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MEMORANDUM

DATE ISSUED: February 17, 2010 Report No. 10-001

ATTENTION: Honorable Chair and Members of the Redevelopment Agency and the City Council of the City of San Diego
Docket of March 9, 2010

ORIGINATING DEPT: Southeastern Economic Development Corporation

SUBJECT: Owner Participation Agreement with Wakeland Housing and Development Corporation and Associated Actions for the Rehabilitation of Vista Grande Apartments in the Valencia Park Neighborhood

Council District: Fourth

REQUESTED ACTIONS:

Recommend that the Agency:

1. Make certain findings of benefit for the use of the Agency's Low and Moderate Income Housing Funds and related taxable bond proceeds (Housing Funds) from two redevelopment project areas (Central Imperial, and Mount Hope) for the Vista Grande affordable housing rehabilitation project (Project) outside those project areas;
2. Approve the Owner Participation Agreement (OPA) with Wakeland Housing and Development Corporation (Wakeland) for the Project and authorize the Executive Director or designee to execute on the Agency's behalf the OPA and associated documents;
3. Approve the issuance of the Agency's loan of Housing Funds in an amount not to exceed $781,073;
4. Authorize the Chief Financial Officer, as delegated, to appropriate and expend up to $781,073 from Housing Funds toward the Project; including $411,044 from the Agency's taxable bond proceeds and $370,029 from the Agency's Low and Moderate Income Housing funds for the Central Imperial and Mount Hope Redevelopment Project areas, to finance a portion of the Project's costs; and
5. Approve the Basic Concept Drawings.

And, that the City Council:

1. Make certain findings of benefit for the use of Housing Funds from two redevelopment project areas (Central Imperial and Mount Hope) for the Project, which is located outside those project areas;

SUMMARY:

The 49-unit Vista Grande Apartments are located within the SEDC Area of Influence and within close proximity of two redevelopment project areas (Project Areas), specifically (i) within 1/10th mile of the Central Imperial Redevelopment Project Area, and (ii) within 1.25 mile of the Mount Hope Redevelopment Project Area. This use of low-moderate income housing 20% set-aside funds and related taxable bond proceeds (Housing Funds) for rehabilitation of the Vista Grande Apartments would fulfill many objectives of the Project Areas' redevelopment plans and implementation plans, such as preservation and rehabilitation of existing residential areas, provision of affordable housing, elimination of blighting influences, and increasing and improving the supply of low and very-low income housing. This development proposal would convert the currently market-rate units within the Vista Grande Apartments to 34 very-low income (at or below 50% of AMI) and 14 low income (at or below 80% of AMI) families after the significant rehabilitation of those units has been completed. As is typical, the on-site manager's unit will have no rent restrictions.

Wakeland Housing and Development Corporation (Wakeland) is a California 501(c)(3) nonprofit corporation established in 1998 with the mission of developing affordable housing. The project team for Vista Grande would be the staff of Wakeland. Wakeland's President and Chief Executive Officer is Mr. Ken Sauder; the Director of Project Development is Mr. Barry Getzel; its project manager for the proposed development is Sylvia Martinez. Wakeland has participated in the new construction and acquisition/rehabilitation of over 5,000 affordable rentals and for sale housing units, including over 550 affordable housing units in 7 developments in San Diego County in the past five years, including most recently in the City of San Diego the Beyer Boulevard Apartments and Del Sol Apartments in San Ysidro, Lillian Place and Parkside in downtown, and Sagewood at Stonebridge in Scripps Ranch.

Originally built in 1986, Vista Grande Apartments are located in the Southeastern San Diego Community Planning Area, at 54th and Santa Margarita Streets. The development consists of a 49-unit apartment complex, in nine wood-frame and stucco buildings on approximately 3.10 acres. The majority of the units are 4-bedroom units, providing housing for large families (45 four-bedroom, 3 three-bedroom, 1 two-bedroom). The Vista Grande Apartment complex, located approximately one block from the Imperial Avenue transit corridor, within ½ mile of the Euclid trolley station, and .8 mile from the 62nd Street trolley station, meets the goals of the City of San Diego General Plan, by providing higher density residential near transit corridors and trolley stations. A Physical Needs Assessment was conducted at the property in July 2008, resulting in a finding that the property is in below average condition. Many of the units require repair or replacement and/or routine maintenance, and four units require immediate repair, replacement or significant maintenance. The current condition is partially attributable to age and the quality of construction materials contributing to a below average condition.

