



Southeastern
Economic
Development
Corporation

Memorandum

Date Issued: January 7, 2010 Item No. 6c – Report No. 10-003

Meeting of: January 13, 2010

To: Chair and Members of the SEDC Projects and Development Committee

From: Sherry Brooks, Project Manager

Subject: *Vista Grande Rehabilitation (54th and Margarita Streets) –Owner Participation Agreement with Wakeland Housing & Development Corp., for the Rehabilitation of the Vista Grande – Southeastern San Diego, Valencia Park Neighborhood*

Reference: November 18, 2009, Recommendation for Approval of a Rehabilitation Loan Agreement

October 28, 2009, Board of Directors Informational Presentation, Preliminary Strategic Plan Findings Update and Input

REQUESTED ACTION: That the Projects and Development Committee recommend to the SEDC Board of Directors to recommend to the Redevelopment Agency of the City of San Diego (Agency) enter into the proposed Owner Participation Agreement (OPA) with Wakeland Housing & Development Corp., or an affiliate thereof (Wakeland), for the rehabilitation of the 49-unit Vista Grande Apartments (Project) located approximately 1/10th mile outside the Central Imperial Redevelopment Project Area in the Valencia Park neighborhood.

STAFF RECOMMENDATION:

Recommend that the Agency adopts a resolution:

1. Approving the OPA for the rehabilitation of the Vista Grande Apartments
2. Authorizing the Chief Financial Officer, as delegated, to appropriate and expend up to \$840,000 from Low and Moderate Housing Funds for the purpose of rehabilitation of the Vista Grande Apartments pursuant to the OPA; and
3. Making certain findings for the expenditure of Agency funds for the construction of the improvements for the rehabilitation of the Vista Grande Apartments.

And, that the City Council adopts a resolution:

1. Making certain findings for the expenditure of Agency funds for the construction of the improvements for the rehabilitation of the Vista Grande Apartments.

SUMMARY:

In November 2009, the SEDC Board approved an agreement for this project contemplating the Agency's subsidy in the amount of \$600,000. Since that time, SEDC has learned through further analysis of TCAC and CRL allowed rents, and discussions with Wakeland that the Agency's subsidy of \$600,000 will not allow the production of as many very-low income units as originally anticipated by SEDC. Nonetheless, SEDC has the opportunity to meet its total

very-low income unit obligation for all of its redevelopment project areas by providing an additional \$240,000 to lower the income level of certain units.

A total of forty units could be provided at the very-low income level (50% of AMI and below), which is an additional 27 very-low income units than previously contemplated. This report has been revised from the November report to reflect the additional funding for a total request of \$840,000. The majority of the OPA and attachments have been drafted with the former \$600,000 funding level (attached) and reflects the terms of the agreement as previously approved and summarized in the transaction summary. Should the Board approve additional funding the OPA will be revised to reflect that amount.

The project is located at 54th and Santa Margarita Streets, within 1/10th mile of the Central Imperial Project Area, within 1.25 miles of the Mount Hope Project Area and within 1.5 miles of the Southcrest Project Area (Project Areas). This use of low-moderate income housing 20% set-aside funds (Housing Funds) for the Vista Grande Apartments would fulfill many objectives of the Project Area redevelopment plans, such as rehabilitation of residential properties and provision of affordable housing. Vista Grande Apartments, located approximately one block from Imperial Avenue and within ½ mile of the trolley, meets goals of the City of San Diego General Plan, by providing higher density residential near transit corridors and trolley stations. This development proposal would provide the currently market-rate units to 40 very-low and 8 low income families after the significant rehabilitation of those units has been completed. One manager unit is reserved at market rate rent.

BACKGROUND

The property consists of an approximately 23 year-old, 49-unit apartment complex, now renting at market rate rents. The proposal includes the acquisition of the property and rehabilitation of the property to add a new community center, revitalized open space and playground, and the 48 very low (50% of AMI) and low (80% of AMI) income units with 55-year affordability restrictions (together with one on-site manager's unit at market rate rent). The rehabilitation qualifies as "substantial rehabilitation" under the California Community Redevelopment Law (CRL) so that the rehabilitated dwelling units would count toward the SEDC portion of the Redevelopment Agency obligation to provide affordable housing units in the community.

DISCUSSION

FUNDING REQUEST

The project has 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. Wakeland plans to submit in March 2010 a 9% tax credit application to the California Tax Credit Allocation Committee (TCAC). The SEDC subsidy of \$840,000 would increase the ratio of local subsidy to score high enough to potentially be successful in the March, 2010 TCAC competition, and to provide additional very-low income units than previously approved by the SEDC Board. The Agency subsidy per unit would be approximately \$17,143 (i.e., \$840,000 divided by 49 units).

The proposed Agency funding through a residual-receipts, 3% simple interest loan would be secured by a deed of trust recorded against the property for a term of 55 years. The income affordability covenants recorded against the property 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, 20 very-low units and 4 low income units. In practical effect, then, the Agency's subsidy per affordable unit that can be counted under the CRL is \$35,000. This per-unit subsidy is still well below the level of subsidy typically provided by the Agency for other affordable housing developments in the community.

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 very low and low income families. As proposed, this project would qualify as substantial rehabilitation under the CRL. Additionally, the relatively very low per-unit subsidy by the Agency will maximize the use and effectiveness of the Housing Funds.

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 past production of affordable units by SEDC, the obligation remaining is 20 units of 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	<u>(3)</u>	<u>16</u>
Housing Surplus (Deficit)	(20)	141

Another recommendation in the Strategic Plan is that SEDC coordinate administrative costs and leverage dollars with the San Diego Housing Commission. This project meets that recommendation. 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 project cost is \$14,893,696. The proposed SEDC funding of \$840,000 provides a ratio of approximately 17:1.

FISCAL CONSIDERATION

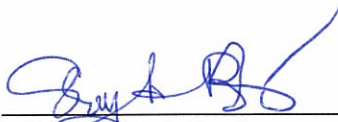
Funds in the amount of \$1,407,655 are available in the FY2010 Budget from the Housing Funds. Funds requested totaling \$840,000, are included in the FY 2010 SEDC Project Budget and can be allocated proportionately from the Central Imperial, Mount Hope and Southcrest Housing Funds to meet the very low housing obligations for each Project Area, or can be allocated providing less very low housing units for any of the Project Areas. Please see the table above for the very low affordable housing obligations taken from the 2010-2014 Implementation Plans for each of the Project Areas.

KEY STAKEHOLDERS

The key stakeholders are current and future very low, and low income residents of the Vista Grande Apartments, residents of the Project Areas, and the Wakeland Housing & Development Corp.

CONCLUSION

Affordable housing is an identified need in the Southeastern San Diego area and the project would provide very-low and low income units. This project will fulfill the total Agency very low affordable housing obligation for all the SEDC project areas for approximately \$17,143 per unit assisted and an effective \$35,000 per affordable unit count, considerably less subsidy per unit than many other affordable housing projects financially assisted by the Agency in the past as well as leveraging outside sources with SEDC funds for a 17:1 ratio.



Submitted by
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Project Manager



Approved by
Nancy Maddox Lytle, AICP
Vice President of Projects and Development

Attachment: **Draft** Owner Participation Agreement (Available on the SEDC Web Site at www.sedcinc.com)