CITY COUNCIL STAFF REPORT

CITY OF CHULA VISTA

March 15, 2022

ITEM TITLE

Workforce Housing: Consideration of Proposals to Convert "The Residences at Escaya" and "CasaLago Eastlake" Rental Communities into Moderate Income Rental Opportunities

Report Number: 22-0035

Location: The Residences at Escaya – 1925 Avenida Escaya (91913) and 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

Consider adopting resolutions: Authorizing (1) Execution of a Joint Exercise of Powers Agreement Related to the California Municipal Financial Authority ("CMFA") Special Finance Agency Approving the Issuance of Revenue Bonds by said Agency for the Purposes of Financing the Acquisition of The Residences at Escaya Project Conditioned Upon Approval and Execution by the City Manager of a Public Benefit Agreement ("PBA") with CMFA; and Authorizing the City Manager to Negotiate the PBA with CMFA With Terms Acceptable to the City Manager and City Attorney's Office and Consistent With Policy No. 453-03, Including Determining Whether to Accept and Execute the PBA or to Reject the PBA and not Execute the PBA (Ending Negotiations) and/or (2) Authorizing Execution of a Joint Exercise of Powers Agreement Related to the California Statewide Communities Development Authority ("CSCDA") Special Finance Agency Approving the Issuance Of Revenue Bonds by Said Agency for the Purposes of Financing the Acquisition of Casalago Eastlake Project Conditioned Upon Approval and Execution by the City Manager of a PBA With CSCDA and Authorizing the City Manager to Negotiate the PBA With CSCDA With Terms Acceptable to the City Manager and City Attorney's Office and consistent With Policy No. 453-03, Including Determining Whether to Accept and Execute the PBA or to Reject the PBA and not Execute the PBA (Ending Negotiations).

SUMMARY

On October 26, 2021, City Council adopted Policy No. 453-03 "Workforce Housing to Serve Moderate Income Households" (the "Policy" or "Policy No. 453-03") by Resolution No. 2021-199, to guide review of applications and enable the purchase of market rate housing to convert units to approximately 30-year deed-restricted moderate income (81-120% area median income) rental housing to address the "missing middle." This item considers two separate project applications from The Residences at Escaya ("The Residences") in Otay Ranch Village 3 and the CasaLago Eastlake ("CasaLago") apartments located in Eastlake III.

At its discretion, the City Council may approve either, both, or none of the projects.

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 in 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

On January 31, 2022, the Housing Advisory Commission recommended that both projects be brought forward to City Council for consideration.

DISCUSSION

Background

Over the past year, various investors and financing authorities have approached the City of Chula Vista regarding joining a Joint Power Authority ("JPA") to enable municipal bonds to be issued to convert existing rental properties to moderate income housing, including: (1) California Municipal Financial Authority ("CMFA") and HomeFed Corporation ("HomeFed") for The Residences; and (2) California Statewide Communities Development Authority ("CSCDA") and Opportunity Housing Group, LLC ("OHG") for CasaLago. The adoption of the Policy on October 26, 2021 enabled staff to intake Workforce Housing ("WFH") applications.

It should be noted that both projects under the Policy would enter into a Joint Powers Agreement, a project specific Public Benefit Agreement ("PBA"), and have the following important commonalities:

- Rental Subsidies & Non-Displacement – Under the new WFH program, a Regulatory Agreement would be recorded, requiring new tenants (and, for existing tenants at lease renewal) to complete an initial and annual income verification process to determine eligibility rent restricted rents set asides for the following income groups: 80% AMI (33% of units), 100% AMI (33% of units), and 120% AMI (33% of units) restricted. For existing tenants, if they qualify, they are offered the according affordable rent. If they do not qualify, they may remain at market rents. This avoids any issues with displacement of current residents.
- Annual Rent Increases - For all income-qualifying households, annual increases would be capped at no more than 4%, which is greater protection for tenants than provided under Assembly Bill ("AB") 1482, the recently adopted State tenant protection legislation, which limits rent increases to the

change in the Consumer Price Index ("CPI") plus 5%. Furthermore, eligible households will only have their rent increased up to the 35% limit, as further described in the project analysis.

