



CITY COUNCIL STAFF REPORT



October 26, 2021

ITEM TITLE

Housing Proposal: Consideration of Proposal to Convert the CasaLago Eastlake Rental Community into “Workforce Housing” via a Joint Powers Agency Agreement With CSCDA Community Improvement Authority

Report Number: 21-0181

Location: CasaLago Eastlake - 2816 Cielo Circulo (91915)

Department: Development Services

Environmental Notice: The activity is not a “Project” as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

Recommended Action

Council to provide staff direction on the proposed CasaLago Eastlake (“CasaLago”) Joint Powers Agency Agreement and, if desired, adopt a resolution authorizing the City Manager to enter into a Joint Powers Agency Agreement involving the CSCDA Community Improvement Authority (“Authority”) and the CasaLago property; authorizing the City Manager to execute the related Public Benefit Agreement (subject to further negotiations); and approve the issuance of revenue bonds by the Authority for the purpose of financing the acquisition of the CasaLago Eastlake property.

SUMMARY

Over the past several months, the City has received proposals to convert existing market rate rental housing into moderate income (also referred to as “Workforce”) (81-120% area median income) rental opportunities to address the “missing middle” from the following: (1) the California Statewide Communities Development Authority (CSCDA) related to the CasaLago apartments in Eastlake III; (2) California Municipal Finance Authority (CMFA) related to The Residences at Escaya apartments in Otay Ranch Village 3; and (3) CMFA related to the Teresina apartments in Otay Ranch Village 5. This item involves solely the CasaLago proposal for City Council consideration and direction.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change to the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

This item was not taken for review by the Housing Advisory Commission.

DISCUSSION

Over the past six months the City has received inquiries from the Joint Powers Authorities currently financing middle income projects, as follows:

- CSCDA for CasaLago;
- CMFA for The Residences at Escaya (“Escaya”); and
- CMFA for Teresina (“Teresina”)

This item involves the CasaLago proposal; Escaya and Teresina are presented solely for comparison and no direction or action is requested on those two proposals at this time. The following is an evaluation (and comparison) under the City’s Workforce Housing Policy for minimum requirements to be considered for approval.

CasaLago Eastlake (CSCDA)

Project Team

Joint Powers Authority - CSCDA

CSCDA is a joint powers authority founded and sponsored by the League of California Cities (“League”) and the California State Association of Counties (“CSAC”). CSCDA was created by the League and CSAC in 1988 to enable local government and eligible private entities access to low-cost, tax-exempt financing for projects that provide a tangible public benefit, contribute to social and economic growth, and improve the overall quality of life in local communities throughout California. CSCDA is comprised of more than 530 cities, counties, and special districts, including the City of Chula Vista, which has been a member since 1996. CSCDA has issued more than \$65 billion through 1,600 plus transactions across its diverse public benefit financing programs. CSCDA helps local governments build community infrastructure, provide affordable housing, create jobs, and make access available to quality healthcare.

Project Administrator - Opportunity Housing Group, LLC

Opportunity Housing Group, LLC (“OHG”) was founded to provide communities in California with immediate access to workforce housing: the foundation for strong communities and sustained growth. OHG is a preferred Project Administrator (Asset Manager role) with CSCDA’s Workforce Housing Program and in 2021 has closed on assets in Monrovia (261 units), Fairfield (180 units) and will be closing on two additional Workforce Housing assets in October 2021.

The OHG Principals have led the acquisition of over \$1.3 billion in multifamily real estate over their careers, including over 6,150 multifamily units, and the development of over \$4.8 billion, including 7,750 multifamily units, extended stay hotels, retail and for sale homes throughout California and the western states.

The OHG Principals' multifamily asset management experience includes portfolio management responsibilities for 44 properties and 13,100 units for a major pension fund and a federal agency; asset management responsibility for 35 properties and 13,700 units for a public REIT and property management responsibility for 30 properties; and 9,000 units for a national property management company.

Project Operator – Greystar California, Inc.

Greystar California, Inc. ("Greystar") will be the property manager for Casa Lago after closing. Greystar is the largest and most experienced operator of multifamily projects in California. Greystar has an approximately 740,000-unit international portfolio ranging from conventional, mixed use, affordable, senior living and renovations/value add products, with an affordable housing portfolio covering 301 communities representing approximately 15,500 units spanning more than 24 states. Greystar's California operations cover over 400 communities and approximately 100,000 units under management with a long history in San Diego County. Greystar is the property manager on the majority of CSCDA's Workforce Housing portfolio and has significant experience with the workforce housing program and implementation of its regulatory agreement.

