DATE ISSUED: July 10, 2024

TO: City Council

FROM: Economic Development

SUBJECT: Approval of an Affordable Housing Loan Agreement with Rose Creek Village LP in an amount not to exceed $4,000,000 for the Rose Creek Village Affordable Housing Project

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Council District(s): 1

OVERVIEW:
The proposed Loan Agreement ("Agreement") between the City of San Diego and Rose Creek Village LP, a California limited partnership ("Developer"), provides a loan for the Rose Creek Village affordable housing project ("Project") in an amount not to exceed $4,000,000 ("City Loan"). The Project is located at 2662 Garnet Avenue in the Balboa Avenue Station Area Specific Plan area of the Pacific Beach Community Plan Area (Attachment A). The Project will include new construction of 60 residential apartments including 59 studio apartments affordable on a long-term basis to 30% to 60% Area Median Income (AMI) households. Eighteen of the units will include supportive services for veterans and other persons experiencing or at risk of homelessness. The City’s loan to the Project is utilizing Community Development Block Grant ("CDBG") funds for the property acquisition costs scheduled to occur during 2024. Accordingly, time is of the essence for the City to consider the Agreement, provide timely expenditure of CDBG funds and meet other financing application timelines.

PROPOSED ACTIONS:
That the City Council adopts a Resolution to:

1. Approve the Loan Agreement ("Agreement") between the City of San Diego ("City") and Rose Creek Village LP ("Developer"), including all attachments and exhibits to the Agreement;

2. Authorize and direct the Mayor, or his designee, on behalf of the City, to sign and enter into the Agreement, including all attachments and exhibits thereto, and take all other reasonable actions that are necessary or desirable to perform the City’s obligations under the Agreement;

3. Authorize the transfer of an amount not to exceed $4,000,000 from Affordable Housing NOFA CDBG Grant 100003-2024 to Rose Creek Village Program in Fund 600000, Grant 1000003-2024, contingent upon the CFO furnishing a certificate certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer;
4. Authorize the City’s Chief Financial Officer (“CFO”) or designee to appropriate and expend an amount not to exceed $4,000,000 from Fund 600000, CDBG Grant 1000003-2024 Rose Creek Village Program to Developer for the property acquisition costs, contingent upon the CFO furnishing a certificate certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer; and

5. Authorize the City’s CFO, or designee, as delegated, to accept, appropriate and expend the $25,000 non-refundable Developer deposit for administrative costs into the Low and Moderate Income Housing Asset Fund (LMIHAF”) 200708 and any Developer repayments of the City’s CDBG loan into the Federal Grant CDBG Program Income fund 600100 to be reprogrammed for eligible CDBG uses, consistent with applicable law.

DISCUSSION OF ITEM:

Since 2021, the Economic Development Department has continued its multi-round, Bridge to Home program by issuing three rounds of its Affordable Housing Notice of Funding Availability (“NOFA”), with goals to increase the new construction, acquisition or rehabilitation of housing that will provide long-term affordability (55 years or more) to individuals and families at or below 80% of Area Median Income (AMI). Rounds One and Two have resulted in Council approval of 10 gap financing loan agreements totaling over $46 million from three funding sources which will produce an additional 897 affordable housing units, including 232 permanent supportive units for veterans, seniors, persons with disabilities, and persons experiencing, or at risk of, homelessness.

The Round Three Bridge to Home NOFA was issued in August 2023, offering an additional $20.2 million in gap financing to continue the Bridge to Home effort to reach the most vulnerable low-income populations and achieve Homes for All. On January 10, 2024, staff provided an informational presentation to the Economic Development and Intergovernmental Committee (“EDIR”), regarding the completion of the Round Three NOFA process, and a summary of the five recommended projects. On May 22, 2024, staff provided an informational NOFA projects update presentation to EDIR and to add an additional recommended project from the Round Three NOFA process. Round Three will provide 447 new affordable homes with 77 permanent supportive housing units, including the Rose Creek Village project. The EDIR Council Committee was informed that next steps include forwarding each recommended project for City Council consideration through the approval of Loan Agreements.

The Developer team is a collaboration between two non-profit entities, National Community Renaissance of California (“National CORE”) and San Diego Community Housing Corporation (SDCHC). National CORE has over 30 years community building experience including ownership and management of over 9,000 affordable apartment homes within 85 communities. Founded in 1994, SDCHC is a housing and community development organization that provides affordable housing development and preservation, and owns and operates 654 apartments in San Diego County, affordable to families, seniors, and special-needs populations.

Most recently, the City partnered with National CORE on the Iris at San Ysidro Apartments, currently under construction to provide 99 affordable units including 15 permanent supportive units for persons with mental disabilities and persons experiencing or at risk of homelessness. The City is also a partner with SDCHC for the Hacienda Townhomes development consisting of 51 affordable townhomes currently under renovation construction in Downtown San Diego.

