THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: October 22, 2008 REPORT NO.: RA-08-29

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of October 28, 2008

SUBJECT: First Implementation Agreement to Owner Participation Agreement and Subordination Agreements for the El Pedregal Project

REQUESTED ACTION:

1) Authorization for the Executive Director, or designee, to enter into the First Implementation Agreement to Owner Participation Agreement with SYEP Associates, L.P. for the El Pedregal Project.
2) Authorization for the expenditure of $1,036,639 from San Ysidro Project Area 20% Low to Moderate Income Housing funds for the El Pedregal Project.
3) Authorization for the Executive Director, or designee, to enter into the Subordination Agreements with SYEP Associates, L.P. and SA Affordable Housing, LLC for the El Pedregal Project.

STAFF RECOMMENDATION TO THE AGENCY:

1) Authorize the Executive Director, or designee, to enter into the First Implementation Agreement to Owner Participation Agreement with SYEP Associates, L.P. for the El Pedregal Project.
2) Authorize the expenditure of $1,036,639 from San Ysidro Project Area 20% Low to Moderate Income Housing funds for the El Pedregal Project.
3) Authorize the Executive Director, or designee, to enter into the Subordination Agreements with SYEP Associates, L.P. and SA Affordable Housing, LLC for the El Pedregal Project.

SUMMARY:

On July 10, 2007, the Redevelopment Agency (the Agency) approved an Owner Participation Agreement (OPA) with Global Premier Development, dba SYEP Associates (the Developer), for the development of the El Pedregal Family Apartments (the Project), a 45-unit affordable housing project located at 104 Averil Road, a blighted 2-acre vacant parcel within the San Ysidro Redevelopment Project Area (see Attachment 1 – OPA). The OPA commits the Agency to fund $3.6 million, or $80,000 per unit, for the Project from Agency pooled 20% Line of Credit set-aside funds and San Ysidro 20% set-aside funds. The proposed actions under this item will allow for the Agency and Developer to enter into a First Implementation Agreement to the OPA (see Attachment 2 – First Implementation Agreement) and Subordination Agreements (see Attachment 3 – Subordination Agreements), and allow for an additional $1.04 million in Agency funds for the Project.

In June 2008, the Developer was successful in securing 9% Affordable Housing Tax Credits (Tax Credits) for the Project from the State of California Tax Credit Allocation Committee (TCAC)

following a highly competitive selection and award process. This project was the only project in San Diego to receive a Tax Credit allocation in this application round. These Tax Credits represent over $10 million in equity for the Project, or over 55% of total project financing for an $18.2 million revised development budget. However, in light of unstable financial markets, de-valuation of Tax Credits throughout the country, and requirements to remain competitive for Tax Credit allocations, the Project's economic gap has grown by approximately $1 million since the execution of the OPA. The Project requires additional financial assistance for project implementation. If the economic gap is not funded, the Developer is at risk of losing the awarded Tax Credits, and the Project loses critical funding and will not proceed.

Fortunately, the Developer has secured preliminary financing commitments from its proposed equity investor and lender to finance the Project under reasonable terms, despite of the unstable financial markets. One example of the favorable terms of project financing is the 92 cent value placed on each Tax Credit dollar between the Developer and equity investor. This Tax Credit pricing is especially noteworthy given that most projects today range in pricing between 80 to 85 cents, or possibly lower, according to financial experts consulted. For a project the size of El Pedregal, each one cent increment in pricing represents approximately $110,000 in tax credit equity. The OPA's financial underwriting contemplated estimated Tax Credit pricing at 97 cents, or approximately $550,000 more in equity than presently achievable. The OPA's underwriting also assumed that the project's tax credit allocation would be calculated on its entire qualified basis amount. However, to remain competitive according to TCAC's guidelines, the Developer's TCAC application voluntarily excluded about 30 percent of the Project's qualified basis for the purpose of calculating its tax credit allocation. This explains the additional approximately $3 million in reduced tax credit equity, as shown in the table below.

Tax Credit awards require certain timelines to be adhered to prior to release of credits. According to TCAC, the Developer is required to either commit the Tax Credits to the Project or return them to TCAC on or before October 31, 2008, without penalty. There is also a 150-day TCAC deadline from the date of the Tax Credit allocation (expires November 17, 2008) which requires the Developer to secure all necessary financing and start construction, or Tax Credits can be revoked. In an effort to save the Project and its Tax Credit award, the Developer requests that the Agency amend the OPA's financing structure and increase the Agency's residual receipts loan for the Project. After consultations with Agency economic advisors including David Rosen and Associates and Keyser Marston and Associates, Agency staff recommends that an additional not to exceed amount of $1,036,639 be allocated to the Project under the OPA. Coupled with the existing $3.6 million Agency allocation, the increased funding would increase the Agency residual receipts loan to an amount not to exceed $4,642,639, or $103,000 per unit. The additional $1,036,639 is proposed to be funded with San Ysidro Project Area 20% Housing Set-Aside funds.

