

**CITY OF TEMECULA
CITY COUNCIL / SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY
AGENDA REPORT**

TO: City Manager/Executive Director
City Council/Board of Directors

FROM: Luke Watson, Director of Community Development

DATE: August 13, 2019

SUBJECT: Approve the Modifications to the Ground Lease, Regulatory Agreement, Construction and Loan Agreement, and Residual Receipts Note Between the City of Temecula, as Housing Successor to the Former Temecula Redevelopment Agency, and Temecula Gardens LP (Affirmed Housing), Located at 28493 Pujol Street

PREPARED BY: Lynn Kelly-Lehner, Principal Management Analyst

RECOMMENDATION: That the City Council/Board of Directors:

1. 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, APPROVING MODIFICATIONS TO A GROUND LEASE, A REGULATORY AGREEMENT AND A RESIDUAL RECEIPTS NOTE, RELATING TO THE MISSION VILLAGE APARTMENTS PROJECT AND THE TAKING OF RELATED ACTIONS

2. Adopt a resolution entitled:

RESOLUTION NO. SARDA

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SUCCESSOR AGENCY TO THE TEMECULA REDEVELOPMENT AGENCY APPROVING MODIFICATIONS TO THE CONSTRUCTION AND TERM LOAN AGREEMENT, DATED JULY 1, 1998, RELATING TO THE MISSION VILLAGE APARTMENTS PROJECT AND THE TAKING OF RELATED ACTIONS

BACKGROUND: Mission Village Apartments (Project) is an existing 76-unit affordable housing development located at 28493 Pujol Street. In 1998, the former Redevelopment Agency entered into a Disposition and Development Agreement with Temecula Gardens, LP (Affirmed Housing) for the rehabilitation of 38 units and the construction of an additional 38 units at very low and low affordability levels.

Now over twenty years later, the Project is at a point in its life cycle where it would benefit from reinvestment and a complete rehabilitation. In October 2017, Affirmed Housing approached the City with a proposal to fully rehabilitate the Project, refinance the existing loans, and resyndicate the Project to extend the term of affordability for an additional 55 years.

In August 2018, staff presented Affirmed's proposal to the Supportive Housing/Services Subcommittee, consisting of Mayor Naggar and Council Member Rahn. The Subcommittee was supportive of the proposal, but since that time, the financial climate has changed considerably, leading to a modified proposal presented in this report.

On July 23, 2019, staff presented the proposed modifications to City Council during Closed Session. The City Council recommended to move forward with a public hearing for the approval.

Rehabilitation

The proposed rehabilitation of the Project would include both exterior and interior improvements, as well as additional site amenities. Exterior improvements will include an updated appearance and improved street presence, as well as painted exteriors. Additional site amenities at Mission Village Apartments will include the construction of a shade structure at the pool, new landscaping and updated irrigation, as well as ADA improvements.

The interiors of the units will be wholly renovated and include new kitchens, flooring, paint, and appliances. In addition, Affirmed will add energy efficiency improvements, including a large photovoltaic system, which will reduce utility costs for renters.

Existing Deal Structure and Proposed Modifications

Affirmed's proposal includes modifications to several documents associated with the original Disposition and Development Agreement in 1998.

The **1998 Loan Agreement** stipulated that the former Redevelopment Agency (RDA) would deposit \$305,000 annually into a Pledge Fund, which serves as a contribution to pay a portion of the debt service due on bonds issued by the former RDA to finance the project. The **proposed Loan Agreement Modification** reduces the Pledge obligation from \$305,000 to \$295,000 a year.

The **1998 Ground Lease**, under which the former RDA agreed to lease the land on which the Project sits, runs through 2048. The **proposed Ground Lease Modification** extends the term to 2075, with an option to extend until 2095.

The **proposed Lease Modification** also amends the structure of **Residual Receipts and Ground**

Rent. In the proposed modification, Affirmed will agree to pay both upfront rent and annual rent. The upfront rent will be 60% of net sales proceeds from the sale of the Project, which is estimated to be \$761,000. The annual rent will continue to be paid through residual receipts.

