CITY COUNCIL STAFF REPORT

CITY OF CHULA VISTA

March 18, 2025

ITEM TITLE

Affordable Housing: Approve up to $4.0 Million for an Affordable Housing Development to be Located at 201 Third Ave

Report Number: 25-0047

Location: 201 Third Avenue

Department: Housing and Homeless Services

G.C. § 84308 Regulations Apply: Yes

Environmental Notice: This project is exempt from the California Environmental Quality Act (CEQA) pursuant to 14 California Code of Regulations Section 15300.1 (Relation to Ministerial Projects).

Recommended Action

Adopt a resolution awarding a loan of up to $4.0M to Community HousingWorks for the development of affordable housing, from previously appropriated funds in the Housing Successor Agency Low and Moderate Income Housing Asset Fund, and authorizing the Executive Director of the Housing Successor Agency to negotiate and execute a loan agreement, regulatory agreement, and all associated loan documents, and to carry out all other actions necessary for the development of the Project. **(4/5 Vote Required)**

SUMMARY

The Housing Successor Agency, administered by the Chula Vista Housing Authority, has a balance of approximately $7.0 million that must be committed on or before June 30, 2025. To partially fulfill this obligation, staff recommends awarding $4.0 million in Low and Moderate Income Housing Asset Fund (Housing Fund) funds to a proposed 79-unit affordable project to be located at 201 Third Avenue, developed by Community HousingWorks.

ENVIRONMENTAL REVIEW

This project is exempt from the California Environmental Quality Act (CEQA) pursuant to 14 California Code of Regulations Section 15300.1 (Relation to Ministerial Projects). Section 21080 of the Public Resources Code exempts from the application of CEQA those projects over which public agencies exercise only ministerial authority. In addition, this activity is not a "project" and is therefore not subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15060(c)(3). This determination is predicated on Section 15004 of the CEQA Guidelines, which provides direction to lead agencies on the appropriate timing for environmental review. This action does not constitute approval of a project. If any CEQA approval is required, such approval will occur once the environmental review has been completed in accordance with CEQA Section 15004. This action will not foreclose review of alternatives or mitigation measures by the public as part of the CEQA process. The proposed actions are approval of a loan and do not constitute approval of the development activity. If required, future actions to consider and approve development entitlement approvals related to the future development of the site will require additional review under the provisions of CEQA by the lead agency.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

The Housing and Homelessness Advisory Commission considered the item on February 24, 2025, and voted 4-1-1 to provide an advisory recommendation for Housing Authority approval.

DISCUSSION

Successor Agency Funds

The Chula Vista Housing Authority (Housing Authority) is the Housing Successor Agency to the former Chula Vista Redevelopment Agency, which was dissolved along with all redevelopment agencies statewide by the California legislature in 2012. The Housing Authority was selected to assume the assets and obligations of the former redevelopment agency.

The primary fund administered by the Housing Authority in its capacity as Housing Successor Agency is the Low and Moderate Income Housing Asset Fund (Housing Fund). The Housing Fund collects revenues primarily through loan repayments and bond administration fees. Under California Health and Safety Code (HSC) Section 34176.1, successor agencies may not accumulate an "Excess Surplus" of funds, or a high unencumbered balance, as determined by a set formula. The Housing Authority currently has an Excess Surplus of $7,092,093 that must be expended or encumbered by June 30, 2025. The $4.0 million proposed in this resolution was already appropriated for affordable housing production on July 16, 2024 via Housing Authority Resolution No. 2024-006/City Council Resolution No. 2024-135. Tonight's action allocates the funds to this specific development. The bulk of the remaining Excess Surplus funds were committed to the Palomar Motel project on March 4, 2025.

The Housing Fund is subject to state restrictions on the income level and target population for assisted units. Some of these requirements vary based on the composition of units that have been previously funded with Housing Fund monies over the past 10 years. The requirements for the current Excess Surplus funds are that 30% of assisted units must be restricted to Extremely Low Income households, i.e., at 30% of Area Median Income (AMI). Additionally, no more than 20% of units may be restricted at between 60% and 80% of AMI. Finally, in order to ensure a broad range of ages can access affordable housing, the current round of Excess Surplus funds may not be dedicated to senior housing.

The funds would be disbursed in the form of a 55-year "residual receipts" loan, sometimes referred to as a "soft" loan. Repayments would be issued to the Housing Authority annually from a portion of "surplus cash flow," i.e., net revenue. Any remaining balance would be due in full at the end of the 55-year term. In connection with the loan, a regulatory agreement would also be executed restricting the occupancy to eligible low-income households and setting the income and rent limits in accordance with applicable thresholds. The loan would be evidenced by a promissory note and secured against the property with a deed of trust.

