



THE CITY OF SAN DIEGO

**Redevelopment Agency's Report**

DATE ISSUED: March 19, 2008 REPORT NO.: RA-08-05

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Docket of March 25, 2008

SUBJECT: First Implementation Agreement to Owner Participation Agreement for the  
Verbena Project

REQUESTED ACTION:

- 1) That the Agency authorize execution of the First Implementation Agreement to Owner Participation Agreement for the Verbena Project; and
- 2) That the Agency authorize the expenditure of funds for the Verbena Project in an amount not to exceed \$454,000 from San Ysidro Project Area 20% Low to Moderate Income Housing funds.

STAFF RECOMMENDATION TO THE AGENCY:

- 1) Authorize the Executive Director or designee to execute the First Implementation Agreement to the Owner Participation Agreement for the Verbena Project; and
- 2) Authorize the expenditure of funds for the Verbena Project in an amount not to exceed \$454,000 from the San Ysidro Redevelopment Project Area 20% Low and Moderate Income Housing Set-Aside Funds as a Redevelopment Agency residual receipts loan.

SUMMARY:

On July 10, 2007 the Redevelopment Agency (the Agency) approved an Owner Participation Agreement (OPA) with Verbena San Ysidro, L.P. (the Developer) for the development of the Verbena Project, an 80-unit affordable housing project located at 3774 Beyer Boulevard, within the San Ysidro Redevelopment Project Area (the Project). The proposed actions under this item will allow for the Agency and Developer to enter into the First Implementation Agreement to the OPA (see Attachment 1 – First Implementation Agreement).

Subsequent to the execution of the OPA dated July 11, 2007, the Developer submitted an application to the California Tax Credit Allocation Committee (TCAC) in July 2007 for 9% tax credits under the 2<sup>nd</sup> Round of 2007 allocations. The Developer was unsuccessful in securing 9% tax credits at this round. In light of the number of competing projects in the San Diego region, it is anticipated that those projects that were unsuccessful in the latest round of tax credit allocations will re-apply for tax credits in future rounds. Given the belief that some projects will likely score better than Verbena in a tie-breaker scoring situation, as recently proven, the Developer has proposed a new financing structure for the Project which targets, among other sources, 4% tax credits, which are less competitive to acquire than 9% tax credits. The proposed First Implementation Agreement includes a revised project budget reflective of today's market conditions and new proposed sources of financing for the Project, and is summarized in the following comparison table:

Comparison Table for Changes to Project Budget and Funding Sources

<b>OPA Today</b>		<b>First Implementation Agreement to OPA</b>	
Project Budget:	\$ 28,861,000	Project Budget:	\$ 28,886,000
<u>Sources of Funding</u>		<u>Sources of Funding</u>	
Private Loan:	\$ 4,301,000	Private Loan:	\$ 4,944,000
9% Tax Credits:	\$ 18,693,000	4% Tax Credits:	\$ 8,698,000
Deferred Developer Fee:	\$ 281,000	HCD (MHP):	\$ 6,123,000
Agency Subsidy:	\$ 5,586,000	CalHFA (MHSA):	\$ 2,400,000
		Affordable Housing Program (AHP):	\$ 400,000
		Deferred Developer Fee:	\$ 281,000
		Agency Subsidy:	\$ 6,040,000 <sup>(1)</sup>
<u>Agency Subsidy</u>		<u>Agency Subsidy</u>	
Per Unit:	\$ 70,000	Per Unit:	\$ 75,500
Per Bedroom:	\$ 26,000	Per Bedroom:	\$ 28,000
		(1) \$454,000 increase in Agency subsidy to be paid from San Ysidro 20% Low-Mod funds, not from pooled Agency funds.	

The total project cost is \$28,886,000 and is proposed to be funded with State Affordable Housing 4% tax credits, State Multifamily Housing Program (MHP) funds, State Mental Health Services Act (MHSA) funds, Affordable Housing Program (AHP) funds, private financing (tax-exempt bond proceeds from San Diego Housing Commission), deferred developer fee, and Agency 20% Low and Moderate Income Housing Set-Aside Funds. Although most of these funding sources are subject to competition with other projects, it is generally agreed between the Developer and Agency staff that the Project will be more competitive in seeking these sources instead of 9% tax credits. The Developer has the expertise and experience in successfully securing the proposed funding sources listed in the table above.

The OPA commits the Agency to providing a subsidy of \$5,586,000, which includes funding from the following two sources: 1) \$5,184,000 from pooled Agency 20% Set-Aside funds and 2) \$402,000 from San Ysidro Project Area 20% Set-Aside funds. Under the proposed First Implementation Agreement, and as noted in the comparison table, there is a \$454,000 increase in Agency subsidy due to changes in costs and funding sources. This increase represents approximately \$5,500 subsidy per unit and is proposed to be funded by San Ysidro Project Area 20% Set-Aside funds, and not from the pooled Agency's 20% Low and Moderate Income Housing Set-Aside Funds (Line of Credit Funds). These updated financial assumptions have been verified and are supported by Keyser Marston Associates (KMA), the Agency's financial consultant.

