

**CITY OF TEMECULA  
AGENDA REPORT**

**TO:** City Manager/City Council

**FROM:** Luke Watson, Deputy City Manager

**DATE:** November 29, 2022

**SUBJECT:** Approve Third Amendment to the Disposition and Development Agreement for Vine Creek Apartments Affordable Housing Development Between the City of Temecula, as Housing Successor to the Former Temecula Redevelopment Agency, and Temecula Pacific Associates

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**PREPARED BY:** Haide Urias, Housing and Real Estate Senior Management Analyst

**RECOMMENDATION:** That the City Council adopt a resolution entitled:

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA, ACTING IN ITS CAPACITY AS THE HOUSING SUCCESSOR AND IN ITS CAPACITY AS THE CITY APPROVING A THIRD AMENDMENT TO THE DISPOSITION AND DEVELOPMENT AGREEMENT WITH TEMECULA PACIFIC ASSOCIATES, FOR THE “VINE CREEK” 60 UNIT APARTMENT PROJECT

**PROJECT**

**DESCRIPTION:** Vine Creek Apartments (Project) is a three-story, 100% affordable, multi-family project, totaling sixty units, with fifteen units available for special needs occupants (twelve units for autism and three units for sensory). The Project is located on three parcels, approximately 130 feet north of the intersection of Main Street and Pujol Street, on the east side of Pujol Street. Two of the parcels are owned by the City, as Housing Successor to the Redevelopment Agency.

**BACKGROUND:** In 2015, the City as Housing Successor to the Former Redevelopment Agency obtained clearance from the Department of Finance to spend the remaining 2010 and 2011 affordable housing tax allocation bond proceeds for their originally intended purpose – for the creation of affordable housing. As a result, the Supportive Housing/Services Ad Hoc Subcommittee, then consisting of Council Members Naggar and Washington, directed staff to create a Request for Proposal (RFP) to solicit proposals from interested developers for the construction of affordable housing developments.

In February 2016, with input from the Subcommittee (then consisting of Council Members McCracken and Naggar), staff issued an RFP to solicit development proposals that address one or more of the following housing needs: seniors, veterans, special needs, transitional, or supportive. In response to the RFP, the City received twenty proposals from thirteen developers on eight different sites.

On February 28, 2017, staff presented all twenty proposals to the Supportive Housing/Services Ad Hoc Subcommittee, now consisting of Council Member Rahn and Mayor Naggar. The Subcommittee considered many facets of each project including the number of units, cash assistance, City land donation request, target population, service provider, and program description. The Subcommittee recommended that staff present the entire City Council with all of the proposals.

On April 11, 2017, City Council recommended that eight proposals move forward to the next round of analysis. On September 12, 2017, the Supportive Services/Housing Subcommittee selected five development teams to interview with the Subcommittee and staff. On January 16, 2018, the Subcommittee made the final decision, and selected two projects to move forward with, one of which is Vine Creek Apartments (Project).

Due to the timing of the 9% Low Income Housing Tax Credits (LIHTC) applications, Temecula Pacific Associates (then Pacific West Communities), requested to enter into a Land Use Entitlement Processing Agreement with the City, allowing them to move forward with the entitlement process. This agreement allowed Temecula Pacific Associates (Developer) to simultaneously pursue critical financing for the Project. The Project was approved by Planning Commission on February 20, 2019.

### **Disposition and Development Agreement**

On June 25, 2019, the City Council approved a Disposition and Development Agreement (DDA) with Temecula Pacific Associates to establish the terms and conditions surrounding the development of the Project, including a \$2.7 million financial contribution and land donation.

### **First Amendment to the DDA**

On November 10, 2020, the developer requested an amendment to the DDA by extending the term of the agreement, to allow for additional applications for tax credit financing through the State. The Developer will apply for tax credits through 2024, or until awarded.

### **Second Amendment to the DDA**

Since the adoption of the DDA in 2019, the developer has submitted five (5) tax credit applications to the State Tax Credit Allocation Committee (TCAC) as required by the DDA. Unfortunately, the Project did not score as high as the other project applications in each of those five tax credit application rounds. Tax credit financing is a critical source of funding for the Project. After the fifth unsuccessful tax credit round, the developer approached the City and requested additional funding in the amount of \$4 million. The Developer explained that the additional funds would increase the Project's tax credit score to a level that would make it much more competitive in future tax credit rounds.

City staff engaged Keyser Marston Associates (KMA) to analyze and test the developers claim that the additional City funds were necessary to make the Project more competitive in future tax credit rounds. KMA's analysis revealed that with the additional City financial contribution of \$4 million, the Project's tax credit tie-breaker score would rise from 48.1% currently, to 67.8%. Over the last two tax credit rounds for the inland valley area, projects that had scores between 60-70% won tax credits in those rounds. Therefore, KMA's analysis did reveal that an additional contribution of \$4 million to the Project significantly increased the likelihood that the Project would win a future tax credit round.

### **Third Amendment to the DDA**

The developer has requested an amendment to the DDA to adjust the City's percentage share of residual receipts. The City's share of residual receipts will be shared with the County of Riverside at a pro rata rate. This change has been requested because the County of Riverside is issuing a secured loan to the developer for the purpose of financing the development. The City has engaged Keyser Marston Associates (KMA) to ensure the City's financial interest are well represented.

**FISCAL IMPACT:** It is not anticipated that there will be a negative or positive fiscal impact. If the project were to have a positive cash flow the City could potentially receive funds that would go back to the Affordable Housing Fund.

### **ATTACHMENTS:**

1. Resolution
2. Third Amendment to Disposition and Development Agreement
3. Second Amendment to the Disposition and Development Agreement
4. First Amendment to the Disposition and Development Agreement
5. Disposition and Development Agreement
6. 33433 Report
7. Notice of Public Hearing