- Property Tax Exemption - During the bond period, the property may be exempt from paying property taxes. This will result in an initial loss of discretionary revenue to the City of Chula Vista, as well as other taxing entities, including the County of San Diego and school districts. The foregone property tax loss would enable the financial feasibility of acquiring properties to create housing opportunities for middle-income residents that might not otherwise exist. The State of California would make up the foregone property taxes to the school districts through the Local Control Funding Formula.
- Host Charge – As part of the annual operating expenses, a Host Charge shall be paid to the City of Chula Vista and deposited into the City's General Fund, per the PBA, with the anticipation that it would replace the foregone property taxes due to the City of Chula Vista, but not the other affected taxing entities.
- Sale of Property - Under the terms of the PBA, the City of Chula Vista, at its sole discretion, may force a sale of the property between Year 15 and Year 35 (the end of the life of the bonds). If a property generates surplus cash flow through the proceeds of the sale of a property, the City will receive the surplus revenue, which shall be distributed per the Policy. Although the City would be eligible to require the owner to sell the property at Year 15, none of the projects anticipates a positive value in Year 15. This is a function of the initial restricted rents and limitations on increases, as well as the high level of debt that needs to be amortized~~costs to the projects, including the payment of the Host Charge, foregone property taxes for other agencies and a healthy capital reserve set-aside~~. A property cannot realistically be sold until the sales proceeds exceed the debt on the property, which is expected to occur after Year 15. The City may require sale once the projects have a net positive value (when sale price is anticipated to exceed the cost to pay off remaining bonds), as more fully described under the project analysis.
- City Liability and Risk - The City incurs minimal costs, liabilities, or administrative responsibilities in connection with membership in a JPA or participation in a HFH program. The City is not the bond issuer and provides no funding or credit enhancement to the transaction. The acquisition bonds do not diminish the City's issuing capacity and are backed solely by the Project revenues. On this basis, participation creates a relatively low risk and potential high return opportunity for the City. The PBA will provide indemnification language that protects the City's interests.
- Long-Term Affordability - There is the potential that a WFH project could become unable to meet debt service due to lower rents, higher operating costs, or other unforeseen events. Ultimately, if the bondholders needed to foreclose on the asset to satisfy outstanding debt, the Regulatory Agreement would be terminated, and the rent restrictions would be lifted. Rents could then be increased under the maximum State limits, eventually returning to market level rents.
- Third Party Review – Per the Policy, the City of Chula Vista contracted with outside parties to provide support in evaluating the proposals and conducting negotiations. All third-party costs were born by the applicants including outside counsel through Colantuono, Highsmith & Whatley, PC and financial analysis as further described in each project analysis by RSG Inc. ("RSG").

Under the Policy, a variety of considerations must be reviewed including overall project impact to the City's housing stock (both market and affordable), as well as direct impacts to existing tenants and the surrounding community. Additionally, a full financial analysis of the City's risks and benefits must be conducted. Both projects have complied with the Policy submittal checklist and full applications are provided as noted in the analysis below.

PBA Negotiation and City Manager Authorization

Negotiations regarding the PBA's are still being conducted and are not complete. Market conditions and CSCDA and CMFA's existing time frames to issue Revenue Bonds are time sensitive. Accordingly, the attendant Resolutions that conditionally approve and authorize entry into the JPA's and issuance of Revenue Bonds (they are conditioned upon having an executed PBA's by the City Manager), authorize the City Manager to continue to negotiate the PBA's with CSCDA and CMFA in substantial form as set forth in the attached draft PBA's Attachments 1a and 1b,, but with modifications to include terms acceptable to the City Manager and City Attorney's Office and consistent with Policy No. ~~454.03~~453-03. The Resolutions further authorize the City Manager to determine whether to accept and execute the PBA's (satisfying the condition to authorize approval of the JPA's and authorizing the issuance of the Revenue Bonds) or to reject the PBA's and not execute the PBA's (ending negotiations and not entering into the JPA and not issue the Revenue Bonds).