The project involves the acquisition of the property and rehabilitation of the buildings and property to add a new community center, revitalized open space and playground. After completion of the rehabilitation work, the currently market rate project will include 48 extremely-low, very-low and low income units with 55-year affordability restrictions (together with one unrestricted on-site manager's unit). The rehabilitation qualifies as "substantial rehabilitation" under California Community Redevelopment Law (CRL) so that the rehabilitated dwelling units would count toward the SEDC portion of the Agency's obligation to provide affordable housing units in the community. The rehabilitated apartments will include 3 two-bedroom units (1 for a Very Low Income household,1 for an Extremely Low Income household, and 1 for the on-site manager), 1 three-bedroom unit (for a Very Low Income household), and 45 four-bedroom units (14 for Low Income households, 27 for Very Low Income households, and 4 for Extremely Low Income households).

These older buildings offer a large potential for energy and water savings in the rehabilitation work proposed to include: new insulated roof; energy-efficient doors, windows, ceiling fans, lighting, and appliances; a solar heating or electrical system for a portion of the common area heating or electric uses; water-efficient plumbing fixtures and tankless water heaters; water saving irrigation and drought tolerant landscaping. Non-toxic materials will be used including no or low-VOC paints, adhesives, finishes, and flooring. Also included are ventilation system improvements, mold remediation, and natural and organic pest control, fertilizer, and pesticides.

Basic Concept Drawings: Attached are the new exterior elevation and floor plan for the existing two story building after renovations to include an ADA accessible community center in order to accommodate resident services programs, a computer center with free internet access, laundry facility, and a leasing/property management office.

After rehabilitation the floor plans and exterior appearance of all other residential buildings in the development will remain the same. Exterior improvements include painting, repairs to fencing and gate, landscaping, roofing, walkways, site drainage, lighting, and parking resurfacing. Also included is the incorporation of accessibility improvements at the Property, with improvements to the playground area and the large sloped open space area, upgrade of 5% ground level units for accessibility and an additional 2% ground level units to allow accessibility for individuals with sight and hearing impairments.

Development Team:

ROLE	FIRM/CONTACT	OWNERSHIP
Owner under OPA	Wakeland Housing and Development Corporation Contact: Ken Sauder	Private non-profit 501 (c) (3)
Managing General Partner	Wakeland Vista Grande Apartments, LLC Contact: Ken Sauder	Wakeland Housing and Development Corporation, sole member and manager
Limited Partner /Tax Credit Investor	To Be Determined	Comprised of a limited partnership tax credit fund
General Contractor	To Be Determined	
Architect	Rodriguez Associates Architects & Planners, Inc. 2445 Fifth Avenue, Suite 220 San Diego, California 92101 http://ra-architects.net/	Carlos Rodriguez
Proposed Land Ownership	San Diego Housing Commission	
Relocation Consultant	Myers & Associates Contact: Mecky Myers	Mecky Meyers
Property Management	ConAm Management Corporation Contact: Kay Chiaravalle	A California Corporation

Project:

Summary			
Type of Housing	Multi-family rental		
Land Area	3.10 acres		
Gross Building Area	60,898 sq. ft.		
Total Number of Units	49 units		
Project Density	15.8 units/acre		
Number of units demolished	None		
Total number of units/bedrooms at rate of affordability	Two-bedroom	three-bedroom	four-bedroom
30% AMI (Extremely Low Income)	1		4
45% AMI (Very Low Income)	1		7
50% AMI (Very Low Income)		1	20
52% AMI (Low Income)			14
Market Rate manager unit	1		
Total affordable: 48 units / 187 bedrooms			

Sources and Uses of Funds:

Sources of Funding		Uses of Funding	
Housing Commission Land Purchase	$845,000	Acquisition	$845,000
Housing Commission Residual Receipts Loan	$2,967,000	Acquisition and Rehabilitation	$2,967,000
Agency Residual Receipts Loan	$781,073	Rehabilitation and Perm Financing	$781,073
Institutional Loan	$2,871,942	Perm Financing	$2,871,942
Tax Credit Equity	$6,750,839	Perm Financing	$6,750,839
Project Income	$319,123		$319,123
Deferred Developer Fee	$300,000	Deferred Fee during Construction	$300,000
Total Financed	$14,834,977		$14,834,977
Ratio of Other Financing Sources to Agency Funds (i.e., leveraging of Agency Funds)			16.99 to 1

Funding Request Ratios

Agency subsidy request	$781,073
Housing Commission subsidy request (land plus loan)	$3,812,000
Number of affordable units proposed	48
Number of bedrooms	187
Agency subsidy per affordable unit / and per CRL 2:1 Basis*	$16,272/ $32,545
Agency subsidy per affordable bedroom	$4,177

