

CITY COUNCIL

For City Clerk's Use:

☐ **APPROVED** ☐ **DENIED**

Reso No. _____ File No. _____

Ord No. _____

Agenda Item No.: 15
Date: October 5, 2011

TO: Honorable Mayor
Members of the City Council

FROM: Jerry Van Leeuwen, Director of Community Services

SUBJECT: Recommendations for Allocation of Neighborhood Stabilization Program (NSP) funds

RECOMMENDATION:

Staff recommends approval of allocations of NSP funds to one developer request received through the recent RFP process as follows:

1. Approve an allocation of federal NSP funds in the amount of \$763,087 to Urban Housing Communities (UHC) for the development of four (4) affordable ownership housing units in Escondido Views Mobile Home Park and two (2) affordable ownership housing units in Mountain Shadows Mobile Home Park; and
2. Approve the sale of four vacant property lots at Escondido Views Mobile Home Park (APN: 235-161-2241, 235-161-2249, 235-161-2261, and 235-161-2162) and two vacant property lots at Mountain Shadows Mobile Home Park (APN: 235-163-1358 and 235-163-1364); and
3. Approve the reallocation of \$200,000 of NSP funds initially used to purchase 537 N Elm Street to Community HousingWork's affordable housing development, El Norte Apartments; and
4. Adopt City Council Resolution No. 2011-102 in support of the above actions and authorizing the Mayor and City Clerk to execute, on behalf of the City, the necessary affordable housing agreements and grant deeds in a form acceptable to the City Attorney.

FISCAL ANALYSIS:

There will be no impact on the General Fund. NSP funds must be spent on affordable housing activities.

BACKGROUND:

In April of 2009 the State of California released a Notice of Funding Availability for Neighborhood Stabilization Program (NSP) activities.

On June 10, 2009, in a public hearing, Council adopted Resolution No. 2009-81 authorizing submittal of an application for funding from the State of California NSP program. The City's application outlined three specific activities of the program as follows:

- 1) Financing Mechanisms: Establishing financing mechanisms by offering a Homebuyer Down Payment Assistance Program for potential homebuyers whose income is at or below 120% of the area median income; and
- 2) Redevelopment: Acquiring vacant or demolished single-family homes for the purpose of demolishing those homes determined to be blighted structures. After demolition, the sites would be made available for future redevelopment of dwellings for potential renters/homebuyers whose income is at or below 120% of the area median income; and
- 3) Demolition: Demolition of acquired blighted structures that pose a threat to human health, safety and public welfare.

On November 12, 2009, the State notified the City that its planned activities were approved through execution of a Standard Agreement, contingent upon submittal of additional documentation for each site identified for acquisition and/or demolition.

On June 9, 2010, in a public hearing, City Council approved the grant of a vacant property purchased with \$200,000 in NSP funds located at 537 N. Elm (APN 230-103-1700) to San Diego Habitat for Humanity in exchange for affordability restrictions on the subsequent development of the property.

On June 22, 2011, in a public hearing, Council adopted Resolution No 2011-79 and 2011-80 authorizing a one-year extension of the NSP grant and the second amendment to the State contract to expand the permitted uses to allow funds to be used for new construction on eligible properties within the approved NSP Target Areas.

On July 13, 2011, in a public hearing, Council authorized an RFP offering NSP funds to for-profit and non-profit developers for the provision of new, affordable residential units in order to sell or rent the units to potential homebuyers/renters whose incomes are at or below 120% of area median income. These funds are to be used in conjunction with City-owned properties acquired with Housing Set-Aside Funds which will be purchased by the developer at market value.

On August 23, 2011, San Diego Habitat for Humanity informed staff that they would be unable to meet the occupancy deadlines imposed by the state NSP funds. By removing the NSP obligation to this project, \$200,000 in NSP funds must either be reobligated to a project or repaid to the state.