Housing Stock Considerations & Current Policy

The City of Chula Vista is committed to providing a variety of income-level housing options per the Housing Element's Regional Housing Needs Assessment ("RHNA") goals and adherence to the 1981 Balanced Communities Policy. As traditionally proposed, WFH units do not currently count towards RHNA housing unit requirements; however, the Policy identified the moderate-income RHNA goals/needs as a metric for allowable workforce-housing units. In total 1,911 WFH units are allowable during the 2021-2029 Housing Element cycle. Should both subject projects be approved the total remaining units available for WFH would be 1,212, as detailed in Table 1.

Table 1
WFH Units

Moderate Income Need/Allowable WFH Units	**1,911**
The Residences	272
CasaLago	427
2021-2029 Remaining Allowable WFH Units	**1,212**

Both projects are located in eastern Chula Vista (east of I-805) where currently 14 properties provide 1,284 restricted affordable units, but only 54 units are restricted for moderate income households. Approving the subject projects would increase moderate income opportunities by ~~666~~ 699 units. As noted previously, while these units would not count towards RHNA goals, they would provide new opportunities for moderate income households.

While ample rental opportunities remain throughout the City it should be pointed out that the CasaLago project provides the only rental opportunity in the far eastern portion of the City (near the Lower Otay Reservoir), with the nearest rental community existing approximately 1.5 miles away (The Landings affordable housing in Otay Ranch Village 11). The nearest market rate rental housing is in Millenia, approximately 1.7 miles away. The Residences will have both market and affordable opportunities within one mile of the property based on current projects in review, inclusive of a new market rental project in Village 3 - Escaya.

The Residences at Escaya

The Residences is a 272-unit apartment complex located in the master planned community of Otay Ranch Village Three on 9.06-acres and is improved with 14 three-story buildings. 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 on-site retail, dog parks, picnic areas, playground, hiking trails, clubhouse, fitness center, mail parcel center, lounge area, resort-style swimming pool, spa, cabanas, lawn areas, and bike storage.

The Residences has an existing Affordable Housing Regulatory Agreement that restricts 30 units to 120% area median income ("AMI") until 2039. Per the Policy, the preservation of existing affordable units is a priority for the City of Chula Vista and the existence of covenants that would be extended 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. Due to their existing and expected continued ownership, HomeFed has a long-term vested interest in the project. A formal application under the City's policy was submitted on December 13, 2021, after various documents were updated, including a recent appraisal of the property, which is included as Attachment 2.

<u>Sponsorship Team</u>

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 that offers 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. One unique element 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, which can 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 Corporation

HomeFed 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. HomeFed's portfolio of successful projects includes developments in California and along the East Coast from New York to Florida, including many in Chula Vista.

Project Operator - Greystar California, Inc.

Greystar California, Inc. ("Greystar") is the current Project Operator at Escaya and therefore no transitional period will occur. 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 has significant experience with workforce housing programs and implementation of their regulatory agreements.

Property Profile

An appraisal of the property was provided by the applicant and indicates the property is in "very good condition". Since the property was under construction in 2019 and in lease-up in 2020, there is not stabilized operating data available. The project is currently operating under the construction loan which continues to be extended in anticipation of approval of this financing to provide the permanent debt.

Current Tenancy

The current property average contract rent is $2,352 and vacancy was 4%, as of April 15, 2021. A majority of the leases are 12-month lease terms with a small percentage of shorter-term leases (month-to-month).

Project Affordability

Table 2 details the proposed initial project rents for The Residences project. Most of the units are being set at rents lower than the maximum (35% of qualifying income) amounts allowed by the Regulatory Agreement. Initial Project Rents range from 23% to 35% of the qualifying income. By starting with lower initial rents, particularly at the 120% AMI level, the Sponsor is building in some assurance that the scheduled rents will be achieved, and have room to grow modestly over time, without being impacted by the maximum rents allowed under the income limits or by market rent.

Table 2
The Residences Proposed Initial Project Rents

Unit Type	Total Units	80% AMI	100% AMI	120% AMI	Total/Average
1-bedroom	**98**	$2,043	$2,156	$2,270	$2,156
2-bedroom	**154**	$2,380	$2,562	$2,697	$2,546
3-bedroom	**20**	$2,799	$3,477	$3,786	$3,354
Total/Average	**272**	**$2,289**	**$2,483**	**$2,623**	**$2,465**
	Number of Units	**91**	**91**	**90**	**272**

According to HomeFed, the Project rents will range from 5% to 10% below market, and up to 7% below the current in-place rents but are on par with in-place rents on average resulting in minimal annual "rental savings" in the first year compared to the current in-place rents. However, the initial rents represent about a $500,000 "savings" compared to market rents. Rental savings will only grow over time because Project rent increases will be limited to 4% per year (and no greater than 35% of the qualifying income limits) while market rents can increase at whatever rate the market commands.

