CITY OF TEMECULA
AGENDA REPORT

TO: City Manager/City Council

FROM: Luke Watson, Community Development Director

DATE: June 25, 2019

SUBJECT: Approve 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, Located Approximately 130 Feet North of the Main Street and Pujol Street Intersection, on the East Side of Pujol Street (APNs 922-053-021, 922-053-048, 922-053-047) (At the Request of Mayor Naggar and Council Member Rahn)

PREPARED BY: Lynn Kelly-Lehner, Principal Management Analyst

RECOMMENDATION: That the City Council adopt a resolution entitled:

RESOLUTION NO. 19-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA, ACTING IN ITS CAPACITY AS THE HOUSING SUCCESSOR (AND, WITH RESPECT TO A DENSITY BONUS AGREEMENT AND CITY FEE AND PERMANENT LOANS, ALSO IN ITS CAPACITY AS THE CITY) APPROVING A DISPOSITION AND DEVELOPMENT AGREEMENT THAT INCLUDES SUCH DENSITY BONUS AGREEMENT AND SUCH CITY LOANS, WITH TEMECULA PACIFIC ASSOCIATES, FOR THE "VINE CREEK" 60 UNIT APARTMENT PROJECT, AND THE TAKING OF RELATED ACTIONS, AND FIND THAT A MITIGATED NEGATIVE DECLARATION HAS BEEN APPROVED FOR THE PROJECT AND NO FURTHER CEQA REVIEW IS REQUIRED

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 Proposals (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

The proposed Project is located on three parcels, two of which are currently owned by the City (Property). To facilitate the development of the Project, the Developer and the City proposes to enter into a Disposition and Development Agreement (DDA) to establish the terms and conditions surrounding the development of the Project.

Affordability

The Project consists of fifty-nine affordable units that will be affordable to extremely low, very low, and low-income households, plus one manager's unit. 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

As previously mentioned, the Developer plans to apply to the State of California for 9% Low Income Housing Tax Credits (LIHTC). Fifty-nine 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:

Area Median Income	TCAC	CRL	Total
Extremely Low (30% AMI)	15 units	3 units	18 units
Very Low (50% AMI)	7 units	5 units	12 units
Low Income (60% AMI)	27 units	2 units	29 units
Total Restricted Units	**49 units**	**10 units**	**59 units**

Per the DDA, ten 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.

Density Bonus Agreement

Because all units within the Project are affordable, the Project qualifies for a Density Bonus concession via Government Code § 65915(p)(1) (Density Bonuses and Other Incentives). The Developer requested a reduction in parking. Per the Code, the maximum parking ratio the City can impose on a project depends on the type of housing that is proposed. The City cannot require more than 113 parking spaces for the Project based on the density bonus criteria. Temecula Municipal Code Section 17.03.060 authorizes Minor Exceptions to the provisions of the Development Code for reducing parking requirements by less than 15% of the Code requirements. On February 20, 2019, the Planning Commission approved a Minor Exception to reduce the parking requirement by 9.7%. This concession is reflected in the DDA and Regulatory Agreement related to a Density Bonus Housing Agreement. The Project provides 102 parking spaces.

City Financial Contribution

The financing of Vine Creek Apartments will involve the following:

- Temecula Pacific Associates: $2,150,000 (Supportable Permanent Loan)
- City of Temecula as Housing Successor to the Redevelopment Agency: $2,710,000
- California Tax Credit Allocation Committee: $16,514,000

As recommended by the City Council on February 12, 2019 in Closed Session, the DDA proposes that the City contribute a total of $2,710,000 toward the Project, in the form of three residual receipt loans as follows:

Description	Amount
Deferred Fee Loan	$698,281
Permanent Loan	$1,301,719
Purchase Money Loan	$710,000
Total City Loans	**$2,710,000**

The Deferred Fee Loan of $698,281 consists of deferred Development Impact Fees (DIF), Quimby fees, permit fees, Public Works fees, and Fire fees for the Project, locked in at 2018-19 amounts.