*Vista Grande Apartments are located outside a redevelopment project area

STRATEGIC PLAN

The findings of the Preliminary Draft Strategic Plan recommend focusing on market-rate projects or non-tax exempt uses to increase property values in the area. Due to the a past production of many low to moderate income affordable units by SEDC, the remaining affordable housing production requirement under the CRL is 20 very low income units as shown in the following table:

Housing Production Net Surplus (Deficit)*		
Project Area	**Very Low**	**Low to Moderate**
Central Imperial	(16)	119
Gateway Center West	0	0
Mount Hope	(1)	6
Southcrest	(3)	16
Housing Surplus (Deficit)	(20)	141

*per the Project Area 2010-2014, 5-Year Implementation Plans approved May, 2009

Another recommendation in the Strategic Plan is that SEDC coordinate administrative costs and leverage dollars with the San Diego Housing Commission (Housing Commission). This project meets that recommendation as the Housing Commission is providing a significant financial subsidy to the project in terms of the land acquisition and a loan. The OPA will require the Housing Commission to monitor and administer the affordable housing requirements per the CRL on the Agency's behalf, thus reducing the potential duplication of administrative costs and efforts by SEDC and the Housing Commission.

Additionally, the Strategic Plan recommends SEDC attempt to achieve a ratio of 4:1 of outside funding sources to SEDC funding assistance provided to projects. The total acquisition and rehabilitation financing is $14,834,977. The proposed SEDC funding of $781,073 provides a ratio of approximately 17:1, thus showing that the Agency will be able to leverage the use of Housing Funds in a very favorable manner with this project.

FINDINGS

As mentioned above, the Agency and the Council each will need to make findings that the use of Housing Funds for this affordable housing rehabilitation project outside the Project Areas will be of benefit to the Project Areas. This Project is expected to provide affordable housing opportunities to the residents of the Project Areas, to preserve and rehabilitate existing residential properties, and to provide housing affordable to extremely low income, very low and low income families. As proposed, this project would qualify as substantial rehabilitation under the CRL due to the extensive cost of the rehabilitation work relative to the current property value. Additionally, the relatively very low per-unit subsidy by the Agency will maximize the use and effectiveness of the Housing Funds.

FISCAL CONSIDERATION

Funds in the amount of $1,407,655 are available in the FY2010 Budget from the Housing Funds. Funds requested totaling $781,073, are included in the FY 2010 SEDC Project Budget and can be allocated proportionately from the Housing Funds (per the 17-unit very-low unit obligation that the project will meet) from each of these two Project Areas: Central Imperial $735,128 total, consisting of $411,044 from taxable bond proceeds and $324,084 from Low and Moderate Income Housing funds; ; and Mount Hope $45,945 from Low and moderate Income Housing funds. Please see the table above for the very low affordable housing obligations from the 2010-2014, 5-Year Implementation Plans for each of the Project Areas.

These project expenditures were included in the Fiscal Year 2010 budget, were taken into account when determining this project area's ability to fund its estimated portion of the State's ERAF Take, and will not impact the Agency's ability to make the FY 2010 ERAF Payment at such time it becomes legally obligated to do so.

Funding Request and Satisfaction of Affordable Housing Obligation

The project received funding approval in July 2009 from the Housing Commission for the Housing Commission's purchase of the land for $845,000, a long-term ground lease to Wakeland, and a gap financing loan totaling $2,967,000. The Housing Commission, after purchasing the land, will enter into a 65-year ground lease for the improvements with Wakeland (or its affiliate), including a Housing Commission option to purchase the improvements at the end of the tax credit compliance period, approximately 15 years after completion of the rehabilitation. Wakeland plans to submit in March 2010 an application to the California Tax Credit Allocation Committee (TCAC) seeking an award of both 4% and 9% federal tax credits. The SEDC subsidy of $781,073 would increase the ratio of local subsidy to score high enough to potentially be successful in the TCAC competition.

The proposed Agency funding through a residual-receipts, 3% simple interest loan will be secured by a deed of trust recorded against Wakeland's leasehold estate for a term of 55 years. The Agency's deed of trust will be junior to the institutional loan for the Project as well as the Housing Commission's significantly larger loan. The Housing Commission approved the proposed Agency subordinate financing of $781,073 on February 9, 2010.