Notice of Funding Availability (NOFA)

In the late summer of 2024, the City published an announcement that it was preparing to issue a Notice of Funding Availability (NOFA) for the construction of new affordable housing. The NOFA was issued on November 8, 2024, with a submittal deadline of Friday, December 20. The NOFA was advertised on the City's website, via email to the developer community, and via the PlanetBids portal.

The NOFA set out a number of threshold requirements that all projects had to meet in order to be considered eligible for funding:

- Site control (through direct ownership, a ground lease, active option to purchase, or other enforceable ability to develop the site)
- Application is complete, responsive, and responsible
- Budget: Projected development budget shows no financing gaps, with appropriate amounts for reserves, contingency, etc.
- Budget: Projected positive cash flow for first 15 years of operations
- Timeline: Projected construction start within 3 years
- Experience: Developer and property management company (or key personnel) have developed/managed at least 3 affordable projects in past 10 years
- Income restrictions: At least 30% of units funded by the Housing Authority restricted at 30% of Area Median Income (AMI), and no more than 20% restricted at 60%-80% of AMI
- Not restricted to senior citizens (required in order to meet Housing Fund requirements set by State)

For all projects that met the threshold requirements, projects were scored according to a number of factors:

- *Affordability*: points awarded based on the number of affordable units and the depth of affordability. (Because the minimum affordability requirements of Housing Fund dollars are already robust, this component was only lightly weighted.)
- *Location*: priority given to projects in higher-resource neighborhoods, as well as projects close to amenities such as parks, schools, and transit. Since it was expected that many projects would still be in the preliminary stages of design, this was given heavy consideration.
- *Readiness to proceed*: points given to projects that had minimal barriers to planning & building approvals, had other financing commitments in place, and had a plan to address cost efficiency. This was also a major consideration in evaluating proposals.
- *Developer Experience and proposal quality*: points given to organizations with a superior track record in completing similar projects, and to proposals based on a holistic assessment of overall quality, attention to detail, and thoughtfulness in design and overall concept.

Because affordable housing projects typically need additional funding from state and federal agencies, the scoring criteria was designed to align with the criteria set forth by California Tax Credit Allocation Committee (CTCAC) and the California Department of Housing and Urban Development (HCD) for their programs.

Three proposals were submitted in response to the NOFA as detailed in Table 1.

Table 1: NOFA Submittals

Developer	Project Name	Address	Number of Units	Population Set-Asides
Community HousingWorks	E St Apts	201 Third Avenue	79	People with Intellectual and Developmental Disabilities (IDD), general low-income
SBCS Corporation and M. Kevin O'Neill Construction, Inc.	Terraces on Third	647 Third Avenue	54	Veterans, general low-income
Wakeland Housing and Development Corporation	Park Hill UMC	545 E. Naples	70	Large families, general low-income

The review committee was comprised of three staff members from the Housing and Homeless Services Department and one staff member from the Finance Department.

After reviewing the submittals and conducting a preliminary scoring exercise, staff determined that the Terraces on Third proposal, while commendable, was not competitive enough in a number of areas to be considered for funding. The remaining top two proposals, E St Apts and Park Hill UMC, were very close in the preliminary scoring. In order to make a final determination, staff conducted interviews with Community HousingWorks (CHW) and Wakeland Housing and Development Corporation (Wakeland). The interviews were each one hour in length and consisted of a short presentation by the developers, followed by a question-and-answer segment. The information gleaned from the interviews were factored into the final scoring for each project.

While the final scores between the CHW and Wakeland proposals were close, the clear consensus among staff was that CHW's proposal was the most appropriate awardee. While Wakeland's proposal is situated in an appealing location based on CTCAC scoring and has strong potential for future funding rounds, CHW's proposal has a clearer path to obtaining the necessary financing and beginning construction more quickly. In addition, it would serve a target population that is underserved by both market-rate developers and conventional affordable housing projects, at a location appropriate to their needs.

<u>Community HousingWorks</u>

CHW is a nonprofit affordable housing developer founded in 1988. It currently oversees more than 4,000 units of affordable housing across 51 developments. The organization is currently leasing up its most recently completed project, Kimball Highland Apartments in National City. The organization has the experience, personnel, and financial strength to ensure the long-term stability of its projects. CHW's business model is to remain long-term owners of its developments, ensuring responsible long-term stewardship of its properties.

