



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: July 4, 2007

REPORT NO.: RA-07-23
RTC-07-099

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of July 10, 2007

SUBJECT: Owner Participation Agreement and Associated Actions for the Verbena Project

REQUESTED ACTION:

- 1) That the Redevelopment Agency and City Council certify environmental review for the proposed actions; and
- 2) That the Agency approve the Basic Concept Drawings; and
- 3) That the City Council recommend Agency approval and the Agency approve authorizing execution of the Owner Participation Agreement with Verbena San Ysidro, L.P. for the Verbena Project; and
- 4) That the City Council and Agency approve Findings of Benefit for the use of 20% Low and Moderate Income Housing Set-Aside Funds outside source project areas including City Heights, North Park, North Bay, and Naval Training Center; and
- 5) That the Agency authorize the expenditure of \$5,586,000 from the Agency's 20% Low and Moderate Income Housing Set-Aside Funds as a residual receipts loan contribution to the project.

STAFF RECOMMENDATION TO THE REDEVELOPMENT AGENCY:

- 1) State for the record that the final Mitigated Negative Declaration (No. 41718) has been reviewed and considered prior to approving the project; and
- 2) Approve the Basic Concept Drawings; and
- 3) Authorize the Executive Director or designee to execute an Owner Participation Agreement with Verbena San Ysidro, L.P. for the Verbena Project, contingent upon the Office of the Auditor and Comptroller first certifying availability of funds; and
- 4) Approve Findings of Benefit for the use of 20% Low and Moderate Income Housing Set-Aside Funds outside source project areas including City Heights, North Park, North Bay, and Naval Training Center; and
- 5) Authorize the expenditure of funds for the Verbena Project in an amount not to exceed \$5,586,000 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) \$930,000 from City Heights Housing Line of Credit; 2) \$930,000 from North Park Housing Line of Credit; 3) \$930,000 from North Bay Housing Line of Credit; 4) \$2,394,000 from Naval Training Center Housing Line of Credit; and 5) \$402,000 from San Ysidro Project Area.

STAFF RECOMMENDATION TO THE CITY COUNCIL:

- 1) State for the record that the Council has previously reviewed and considered information contained in the final Mitigated Negative Declaration (No. 41718) as it pertains to the project; and
- 2) Approve Findings of Benefit for the use of 20% Low and Moderate Income Housing Set-Aside Funds outside source project areas including City Heights, North Park, North Bay, and Naval Training Center; and
- 3) Recommend to the Redevelopment Agency to enter into an Owner Participation Agreement for the Verbena Project.

SUMMARY:

The San Ysidro Redevelopment Plan (the Plan) was adopted in April 1996. The Plan identifies various redevelopment priorities including the creation of affordable housing units. San Ysidro's Third Five-Year Implementation Plan, adopted on August 8, 2006, identifies one goal and objective as the following: "Promote and enhance varied housing opportunities by improving the housing stock and expanding affordable housing opportunities which address community needs."

Chelsea Investment Corporation, dba Verbena San Ysidro, L.P. (the Developer), has submitted for funding assistance for the Verbena Project, a proposed 80-unit affordable housing development consisting of new rental apartments for very low to low income (30% to 60% AMI) families (the Project). The requested actions will allow for the execution of an Owner Participation Agreement (OPA) with Verbena San Ysidro, L.P. (see Attachment 1 – Owner Participation Agreement) for the implementation of the Project. The OPA includes various conditions prior to Agency funding including, but not limited to, Developer's acquisition of other funding sources, acquisition of land, and compliance with the City's Equal Opportunity Contracting program.

The Project is proposed to be developed on seven contiguous parcels equaling 6.8 acres (296,200 SF) and located at 3774 Beyer Blvd. (the Project Site), within the San Ysidro Redevelopment Project Area (see Attachment 2 – Site Map). The Project Site is near the intersection of Beyer Blvd and Foothill Blvd. The surrounding development includes primarily single and multi-family housing. The Project Site is near schools, park area, and a Trolley station. Furthermore, the Project Site is vacant with no demolition required. The Developer is under a Purchase and Sale Agreement with the existing property owner to acquire the entire Project Site. No additional property acquisition is necessary for project implementation.