Project Description

CasaLago located is a 427-unit complex located in the master planned community of Eastlake III. The community placed into service in 2014 and consists of 79 one-bedroom, 183 two-bedroom, and 165 three-bedroom units. Project amenities includes two-swimming pools, two club houses, playgrounds, open space, fitness necessary and other amenities.

CSCDA initially approached the City in summer of 2021 regarding the project and indicating they were already under purchase contract for the property with an initial purchase contract deadline in September 2021. Since that time CSCDA has received extensions for the purchase with a current date of October 27th. Staff requested additional information from the applicant in late August 2021 and again after the September 28th meeting, resulting in an application packet (Attachment 1).

Residences at Escaya (CMFA)

Project Team

Joint Powers Authority - CMFA

CMFA was created on January 1, 2004, pursuant to a joint exercise of powers agreement, to promote economic, cultural, and community development, through the financing of economic development and charitable activities throughout California. CMFA was formed to assist local governments, non-profit organizations, and businesses with the issuance of taxable and tax-exempt bonds aimed at improving the standard of living in California.

CMFA offers a Middle-Income Housing Program, very similar to the CSCDA Workforce Housing Program. One key difference is that through its conduit issuance activities, CMFA shares a portion of the issuance fees it receives with its member communities and donates a portion of these issuance fees to the Board of Directors of the California Foundation for Strong Communities for the support of local charities. With respect to the City of Chula Vista, CMFA will grant a portion of the issuance fees to the City's General Fund. Such grant to be used for any lawful purpose of the City. In addition, CMFA will also donate 25% of the issuance fee to a Chula Vista charitable organization (of the City's choice). To date, CMFA has donated over \$25 million to host municipalities and nonprofits throughout California.

Project Administrator – HomeFed

HomeFed Corporation is a real estate development company that specializes in creating vibrant, mixed-use master-planned communities that combine innovative placemaking techniques and environmental stewardship. Incorporated in 1988 and headquartered in Carlsbad, California, HomeFed is known for undertaking large, complex, environmentally challenging projects that require long-term investments. The Sponsor attributes its success to financial prudence, creative land planning, and a collaborative team approach with stakeholders and development partners.

The Sponsor owns a portfolio of successful projects in California and along the East Coast from New York to Florida. These real estate assets are managed by an experienced group of executives who have backgrounds in architecture, community planning, project entitlement, engineering, construction management, accounting, finance, and marketing. Supporting HomeFed’s management team are a significant number of important relationships with real estate attorneys, land planners, engineering firms, and various development professionals. Many of these business relationships have endured for decades.

Project Operator - Greystar California, Inc.

Same proposed operator as CasaLago. Greystar is the current Project Operator at Escaya and therefore no transitional period will occur.

Project Description

The Residences at Escaya is a 239-unit apartment complex located the master planned community of Otay Ranch Village Three. The community was placed into service in 2019 and consists of 141 one- bedroom, 111 two- bedroom, and 20 three-bedroom units. Project amenities includes two dog parks (large and small), picnic areas, basketball courts, and other amenities.

Residences at Escaya has an existing Affordable Housing Regulatory Agreement that restricts 30 units to 120% area median income until 2039. As more fully described during the Policy discussion this evening, the preservation of existing affordable low-income units is a priority for the City and the existence of covenants that would be extended for an additional 13 years to match the bond term has been proposed.

CMFA and HomeFed have been working with the City since February 2021. HomeFed currently retains construction financing on the project and desires to use this financing mechanism to convert into their permanent financing. They have expressed that they are willing to work with the City on timeline and since they will be a party to the JPA, HomeFed would remain with vested interest in the project long-term. A formal submittal was requested by staff after the September 28th meeting.

Teresina (CMFA)

Project Team

Joint Powers Authority - CMFA

Same proposed JPA as Escaya.

Project Administrator – Catalyst Housing

Catalyst Housing Group is a privately held multifamily housing investor which will be responsible for the operation of Teresina Apartments pursuant to a Project Administration Agreement between the CMFA Special Finance Authority and Catalyst. Catalyst’s principals have been actively engaged in institutional multifamily investment, acquisition, development financing and asset management since 2002 across more

than \$4 billion of transactions. The principals' current multifamily investments include residential rental facilities throughout Arizona, California and Washington totaling 4,278 market-rate and affordable units. Catalyst is engaged in, and will continue to engage in, the acquisition, development, ownership and management of similar types of housing projects with affiliates of CMFA as well as other joint exercise of powers agencies. Catalyst created the middle-income housing model utilized by several joint powers authorities and their proposed project sponsors. Since 2019, Catalyst has leveraged their financial innovations, in partnership with multiple public agencies, to directly acquire more than \$2 billion of "Essential Housing" throughout the state. They have indirectly spurred an additional \$2 billion of middle-income housing production throughout California by others who have leveraged their framework.

