



THE CITY OF SAN DIEGO

**Redevelopment Agency's Report**

DATE ISSUED: July 16, 2008

REPORT NO.: RA-08-21  
RTC-08-107

ATTENTION: Honorable Chair and Members of the Redevelopment Agency  
Council President and City Council  
Docket of July 22, 2008.

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

REFERENCE: Staff Report Nos. RTC-07-23, RTC-07-099

REQUESTED ACTION:

- 1) That the Redevelopment Agency and City Council approve the First Implementation Agreement to Owner Participation Agreement for the Verbena Project.
- 2) That the Redevelopment Agency and City Council make special findings for the use of 20% Low and Moderate Income Housing Set-Aside Funds outside source project areas including City Heights and North Bay.
- 3) That the Redevelopment Agency and City Council state for the record that it finds and determines that the City of San Diego has previously certified the information contained in the Mitigated Negative Declaration [MND] for this Project, referenced by Project No. 41718 and SCH No. 2004111075.
- 4) That the Redevelopment Agency authorize a funding increase of \$1,215,000 from the Agency's 20% Low and Moderate Income Housing Set-Aside Funds as a residual receipts loan contribution to the Verbena Project.
- 5) That the Redevelopment Agency amend the Fiscal Year 2009 budget for the North Bay Project Area - Housing Line of Credit (Fund 98074) to increase the appropriation by \$350,000.

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 an increase in funding for the Verbena Project in an amount not to exceed \$1,215,000 from the Agency's 20% Low and Moderate Income Housing Set-Aside Funds as a Redevelopment Agency residual receipts loan contribution to the project from the following direct sources: 1) \$350,000 from City Heights Housing Line of Credit; 2) \$350,000 from North Bay Housing Line of Credit; and 3) \$515,000 from San Ysidro Project Area.
- 3) Amend the Redevelopment Agency Fiscal Year 2009 budget for the North Bay Project Area - Housing Line of Credit (Fund 98074) to increase the appropriation by \$350,000.
- 4) Make special findings for the use of 20% Low and Moderate Income Housing Set-Aside Funds outside source project areas including City Heights and North Bay.
- 5) State for the record that the Agency finds and determines that the City of San Diego has previously certified the information contained in the Mitigated Negative Declaration [MND] for this Project, referenced by Project No. 41718 and SCH No. 2004111075.

**STAFF RECOMMENDATION TO THE CITY COUNCIL:**

- 1) Approve to the First Implementation Agreement to the Owner Participation Agreement for the Verbena Project.
- 2) Make special findings for the use of 20% Low and Moderate Income Housing Set-Aside Funds outside source project areas including City Heights and North Bay.
- 3) State for the record that the Council finds and determines that the City of San Diego has previously certified the information contained in the Mitigated Negative Declaration [MND] for this Project, referenced by Project No. 41718 and SCH No. 2004111075.

**SUMMARY:**

On July 11, 2007 the Redevelopment Agency (the Agency) entered into an Owner Participation Agreement (OPA) with Verbena San Ysidro, L.P. (the Developer) for the development of the Verbena Project, an 80-unit affordable rental 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), which would allow for an increase in Agency funding for the Project.

Per the terms of the OPA (see Attachment 2 – OPA), 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 due to the number of competing projects in the San Diego region. In light of the competitive environment, the Developer has proposed a new financing structure for the Project which targets Multi-Family Housing Program funds and 4% tax credits, which are funding sources that are generally less competitive. However, the removal of 9% tax credit financing for the Project has resulted in a larger financial gap. 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 Table 1 below.

Table 1: 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:                              | \$ 27,003,000 |
| <u>Sources of Funding</u> |               | <u>Sources of Funding</u>                    |               |
| Permanent Loan:           | \$ 4,301,000  | Permanent Loan:                              | \$ 5,317,000  |
| 9% Tax Credits:           | \$ 18,693,000 | 4% Tax Credits:                              | \$ 8,794,000  |
| Deferred Developer Fee:   | \$ 281,000    | HCD (MHP):                                   | \$ 4,173,000  |
| Agency Subsidy:           | \$ 5,586,000  | CalHFA Residual Receipts Loan:               | \$ 400,000    |
|                           |               | Affordable Housing Program (AHP):            | \$ 1,000,000  |
|                           |               | Deferred Developer Fee:                      | \$ 518,000    |
|                           |               | Agency Subsidy:                              | \$ 6,801,000  |
| <u>Agency Subsidy</u>     |               | <u>Agency Subsidy</u>                        |               |
| Per Unit:                 | \$ 70,000     | Per Unit:                                    | \$ 85,000     |
| Per Bedroom:              | \$ 26,000     | Per Bedroom:                                 | \$ 32,000     |

Today’s estimated total project cost is \$27,003,000, significantly less than originally estimated under the OPA; this is largely due to a reduction in land acquisition costs. The Project is proposed to be funded by several sources including State Affordable Housing 4% tax credits, State Multifamily Housing Program (MHP) funds for supportive housing, California Housing Finance Agency residual receipts loan, Affordable Housing Program (AHP) funds, a permanent loan, deferred developer fee, and Agency 20% Low and Moderate Income Housing Set-Aside Funds.