Any outstanding balance of the Agency's loan will be forgivable to Wakeland at the conclusion of the 55-year term to the extent that residual receipts have been insufficient to pay the balance. Nonetheless, there is a potential that the entire balance of the Agency's loan would be paid much earlier than the conclusion of the 55-year term, should the Housing Commission exercise its purchase option at the end of the tax credit compliance period (approximately 15 years after completion of rehabilitation work) in accordance with funding restrictions imposed on the Housing Commission by HUD. The Housing Commission and the Agency will enter into a separate agreement by which the Housing Commission agrees to either pay the entire balance of the Agency's loan upon the Housing Commission's exercise of its option to purchase the leasehold improvements from Wakeland, or assume the loan and continue to make payments to the Agency from residual receipts that do not decrease more than 10% compared to the year prior to the assumption of the loan. In this case the Agency also has the option to have the current property management company retained.

The income affordability covenants will be recorded against both the Housing Commission's fee title and Wakeland's leasehold estate, and are also for a period of 55 years, the minimum length of time that the Agency is required under the CRL to impose such covenants in order to qualify the restricted units for use in meeting the Agency's obligation for affordable housing production.

This project is located just outside the boundaries of a redevelopment project area and the potential removal of the project from the tax rolls *will not impact the generation of tax increment for the Agency*, unlike many other affordable housing proposals that are located within an adopted redevelopment area.

Under the CRL, the Agency is permitted to expend the Housing Funds toward this affordable housing project located outside a redevelopment project area so long as the Agency and the Council each make findings that such a use of the Housing Funds will be of benefit to the project area. The CRL also allows the Agency to apply the Housing Funds toward the rehabilitation of housing to increase and preserve the supply of affordable housing. Based on a 2-to-1 ratio established by the CRL, the Agency's financial assistance toward this rehabilitation project outside the Project Areas, together with the Agency's imposition of the 55-year affordability covenants on the property, will allow the Agency to count one-half of the rehabilitated units toward the Agency's obligation to provide for affordable housing within the Project Areas. Thus, the Agency will be able to count 24 of the 48 rehabilitated, income-restricted units toward the Agency's affordable housing production requirement, and the 24 counted units will include 17 very-low units and 7 low income units. In practical effect, then, the Agency's subsidy per affordable unit that can be counted under the CRL is $32,545. This per-unit subsidy is well below the level of subsidy typically provided by the Agency for other affordable housing developments in the community.

Relocation of Potentially Displaced Residents

Federal and state relocation laws and regulations generally require that, whenever a project assisted by a public agency will result in the displacement of any residents, a relocation plan (which describes the relocation benefits and payments to be given to displaced residents) must be approved before any actual displacement occurs. In this instance, it is anticipated that the project will result in the displacement of at least several existing residents from the project site because the imposition of the long-term affordability covenants at relatively low income levels will cause some existing residents to be "over-income" and thus no longer eligible to occupy the income-restricted units under the CRL requirements. A qualified relocation consultant, Mecky Myers and Associates, is in the process of preparing an updated relocation plan to determine how many "over-income" residents can be reasonably expected to be displaced by the project based on the exact income restrictions being imposed as part of the project. Assuming the updated relocation plan concludes that one or more existing households will be displaced by the project, then the Council and the Agency Board will be asked to consider the approval of such relocation plan (including certain relocation determinations by the Agency Board) at a future date and before any actual displacement occurs.

The approval of a replacement housing plan is not required under the CRL (specifically CRL section 33413) in this instance because the project will not result in any net reduction in the number of units occupied by low and moderate income households.

Negotiated Deal Points - In light of current economic realities and other practical considerations, SEDC staff and Agency General Counsel negotiated three deal points with Wakeland that deserve special mention.

First, the Method of Financing attached to the OPA will allow the Agency's Executive Director or designee to grant an administrative approval of an increase in the senior institutional loan up to 10% of its current projected amount (the construction loan is estimated at $7,939,052 and the permanent loan is estimated at $2,871,942). This provision could result in an increase of up to approximately $793,905 during the construction financing period and up to approximately $287,194 during the permanent financing period in the amount by which the Agency's loan is subordinated to the senior institutional loan. Wakeland requested this provision in order to allow flexibility in coordinating the sources of project financing without having to return to the Agency Board while faced with a potentially urgent deadline looming for the use of tax credit financing. SEDC feels that this flexibility is warranted and will not adversely affect the Agency's interests in this situation. As mentioned above, the Agency's loan is relatively small, especially relative to the benefit gained by the Agency in meeting its remaining affordable housing production requirements at the very low income level. Moreover, it is possible that the Housing Commission will elect to pay the entire balance of the Agency's loan if the Housing Commission (as expected) exercises its future option to purchase the leasehold improvements.
Second, the Disbursement Agreement attached to the OPA calls for the Agency, upon the construction loan closing, to distribute up to 80% ($624,858) of the Agency's loan on a *pari passu* basis with the combined amount of the construction loan and the tax credit equity financing. The Agency's loan disbursement will be subject to a 20% total retention, 10% of which will be released upon 75% completion of the rehabilitation work and the final 10% of which will be released 35 days after 100% completion. This disbursement schedule represents a somewhat front-loaded disbursement of the Agency's loan proceeds compared to the Agency's financial assistance toward other affordable housing projects. SEDC feels that this disbursement schedule is warranted and will not adversely affect the Agency's interests in this situation, for the same basic reasons described in the preceding paragraph.