Project Operator - Greystar California, Inc.

Same proposed operator as CasaLago and Escaya.

Project Description

Teresina is a 440-unit apartment complex located the master planned community of Otay Ranch Village Five. The community was placed into service in 1999 and consists of 95 one- bedroom, 205 two- bedroom, and 140 three-bedroom units. Project amenities includes a clubhouse, two pools/spas, playground, business center, two fitness centers, washer/dryer hook ups, attached garages for downstairs apartments, and other amenities.

Teresina has an existing Affordable Housing Regulatory Agreement that restricts 88 units to 50% area median income until 2057, which coincides with the proposed 35-year bond term. In addition, due to its age, the property is no longer considered a Class A apartment complex. The refinancing of the project will enable rehabilitation of the property as identified in the property condition report.

Catalyst Housing initially inquired about the conversion of the Teresina project in February 2021 with a different JPA partner. Catalyst has been monitoring the City's policy direction regarding middle income projects and reengaged with their new JPA, CMFA, upon hearing of the September 28th meeting. A formal submittal was requested by staff after that date.

Project Analysis

Due to time constraints, a side-by-side comparison (Attachment 2) was conducted to provide a qualitative comparison. A full analysis of underwriting and pro forma assumptions has not been conducted and does not reflect final changes made due to policy negotiations. The comparison is being provided to show the complexity and variations of these "Workforce Housing" projects and exemplify the need for further analysis and refinement.

As seen in the table, many of the project elements are similar in relation to bond terms, market assumptions and targeted oncome groups for affordability. CSCDA and CMFA projects differ significantly in the breakdown of fees, as CMFA has a cap on issuer fees of \$500,000 and provides 50% of that to the City (25% for City and 25% for charitable donation) while CSCDA gets 1% of the purchase price. The larger CSCDA fee also prevents deeper affordability of units as can be seen in the proposed rent. In addition, an assessment of the surrounding community identifies that The Residences at Escaya and Teresina are located nearer to other current and future rental opportunities than the CasaLago property. The CasaLago property currently serves as the only large multifamily rental opportunity within a 1.5-mile radius.

Conclusion

With regard to the CasaLago proposal, staff has not had sufficient time to thoroughly conduct a due diligence review of the financial aspects of the project, engage third party review, fully negotiate the deal nor take the project to the Housing Advisory Commission for consideration and allowing community input. Therefore, the pro forma as currently presented likely do not accurately reflect actual revenues and expenses that should be expected. Given the high level of risk still associated with several aspects of these types of projects as identified in the Workforce Housing Policy discussion, intricate detail in the financing and inadequate time to negotiate the deals, Staff would recommend working with CasaLago and bring back a final recommendation to City Council in late 2021/early 2022.

However, Council can take alternative actions, including: (1) deny the proposal; or (2) if Council determines that they would like to move forward to approve the CasaLago project this evening due to the purchase contract date, the Resolution to join the CSCDA JPA for the CasaLago project is provided. The proposed Public Benefit Agreement is currently being negotiated and will be presented prior to the meeting. Said Resolution authorizes the City Manager to finalize the Public Benefit Agreement negotiations and execute the required documents to enable a project approval.

With regard to the Escaya and Teresina projects, they would be brought back for consideration in late 2021/early 2022.

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 1,000 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(7) or (8), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.). Staff is not independently aware and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

CURRENT-YEAR FISCAL IMPACT

There is no current year fiscal impact as a result of hearing this report or providing direction to staff. The City has engaged a third-party advisor to provide preliminary guidance to staff, such costs are being paid by CasaLago.

ONGOING FISCAL IMPACT

Long term fiscal impacts to the General Fund are somewhat unknown as the City requires a "Host City Charge" to mitigate foregone tax impacts. However, as proposed by CasaLago these funds will only be realized should the project see sufficient cash flow and should they remain as an eligible charge. As proposed, the potential annual ongoing impact to the General Fund of \$196,000 in foregone property tax is mitigated by the Host City Charge of \$200,000.

ATTACHMENTS

1. CasaLago "Workforce Housing" Project Application
2. "Workforce Housing" Project Comparison

*Staff Contact: Tiffany Allen, Director of Development Services
Stacey Kurz, Acting Housing Manager
Jose Dorado, Senior Management Analyst*