



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Barbara Leibold, City Attorney

Date: April 9, 2024

Subject: Loan Commitment Letter for Cambern Apartments Affordable Housing Project Proposal

Recommendation

Approve the Loan Commitment Letter for the Cambern Apartments Affordable Housing Project Proposal in substantially the form attached and authorize the City Manager and City Attorney jointly to make necessary and appropriate revisions without increasing the City's financial commitment for submittal with CHW's tax credit application.

Background

Community Housing Works ("CHW") was founded in 1988 and is a nationally recognized 501(c)(3) nonprofit organization that develops, rehabilitates, preserves and operates affordable apartment communities in San Diego and throughout California. CHW has purchased non-contiguous APNs totaling 4.02 acres (175,111 square feet) located at 29366 and 29377 Third Street in Lake Elsinore, California.

CHW proposes the construction of garden apartments to include 75 affordable housing units restricted to residents earning 30% to 80% area median income (AMI). Specifically, tenants will consist of families, special needs individuals, and person at risk of homelessness. The proposed project is in the early stages of planning and does not have an approved site plan at this time.

The proposed project has by-right medium-density residential zoning (12 DU/Acre) permitting for up to 75 residential dwelling units with use of a State of California 50% density bonus for providing affordable housing. CHW has submitted its land use entitlement application for administrative review pursuant to recent laws passed by the State legislature intended to produce more affordable housing. Under these provisions, the proposed project would not be subject to discretionary review by the City Council or Planning Commission and will be exempt from CEQA.

In connection with the proposed project, CHW has requested a loan from the City's Low and

Moderate Income Housing Asset Fund (LMIHAF) in the amount of Seven Million Fifteen Thousand Four Hundred Eighty Two Dollars (\$7,015,482) ("City Loan"). The LMIHAF is administered by the City as the housing successor to the former Redevelopment Agency.

Discussion

CHW submitted a request for City financial assistance for the proposed project and further requested that the City prepare a Loan Commitment Letter that can be submitted with its application for Tax Credits for the proposed project. The tax credit application is due April 22, 2024. Tax Credits provide a valuable funding source to increase project feasibility and leverage City and other local agency financial assistance.

CHW desires to apply for tax credits in April as the proposed state budget for next year does not include any funding for 4% Tax Credits, though there is one more application cycle later this year with available funds. That round is anticipated to be highly competitive for the remaining funds. The proposed Loan Commitment Letter attached as Exhibit A is conditioned upon satisfaction by CHW of various customary provisions before the loan will be funded, including the requirement that the CHW enter into a legally binding City loan agreement and related documents approved by the City Council.

The City's affordable housing economic consultant, Keyser Marston Associates (KMA), has performed a preliminary financial gap analysis of the CHW's proposed financing for the project and determined that the proposed financing appears to result in a financially feasible project. Further, KMA has preliminarily concluded that the proposed project costs appear reasonable.

CHW's requested financing from the LMIHAF constitutes a request for a construction and permanent loan in an aggregate amount not to exceed the City Loan. Loan funds will not be disbursed until Tax Credits have been awarded, all other construction financing is available for the project, and a commitment for the permanent loan has been obtained. The City Loan will be structured as a 55-year loan bearing 3% interest and payable (along with the PLHA Loan (as defined below) and any other subordinate financing) from 50% of the net operating revenues of the project.

CHW anticipates issuing taxable and tax-exempt bonds to finance a portion of the project construction costs. Net construction loan proceeds from the bonds are anticipated to be approximately Twenty-Nine Million Seven Hundred Thirty-Eight Thousand Dollars (\$29,738,000). In addition, the proposed project has been awarded Four Million Dollars (\$4,000,000) in Permanent Local Housing Allocation Program (PLHA) funds by the County of Riverside, and thirty-seven (37) Project Based Vouchers by the Housing Authority of the County of Riverside.

Approval of the Commitment Letter will allow the CHW and the City to address the next steps toward project review and implementation. Specifically, the proposed project is further conditioned on and subject to each of the following: (1) an award of Tax Credits for the project and purchase thereof by a tax credit investor for a price that supports the CHW's financial model; (2) issuance

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of Bonds to finance the project; and (3) negotiation and execution of binding legal documents for sufficient construction and permanent financing for the proposed project.

Fiscal Impact

The Loan will be funded from LMIHAF held by the City as Housing Successor and will not have a financial impact on the City's general fund.

Attachments

Attachment 1 – Loan Commitment Letter for Cambern Apartments Housing Project Proposal

Attachment 2 – Vicinity Map