Although CHW is based in San Diego County, and two-thirds of its portfolio is located in the county, this would be its first development in Chula Vista. This expansion of Chula Vista's developer pool will help promote a more robust and competitive industry.

E St Apartments Project

The E St Apartments project (the Project) is located at 201 Third Avenue, at the southeast intersection of E Street and Third Avenue, in Chula Vista's historic downtown Third Avenue district (City Council District 2). The site is less than a block away from two other affordable projects, Citrus Villa Apartments (completed at the end of 2024) and Congregational Place (scheduled to be completed in January 2026). The City has long identified the Third Avenue district as a place where greater density is appropriate, and together these three developments will help support local businesses and downtown activity. The E St Apts project is the only non-senior project of the three and would complement the other two projects in serving a range of needs within the community.

Figure 1: E St Apts Location

Prior Land Use & Proposed Project

The site is currently vacant and primed for development. A market-rate developer previously conceived a project for the site with a mix of conventional apartments and live-work lofts. The previous developer generated building plans and secured planning approvals in using the Density Bonus program, a State program that allows for additional units and reductions in zoning standards in exchange for restricting a portion of units as affordable. As previously approved the project would have provided 53 multi-family units, including five live-work units and six very-low income units, and 20 parking spaces.

CHW's proposal removes the live-work lofts, adds units, reduces the parking spaces, and adds space for resident services. CHW is exploring the possibility of including a small ground-floor commercial space in its design. While not required by applicable regulations, this would help fulfill the goals of the Urban Core

Specific Plan and foster street-level activity. This space could potentially serve as a public-facing office of the San Diego Regional Center (its services partner), community-serving retail, or other neighborhood space.

CHW's modifications to the approved plans can be approved through a plan change or a declaration of substantial conformance with the approved plans. While a declaration of substantial conformance is a discretionary process, it can be approved at the staff level without a public hearing. Alternatively, the Project could potentially be approved as a new proposal with the use of AB 2162, which provides by right approvals for projects with at least 25% of units set aside as supportive housing. All of these options provide a streamlined pathway to approvals.

As proposed, the Project consists of 79 units, 75 of which are studio apartments, with three two-bedroom units for residents and one two-bedroom unit reserved for an onsite manager. Twenty of the units would be set aside for adults with Intellectual or Developmental Disabilities (IDD). CHW has an agreement with the San Diego Regional Center (SDRC) to provide referrals and supportive services for the IDD units.

The proposed affordability of the Project (using 2024-25 figures) is shown below in Table 2.

Table 2: Unit Affordability

Bedroom Type	# of Units	Income Category / % of Area Median Income (AMI)	Maximum Rent (incl. utilities)	Maximum Income
Studio	10	Extremely Low Income (30% of AMI)	$795	$31,850*
Studio	8	Very Low Income (50% of AMI)	$1,326	$53,050*
Studio	57	Low Income (60% of AMI)	$1,591	$63,650*
2 BR	1	Extremely Low Income (30% of AMI)	$1,023	$40,950**
2 BR	1	Very Low Income (50% of AMI)	$1,705	$68,200**
2 BR	1	Low Income (60% of AMI)	$2,046	$81,850**

**Assumes a household size of 1. Limit may vary based on actual household size.*

***Assumes a household size of 3. Limit may vary based on actual household size.*

The Extremely Low Income units would be reserved for IDD individuals, who typically rely on Supplemental Security Income (SSI) and other public resources for income. The remaining units would enable households across a diverse array of incomes to live affordably in high-quality housing.

Due to the physical constraints of the site, only minimal parking (4 spaces) would be provided, which would be reserved for property management and resident services staff. While the impact of a relative lack of parking on the Project's operations, as well as on nearby street parking, is a concern, it is expected that few, if any, of the 20 IDD households will drive or own cars. Moreover, the Project is located in the most pedestrian-friendly and transit-rich district of Chula Vista, a point of emphasis in the City's Urban Core Specific Plan. According to 2023 Census data, more than 1,700 households in zip code 91910 (about 6.5% of total households) do not own a vehicle. The Project will be heavily marketed to these households who live and work nearby, and who may already be reliant on public transit for their daily needs. This may include, for example, young adults who do not yet own a car, senior citizens with limited mobility, and local retail and service industry staff who can walk or ride transit to work. This marketing strategy aligns with the City's priority policy for affordable housing leasings, codified in Chula Vista Municipal Code Section 19.94.080, and helps ensure that the Project primarily benefits existing Chula Vista residents whose lives are centered around the downtown district. The City is also implementing strategies to optimize parking facilities and manage the availability of curb parking downtown as the area grows. In August 2022, the City adopted the