In addition to updated financial assumptions, the First Implementation Agreement contains updates to affordable unit counts relative to Area Median Income (AMI) levels. All units shall be for low income families, with the exception of nine MHSA units set aside for low income individuals whom receive

mental health services. The unit affordability updates are due to new funding sources and their respective funding criteria, and they represent in more units available to families with lower qualifying incomes. The following comparison table illustrates these updates:

Comparison Table for Affordability Changes Relative to Unit Counts

<b>OPA Today</b>	<b>First Implementation Agreement to OPA</b>
<u>Number of Affordable Units/Bedrooms</u>	<u>Number of Affordable Units/Bedrooms (no change)</u>
27 2-bedroom	27 2-bedroom
52 3-bedroom	52 3-bedroom
79 Units / 210 Bedrooms <sup>(1)</sup>	79 Units / 210 Bedrooms <sup>(1)</sup>
<u>Income Restrictions for Units</u>	<u>Income Restrictions for Units</u>
8 @ 30% AMI	17 @ 30% AMI
8 @ 40% AMI	15 @ 35% AMI
40 @ 50% AMI	12 @ 50% AMI
23 @ 60% AMI	35 @ 60% AMI
79 @ 30% to 60% AMI	79 @ 30% to 60% AMI
(1) There is one 3BR Manager Unit not included.	

Moreover, the proposed First Implementation Agreement includes an updated Schedule of Performance. Generally, the Developer shall be given two opportunities to acquire all necessary funding for the Project under the OPA. Assuming the Developer is successful in securing public financing in either of the next two funding rounds for MHP and other public funding programs, the following is a general schedule for implementation of the Project:

General Project Schedule

<b>Activity</b>	<b>First Round of Funding</b>	<b>Second Round of Funding</b>
MHP application:	March 2008	October 2008
CDLAC/TCAC applications:	May 2008	January 2009
MHP award:	June 2008	January 2009
CDLAC/TCAC awards:	July 2008	March 2009
Closing:	November 2008	July 2009
Construction start:	November 2008	July 2009
Construction end:	November 2009	July 2010

FISCAL CONSIDERATIONS:

The actions under this item commit the Agency to fund an additional \$454,000 to the Project, making the overall Agency subsidy equal \$6,040,000, compared to \$5,586,000 committed under the existing OPA. The additional \$454,000 is to be funded from San Ysidro Project Area 20% Housing Set-Aside Funds. Total Agency funding shall be from the following two sources: 1) \$5,184,000 from pooled Agency 20% Low to Moderate Income Housing Set-Aside funds and 2) \$856,000 from San Ysidro Project Area 20% Low to Moderate Income Housing Set-Aside funds. The following table illustrates the proposed disbursement schedule for the Project:

Disbursement Schedule

<b>Disbursement</b>	<b>Amount / Phase</b>
First:	\$1,000,000 at Close, following acquisition of financing
Second:	\$1,000,000 at Construction Quarter 1
Third:	\$1,000,000 at Construction Quarter 2
Fourth:	\$1,000,000 at Construction Quarter 3
Fifth:	\$ 300,000 at Construction Quarter 4
Sixth:	\$1,136,000 at Certificate of Occupancy
Final:	\$ 604,000 at Release of Construction Covenants
<b>Total:</b>	<b>\$6,040,000</b>

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On July 10, 2007 the Agency and City Council approved the OPA and Associated Actions for the Verbena Project. On July 25, 2006, the Agency approved the pooling of the Agency's 20% Low and Moderate Income Housing Set-Aside Funds for the purpose of funding projects such as the Verbena Project. On March 8, 2005, the City Council approved a Planned Development Permit for the Project.

OTHER RECOMMENDATIONS:

The Agency's Affordable Housing Collaborative Executive Loan Committee (ELC) reviewed the Project and voted in support of the OPA (2 - 1) on June 15, 2007.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On August 17, 2004 and May 15, 2007 the Project was presented to the San Ysidro Community Planning Group (SYCPG), at which times SYCPG voted in support of the Project's concept and/or proposed financing structure. On March 18, 2008 the 1<sup>st</sup> Implementation Agreement was presented to the SYCPG, the results of that meeting will be presented verbally to the Agency. There is no Project Area Committee (PAC) in San Ysidro.

KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):

The Project is expected to provide significant community enhancement and valuable affordable housing for the San Ysidro community.

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Attachment: 1) First Implementation Agreement

## 2) Owner Participation Agreement