The proposed Agreement is in conformance with, and advances the goals and objectives of, the Bridge to Home NOFA, and advances the guiding principles of the City of San Diego Five-year Consolidated Plan for Fiscal Years 2025-2029 (Consolidated Plan) for expenditure of CDBG funds to benefit low- and moderate-income households, increase affordable rental housing opportunities, and improve housing stability for critical needs households.
Description of Project
The Developer will construct the Project on the approximately 0.39-acre site ("Site"), located in a high-resource area, adjacent to the multi-modal Balboa Avenue Transit Station and the Blue Line Trolley. The Site is within a Transit Priority Area ("TPA"), and a mixed-use area including retail, grocery, pharmacy, schools medical and park facilities, as well as the Rose Creek Bikeway. (Attachment A).

The Project will consist of new construction of one 5-story Type V construction building over ground floor Type I podium, containing 59 studio units, 1 unrestricted two-bedroom manager unit, and 9 parking spaces. The City's fifty-five-year affordability restrictions will include 59 units at 60% AMI or less. The Developer proposes to apply for other Project funding sources that will have lower affordability restrictions for 20% AMI to 60% AMI households. The Project will include community space, kitchen laundry, leasing and management offices, bike racks, EV chargers, and rideshare pickup areas. In addition, National CORE and SDCHC will collaborate with the County, the Veterans Administration, and other service providers for on-site case management, social programs and events, focusing on empowering all residents to improve their quality of life, and live independent, healthy, fulfilling lives.

The Project also will be sustainably designed and constructed to achieve, at a minimum, a LEED H Silver Certification or substantial equivalent, including sustainable features such as all-electric energy efficient appliances, rooftop solar, LED lighting with occupancy sensors, high-efficiency HVAC systems, low-flow plumbing fixtures, and low impact landscape areas with drip irrigation.

Loan Agreement

Essential Terms and Conditions
The purpose of the Agreement (Attachment B) is to memorialize the terms and conditions for the City Loan and the development of the Project as negotiated by Staff and the City Attorney with the Developer. Keyser Marston Associates ("KMA"), economic consultant on behalf of the City, reviewed and analyzed the Developer’s pro forma and supports gap financing assistance from the City in the amount of $4,000,000, representing $67,797 per unit (Attachment C).

Developer shall pay a non-refundable, payment of $25,000 to the City, to cover a portion of staff, legal and consultant costs incurred by the City in connection with the Agreement.

Other permanent financing sources include (in approximate amounts) a $4 million bank loan, $20 million in tax credit equity, $448,000 in Fee Waivers, a $3.6 million State Infill Infrastructure Grant, $2 million Housing Commission loan, $3.7 million County No Place Like Home funds, and a $2.4 million County Capitalized Operating Subsidy Reserve.

The CDBG funds will be used for acquisition costs and the City will allow Project Commencement up to 36 months after close of escrow. The total development and construction costs budget is estimated at $40.5 million, including approximately $23.6 million in direct costs, $6.4 million in indirect costs, and $4.4 million in financing costs. Consistent with State tax credit requirements, the Developer Fee is $2.8 million. The final "Acquisition Budget" shall be approved by the City prior to loan closing. The Developer is responsible for any costs in excess of the Budget. The Mayor is authorized to approve reasonable modifications to the Agreement and its attachments if the modifications do not materially or substantially change the Project or increase the monetary obligations of the City. The Agreement attachments are forms of the documents to be finalized and executed at loan closing.

The 55-year City Loan to the Developer will accrue interest at a 3% simple interest rate, to be repaid from the Project's cash flow ("Residual Receipts"). Pursuant to CDBG procedures, prior to the property acquisition closing, the Developer will submit to the City a request for release of funds, and once the City receives HUD's authority to use grant funds, the City CDBG loan funds will be disbursed at the acquisition closing. The City's Deed of Trust will be junior to the senior private debt, and any governmental requirements; however, the City will not subordinate to any other private lender obligation its affordability covenants restricting 59 units to 60% AMI households or less.
The City Loan will be repaid from the 50% share of the Project’s Residual Receipts, distributed to the City and any other governmental lenders in proportion to their respective loan amounts. The Agreement requires the Developer to pay prevailing wage rates for construction of the Project, consistent with state, federal, and local laws.

The Project’s “Performance Schedule” is outlined in the Agreement. The Project is being submitted for tax credits in July 2024, and if successful, construction could commence in spring 2025. The construction period is anticipated to be approximately 24 months.

Staff recommends approval of the proposed actions.

City of San Diego Strategic Plan:
This action relates to the Strategic Plan’s Priority Area: Create Homes for All of Us. The Rose Creek Village project is an affordable housing development that will create 59 affordable units for households at 60% AMI or less, including 18 units with supportive wrap around services reserved for veterans and other persons experiencing or at risk of homelessness. The proposed Project is also in conformance with and advances the goals and objectives of the City’s CDBG Consolidated Plan and Annual Action Plan for providing affordable housing for low-income persons.

Fiscal Considerations:
This action will authorize an expenditure of up to $4,000,000 for the City’s Loan from the City’s CDBG fund 600000, Grant 1000003-2024, as a below-market interest rate affordable housing loan for property acquisition costs of the Project to be occupied by low and moderate income persons, authorize the $25,000 non-refundable developer deposit for administrative costs to be deposited to the LMIHAF Fund 200708 and any loan repayments to be deposited to CDBG Program Income Fund 600100 to be reprogrammed for eligible CDBG uses, consistent with applicable law.