The Project's physical design consists of 27 two-story triplex buildings located throughout the Project Site. Each triplex structure contains two 2-story three-bedroom units, and one single-story two-bedroom unit, all sitting on top of ground floor private garages. All units have attached one- or two-car garages. The Gross Building Area (GBA) is approximately 91,415 SF with a total of 177 parking spaces, or approximately 2.2 spaces per unit. Amenities will include a community room, computer center, classroom space, a tot lot and open space. For graphic information, please see Attachment 3 – Site Plan and Attachment 4 – Basic Concept Drawings.

Total project costs are \$28,861,000. The Developer seeks a public subsidy from the Redevelopment Agency of the City of San Diego (the Agency) for \$5,586,000. The Developer plans to submit an application to the State's Tax Credit Allocation Committee (TCAC) for 2nd Round (July) 2007 tax credits. The following subsections describe the Project in more detail.

Development Team

Role	Firm/Contact	Ownership
Managing General Partner	Pacific Southwest Community Development Corporation Contact: Jack Jaynes	Non profit 501(C) 3 Corporation Jack Jaynes, 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: Ken Miller	James J. Schmid, 80% owner Charles Schmid, 20% owner
Architect	Stark Architecture + Planning (primary architect) Contact: Ken Miller Hedenkamp & Associates (consulting architect) Contact: Bill Hedenkamp	James P. Starck, owner William Hedenkamp, owner
Property Mangement	CIC Management, Inc. Contact: Robert Harrington	James J. Schmid, owner

Residential Project Summary

Project Summary	
Type of Housing	Multifamily Apartments - Rental
Land Area	6.8 Acres (296,208 SF)
Gross Building Area (GBA)	91,415 SF
Total Number of Units	80 (79 affordable, one 3BR Manager Unit)
Project Density	12 units/acre
Density of Surrounding Development	12-15 units/acre
Number of Affordable Units/Bedrooms	27 2-bedroom 52 3-bedroom 79 Units / 210 Bedrooms
Income Restrictions	8 @ 30% AMI 8 @ 40% AMI 40 @ 50% AMI 23 @ 60% AMI 79 @ 30% to 60% AMI
Site Control	Under Purchase Agreement with Owner
Relocation Issues	N/A
Number of Demolished Dwelling Units	N/A
Affordability of Demolished Units	N/A

Affordable Unit Summary for 79 Income-Restricted Units

Number of Bedrooms	Residential Income Level	Number of Units	Monthly Rent Level
2 Bedrooms	30% AMI	2	\$438
2 Bedrooms	40% AMI	2	\$594
2 Bedrooms	50% AMI	14	\$750
2 Bedrooms	60% AMI	9	\$907
Total/Avg.	51% AMI	27	\$768
3 Bedrooms	30% AMI	6	\$507
3 Bedrooms	40% AMI	6	\$687
3 Bedrooms	50% AMI	26	\$8682
3 Bedrooms	60% AMI	14	\$1,048
Total/Avg.	49% AMI	52	\$854

Entitlements

The proposed design is consistent with the San Ysidro Community Plan and applicable zoning. A Planned Development Permit (PDP), including CEQA certification, was approved by the City Council in March of 2005. The PDP allows for an 81-unit condominium development on the Project Site. The Project concept is to convert a fully entitled 81-unit condominium project to an 80-unit rental apartment development.

Property Acquisition / Site Control

The Developer is under a Purchase and Sale Agreement with the existing owner of the Project Site, the closing of which is conditioned on the Developer securing project financing. There are no relocation issues related to the Project.

Proposed Project Schedule

Action	Timeline
Agency OPA Approval	June 2007
TCAC Application ¹	July 2007
Construction Start	Jan 2008
Construction Completion	June 2009
(1) If July 2007 TCAC application unsuccessful, two additional application rounds to be permitted under the OPA, and timeline would change accordingly.	

FISCAL CONSIDERATIONS:

Total project costs are \$28,861,000 (see Attachment 5 – Project Budget). It is proposed that the Project be financed with a combination of affordable housing tax credits, private financing, and Agency financing.

The Project will seek 9% Affordable Housing Tax Credits from the California Tax Credit Allocation Committee (TCAC) during the next application cycle, with an application deadline of July 12, 2007. In order to meet the competitive eligibility requirements for TCAC financing, a project must demonstrate site control, or an approved OPA/DDA, evidence of full funding, and approval of entitlements. The Project meets TCAC's competitive eligibility requirements.

