



THE CITY OF SAN DIEGO

DATE ISSUED: July 22, 2009

REPORT NO.: RA-09-27

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of July 28, 2009

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

REFERENCE: Staff Report Nos. RTC-07-23, RTC-07-099, RTC-08-107

REQUESTED ACTION:

That the Redevelopment Agency approve the Second Implementation Agreement to Owner Participation Agreement for the Verbena Project.

STAFF RECOMMENDATION TO THE AGENCY:

Authorize the Executive Director or designee to execute the Second Implementation Agreement to the Owner Participation Agreement for the Verbena Project.

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 (the Project), within the San Ysidro Redevelopment Project Area (see Attachment 1 – Site Plan and Conceptual Drawings). The proposed actions under this item will allow for the Agency and Developer to enter into the Second Implementation Agreement to the OPA (see Attachment 2 – Second Implementation Agreement). The main purpose of the Second Implementation Agreement is to modify the financing structure of the OPA to facilitate project implementation.

Per the terms of the OPA (see Attachment 3 – OPA), the Developer submitted an application to the California Tax Credit Allocation Committee (TCAC) in July 2007 for 9% tax credits under the 2nd Round of 2007 allocations. Although the Project received a perfect score, it was unsuccessful in securing 9% tax credits at this round.



Redevelopment Agency

1200 Third Avenue, Suite 1400, MS 56D • San Diego, CA 92101-4110

Tel (619) 236-6700 Fax (619) 533-3219

City Planning & Community Investment

Development Team:

Role	Firm/Contact	Ownership
Managing General Partner	Pacific Southwest Community Development Corporation Contact: Robert Laing	Non profit 501(C) 3 Corporation Robert Laing, President
Administrative General Partner	Chelsea Investment Corporation Contact: James J. Schmid	Schmid Family Trust James J. Schmid, Trustee Lynn H. Schmid, Trustee
Limited Partner	Verbena San Ysidro, L.P.	CIC Verbena, LLC Chelsea Investment Corp.
Limited Partner/ Tax Credit Equity Investor	TBD	
Construction	Emmerson Contruction, Inc. Contact: Robert Harrington	James J. Schmid, 80% owner Charles Schmid, 20% owner
Architect	Stark Architecture + Planning (primary architect) Contact: James P. Starck	James P. Starck, owner
	Hedenkamp & Associates (consulting architect) Contact: Bill Hedenkamp	William Hedenkamp, owner
Property Management	CIC Management, Inc. Contact: Robert Harrington	James J. Schmid, owner

DISCUSSION:

Because of the competitive environment for 9% tax credits, the First Implementation Agreement, dated August 8, 2008 (see Attachment 4 – First Implementation Agreement), was entered into to facilitate a change in the financing structure for the Project. New general funding sources included 4% tax credit equity and Multi-Family Housing Program (MHP) funds from the State of California. Further, the Project was to receive funding specifically from the issue of MHP Supportive Housing bonds and California Housing Finance Agency (Cal HFA) funding (see Table 1 Left Column below for funding sources). Although the Project was successful in being awarded state MHP funds, the global financial crisis created difficulties in both public and private financial markets thus preventing the Project, along with others statewide, from moving forward. Soon after the award of funding, the State of California was unable to issue bonds to fund its MHP awards. The withdrawal of Cal HFA from the funding marketplace, a precipitous decline in tax credit values, and the inability of State agencies to issue bonds have prevented the Project from securing funding. A collapse in the tax credit market and the return of unused credits to TCAC caused a dramatic decline in the value of tax credits.

Today, in light of new *tie breaker* scoring rules released by TCAC for CY09, the Developer has proposed a new financing structure that once again targets 9% tax credits as the major source of financing for the Project (see Table 1 Right Column below for funding sources). Agency staff and its economic consultant, Keyser Marston Associates (KMA), have analyzed the Project's proposed financing structure relative to other known 9% tax credit projects in the region and believe that the

Project will be competitive under the CY09 9% tax credit application process. Under the revised financing structure, no additional funding is being requested from the Agency.

The proposed Second 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

First Implementation Agreement to OPA		Second Implementation Agreement to OPA	
Project Budget:	\$ 27,003,000 ¹	Project Budget:	\$ 26,175,303 ²
<u>Sources of Funding</u>		<u>Sources of Funding</u>	
Permanent Loan:	\$ 5,317,000	Permanent Loan:	\$ 4,949,000
4% Tax Credits:	\$ 8,794,000	9% Tax Credits:	\$ 13,146,000
HCD (MHP):	\$ 4,173,000	Deferred Developer Fee:	\$ 329,303
CalHFA Residual Receipts Loan:	\$ 400,000	Land Acquisition Credit:	\$ 950,000 ³
Affordable Housing Program (AHP):	\$ 1,000,000	Agency Subsidy:	\$ 6,801,000
Deferred Developer Fee:	\$ 518,000		
Agency Subsidy:	\$ 6,801,000		
<u>Agency Subsidy</u>		<u>Agency Subsidy</u>	
Per Unit:	\$ 85,000	Per Unit:	\$ 85,000
Per Bedroom:	\$ 32,000	Per Bedroom:	\$ 32,000
(1) Includes prevailing wages triggered by MHP.		(2) Funding sources do not require prevailing wages. (3) Acquisition credit from land seller for previous entitlement costs incurred.	