Proposed Financial Structure & Purchase Information

In compliance with the Policy, the City contracted with RSG Inc. to provide a third-party review of the proposed financial structure, projections and assumptions for the project. The full analysis is provided as Attachment 3 and a summary of their main findings includes:

- The Project is highly leveraged under the financial structure of the Workforce Housing program, with a debt to value of 119% following acquisition. The issuance of $160~~1~~ million in bonds will entirely fund the acquisition ($135 million), reserve accounts ($15~~6~~ million), and payment of transaction, JPA and Sponsor fees ($13 million). CMFA will be the owner, but without an equity investment or residual interest.
- Based on RSG's modified projections, the Project will need to rely on reserves to pay debt service for the first seven years, is not expected to begin repaying principal on the Series A bonds until Year 10~~1~~ and will not achieve a Net Operating Income ("NOI") to debt service coverage ratio of 1.2x until Year 15.
- Following conversion of all units to restricted rents, the Project would provide ~~only modest~~minimal total rental savings compared to current in-place rents, and~~of~~ approximately $500,000 in rental savings annually compared to estimated market rents ~~compared to current in-place rents~~ (about $~~32~~157 per unit per month on average). This is partly due to an existing covenant that restricts 30 units for Moderate Income households. The rent savings will grow over the life of the Project as market rents and restricted rents continue to diverge over time.
- CMFA would share with the City 25% of the $500,000 bond issuance fees it receives at closing. In addition, CMFA would share an equal amount via its affiliated foundation to fund local charities designated by the City, reducing its upfront fee to $250,000. CMFA would also receive a $150,000 annual fee during the Project term, with no escalation.
- The City currently receives about $103,000 in property tax from the Project based on its pre-acquisition assessed value. The Sponsor has proposed to provide the City with a "Host City Charge" of $103,000 to mitigate the revenue loss after purchase by the JPA, since it will be exempt from paying ad valorem property taxes. If not for the exemption, the new assessed value from acquisition would result in property taxes to the City of about $144,000 in the first year.
- RSG projects that by Year 15, when the City has the option to purchase the asset, the estimated Project value of $166~~5~~ million would not provide adequate proceeds to fully reimburse the other taxing entities for their cumulative foregone property tax, as is contemplated by the Public Benefit Agreement with CMFA. If the City were to "equitably share" the proceeds with other taxing entities, it may realize an overall *negative* net fiscal impact of about $244~~93~~,000 in present value 2022 dollars.
- RSG projects that by Year 35, approximately $47 million in bond debt would still be outstanding, but the Project value would have grown to $222~~1~~ million. The City would be able to reimburse the other taxing entities for their cumulative foregone property taxes, and still retain $114~~2~~ million. The projected net fiscal impact to the City would be about $39~~40~~ million in present value 2022 dollars.
- It is important to note, that the projected proceeds from any property sale 35 years into the future are estimates and may change.

CasaLago Eastlake

CasaLago is a 30.2 acre 427-unit complex located at 2816 Cielo Circulo, in the Eastlake III community, located south of Olympic Parkway, east of the Olympic Training Facility and west of the Lower Otay Reservoir. The community was opened to renters in 2014 and consists of 79 one-bedroom, 183 two-bedroom, and 165 three-bedroom units within 89 buildings. Project amenities include, but are not limited to two-swimming pools, two club houses, playgrounds, open space and fitness center. The property has been owned by John Hancock Life Insurance Co. USA since 2015.

CSCDA initially approached the City of Chula Vista in summer of 2021 regarding the project and indicated 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 to accommodate policy adoption and compliance. A formal application under the City's policy was submitted on December 3, 2021, Attachment 4.

Sponsorship 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 a variety of assets, including in the cities of Monrovia (261 units) and Fairfield (180 units).

