool or an "Affordable Housing Opportunity Fund", rather than compartmentalizing the LMIHF by redevelopment project area, will enable the Agency to expedite and maximize affordable housing production. Several of the Redevelopment Division's Project Areas generate less than \$100,000 annually in LMIHF. With the Affordable Housing Collaborative subsidies averaging \$66,000 per affordable rental unit and \$110,000 per affordable for-sale unit, it would take years for these project areas to reach the capacity to assist an affordable housing project in their area. However, by treating the LMIHF as a revenue pool, the Agency will have the capacity to provide financial assistance based upon project viability, not project location.

Leveraging Redevelopment Division LMIHF

It is recommended that a Request for Proposal be issued to solicit complete terms and conditions, and to secure the most competitive pricing for a bank line of credit for the City Heights, North Bay, North Park, and Naval Training Center Redevelopment Project Areas. Security for the proposed line of credit would be a pledge of the low-and moderate-income housing tax increment funds from the respective redevelopment project areas. The line of credit could be structured to allow for both taxable and tax-exempt purposes, depending on the use of funds. No City funds would be pledged to the repayment of the line of credit.

If approved and depending on the responses received, it is expected that documents to execute a line of credit could be prepared and brought to the Redevelopment Agency for approval in September 2006.

FISCAL CONSIDERATIONS:

At its meeting on January 24, 2006, the Redevelopment Agency authorized the issuance of a Request for Proposals to secure a bank line of credit in the amount of \$10 million to provide funding for the North Park Redevelopment Project Area, for non-housing purposes, due to funding needs for projects under construction. Negotiations are underway to finalize loan documents necessary to execute the line of credit for North Park, which is expected to be brought to the Agency for review and approval within the next two months. The line of credit financing option is recommended for housing purposes, also.

On May 23, 2006, the Agency authorized CCDC to issue \$79 million in tax allocation bonds and \$35 million in tax allocation housing bonds. These CCDC bonds are secured by tax increment revenues from the Centre City Redevelopment Project Area. The ratings and bond insurance received by the Centre City Project Area reflects the continued strength of downtown's economic growth and its corresponding tax revenues. Unfortunately, these same characteristics do not exist throughout all of the Agency's project areas, and it appears infeasible for the Agency to issue bonds within the City's Redevelopment Division Project Areas, at this time.

Estimated Amounts to be Borrowed

The City Heights, North Bay, North Park and Naval Training Center Redevelopment Project Areas have the capacity to support an affordable housing borrowing in the total amount of approximately \$35 million, as shown in the table below.

<u>Project Area</u>	<u>Net Project Proceeds</u>
City Heights	\$11,475,080
Naval Training Center	\$9,480,475
North Bay	\$6,352,162
North Park	\$8,137,897
TOTAL	\$35,445,614

Because the current LMIHF of several project areas support successful programs within their respective communities, it is proposed to exempt certain LMIHF revenues from inclusion in the Opportunity Fund in order to continue to support programs like: First Time Homebuyer's programs (such as "Home in the Heights"), housing rehabilitation programs (such as those in City Heights, Crossroads and Linda Vista) and also to support other contractual obligations (such as the NTC "Homeless Agreement"). Approximately \$5 million of the borrowed funds would be dedicated to these existing programs, leaving \$30 million available for the Opportunity Fund and the affordable housing projects in the pipeline, provided the treatment of low- and moderate-income housing set-aside funds from the Redevelopment Division managed project areas as a revenue pool for an Opportunity Fund is approved.

There is no fiscal impact to the City or the City's General Fund by the requested actions, or subsequent actions to implement a borrowing for the Redevelopment Agency. Funding for initial costs and annual payments for a line of credit would come from low-and moderate income housing tax increment revenues generated by the City's Redevelopment Division Project Areas. A line of credit would ultimately be paid off with a permanent long-term bond issuance.

PREVIOUS AGENCY, AND/OR COMMITTEE ACTION:

On December 6, 2005, the Redevelopment Agency considered a request to authorize the issuance of a Request for Proposals to secure a bank line of credit to provide funding for the Affordable Housing Collaborative Program and priority non-housing redevelopment projects in the City Redevelopment project areas. At that meeting, the Agency directed staff to: (1) provide more specific information regarding the estimated amounts to be borrowed, (2) more thoroughly analyze the concepts of pooling LMIHF and continuing the Affordable Housing Collaborative Program and (3) return to the Agency for direction.

Redevelopment Division staff made presentations to the Affordable Housing Collaborative Review Team (CRT) and Executive Loan Committee (ELC) in April 2006. While neither group took formal action, there was general support for the concept of pooling the LMIHF from the Redevelopment Division managed project areas.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Staff solicited input regarding the concept of aggregating the LMIHF and the priorities for expenditure of those funds from the Project Area Committees (PAC). Four PACs approved aggregating funds (Barrio Logan, College Community, Crossroads and North Park); two PACs and one Community Planning Group did not approve of the concept (City Heights and North Bay PACs, San Ysidro Planning Group). Attachment 3 provides a summary of the actions taken by the PACs and their input.

KEY STAKEHOLDERS & PROJECTED IMPACTS:

The Affordable Housing Opportunity Fund will provide a consistent, institutional financing mechanism for increasing the affordable housing inventory within designated redevelopment project areas, as well as other areas of the City of San Diego.

Respectfully submitted,

Maureen Ostrye
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Attachments: 1. Affordable Housing Collaborative Approved Projects
2. Affordable Housing Collaborative Pipeline Projects
3. Summary of Community Input