Today's estimated total project cost is \$26,175,303. The Project is proposed to be funded by several sources including State Affordable Housing 9% tax credits, a permanent loan, deferred developer fee, and Agency 20% Low and Moderate Income Housing Set-Aside Funds in the form of an Agency loan.

Under the proposed Second Implementation Agreement, as illustrated in Table 1, no increase in Agency subsidy will be necessary for project implementation. Although the project budget has been reduced by approximately \$828,000, the Agency subsidy is presented unchanged. This is because, under the new *tie breaker* rules from TCAC, projects with the highest levels of permanent financing sources (non-tax credit equity), relative to development costs, shall score the highest. Staff and KMA recommend the Agency subsidy remain the same so as to maintain the strength and competitiveness of the Project for tax credits. Any cost savings to the Project, or increases to non-Agency funding sources, will reduce the Agency loan dollar-for-dollar. If approved, the Agency subsidy will remain at \$6,801,000 and is proposed to be funded from the following two general sources, as previously approved by the Agency: 1) 5,884,000 from pooled Agency 20% Set-Aside funds and 2) \$917,000 from San Ysidro Project Area 20% Set-Aside funds. As proposed, the Project maintains a low per-unit subsidy amount of \$85,000 per unit, compared to the average \$130,000 per unit subsidy requests commonly seen in San Diego today. These financial assumptions have been verified and are supported by KMA the Agency's financial consultant.

In addition to including a revised financial structure, the Second Implementation Agreement contains updates to affordable unit counts relative to Area Median Income (AMI) levels. All units shall be available for low and very low income families. Should the State become capable of disbursing funds for MHP special needs housing, as previously awarded to the Project, those funds will be used to develop 28 supportive housing units. These units would be set aside for families with at least one individual diagnosed with a developmental disability. A developmental disability may be either of the following: autism, epilepsy, cerebral palsy, and/or mental retardation. The unit affordability updates, illustrated in Table 2 below, are due to new funding sources and their respective funding criteria. It is important to note that if MHP special needs housing funds are disbursed to the Project by the State, it is estimated that the Agency's contribution to the Project shall be reduced by approximately \$2.0 to \$2.5 million.

Table 2: Comparison Table for Unit Count Changes Relative to AMI Levels

First Implementation Agreement to OPA (4% Tax Credits)	Second Implementation Agreement to OPA (9% Tax Credits)
<u>Number of Affordable Units/Bedrooms</u> 27 2-bedroom <u>52 3-bedroom</u> 79 Units / 210 Bedrooms ⁽¹⁾	<u>Number of Affordable Units/Bedrooms (no change)</u> 27 2-bedroom <u>52 3-bedroom</u> 79 Units / 210 Bedrooms ⁽¹⁾
<u>Income Restrictions for Units</u> 28 @ 30% AMI 10 @ 40% AMI 11 @ 50% AMI <u>30 @ 60% AMI</u> 79 @ 30% to 60% AMI	<u>Income Restrictions for Units</u> 8 @ 30% AMI 8 @ 40% AMI 39 @ 50% AMI <u>24 @ 60% AMI</u> 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 Second 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 Second Implementation Agreement to the OPA to acquire all necessary funding for the Project.

Table 3: General Project Schedule

Activity	2009 Round of Funding
TCAC Applications:	June 2009
TCAC Deadline for Project Funding:	August 2009
TCAC Awards:	September 2009
Closing:	December 2009
Construction Start:	December 2009
Construction End:	December 2010

FISCAL CONSIDERATIONS:

There is no new fiscal impact associated with this action. As previously approved by the Agency, total Agency funding of \$6,801,000 for the Project 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.

PREVIOUS AGENCY and/or COUNCIL ACTION:

On July 22, 2008 the Agency and City Council approved the 1st Implementation Agreement to the OPA and Associated Actions for the Verbena Project. 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 1st 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 June 30, 2009, the San Ysidro Project Area Committee (PAC) voted in support (4-2) of the 2nd Implementation Agreement. On July 15, 2008, the San Ysidro Community Planning Group (SYCPG) recommended approval of the 1st Implementation Agreement. 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.

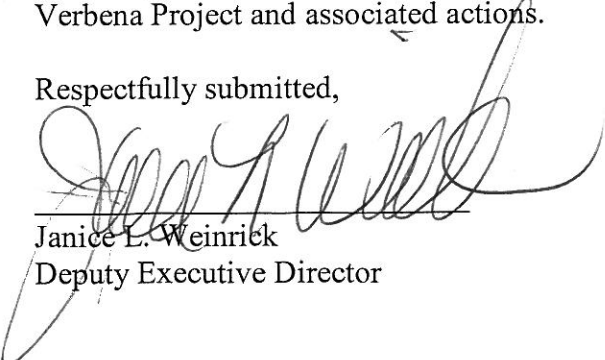
KEY STAKEHOLDERS & PROJECTED IMPACTS (if applicable):


The Project is expected to provide significant community enhancement and valuable affordable housing for the San Ysidro community. Please see Attachment 5 – Development Team for stakeholder information.

ALTERNATIVE:

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

Respectfully submitted,


Janice L. Weinrick
Deputy Executive Director


Approved: William R. Anderson
Assistant Executive Director

- Attachments:
- 1) Site Plan and Conceptual Drawings
 - 2) Second Implementation Agreement
 - 3) Owner Participation Agreement
 - 4) First Implementation Agreement
 - 5) Development Team