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 Real Estate Investment Trust and property management responsibility for 30 properties; and 9,000 units for a national property management company.

Project Operator – Greystar California, Inc.

Greystar will also be the property manager for CasaLago after closing. 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.

Property Profile

An inspection of the property was provided by the applicant and indicates the property is in "good to fair overall condition". According to property management, capital improvements are anticipated to be completed within the next three years including exterior painting and pool deck recoating. The property's total revenue was $12,289,406 in 2019 and $12,659,549 in 2020. Total operating expenses were $6,010,286 in 2019 and $4,388,207 in 2020. There is no existing debt on the property.

Current Tenancy

The property average contract rent is $2,691, slightly above the average asking rent of $2,687. The property has maintained occupancy above 95% for the previous five years, with the current vacancy at 3.3% with an annual turnover of 30%. A majority of the leases are 12-month lease terms with a small percentage of shorter-term leases (month-to-month). CSCDA states that based on the income criteria below, 72% of current renters will income-qualify for the program.

Project Affordability

Table 3 details the proposed initial project rents for the CasaLago project. Most of the units are being set at rents lower than the maximum (35% of qualifying income) amounts allowed by the Regulatory Agreement. Initial Project Rents range from 23% to 36% of the qualifying income. By starting with lower initial rents, particularly at the 120% AMI level, the Sponsor is building in some assurance that the scheduled rents will be achieved, and have room to grow modestly over time, without being impacted by the maximum rents allowed under the income limits or by market rent. The Sponsor's initial rents at the 80% AMI level, however, are exceeding the 35% of qualifying income program limit. The Sponsor has assumed that AMI limits set by HUD will increase by at least 3% effective April 1, 2022.

Table 3
CasaLago Proposed Initial Project Rents

Unit Type	Total Units	80% AMI	100% AMI	120% AMI	Total/Average
1-bedroom	79	$2,240	$2,250	$2,259	$2,250
2-bedroom	183	$2,622	$2,842	$2,849	$2,771
3-bedroom	165	$2,913	$3,210	$3,245	$3,123
Total/Average	427	$2,664	$2,875~~57~~	$2,893	$2,810
	Number of Units	143	142	142	427

According to OHG, ~~an independent appraiser,~~ the project rents will range from 17% to 23% below the current in-place rents and will be about 19% below in-place rents on average. Using those per unit rent differences, multiplied by the distribution of units across the three income limits, OHG calculated the total annual "rental savings" to be about $3 million annually in the first year compared to the current in-place rents. This rental savings amount will only grow over time because project rent increases will be limited to 4% per year (and no greater than 35% of the qualifying income limits) while market rents can increase at whatever rate the market commands.

Proposed Financial Structure & Purchase Information

In compliance with the Policy, the City contracted with RSG Inc. to provide a third-party review of the proposed financial structure, projections and assumptions for the project. The full analysis is provided as Attachment 5 and a summary of their main findings includes:

- The Project is highly leveraged under the financial structure of the Workforce Housing program, with a debt to value of 117% following acquisition. The issuance of $324 million in bonds will entirely fund the acquisition ($279 million), reserve accounts ($29 million), and payment of transaction, JPA and Sponsor fees ($18 million). CSCDA will be the owner, but without an equity investment or residual interest.

