

**CITY OF TEMECULA
AGENDA REPORT**

TO: City Manager/City Council

FROM: Luke Watson, Community Development Director

DATE: May 26, 2020

SUBJECT: Approve a Loan Agreement with Las Haciendas Housing Associates, LP for a 77 Unit Affordable Housing Project

PREPARED BY: Lynn Kelly-Lehner, Principal 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 TO THE FORMER TEMECULA REDEVELOPMENT AGENCY (AND, WITH RESPECT TO A LOAN OF CITY FEES, ALSO IN ITS CAPACITY AS THE CITY) APPROVING A 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, AND THE TAKING OF RELATED ACTIONS, AND MAKING A FINDING OF EXEMPTION UNDER CALIFORNIA ENVIRONMENTAL QUALITY ACT SECTION 15182

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 Successor Agency to the Temecula Redevelopment Agency 2017B Series Tax Allocation Refunding Bond proceeds for their originally intended purpose – for the creation of affordable housing.

As such, staff has met with many developers over the potential development of affordable housing throughout the community. On August 19, 2019, Community HousingWorks (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 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.

Affordability

The Project consists 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, plans to apply to the 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:

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

Per the 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.

City Financial Contribution

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

Source of Funds	Amount
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
Total Development Costs	\$37,554,000

The Loan Agreement proposes 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

Total City Contribution**\$10,130,000**

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 Successor Agency to the Temecula Redevelopment Agency 2017B Series Tax Allocation Refunding 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.

Development and Construction Timeline

As outlined in Exhibit H to the Loan Agreement, the Developer is obligated to meet certain deadlines associated the construction of the Project:

- The Developer will secure entitlements from the City by July 1, 2020, in order to apply for State of California 9% Low Income Housing Tax Credits (LIHTC)
- The Developer will have until December 2022 to apply to, and secure from 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 City Loan shall occur within one month after the award of tax credits, but no later than December 31, 2022.
- Construction shall commence thirty days after the close of the City Loan and completed no later than eighteen calendar months after the commencement of construction.

ENVIRONMENTAL

DETERMINATION: This Loan Agreement was analyzed in accordance with the California Environmental Quality Act (“CEQA”), the State CEQA Guidelines, and the City’s local CEQA Guidelines. Staff has determined that the proposed Loan Agreement is exempt from the requirements of CEQA pursuant to State CEQA Guidelines 15162 and 15182. On November 17, 2015, an Environmental Impact Report (EIR) (SCH#2013061012) was certified in connection with the approval of the Uptown Temecula Specific Plan. The Uptown Temecula Specific Plan is divided into six planning districts, all of which allow residential uses. The Uptown Temecula Specific Plan does not contain maximum or minimum density requirements, although residential development is anticipated at a range of 20 to 60 dwelling units per acre. For planning purposes, the Uptown Temecula Specific Plan assumes a residential density of 45 dwelling units per acre in

all zoning districts. The proposed project that is the subject matter of the Loan Agreement proposes to construct 77 units on 2.5 acres, which is under the 45 dwelling units per acre analyzed by the EIR. As such, the environmental impacts for the project have been evaluated by the previously adopted EIR for the Uptown Temecula Specific Plan, and no further environmental review is necessary. None of the circumstances in CEQA Guidelines Section 15162 exist to require any additional environmental review and no further documentation is necessary. In addition, staff has determined that the project is exempt from CEQA pursuant to CEQA Guidelines Section 15182 as the proposed residential development is in conformity with the Uptown Temecula Specific Plan. The City Council has reviewed staff's determination of exemption and, based on its own independent judgment, concurs in staff's determination that the proposed Loan Agreement is exempt from CEQA pursuant to State CEQA Guidelines Sections 15182 and that no further environmental review is needed pursuant to CEQA Guidelines Section 15162. Staff is directed to prepare a Notice of Exemption.

FISCAL IMPACT: As discussed above, the Loan Agreement proposes 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
Total City Contribution	\$10,130,000

ATTACHMENTS:

1. Resolution
2. Attachment A to the Resolution: Loan Agreement