

**CITY OF TEMECULA  
AGENDA REPORT**

**TO:** City Manager/City Council

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

**DATE:** November 30, 2021

**SUBJECT:** Approve Second Amendment to the Loan Agreement for Las Haciendas Affordable Housing Development Between the City of Temecula, as Housing Successor to the Former Temecula Redevelopment Agency, and Las Haciendas Housing Associates, L.P.

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

RESOLUTION NO. 2021-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA, ACTING IN ITS CAPACITY AS THE HOUSING SUCCESSOR TO THE FORMER TEMECULA REDEVELOPMENT AGENCY (AND, WITH RESPECT TO A LOAN OF CITY FEES, ALSO IN ITS CAPACITY AS THE CITY) APPROVING THE SECOND AMENDMENT TO THE LOAN AGREEMENT WITH LAS HACIENDAS HOUSING ASSOCIATES, L.P. FOR THE “LAS HACIENDAS” 77 UNIT LOW INCOME AFFORDABLE MULTI-FAMILY (APARTMENT) PROJECT AT 28715 LAS HACIENDAS STREET AND 28772 CALLE CORTEZ

**PROJECT DESCRIPTION:** A 77-unit affordable multi-family housing community consisting of two residential buildings, a community building and tuck-under parking located at 28715 Las Haciendas. The Project is 100% affordable and is located in the Uptown Temecula Specific Plan Area.

**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.

Staff has met with many developers over the potential development of affordable housing throughout the community. On August 19, 2019, Community Housing Works (CHW) submitted a proposal to the City to develop Las Haciendas, a 77-unit affordable residential community in the

Uptown Temecula on Las Haciendas Street. This project would be the first residential project in the Uptown Temecula Specific Plan (UTSP) area. Residential development in the Uptown Temecula has the potential to be catalytic, providing the necessary residents to support future development in the area.

On October 8, 2019, the Supportive Housing/Services Subcommittee, consisting of Council Members Naggar (retired) and Rahn, met with the development team from CHW and expressed interest in moving forward with negotiations of the affordable housing project, with the contribution of affordable housing funding, deferred development impact fees (DIF), and a reimbursement from the Uptown Temecula Specific Plan New Streets In-Lieu Fee Funds for the construction a new road and alley.

On December 9, 2019, the City provided a Letter of Intent (LOI) to CHW to demonstrate intent towards a partnership to increase the competitiveness of tax credit applications and establish the local commitment to the production of affordable housing. The LOI was contingent upon CHW acquiring two parcels in the UTSP area. CHW closed escrow on these two parcels on December 16, 2019. On February 11, 2020, CHW met again with the Supportive Housing/Services Subcommittee to provide an update on the entitlement process and project.

On May 26, 2020, the City Council approved the original Loan Agreement for the Las Haciendas housing project. On April 27, 2021, the City Council approved the First Amendment to the Loan Agreement.

### **Affordability**

The Project consists of seventy-six affordable units that will be affordable to extremely low, very low, and low-income households, plus one manager's unit. The Project is located in the Affordable Housing Overlay Zone (AHOZ) that was adopted by City Council in 2018. The development of the affordable units will assist in the City in meeting our Regional Housing Needs Assessment (RHNA) goals, as defined by the Southern California Association of Governments (SCAG).

Because of the City's financial assistance, the Project must comply with the obligations of SB 341, which stipulates that the City, as Housing Successor to the Redevelopment Agency, must target its expenditures of affordable housing funds as follows:

- At least 30% of the funds must be spent for the development of housing for extremely low income households earning 30% or less of the area median income (AMI)
- No more than 20% of the funds may be spent for the development of housing affordable for households earning between 60% and 80% of the AMI
- The balance of the funds may be spent for the development of housing affordable for households earning 60% or less of the AMI

CHW, who created a new operating entity, Las Haciendas Housing Associates for the Project, has been awarded State of California for 9% Low Income Housing Tax Credits (LIHTC). Seventy-six

of the units will be restricted per LIHTC requirements. The Developer has proposed an affordability mix competitive for an LIHTC application, as demonstrated in the following chart:

<b>Area Median Income</b>	<b>Tax Credit Regulatory Agreement</b>	<b>CA Redevelopment Law Regulatory Agreement</b>
Extremely Low (30% AMI)	24	12
Very Low (50% AMI)	8	18
Low Income (60% AMI)	44	7
<b>Total Restricted Units</b>	<b>76</b>	<b>37</b>

Per the previously approved Loan Agreement, thirty-seven of those units will be further restricted per California Redevelopment Law (CRL) and the Developer will be required to comply with CRL requirements when determining household income and affordable rent calculations. The term of affordability is fifty-five years for all units.

### **Project Sources of Funds**

The financing of Las Haciendas Apartments will involve the following sources:

<b>Source of Funds</b>	<b>Amount</b>
Deferred Developer Fee	\$85,000
General Partner Equity Contribution	\$194,000
Utility Deposit Refunds	\$199,000
Las Haciendas Housing Associates	\$3,585,000
City of Temecula as Housing Successor to the RDA	\$10,130,000
California Tax Credit Allocation Committee	\$23,361,000
<b>Total Development Costs</b>	<b>\$37,554,000</b>

The previously approved Loan Agreement dictates that the City contribute a total of \$10,130,000 toward the Project, in the form of two residual receipt loans and one reimbursement as follows:

<b>Description</b>	<b>Amount</b>
Deferred Fee Loan	\$718,445
Capital Loan	\$8,910,698
UTSP In Lieu Fee Reimbursement	\$500,857
<b>Total City Contribution</b>	<b>\$10,130,000</b>

The Deferred Fee Loan of \$718,445 consists of deferred Development Impact Fees (DIF), Quimby fees, permit fees, Public Works fees, and Fire fees for the Project, locked in at 2019-20 amounts.

The Capital Loan of \$8,910,698 is from the 2010 and 2011 affordable housing tax allocation bond proceeds.

The City loans will bear an annual interest rate of three percent, commencing on the date of disbursement. The City will receive fifty percent of residual receipts toward the repayment of City loans. Payments will be made first to pay down the Deferred Fee Loan.

The UTSP New Streets In-Lieu Fee Reimbursement will be approximately \$500,857. The actual reimbursement will be determined based on the costs of the completion of the new road connecting Las Haciendas and Calle Cortez, but will be no more than 1.75% of the total land acquisition and hard costs of the Project.

### **Second Amendment Terms**

1. Clarification in the definition of Gross Revenues, to include subcategories for (i) proceeds of loans to Borrower, (ii) capital contributions from Borrower's partners, and (iii) capital proceeds from sale or refinancing.
2. Amendment to the definition of Operating Expenses in Section 1.1.15, to include (i) increase the annual GP annual asset management fee from \$15,000 to \$20,000, (ii) increase the annual LP asset management fee from \$7,500 to \$8,500, and (iii) add credit adjuster payments to the LP, repayment of LP loans, replenishment of operating reserve, and repayment of GP operating deficit loans.
3. In Section 4.6(A)(ii), the City will have authority to approve of a replacement general partner that is an affiliate of the Borrower's investor limited partner.
4. Extension of the completion deadline from 18 months to 30 months from commencement of construction.

**FISCAL IMPACT:** As discussed above, the previously approved Loan Agreement dictates that the City contribute a total of \$10,130,000 toward the Project, in the form of two residual receipt loans and one reimbursement as follows:

Description	Amount
Deferred Fee Loan	\$718,445
Capital Loan	\$8,910,698
UTSP In Lieu Fee Reimbursement	\$500,857
<b>Total City Contribution</b>	<b>\$10,130,000</b>

The Second Amendment does not change the City's financial contribution to the Project.

**ATTACHMENTS:**

1. Resolution
2. Loan Agreement & First Amendment to the Loan Agreement
4. Draft Second Amendment to the Loan Agreement