

DATE ISSUED: September 10, 2008

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Docket of September 16, 2008

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Parkside (North side of Island Avenue between 13<sup>th</sup> and 14<sup>th</sup>  
streets) – First Implementation Agreement to Owner Participation  
Agreement with Parkside Terrace L.P. and Amended  
Subordination Agreement -- East Village Redevelopment District  
of the Expansion Sub Area of the Centre City Redevelopment  
Project

COUNCIL DISTRICT: 2

REFERENCE: None

STAFF CONTACT: Eri Kameyama, Associate Project Manager, (619) 533-7177

**REQUESTED ACTION:** Approve the First Implementation Agreement to Owner Participation Agreement (OPA) between the Redevelopment Agency of the City of San Diego (“Agency”) and Parkside Terrace, L.P. (“Developer”) and Amendment to Subordination Agreement.

**STAFF RECOMMENDATION:** That the Agency:

- Approve the First Implementation Agreement to OPA, which will allow an increase in the amount of the permanent loan by the California Community Reinvestment Corporation (“CCRC”) from \$4,220,000 to \$4,766,200 and subordination of the Agency loan to the increased permanent loan; and
- Allow the Agency Executive Director or designee to approve future increases to the subordination amount up to a cumulative total of \$5,064,000 (20% increase).

**SUMMARY:** The Developer proposes to install photovoltaic panels on the roof of the approved Parkside affordable housing project. The solar system will generate electricity for the project’s common areas. The Developer plans to cover the costs of the solar system with solar rebates, solar tax credits and additional proceeds from the permanent loan. The Developer is requesting amendments to the OPA and Subordination Agreement to increase the amount of the permanent loan from \$4,220,000 to \$4,766,200 and subordination of the Agency loan to the revised permanent loan amount. The Agency subsidy will not be increased by this action.

FISCAL CONSIDERATIONS: This action will not increase the Agency subsidy.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION:

On May 28, 2008, the Centre City Development Corporation Board voted 5-0 to approve the staff recommendation.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: On May 21, 2008, the Centre City Advisory Committee voted 20-0 and the Project Area Committee voted 19-0 to approve the staff recommendation.

DEVELOPMENT TEAM

<b>ROLE/FIRM</b>	<b>CONTACT</b>	<b>OWNED BY</b>
<b>Developer:</b> Parkside Terrace L.P. <b>General Partner:</b> Wakeland Parkside, LLC <b>Sole Member:</b> Wakeland Housing and Development Corporation	<b>President:</b> Kenneth Sauder	Non-profit Board of Directors - 501(c)3
<b>Tax Credit Investor &amp; Limited Partner:</b> Red Capital Markets	Evan Becker	Evan Becker
<b>Architect:</b> Benson & Bohl Architects	<b>Principal:</b> Richard Benson	Richard Benson / Randy Bohl
<b>Artist:</b> Chaparral	Nina Karavaseles	Nina Karavaseles
<b>Construction Lender:</b> Wells Fargo Bank, N.A.	Sally Lang	Publicly Held Company
<b>Permanent Lender:</b> California Community Reinvestment Corporation (CCRC)	Mark Rasmussen	Consortium of 45 lenders with largest share of loan pool from Bank of America, NT & SA, Wells Fargo Bank, N.A., Union Bank of California, N.A., Bank of the West, and City National Bank

BACKGROUND

On September 6, 2007, the Agency entered into an OPA with the Developer to assist in financing the construction of the Parkside project, a six-story mixed-use building with 77 rental housing units (76 units affordable), 13,205 square feet of commercial space and 92 spaces of underground parking. The project site is located on the north side of Island Avenue between 13<sup>th</sup> and 14<sup>th</sup> streets in the East Village district. The project is currently under construction.

The Agency is providing a 55-year residual receipts loan with a simple interest rate of 3%, in an amount not to exceed \$13,800,000. Wells Fargo Bank is the purchaser of the Multifamily Housing Revenue Bond issued by the San Diego Housing Authority and will provide a construction loan in the amount of \$17.11 million. CCRC is the permanent lender and will be purchasing a portion of the bond proceeds upon completion of the project to provide permanent financing.