- Based on RSG's modified projections, the Project will need to rely on reserves to pay debt service for the first seven years, is not expected to begin repaying principal on the Series A bonds until Year 11 and will not achieve a Net Operating Income ("NOI") to debt service coverage ratio of 1.2x until Year 15.
- Following conversion of all units to restricted rents, the Project is estimated to provide a rental savings of more than $3 million annually compared to market rents, according to the Sponsor. This amount will only grow over the life of the Project as market rents and restricted rents continue to diverge over time. However, the Sponsor has assumed some of the initial rents will be higher than current income limit restrictions allow, on the expectation that the AMI limits will grow by at least 3% when announced later this year.
- The City currently receives about $170,000 in property tax from the Project based on its pre-acquisition assessed value. The Sponsor has proposed to provide the City with a "Host City Charge" of $200,000 to mitigate tax revenue loses after purchase by the JPA, since it will be exempt from paying ad valorem property taxes. If not for the exemption, the new assessed value based on the acquisition price would result in property taxes to the City of about $302,000 in the first year. Over the 35-year life of the bonds, this tax gap would total approximately $5.2 million, or about $3 million in 2022 present value dollars.
- RSG projects that by Year 15, when the City has the option to purchase the asset, the Project value of $302 million would not provide adequate proceeds to repay the $325 million of outstanding debt.
- RSG projects that by Year 35, approximately $151 million in bond debt would still be outstanding, but the Project value would have grown to $487 million. The City would be able to reimburse the other taxing entities for their cumulative foregone property taxes, and still retain $211 million. The projected net fiscal benefit to the City of a sale in Year 35 would be almost $72 million in present value 2022 dollars.
- It is important to note, that the projected proceeds from any property sale 35 years into the future are estimates and may change.
- CSCDA would receive a fee equivalent to 1% of the bond issuance amount, not to exceed $2 million. CSCDA will also receive a $150,000 annual fee during the Project term, with no escalation. OHG would receive a fee payment of $2.75 million at closing of the acquisition. According to OHG, this fee is comparable to an acquisition fee standard of 1% that could be earned on a typical market-rate acquisition. In addition, OHG will receive an Asset Management Fee for its ongoing role as Project Administrator starting at $213,500 ($500 per unit) in the first year and increasing by 3% per year.

Conclusion

While these projects would serve moderate income households with a new rental option, there is still risk that the property will not be able to sustain affordability and payment of debt service due to market or unforeseen conditions. Specifically, staff has expressed its concern over the large upfront and ongoing fees associated with the CasaLago project to pay CSCDA and OHG (as JPA and Sponsor/Project Administrator, respectively) and are included in the debt load. HomeFed is not receiving any upfront acquisition fee for the acquisition of The Residences, since they are both the buyer and seller and should be realizing a capital gain on the sale. In addition, CMFA would provide 25% of their bond fee to the City and an additional 25% to a local charity.

The Residences post-acquisition rents are not much lower than current in-place rents and while the short-term benefit of conversion is not as great, the long-term preservation of affordability will still be achieved. As another point of comparison, the average rents proposed at Escaya are about $350 lower than those proposed at CasaLago.

While neither project will likely be sold in year 15 due to remaining debt/transaction fees, the CasaLago project will also likely not have a greater market value at year 15 than debt service. Finally, the CasaLago project serves as the only large rental opportunity in far east Chula Vista, while The Residences project has a variety of rental opportunities within its proximity.

Overall, the City incurs minimal costs, liabilities, or administrative responsibilities in connection with these WFH projects and creates a relatively low risk and high return opportunity for the City.

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

All costs associated with the third-party analysis and staff time to review the application have been reimbursed by the developers. The City has no liability or financial obligation for the bonds.

ONGOING FISCAL IMPACT

Both projects have included an annual Host Charge to be paid to the City's General Fund as part of operating expenses. The Host Charge will be paid in the amount of $103,000 (The Residences) and $200,000 (CasaLago), which will escalate by 2% annually and is anticipated to offset the annual lost property taxes. Should the projects have positive cash flow, dependent on bond performance, additional funds may be received by the City.

For The Residences project, RSG projects that that if the property were sold in 35 years, the City may yield about $114~~2~~ million even after reimbursing the other taxing entities for their cumulative foregone property taxes. The projected net fiscal impact to the City would be about $~~40~~ 39 million in present value 2022 dollars.

For the CasaLago project, RSG projects that if the property were sold in 35 years, the City may yield about $211 million even after reimbursing the other taxing entities for their cumulative foregone property taxes. The net proceeds to the City are estimated at $72~~5~~ million in present value 2022 dollars.

ATTACHMENTS

1. Draft City Workforce Housing PBAs

2. The Residences Workforce Housing Application 12/13/21
3. RSG Summary Findings Memo for The Residences 3/8/22
4. CasaLago Eastlake Workforce Housing Application 12/3/21
5. RSG Summary Findings Memo for CasaLago 3/4/22

Staff Contact: *Stacey Kurz, Acting Housing Manager*
Tiffany Allen, Director Development Services