Third, the Agency Note attached to the OPA prescribes an annual asset management fee in the combined amount of $17,500 in Year 1 (which is the maximum recommended amount under the Agency's transaction guidelines), subject to an annual inflationary increase of 3%, except that the Agency's Executive Director or designee will be able to grant an administrative approval of an increase in this fee up to the combined amount of $25,000 in Year 1 (i.e., a potential one-time increase of up to $7,500). This increased fee would apply during the period from Year 1 through Year 15, at which time the tax credit limited partnership is expected to depart, and subsequent to the departure, the total asset management fee payable to the project's operator will be reduced by 28.57% in Year 16. Wakeland requested this flexibility for a potential fee increase in order to compensate Wakeland for the provision of extraordinary benefits in the project, which includes the creation of the community center and a high level of resident services compared to the typical affordable housing project. SEDC feels that this flexibility to allow a potential fee increase is justified, especially since Wakeland will be required to substantiate the reasons for the fee increase at the time of construction loan closing. From time to time, the Agency has approved an increase in the asset management fee above the normal threshold contemplated by the transaction guidelines; for instance, at a meeting in December 2009, the Agency approved an increase in the fee to an amount not to exceed $32,500 in Year 1 for the Ninth and Broadway affordable housing project.

Finally, SEDC wishes to disclose that SEDC has not retained an outside economic consultant to evaluate the project pro forma assumptions supplied by Wakeland. SEDC has relied on its own internal analysis of the pro forma, together with the extensive financial due diligence performed by Housing Commission staff, which has a much larger financial stake in this transaction. SEDC does not feel that the extra expense associated with retaining an economic consultant is justified under the circumstances.

ENVIRONMENTAL REVIEW: The City of San Diego determined on May 13, 2009 that this project is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15301 (existing facilities). The City of San Diego also determined this project to be Categorically Excluded pursuant to the National Environmental Policy Act (NEPA) Section 58.35(a)(3)(ii) on May 13, 2009.

EQUAL OPPORTUNITY CONTRACTING:
This agreement is subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708). This agreement is subject to the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH: The rehabilitation project was reviewed and approved by the Encanto Neighborhoods Community Planning Group in July 2008. The San Diego Housing Commission approved its funding commitment at its meeting on July 2009. The SEDC Board of Directors and its Projects and Development Committee reviewed the proposed project and funding during meetings held on October 28, 2009, November 10, 2009, November 18, 2009 and January 13, 2010 and the SEDC Board of Directors approved the staff recommendations on January 27, 2010.

KEY STAKEHOLDERS: The key stakeholders are current and future extremely-low, very-low, and low income residents of the Vista Grande Apartments, residents of the Project Areas and the Southeastern San Diego Community Planning Area, and the Wakeland Housing & Development Corporation.

CONCLUSION: Affordable housing is an identified need in the Southeastern San Diego area and the project would provide extremely-low, very-low and low income units and fulfill the objectives City's Strategic Framework and the redevelopment plans for the Project Areas by rehabilitating and preserving existing housing, and providing affordable housing in close proximity to transit and trolley corridors. This project will fulfill the Agency very-low affordable housing obligation for the Central Imperial and Mount Hope Redevelopment Project Areas for approximately $16,272 per unit assisted and an effective $32,545 per affordable unit count, considerably less subsidy per unit than many other affordable housing projects financially assisted by the Agency in the past. This project also will leverage outside sources with SEDC funds for a very favorable ratio of approximately 17 to 1.

Submitted by	Approved by
Sherry A. Brooks	Brian L. Trotier
Project Manager	Acting President / CEO

Attachments:
1 - Site Map
2 - Basic Concept Drawings
3 - Findings of Benefit
4- Owner Participation Agreement