Private financing is proposed to be in the form of a construction loan and permanent loan. After the OPA hearing, other public financing shall be sought for the Project including Federal Home Loan Bank Affordable Housing Program (AHP) funds. In addition, the Developer has agreed to a Deferred Developer Fee of \$281,000, representing 20% of the total Developer Fee.

The proposed Agency financing for the Project is an amount not to exceed \$5,586,000 and would be in the form of a long-term (55-year) residual receipts loan to cover direct costs. This amount represents a maximum subsidy of \$70,000 per unit or \$26,000 per bedroom. If AHP funds are acquired by the Developer, or other cost savings are realized for the Project, the OPA is written to ensure the Agency's subsidy be reduced by those amounts received from other sources and/or cost savings. It is proposed that Agency funding be paid from the Agency's 20% Low and Moderate Income Housing Set-Aside Funds including the Agency's Line of Credit, scheduled to be secured in June 2007, and more specifically from the following direct sources: 1) \$930,000 from City Heights Housing Line of Credit; 2) \$930,000 from North Park Housing Line of Credit; 3) \$930,000 from North Bay Housing Line of Credit; 4) \$2,394,000 from Naval Training Center Housing Line of Credit; and 5) \$402,000 from San Ysidro Project Area. The draw-down of Agency funds will initiated after the Developer successfully secures Tax Credits and construction financing and is proposed as follows:

First Disbursement: \$3,824,000 disbursed at Close, at securing Tax Credits and Construction Loan.
Second Disbursement: \$582,000 at Construction Quarter 1.
Third Disbursement: \$500,000 at Construction Quarter 2.
Fourth Disbursement: \$172,000 at Construction Quarter 3.
Fifth Disbursement: \$274,000 at Construction Quarter 4.
Final Disbursement: \$234,000 Remaining funds (Retention) at Quarter 5 and 6 – Lease Up.

The Project's pro forma has been analyzed by Agency staff and Keyser Marston Associates. Estimated costs, financing assumptions, and deal terms have been negotiated and are proposed in the OPA in accordance with the Agency's Affordable Housing Collaborative Program financing guidelines.

Findings of Benefit

The proposed source for the Agency's funding contribution to the Project is the Agency's 20% Low and Moderate Income Housing Set-Aside Funds Line of Credit, specifically from the following project areas: 1) City Heights; 2) North Park; 3) North Bay; and 4) Naval Training Center. 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 6- Findings of Benefit for the proposed findings.

ENVIRONMENTAL IMPACTS:

There are no significant environmental impacts associated with the Project. The City Council has previously reviewed and certified the information contained in the final Mitigated Negative Declaration (No. 41718, adopted March 8, 2005) as it pertains to the Project (see Attachment 7 – Mitigated Negative Declaration).

PREVIOUS AGENCY and/or COUNCIL ACTIONS:

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 15, 2007, the Agency’s Affordable Housing Collaborative Executive Loan Committee (ELC) voted 2 - 1 in favor of the Project’s concept and proposed financing structure.

COMMUNITY PARTICIPATION & PUBLIC OUTREACH EFFORTS:

On August 17, 2004 and May 15, 2007, the Project was presented to the San Ysidro Planning and Development Group (SYPDG), at which times SYPDG voted in support of the Project’s concept and/or proposed OPA. There is no Project Area Committee (PAC) in San Ysidro.

ALTERNATIVE:

Do not approve the proposed OPA and associated actions. This action would not enable the implementation of a valuable affordable housing project in the San Ysidro community.

Respectfully submitted,

Janice Weinrick
Deputy Executive Director
Redevelopment Agency/
Assistant Director
City Planning and Community Investment

Approved: James T. Waring
Assistant Executive Director
Redevelopment Agency/
Deputy Chief Operating Officer for
Land Use and Economic Development

- Attachments: 1. Owner Participation Agreement
2. Site Map
3. Site Plan
4. Basic Concept Drawings
5. Project Budget
6. Findings of Benefit
7. Mitigated Negative Declaration

[NOTE: Click on this link to view Attachments 1 – 7.](#)