Three responses to the RFP were received and have been reviewed in detail by staff. The proposals were evaluated carefully based on the rating criteria included in the RFP and approved by Council. Upon completion of the review, staff brings its recommendation to Council for consideration to

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allocate NSP funds totaling \$763,087 and to sell, at market value, of the properties included in the RFP to the highest scoring proposal by UHC. The NSP funds will be provided in the form of a grant to the project in exchange for affordability restrictions. The final structure of each of the agreements will be in form approved by the City Attorney's office.

Property acquired with Housing Set-Aside Funds:

In 1991, the residents of Mountain Shadows and Escondido Views Mobile Home Parks who wished to convert their rental mobile home parks to resident ownership urged the City to purchase the Parks and to help them with the conversion. The City financed the purchase of the Parks through a bond issue that was structured so that the lot sales would reduce the overall bond amount. The City applied for and received \$1,000,000 of State funds to help with the individual take-out loans for lower-income Park residents. The City matched the State commitment with Housing Set-Aside funds. As each of the lots are sold, proceeds from the sale are returned to the Affordable Housing Set-Aside fund. The bond has been paid in full. The City owns six vacant mobile home lots which were listed for sale until the release of the RFP. These properties are known as: lot numbers 72 (APN 235-161-2241), 80 (APN 235-161-2249), 92 (APN 235-11-2261), and 141 (APN 235-161-2162) located in the Escondido Views Mobile Home Park at 2400 W. Valley Parkway and lot numbers 58 (APN 235-163-1358) and 64 (APN 235-163-1364) located in the Mountain Shadows Mobile Home Park at 1751 W. Citracado Parkway. Due to difficulty in financing park lots without units pre-installed, it has not been possible to sell the lots.

DISCUSSION OF RECOMMENDED PROJECT AND ANALYSES:

Developer: Urban Housing Communities (UHC)

UHC responded to the RFP with a proposal for both redevelopment projects. UHC propose s building four (4) manufactured units at Escondido Views Mobile Home Park and two (2) manufactured units at Mountain Shadows Mobile Home Park. UHC recently completed *The Crossings at Escondido*, a 55-unit affordable housing development on Mission Grove Place. They are currently developing an 18-unit development in Rancho Cordova using NSP funds and using the same General Contractor, Competitive Edge, a local Escondido contractor. While they propose using Champion as the modular builder (of Silvercrest homes), UHC plans to use Competitive Edge for construction oversight. Pre-sales will begin as soon as an agreement is reached; units will be completed by the end of 2012. Once completed, priority will be given to Escondido residents who are first-time homebuyers with annual gross household incomes that are at or below 120% of Area Median Income (AMI). Due to current market conditions and current comparables, units will also be marketed to families earning at or less than 80% AMI. The Project will consist of two 2-bedroom and four 3-bedroom units. As per NSP requirements, each home will have recorded covenants restricting affordability for 20 years.

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The proposed UHC Project addresses many of the City of Escondido's Housing Priorities including that it:

- Redevelops the property to a better use, constructing homes to replace the current undeveloped land.
- Expands the supply of affordable, permanent ownership housing in the community.
- Promotes neighborhood stability by adding additional ownership units in the neighborhood.
- Adds improved site planning and design while maximizing the permitted density.

Financing Plan:

Total project development costs are projected to reach \$1,683,820. Current market conditions suggest that the total net proceeds from this development will be \$900,000. UHC has requested an allocation from the City's NSP funds of \$763,087 for project construction. Land costs will be paid out of the sale of the property to the home owners. UHC will fund the remaining development costs with a conventional construction loan. A copy of the complete proforma is included as Attachment "A."

Staff recommends approval of a combined allocation of NSP funds in the amount of \$763,087, as well as sale of vacant mobile home lots at market value, for development of these two projects proposed by UHC.