Regarding Subordination Agreements, the Agency Loan shall be subordinate to the construction and permanent loans to be secured for land acquisition and development of the Project, as prescribed in the OPA. It is requested that the Agency Board also approve the proposed Subordination Agreements for a construction loan in the amount of $10,633,071 and a permanent loan in the amount of $2,683,362, both which will be senior to the Agency's loan. Both loans have been underwritten by the lender as a combined construction/permanent loan. Upon payment on the construction loan and conversion, a permanent loan shall remain totaling $2,683,362.

If all requested actions are approved, start of construction shall commence in January 2009 and be completed within 18 months from start of construction, but no later than July 2010.

1st Implementation Agreement General Terms and Conditions:
To ensure the financial and physical integrity and quality of the Project, the proposed First Implementation Agreement has the following negotiated revised general terms and conditions to consider:

- Agency to increase subsidy from approximately $3.6 million to $4.6 million to cover economic gap.
- Agency to release approximately $2.6 million at start of construction, and release remaining funds (approximately $2.0 million) at completion and stabilization of the Project.
- General contractor to provide an unconditional $500,000 irrevocable Letter of Credit from a bank for the benefit of the limited partner of the Developer to cover any cost overruns.
- Developer fee in the amount of $502,729 to be withheld to cover any cost overruns after those covered by the contractor's Letter of Credit, and be released after completion and stabilization of the Project, if unused to pay cost over runs.
- Developer fee remains at $1.4 million; However, deferred developer fee increases from $457,271 to $797,271.
- Preservation of 55-year affordability covenants on Title in the event of a foreclosure.
- AHP funding source increased from $113,000 to $340,000, which will reduce the Agency loan if obtained by the Developer.

The proposed First Implementation Agreement includes a revised project budget that reflects current market conditions, and is summarized in the following comparison table:

Comparison Table for Changes to Project Budget and Funding Sources

OPA Today		First Implementation Agreement to OPA	
Project Budget:	$ 20,027,000	Project Budget:	$ 18,216,726
Sources of Funding		Sources of Funding	
Private Loan:	$ 2,723,000	Private Loan:	$ 2,683,362
9% Tax Credits:	$ 13,358,000	9% Tax Credits:	$ 10,093,454
Deferred Developer Fee:	$ 340,000	Deferred Developer Fee:	$ 797,271
Agency Subsidy:	$ 3,606,000	Agency Subsidy:	$ 4,642,639 (1)(2)
Agency Subsidy		Agency Subsidy	
Per Unit:	$ 80,000	Per Unit:	$ 103,000
Per Bedroom:	$ 23,000	Per Bedroom:	$ 29,000
		(1) Approximately $340,000 in AHP funds will be sought to reduce Agency Loan amount. (2) Increase in Agency Loan amount not to exceed $1,036,639 to be paid from San Ysidro 20% Low/Moderate funds.	

The revised Project Budget decreased by approximately $1,810,274 for a total cost of $18,216,726, compared to the $20,027,000 approved under the OPA. This reduction in costs is due to value engineering of development costs and significant Developer-negotiated savings in labor costs in light of a sluggish housing construction market. The total Agency subsidy is proposed at approximately $4.64 million, and shall be reduced dollar-for-dollar should there be cost savings and/or additional funding sources secured. In addition, the contractor's Letter of Credit and the $502,729 in withheld developer fee protects the Agency in the event project costs exceed $18,216,726.

The OPA commits the Agency to provide a subsidy of $3,606,000, which includes funding from the following sources 1) $3,206,000 from Naval Training Center Housing Line of Credit funds and 2) $400,000 from San Ysidro Project 20% Low to Moderate Income Housing Set-Aside funds. Under the proposed First Implementation Agreement there is a $1,036,639 increase in Agency subsidy due to changes in costs and funding sources, and includes an amount to cover a shortfall in case AHP funds are not received in full, as noted in the comparison table above. This increase represents an additional $23,515 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. San Ysidro's contribution will increase from $400,000 to a maximum of $1,436,639 if the proposed actions are approved. Any AHP funds received up to $340,000 will reduce San Ysidro's contribution dollar-for-dollar. The following subsections describe the Project in more detail:

Development Team

Role	Firm/Contact	Ownership
Managing General Partner	Las Palmas Foundation Contact: Joseph Michaels	Nonprofit Board of Directors – 501(C) 3 Corporation
Administrative General Partner	Global Premier Development Contact: Wayne Deitz	Andrew Hanna (privately owned)
Limited Partner	United Community, Inc. Contact: Susan Han	Lance Kerness Susan Han
Limited Partner/ Tax Credit Equity Investor	Sun America AIG Contact: Neil Socquet	Public Corporation
Construction	Lucas General Contracting Corp. Contact: Brad Teeters	Robert K. Lucas
Architect	Maple Dell & McClelland Architect Contact: Rick Montoya	John M. Maple; Richard Dell James P. McClelland
Property Mangement	Buckingham Property Management Contact: Paul Chubick	Managing Principal: Paul Chubick