The OPA commits the Agency to providing a subsidy of \$5,586,000, or \$70,000 per unit, which includes funding from the following two general 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, as illustrated in Table 1, there is a \$1,215,000 increase in Agency subsidy due to changes in the financing structure. If approved, the funding increase will bring the total Agency subsidy to \$6,801,000, or \$85,000 per unit, which is proposed to be funded from the following two general sources: 1) 5,884,000 from pooled Agency 20% Set-Aside funds and 2) \$917,000 from San Ysidro Project Area 20% Set-Aside 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 available for low income families, including 28 supportive housing units set aside for families with at least one individual diagnosed with a developmental disability. A developmental disability may be either of the following: autism, Down Syndrome, cerebral palsy, and/or mental retardation. The MHP funding source for the developmentally disabled requires 35% of all units be set aside for supportive housing. The unit affordability updates, illustrated in Table 2 below, are due to new funding sources and their respective funding criteria.

Table 2: 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   |
| <u>52 3-bedroom</u>                             | <u>52 3-bedroom</u>                                    |
| 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                                     | 28 @ 30% AMI   |
| 8 @ 40% AMI                                     | 10 @ 40% AMI   |
| 40 @ 50% AMI                                    | 11 @ 50% AMI   |
| <u>23 @ 60% AMI</u>                             | <u>30 @ 60% AMI</u>                                    |
| 79 @ 30% to 60% AMI                             | 79 @ 30% to 60% AMI                                    |
| (1) There is one 3BR Manager Unit not included. | (1) There is one 3BR Manager Unit not included.        |

Moreover, the proposed First Implementation Agreement includes an updated Schedule of Performance. Table 3 includes a general schedule for implementation of the Project. Generally speaking, the Developer shall be given two opportunities under the First Implementation Agreement to the OPA to acquire all necessary funding for the Project.

Table 3: General Project Schedule

| Activity                 | First Round of Funding | Second Round of Funding |
|--------------------------|------------------------|-------------------------|
| MHP application:         | By August 30, 2008     | October 2008            |
| CDLAC/TCAC applications: | January 2009           | March 2009              |
| MHP award:               | October 2008           | January 2009            |
| CDLAC/TCAC awards:       | March 2009             | June 2009               |
| Closing:                 | July 2009              | September 2009          |
| Construction start:      | July 2009              | September 2009          |
| Construction end:        | July 2010              | September 2010          |

**FISCAL CONSIDERATIONS:**

The actions under this item commit the Agency to fund an additional \$1,215,000 to the Project. The additional funding increases the total Agency funding from \$5,586,000 to \$6,801,000, or from \$70,000 to \$85,000 per unit. The additional \$1,215,000 is to be funded from the following specific sources: 1) \$350,000 from City Heights Housing Line of Credit; 2) \$350,000 from North Bay Housing Line of Credit; and 3) \$515,000 from San Ysidro Project Area.

California Community Redevelopment Law (CCRL) requires that the governing body make findings of benefit for the use of tax increment outside a project area. Please see Attachment 3 – Findings of Benefit for the proposed findings.

Total Agency funding of \$6,801,000 shall be from the following two general sources: 1) \$5,884,000 from pooled Agency 20% Low to Moderate Income Housing Set-Aside funds and 2) \$917,000 from San Ysidro Project Area 20% Low to Moderate Income Housing Set-Aside funds. Table 4 illustrates the proposed disbursement schedule for the Project.

Table 4: Disbursement Schedule

| Disbursement  | Amount / Phase   |
|---------------|--|
| 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:        | \$1,820,900 at Certificate of Occupancy                  |
| Final:        | \$ 680,100 at Release of Construction Covenants          |
| <b>Total:</b> | <b>\$6,801,000</b>                                       |

**PREVIOUS AGENCY and/or COUNCIL 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:

On June 26, 2008, the Affordable Housing Collaborative Executive Loan Committee (ELC) reviewed the new funding structure for the Project and voted in support (3-0) of the 1<sup>st</sup> Implementation Agreement. On June 15, 2007, ELC reviewed the Project and voted in support (2 - 1) of the OPA.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On July 15, 2008, the 1<sup>st</sup> Implementation Agreement was presented to the San Ysidro Community Planning Group (SYCPG); the results of that meeting can be conveyed verbally to the Agency. On August 17, 2004 and May 15, 2007 the Project was presented to the SYCPG, at which times SYCPG voted in support of the Project's concept and/or proposed financing structure. 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. Please see Attachment 4 – Development Team for stakeholder information.

ALTERNATIVE:

Do not approve the First Implementation Agreement to Owner Participation Agreement for the Verbena Project and associated actions.

Respectfully submitted,

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Janice L. Weinrick  
Deputy Executive Director/  
Assistant Director City Planning  
And Community Investment

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Approved: William R. Anderson  
Assistant Executive Director/  
Deputy Chief Operating Officer  
Executive Director of City Planning  
and Development

Attachments: 1) First Implementation Agreement  
2) Owner Participation Agreement  
3) Findings of Benefit  
4) Development Team