The Agency Deed of Trust, Security Agreement and Fixture Filing (“Agency Deed of Trust”), Assignment of Rents and Leases (“Assignments”) and Agreement Affecting Real Property (AARP) were executed and recorded with the County Recorder’s Office on March 3, 2008. The Agency also executed a Subordination Agreement with the Developer and Wells Fargo Bank, which subordinated the Agency loan to Wells Fargo’s construction loan in the amount of \$17.11 million and CCRC’s permanent loan in the amount of \$4.22 million. The Subordination Agreement was recorded with the County Recorder’s Office on March 3, 2008.

DISCUSSION

Project Description – The Developer proposes to install photovoltaic panels on the roof to save energy costs on the project. It is estimated that the proposed solar system will generate 96,000 kilowatts per hour of electricity for the common areas, including elevators, community center and parking structures. It is estimated that the solar system will save approximately \$13,600 from the project’s annual operating expenses.

Project Financing – The total cost of installation of photovoltaic panels and associated soft costs is approximately \$762,000. The breakdown of the costs associated with the solar system is shown below:

Design	\$ 15,000
Hard Costs	\$546,780
General Conditions and Profit	\$ 76,549
Contingency	\$ 31,166
Solar Replacement Reserve	\$ 56,457
Interest during construction	\$ 35,997
<b>Total Solar Costs</b>	<b>\$761,949</b>

The Developer plans to apply for the Solar Tax Credits and a rebate program provided by San Diego Gas & Electric. These two sources are expected to provide \$215,786 to cover a portion of the costs. Due to the interest rate reduction, the project now qualifies for a larger permanent loan, which could be used to cover the remainder of the solar costs in the amount of \$546,163. The Developer proposes to increase the permanent loan by \$546,163, which will change the amount of the permanent loan from \$4,220,000 to \$4,766,200.

Participation by Agency – The Subordination Agreement dated February 27, 2008, allows the Agency to subordinate its loan to the CCRC permanent loan up to \$4,220,000. The Developer requested that the Agency amend the Subordination Agreement to allow subordination of the Agency loan to the increased permanent loan of \$4,766,200.

It is also recommended that the Agency allow the Agency Executive Director or designee to approve future changes to the amount of the senior loan that the Agency is subordinating to, as long as the cumulative total of increases is within 20% of the loan amount originally approved by the Agency (\$5,064,000 maximum). The amount of the permanent loan may be modified depending on the interest rate, income figures, utility allowance and other factors at the time of permanent conversion. There is a consensus among the Affordable Housing Collaborative, which consists of the Redevelopment Division of the City of San Diego, Southeastern Economic Development Corporation, Centre City Development Corporation and the San Diego Housing Commission, that the proposed change would provide flexibility during the process of permanent loan closing.

This action would not increase the Agency subsidy.

Proposed Schedule of Performance – The Developer started construction of the project in April 2008. The expected completion date is November 2009.

Project Benefits – The proposed First Implementation Agreement will allow the project to obtain increased permanent loan proceeds, which will be used to install photovoltaic panels and associated infrastructure. The solar system will generate 20-30% of the electricity required for the common areas and improve sustainability of the project.

Environmental Impact – Under the 2006 Final Environmental Impact Report (FEIR), an Environmental Secondary Study is prepared for all developments in the Centre City area in order to evaluate the project's compliance with the Downtown Community Plan and Planned District Ordinance and, therefore, the findings and conclusions of the FEIR. The project has been found to be in compliance with those planning documents; therefore, no further environmental review is required.

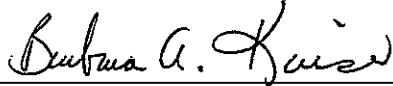
CONCLUSION

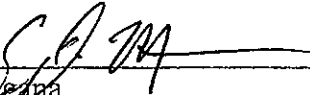
The proposed First Implementation Agreement will allow the Developer to increase the amount of the permanent loan from \$4,220,000 to \$4,766,200 and cover the costs to install photovoltaic panels and associated infrastructure. This will improve the sustainability of the project over the long term. Staff recommends that the Agency approve the proposed First Implementation Agreement.

Respectfully submitted,

Concurred by:

  
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Eri Kameyama  
Associate Project Manager

  
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Barbara A. Kaiser  
Vice President of Real Estate Operations

  
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A.J. Magana  
Senior Financial Analyst/Accountant

Attachments: A -First Implementation Agreement to Owner Participation Agreement  
B - Amendment to Subordination Agreement