Downtown Chula Vista Parking District, and it owns and operates the Park Plaza parking structure, a few blocks away from the Project at F Street and Garrett Avenue. This parking structure is free to the public and consistently has available spaces at any given time. Finally, CHW intends to explore creative options for meeting the transportation needs of Project residents, including entering into arrangements for offsite parking with nearby public or private parking lots; securing free monthly transit passes for residents; providing secure onsite bicycle parking; and coordinating with Circuit, a local ridesharing service partially funded by the City.

A secondary potential concern is that studio apartments don't reflect the needs or character of Chula Vista's family-oriented community. While Chula Vista continues to have a need for larger family-sized units, the proposed project will fill a growing niche within the community. Census data shows that nearly one quarter of all households in zip code 91910 consist of single adults. The creation of more small apartments may also relieve overcrowding in larger family-sized homes by allowing household members to move out and live independently.

<u>Project Financing and Timeline</u>

The ability to secure state and federal financing is typically the largest hurdle for affordable projects. CHW's proposal has a leg up in that department. The County of San Diego released its own NOFA in November, also closing on December 20, 2024, which included a pool of Project-Based Section 8 Vouchers (PBVs). PBVs provide a guaranteed long-term operating subsidy for the units and can be used to underwrite a larger conventional construction loan and permanent mortgage. CHW applied to the County's NOFA on behalf of the Project, and expressed optimism that it will receive an award. In addition, SDRC's affiliation with the Project in connection with the IDD set-aside also opens up the opportunity to secure up to $2.85 million in construction subsidies for the Project, a unique advantage among affordable projects.

The projected timeline for the Project would be to apply for an allocation of Low Income Housing Tax Credits in January 2026. If successful, it would be able to begin construction in September 2026. Construction would take approximately 18 months, and units would begin leasing up in February 2028.

Table 3: Financing and Timeline

Source	Amount	Application Date
Housing Authority	$4,000,000	December 2024
County of San Diego Project-Based Vouchers	(20 PBVs)	December 2024
San Diego Regional Center	$2,850,000	March 2025
HCD Multifamily Housing Program (MHP)	$5,000,000	April 2025
San Diego County Innovative Housing Trust Fund	$5,427,200	September 2025
Tax Credit Equity	$26,559,062	January 2026
Private Loan	$10,460,000	September 2026
Total Development Cost*	$52,247,600	

**Total Development Cost exceeds individual sources because funding scenario is still fluid and has been simplified here for the sake of clarity.*

Local Housing Trust Fund

The City has applied to HCD for $500,000 in Local Housing Trust Fund (LHTF) funds, to be paired with a $500,000 local match from inclusionary housing funds. Chula Vista's NOFA included this additional $1,000,000 as a potential funding source for projects. HCD recently issued a preliminary denial of the City's application, which the City has appealed. If the appeal is successful and the funds are awarded, staff may seek Council approval to award a portion of the LHTF funds to the Project. These additional funds would help expand the development scope and help bring it forward into construction sooner.

Conclusion and Next Steps

E St Apartments is a thoughtful proposal that meets all requirements of the NOFA and the Housing Fund regulations. The design, budget, populations served, and path to completion have all been carefully considered. Once developed, the Project will be an asset to Western Chula Vista and the Third Avenue corridor in particular. Staff is pleased to recommend it for $4.0 million in Housing Fund funds.

If approved, the Housing Authority and CHW would enter into a Loan Agreement by July 30, 2025, in order to meet State requirements for the commitment of Excess Surplus Housing Fund funds. The loan itself would not be disbursed until a later date, to be negotiated between CHW and the Housing Authority based on the completion of specific milestones and subject to regulations such as the California Environmental Quality Act (CEQA).

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

The funds for this action were appropriated via Housing Authority Resolution No. 2024-006 (City Council Resolution No. 2024-135), adopted on July 16, 2024. There is no additional current-year fiscal impact.

ONGOING FISCAL IMPACT

Loan repayments will be deposited to the Housing Fund and recycled into funding for new affordable housing projects and programs. There are no other long-term fiscal impacts.

ATTACHMENTS

None.

Staff Contact: Brian Warwick, Housing Manager