DISCUSSION OF PREVIOUSLY APPROVED NSP-FUNDED DEVELOPMENT AND DIRECTION TO INVEST ADDITIONAL FUNDS:

Developer: Community HousingWorks (CHW)

Project: El Norte Apartments

On June 9, 2010, City directed staff to pursue discussions with CHW relative to the potential development of affordable housing units to be located at 141, 211 and 221 El Norte Parkway in conjunction with a City-owned lot purchased with NSP funds at 1282 N. Broadway. CHW has since included 1260 N Broadway in the development. The properties will be redeveloped to the scale of the surrounding neighborhood, creating homes for 36 families (including 8 disabled veterans) and a community garden. On August 18, 2010, the City adopted Resolution No. CDC 2010-136 approving the grant of the City-owned parcel to CHW in exchange for long-term affordability covenants and CDC 2010-10 authorizing an Exclusive Negotiating Agreement (ENA) with CHW for the redevelopment of the parcels and the encumbrance of Housing Funds in an amount not to exceed \$500,000 for development costs. On March 16, 2011, CDC allocated FY 2011-2012 and FY 2012-2013 affordable housing Set-Aside funds in an amount not to exceed \$1,900,000 as leveraged financing to CHW for the development. On June 22, 2011, CDC authorized an additional

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encumbrance of FY2011-12 Affordable Housing Set-Aside funds in an amount not to exceed \$500,000 as leveraged financing to CHW for its proposed multi-family development, known as El Norte Apartments. A total of \$2,900,000 in Affordable Housing funds plus a land donation of \$250,000, has been invested in this project. On September 20, 2011, CHW received a preliminary reservation letter advising CHW that they would be recommended for 2011 Second Record Tax Credits on September 28, 2011. CHW will break ground on this project Fall 2011 in order to achieve occupancy by the NSP deadline in February 2013.

On June 9, 2010, in a public hearing, City Council approved an allocation of federal HOME/CHDO funds in the amount of \$396,300 to San Diego Habitat for Humanity (SDHfH) for the development of 15 affordable ownership housing units along with the grant of a vacant property purchased with NSP funds located at 537 N. Elm (APN 230-103-1700) to San Diego Habitat for Humanity in exchange for affordability restrictions on the subsequent development. On August 23, 2011, San Diego Habitat for Humanity informed staff that they would be unable to meet the occupancy deadlines imposed by the State NSP funds. They requested that the NSP funds be removed from the development and are not asking for additional funds at this time. By removing the NSP obligation to this project \$200,000 in NSP funds must either be reobligated to a project or repaid to the state.

Staff recommends regranteeing \$200,000 NSP funds to the CHW project. Occupancy of NSP developments must be achieved by February 2013, or the funds must be returned to the State. El Norte Apartments is the only remaining project that can reach occupancy in this timeframe. Granting NSP funds to the development will reduce the obligation of other Affordable Housing funds into the project.

CONCLUSION AND RECOMMENDATION:

Staff recommends approval of allocations of NSP funds to one developer request received through the recent RFP process as follows:

1. Approve an allocation of federal NSP funds in the amount of \$763,087 to UHC for the development of four (4) affordable ownership housing units in Escondido Views Mobile Home Park and two (2) affordable ownership housing units in Mountain Shadows Mobile Home Park; and
2. Approve the sale of four vacant property lots at Escondido Views Mobile Home Park (APN: 235-161-2241, 235-161-2249, 235-161-2261, and 235-161-2162) and two vacant property lots at Mountain Shadows Mobile Home Park (APN: 235-163-1358 and 235-163-1364); and
3. Approve the reallocation of \$200,000 of NSP funds initially used to purchase 537 N Elm Street to Community HousingWork's affordable housing development, El Norte Apartments; and

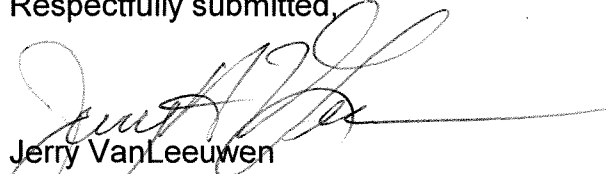
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4. Adopt City Council Resolution No. 2011-102 in support of the above actions and authorizing the Mayor and City Clerk to execute, on behalf of the City, the necessary affordable housing agreements and grant deeds in a form acceptable to the City Attorney.