Charter Section 225 Disclosure of Business Interests:
The Developer contracting with the City consists of Rose Creek Village LP, a California limited partnership, managed by NCRC Rose Creek GP LLC, a California limited liability company whose sole member is National Community Renaissance of California, a non-profit public benefit corporation, and by SDCHC Rose Creek LLC, a California limited liability company whose sole member is San Diego Community Housing Corporation, a California nonprofit public benefit corporation, and Southern California Affordable Housing Corporation, a California nonprofit public benefit corporation as limited partner. Because non-profit public benefit corporations own all the involved entities and such non-profit corporations do not have natural persons who are owners of the corporation, there are no natural persons who will receive more than 10% of the contracted amount of the City loan or who own more than 10% of the entity contracting with the City, for purposes of San Diego Charter section 225. (Attachment D).

Environmental Impact:
The proposed activity to approve an affordable housing loan agreement with Rose Creek Village LP for the Rose Creek Village Affordable Housing Project has been reviewed for consistency with and is covered in the Final Environmental Impact Report (EIR) for the La Jolla and Pacific Beach Community Plan and Local Coastal Program Land Use Plan Updates (DEP No. 92-0199/SCH No. 1992071032) which was certified by the San Diego City Council on March 29, 1994 (Resolution No. R-283639), and the Final Program EIR (PEIR) for the Balboa Avenue Station Area Specific Plan (BASASP; Project No. 586601/SCH No. 2017071007) which was certified by the San Diego City Council on August 1, 2019 (Resolution No. R-312604).

The Rose Creek Village Affordable Housing Project site has a Community Village land use designation as identified in the Pacific Beach Community Plan and the BASASP, which allows for the development of residential uses, and the project for which the agreement is intended will construct residences consistent with what was anticipated in these plans. The project would also meet the goals and policies of these plans which include promoting the development of a variety of housing types and styles in Pacific Beach
to provide a greater opportunity for housing that is both affordable and accessible by everyone; supporting diverse, balanced, and affordable housing (BASASP Policy 2.1.5); encouraging the development of affordable and senior housing units at different income levels (BASASP Policy 2.1.8); and encourage the inclusion of on-site affordable housing units in residential developments (BASASP Policy 2.1.10).

Approval of this agreement is a subsequent discretionary action within the scope of the development program evaluated in the above-listed environmental documents and is not considered to be a separate project for the purposes of CEQA review pursuant to CEQA Guidelines Sections 15378(c) and 15060(c)(3). Pursuant to Public Resources Code Section 21166 and CEQA Guidelines Section 15162, there is no change in circumstance, additional information, or project changes to warrant additional environmental review for this action.

Pursuant to Public Resources Code Section 21099(d)(1), aesthetic and parking impacts of a residential, mixed-use residential, or employment center project on an infill site within a transit priority area (TPA) shall not be considered significant impacts on the environment. The Rose Creek Village Affordable Housing Project is located within a TPA and would result in the development of affordable housing on an infill site. Thus, the project meets the criteria in Public Resources Code Section 21099(d)(1) and any potential aesthetic impacts associated with the project including, but not limited to, impacts associated with building height, bulk, and scale, are not considered to be significant impacts on the environment.

Climate Action Plan Implementation:
The Rose Creek Village project supports Strategy 3 Mobility and Land Use. Located within a TPA and adjacent to the Balboa Avenue Transit Station, it is well served by trolley and bus, and provides opportunities for convenient access to alternative transportation options, nearby retail and amenities, and contributes to a reduction in vehicle miles traveled and reduced greenhouse gas emissions.

Equal Opportunity Contracting Information (if applicable):
This agreement is not subject to the City’s Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Municipal Code Sections 22.2701 through 22.2708).

This agreement is subject to the City’s Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

Previous Council and/or Committee Actions:
On January 10, 2024, EDIR received an informational report regarding the Economic Development Department’s process for the Bridge to Home Round Three NOFA to increase the new construction, acquisition, or rehabilitation of housing that will provide long-term affordability to individuals and families at or below 80% AMI, and the five projects recommended for Round Three NOFA funding, including the Rose Creek Village project. On May 22, 2024, EDIR received an informational status update on the Bridge to Home projects.

Planning Commission Action:
N/A

Key Stakeholders and Community Outreach Efforts:
The key beneficiaries are the non-profit Developer, National CORE, and the non-profit SDCHC, as well as the future extremely low- to low-income residents at 20% to 60% AMI or less, including 18 households for veterans and other persons experiencing, or at risk of, homelessness. The Project was presented to, and received support from, the Pacific Beach Planning Group in November 2021.
Economic Development Department
Director

Deputy Chief Operating Officer

Attachments:  
A – Location Map  
B – CDBG Loan Agreement  
C – Project Proforma Analysis  
D – Mandatory Disclosure of Business Interests Form