Residential Project Summary

Project Summary	
Type of Housing	Multifamily Apartments - Rental
Land Area	2.24 Acres (97,574 SF)
Gross Building Area (GBA)	70,110 SF (excluding parking)
Total Number of Units	45 (44 affordable, one 2BR Manager's Unit)
Project Density	21 units/acre (with density bonus)
Number of Affordable Units/Bedrooms	20 3-bedroom 24 4-bedroom

	44 Units / 156 Bedrooms
Income Restrictions	5 @ 30% AMI 5 @ 40% AMI 22 @ 50% AMI 12 @ 60% AMI 44 @ 30% to 60% AMI
Site Control	Developer has Purchase Agreement with Owner
Site Clean-up / Remediation Issues	N/A – Phase I Analysis showed no issues.

Moreover, monthly rents for the affordable units have been revised in the First Implementation Agreement based on the 2008 San Diego Area Median Income (AMI) and the lesser of California Redevelopment Law (CRL) and Low Income Housing Tax Credit (LIHTC) rents at 50% and 60% AMI and LIHTC rents at 30% and 40% AMI. The methodology for calculating affordable rents has been verified by David Rosen and Associates and Agency staff. With the exception of one manager unit, all units shall be affordable for a period of 55 years to households earning between 30% to 60% AMI. The total number of units and number of bedrooms has not changed from the OPA. The following comparison table illustrates the updates to the monthly rent level:

Affordable Unit Summary for 44 Income-Restricted Units

Number of Bedrooms	**Residential Income Level**	**Number of Units**	**Monthly Rent Level Under OPA**	**Revised Monthly Rent Level 1st Implementation Agreement to OPA**
3 Bedrooms	30% AMI	2	$500	**$568**
3 Bedrooms	40% AMI	2	$680	**$773**
3 Bedrooms	50% AMI	10	$861	**$853**
3 Bedrooms	60% AMI	6	$1,041	**$1,034**
4 Bedrooms	30% AMI	3	$549	**$624**
4 Bedrooms	40% AMI	3	$750	**$853**
4 Bedrooms	50% AMI	12	$951	**$911**
4 Bedrooms	60% AMI	6	$1,153	**$1,106**

FISCAL CONSIDERATIONS:

The actions under this item commit the Agency to fund an additional $1,036,639 to the Project, making the overall Agency subsidy not to exceed $4,642,639, compared to $3,606,000 committed under the existing OPA. The additional $1,036,639 is to be funded from San Ysidro Project Area 20% Housing Set-Aside Funds.

Total Agency funding shall come from the following sources 1) $3,206,000 from Naval Training Center Housing Line of Credit funds and 2) $1,436,639 from San Ysidro 20% Low to Moderate Income Housing Set-Aside funds. Any project savings and/or additional revenues, including AHP funding, will be used to reduce the Agency financing contribution. The revised disbursement schedule is as follows:

1. Agency Loan proceeds not to exceed $2,635,000 shall be available for disbursement upon Closing to be used toward Developer's land acquisition costs for the purchase of the Property.

2. The remaining Agency Loan balance of $2,007,639 shall be available for disbursement upon completion and lease-up and stabilized occupancy of the Project.

ENVIRONMENTAL REVIEW:
The City of San Diego has previously certified the information contained in a Mitigated Negative Declaration (MND) for this Project, referenced by MND No. 106926. The Project is adequately addressed in the MND, and there is no substantial change in circumstance, additional information or project changes to warrant additional environmental review.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:
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 El Pedregal Project. On October 17, 2006, the Agency approved an Exclusive Negotiation Agreement for the Project. On July 10, 2007, the Agency and Council approved an OPA with the Developer for the Project.

OTHER RECOMMENDATIONS:
On May 24, 2007, the Agency's Affordable Housing Collaborative Executive Loan Committee (ELC) voted 4-0 in favor of the Project, under the OPA.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
On October 17, 2006, January 16, 2007, 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 proposed OPA. A verbal report shall be given regarding the SYCPG's recommendation from its October 21, 2008 meeting. There is no Project Area Committee (PAC) in San Ysidro.

ALTERNATIVE:
Do not approve the proposed the First Implementation Agreement and Subordination Agreements.

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Janice Weinrick	William Anderson
Deputy Executive Director,	Assistant Executive Director,
Redevelopment Agency	Redevelopment Agency

Attachment: 1) Owner Participation Agreement
2) Proposed First Implementation Agreement
3) Proposed Subordination Agreements