The **1998 Regulatory Agreement** outlines affordability housing covenants. In the **proposed Regulatory Agreement Modification**, the affordability levels remain unchanged, but the term will run concurrently with the Ground Lease through 2075, with an option to extend until 2095.

The **1998 Residual Receipts Note**, in the principal amount of \$305,000, was issued by Affirmed in favor of the former RDA. The proposed **Note Modification** amends the terms of the residual receipt note by extending the maturity date through 2075, with an option to extend it an additional twenty years. The proposed modification also increases the City's share of residual receipts to 65%.

The existing and proposed structures are summarized in the following table.

	Existing	Proposed
Loan Agreement	RDA pays \$305,000 pledge annually to pay a portion of debt service on 1998 bonds	Pledge obligation is reduced from \$305,000 to \$295,000 annually.
Ground Lease	Ground lease runs through 2048	Ground lease extended to 2075, with option to extend until 2095.
Ground Rent	Affirmed pays annual ground rent based on residual receipts.	Affirmed to pay upfront rent and annual rent. Upfront rent will be 60% of net sales proceeds from Project sale, estimated at \$761,000.
Residual Receipts	Residual receipts note issued in the principal amount of \$305,000. Maturity of note is 2028.	New maturity date runs with Ground Lease; Extend through 2075, with option to extend 20 years.
Regulatory Agreement	Affordability covenants on 76 units at very low and low income levels.	Term will run concurrently with Ground Lease.

The financial restructuring and refinancing of the deal provides Affirmed adequate cash flow to support future maintenance and re-investment needs, while residents will benefit from an update of their community, refurbished units, and lower utility costs.

This proposal requires no upfront financial contribution from the City, while also leading to savings for the Successor Agency to the Redevelopment Agency, as the annual Pledge is reduced from \$305,000 to \$295,000. In addition, Affirmed will pay upfront ground rent, in the form of 60% of net proceeds from the sale of the Project. This payment, expected to be approximately \$761,000, will go towards the development of affordable housing in the community.

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 modifications to the agreements. The Summary Report, which can be found as an attachment to this Agenda Report, describes:

- Costs incurred by the City under the negotiations
- 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

Construction Timeline and Next Steps

The complicated structure of the original Disposition and Development Agreement, coupled with the dissolution of Redevelopment leads to several additional steps that must be completed prior to the commencement of the rehabilitation. If the City Council recommends approval, the Project must be approved at a Public Hearing of the County Oversight Board of Riverside County on September 5, 2019. Once approved at the County level, staff will schedule a meet and confer with the State Department of Finance, at a date to be determined.

As outlined in Exhibit B to the Ground Lease, the Developer is obligated to meet certain deadlines associated the rehabilitation of the Project. These dates, as well as the timeline described above, are outlined in the following table.

Task	Timeline
City Council Public Hearing	08/13/2019
County Oversight Board	09/05/2019
State Department of Finance Meet and Confer	TBD
Construction Loan Close	12/19/2019
Construction Commences	01/19/2020
Construction Complete	01/19/2021

FISCAL IMPACT: As detailed in the body of this report, the successful completion of this refinancing will result in approximately \$761,000 towards affordable housing. In addition, the Successor Agency to the Redevelopment Agency will realize annual savings, with a reduction of the annual Pledge payment from \$305,000 to \$295,000.

- ATTACHMENTS:**
1. Council Resolution
 2. Assignment, Assumption, and Modification of Ground Lease and Regulatory Agreement (Modification Ground Lease Agreement)
 3. Assignment, Assumption, and Modification of Promissory Note (Amended Residual Receipts Note)
 4. SARDA Resolution
 5. Assignment, Assumption, and Modification of Loan Agreement (Modification of Loan Agreement)
 6. Summary Report Pertaining to the Proposed Sale of Certain Property within the Redevelopment Project Area, Pursuant to California Community Redevelopment Law Section 33433
 7. Notice of Public Hearing