Respectfully submitted,



Jerry VanLeeuwen
Director of Community Services

Attachment A

9/27/2011 Financial Model.xlsx Permanent Sources and Uses

SOURCES OF FUNDS	<u>Total</u>	<u>Per Unit</u>
Deferred Land Loan	\$ 376,000	\$ 62,667
Soft Loan 1 (NSP)	763,087	127,181
Return from Sales	544,733	90,789
Other	-	-
TOTAL SOURCES OF FUNDS	\$ 1,683,820	\$ 280,637
USES OF FUNDS		
Acquisition Costs	\$ 394,800	\$ 65,800
Rehabilitation Costs	-	-
New Construction Costs	668,280	111,380
Contingency	66,828	11,138
Relocation	-	-
Architecture Fees	40,000	6,667
Survey and Engineering	12,000	2,000
Construction Financing	120,000	20,000
Permanent Financing	-	-
Legal Fees	40,000	6,667
Reserves	-	-
Other Soft Costs	141,912	23,652
Construction Oversight	200,000	33,333
TOTAL USES OF FUNDS	\$ 1,683,820	\$ 280,637
SOURCES LESS USES	\$ (0)	\$ (0)

NOTES:

Any net amount in excess of \$96,789 would be applied towards the land costs	
Eliminated school impact fees	
Included impact fee to upsize water meter if required by Fire Dept. (\$3,240/unit)	
Example:	
Estimated Avg. Sale Price of \$150,000 (times 6)	\$900,000
Return from Sale in budget	544,733
Net Proceeds applied City Deferred Loan	\$355,267
Net City Deferred Loan	\$ 20,733

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Financial Model.xlsx
Development Costs

TCAC Category/Item	Amount	per Unit	per sq ft building
ACQUISITION COSTS			
Land Cost or Value	\$ 376,000	62,667	44.58
Subtotal Land and Improvements	376,000	62,667	44.58
Closing Costs	18,800	3,133	2.23
Subtotal Closing Costs	18,800	3,133	2.23
Total Acquisition Cost	394,800	65,800	46.81
NEW CONSTRUCTION			
2 Bedroom 2 Bath Bradford Series	203,131	33,855	24.08
3 Bedroom 2 Bath Bradford Series	433,328	72,221	51.38
Insurance	31,823	5,304	3.77
Total New Construction	668,280	111,380	79.24
CONTINGENCY	66,828	11,138	7.92
RELOCATION EXPENSES	-	-	-
ARCHITECTURAL FEES			
Supervision	40,000	6,667	4.74
Total Architectural Costs	40,000	6,667	4.74
SURVEY AND ENGINEERING	12,000	2,000	1.42
CONSTRUCTION INTEREST AND FEES			
Construction Loan Interest	32,000	5,333	3.79
Origination Fee	8,000	1,333	0.95
Payment and Performance Bond Premium	5,000	833	0.59
Taxes	10,000	1,667	1.19
Insurance	15,000	2,500	1.78
Title and Recording	20,000	3,333	2.37
Other-Bridge Loan Interest	-	-	-
Other-Guarantee Fee	20,000	3,333	2.37
Other-Due Diligence Fee	10,000	1,667	1.19
Total Construction Interest and Fees	120,000	20,000	14.23
LEGAL FEES			
Legal Fees Paid by Applicant	40,000	6,667	4.74
Other Legal Fees	-	-	-
Total Legal Fees	40,000	6,667	4.74
OTHER PROJECT COSTS			
Environmental Audit	5,000	833	0.59
Local Development Impact Fees	21,678	3,613	2.57
Permit Processing Fees	13,734	2,289	1.63
Marketing and Sales	45,000	7,500	5.34
Accounting/Reimbursable	12,000	2,000	1.42
Soft Cost Contingency	29,000	4,833	3.44
Other-Soil Tests	8,000	1,333	0.95
Other-Professional Fees - Wage Consultant	7,500	1,250	0.89
Total Other Costs	141,912	23,652	16.83
SUBTOTAL PROJECT COSTS	1,483,820	247,303	175.93
DEVELOPER COSTS			
Developer Oversight / Risk	200,000	33,333	23.71
Total Developer Costs	200,000	33,333	23.71
TOTAL DEVELOPMENT COSTS	1,683,820	280,637	199.65