The Permanent Loan is limited to funds received by the City from Supplemental Educational Revenue Augmentation Fund (SERAF) Repayments, which have recently been approved by the State Department of Finance as part of the Recognized Obligation Payment Schedule (ROPS) for the Successor Agency to the Redevelopment Agency. If the SERAF Repayments received by the City during FY 2019-20 and 2020-21 total less than $1,301,719, then the amount to the Developer will be reduced to the actual repayment amount.

The Purchase Money Loan of $710,000 reflects the purchase price of the Real Property to be paid by the Developer to the City. This reflects a recent appraisal conducted for the Property.

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. Upon repayment of the Deferred Fee Loan, pro rata payments will be made to pay down the Purchase Money Loan and Permanent Loan.

In accordance with Section 33433 of the California Community Redevelopment Law, a Summary Report was prepared by Keyser Marston Associates to inform the City and the public about the proposed DDA. The Summary Report, which can be found as an attachment to this Agenda Report, describes:

- Costs incurred by the City under the DDA
- Estimated value of interest to be conveyed by the City to the Developer
- Compensation to be paid to the City of Temecula
- Explanation of why the conveyance of the Property assists in the elimination of blight
- Estimated repayment schedule for the City loans

Development and Construction Timeline

As outlined in Exhibit E to the DDA, the Developer is obligated to meet certain deadlines associated the construction of the Project:

- The Developer will have until December 2020 to apply to, and secure from, the State of California 9% Low Income Housing Tax Credits (LIHTC), and must apply at every opportunity.
- If the Developer is not successful in securing 9% tax credits, the Developer will have the option to apply to the California Debt Limit Allocation Committee for a tax-exempt bond to combine this source with 4% LIHTC and pursue other sources of funds.
- The close of escrow shall occur within seven months after the award of tax credits, but no later than July 1, 2023.
- Construction shall commence thirty days after the close of escrow and completed no later than fourteen calendar months after the commencement of construction.

ENVIRONMENTAL DETERMINATION: Staff has reviewed the project in accordance with the California Environmental Quality Act (CEQA) and based on an initial study, it has been determined the project will not have a significant impact on the environment; therefore, a Mitigated Negative Declaration has been prepared for the project.

A Draft Mitigated Negative Declaration (MND) was prepared under staff's direction by Environmental Science Associates (ESA) and was distributed to responsible agencies, interested groups, organizations, and individuals. The public review and comment period for the Draft MND established by the State Clearinghouse commenced on January 3, 2019 and expired on February 7, 2019. The City received no comments during the review period.

The MND identified no areas where impacts are considered Significant and Unavoidable. The analysis identified one area where no impacts were anticipated - Agriculture and Forest Resources. The environmental analysis identified thirteen areas where impacts were considered to be less than significant. These areas are Aesthetics, Air Quality, Biological Resources, Geology and Soils, Green House Gas Emissions, Hazards and Hazardous Materials, Hydrology and Water Quality, Noise, Population and Housing, Public Services, Recreation, Transportation/Traffic, and Utilities and Service Systems. Three areas were identified where potentially significant impacts could be avoided or mitigated. These three areas include Cultural Resources, Tribal Resources, and Land Use and Planning. The MND contains mitigation measures for these environmental impacts that can be mitigated to a less than significant impact in the form of a Mitigation Monitoring and Reporting Program. The Planning Commission approved the MND and Mitigation Monitoring and Reporting Program on February 20, 2019.

FISCAL IMPACT: As outlined in the body of this report, the City will contribute a total of $2,710,000 toward the Project. The financial contribution includes:

- Deferred Fee Loan of $698,281 consisting of Development Impact Fees (DIF), Quimby fees, permit fees, Public Works fees, and Fire fees
- Permanent Loan up to $1,301,719
- Purchase Money Loan of $710,000

Although the impetus of the Affordable Housing RFP was the clearance from the Department of Finance to spend the remaining 2010 and 2011 affordable housing tax allocation bond proceeds, no affordable housing proceeds will allocated towards this project.

ATTACHMENTS:

1. Resolution
2. Attachment A to the Resolution: Disposition and Development Agreement between the City of Temecula as Housing Successor and Temecula Pacific Associates
3. Summary Report Pertaining to the Proposed Sale of Certain Property within the Redevelopment Project Area, Pursuant to California Community Redevelopment Law Section 33433
4. Notice of Public Hearing