RESOLUTION NO. 2011-102

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO, CALIFORNIA, APPROVING ALLOCATIONS OF NEIGHBORHOOD STABILIZATION FUNDS IN THE TOTAL AMOUNT OF \$963,087; AUTHORIZING THE SALE OF LOT NUMBERS 58 AND 64 IN MOUNTAIN SHADOWS MOBILE HOME PARK AND LOT NUMBERS 72, 80, 92 AND 141 IN ESCONDIDO VIEWS MOBILE HOME PARK; AND AUTHORIZING THE MAYOR AND CITY CLERK TO EXECUTE, ON BEHALF OF THE CITY, ALL NECESSARY AGREEMENTS, LOAN DOCUMENTS AND GRANT DEEDS

WHEREAS, on June 10, 2009, at a Public Hearing, Council authorized submittal of a Neighborhood Stabilization Program ("NSP") grant application to the State of California ("State") for the amount of \$1,309,830 for certain activities including redevelopment; and

WHEREAS, on June 22, 2011, at a Public Hearing, Council authorized an amendment to the State NSP contract to expand the permitted uses to allow funds to be used for new construction of affordable housing units for the purpose of redevelopment; and

WHEREAS, on July 13, 2011, Council authorized the release of a Request for Proposals for the provision of long-term affordable housing, utilizing available NSP funds; and

WHEREAS, on October 5, 2011, at a Public Hearing, Council approved a grant of \$763,087 in NSP funds, to Urban Housing Communities ("UHC"), for affordable housing purposes; and

WHEREAS, Council further approved a grant of \$ 200,000 in NSP funds to Community HousingWorks for allowable costs associated with development of affordable housing; and

WHEREAS, the City desires at this time, and deems it to be in the best public interest to approve the grants of NSP funds and to authorize the execution of all agreements, loan documents and grant deeds necessary to provide such funds and property for the provision of affordable housing; and

WHEREAS, the City Council of the City of Escondido, California, has determined that property identified as lot numbers 58 (APN 235-163-1358) and 64 (APN 235-163-1364) located in the Mountain Shadows Mobile Home Park at 1750 W. Citracado Parkway are excess to the City's needs; and

WHEREAS, the City Council of the City of Escondido, California, has determined that property identified as lot numbers 72 (APN 235-161-2241), 80 (APN 235-161-2249), 92 (APN 235-161-2261), and 141 (APN 235-161-2162) located in the Escondido Views Mobile Home Park at 2400 W. Valley Parkway are excess to the City's needs; and

WHEREAS, the property was originally acquired with bond financing funded by housing redevelopment Set-Aside funds, and in the event that any of the lots are sold, proceeds from the sale are returned to the Affordable Housing Set-Aside fund; and

WHEREAS, the City Council desires at this time, and deems it to be in the best public interest to sell these six lots to Urban Housing Communities as part of a development agreement to build affordable housing;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido, California, as follows:

1. That the above recitations are true.
2. That the City Council approves a grant of \$763,087 in NSP funds, as well as the right to purchase, at market value, vacant property known as lot numbers 58 and 64 in the Mountain Shadows Mobile Home Park at 1750 W. Citracado Parkway and lot numbers 72, 80, 92, and 141 in the Escondido Views Mobile Home Park at 2400 W. Valley Parkway Escondido to Urban Housing Communities for the provision of affordable housing units.
3. That the amount designated for this project is appropriate.
4. That the City Council approves an allocation of \$200,000 in NSP funds to Community HousingWorks for costs related to the potential development of affordable housing units.
5. That the Mayor and City Clerk are hereby authorized to execute, on behalf of the City, in a form approved by the City Attorney, any agreements, loan documents, and grant deeds necessary to provide such funds and property for the development of affordable housing.