



# City of Rialto

## Legislation Text

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**File #:** CC-19-810, **Version:** 1

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For City Council, the City of Rialto, Acting as the Successor to the Redevelopment Agency, and the Rialto Housing Authority Meeting (August 13, 2019)

**TO:** Honorable Mayor/Chair and City Council/Board

**APPROVAL:** Rod Foster, City Administrator/Executive Director

**FROM:** Robb Steel, Assistant CA/Development Services Director

Request the City Council and the Rialto Housing Authority Board to Set a Public Hearing on September 10, 2019, to Conduct a Joint Public Hearing to Consider Approving: (1) an Affordable Housing Agreement between the Rialto Housing Authority and Rialto Jackson LP, and (2) the Purchase and Sale Agreement between Rialto Jackson LP and the City of Rialto (acting for the Rialto Successor Agency) for a proposed affordable housing project at the northeast corner of Willow Avenue and West Jackson Street.

### **BACKGROUND:**

In 2000, the former Redevelopment Agency ("RDA") acquired two parcels (APN # 0127-311-15 and 16) consisting of approximately 17,400 square feet situated at the northeast corner of Willow Avenue and Jackson Street ("Jackson/Willow Parcels"). The RDA received the parcels at no cost from a developer that previously intended to rehabilitate the two multi-family buildings for an affordable housing project. The RDA thereafter expended \$50,000 to demolish both buildings. In 2012, the Rialto Successor Agency ("RSA") assumed control of the Jackson/Willow Parcels upon dissolution of the former RDA in accordance with the California Redevelopment Dissolution Act ("CRDA"). The approved Long Range Property Management Plan designates the Jackson/Willow Parcels for "Liquidation for the Benefit of the Taxing Entities", requiring the sale and distribution of the proceeds on a pro-rata basis to approximately 13 taxing entities.

The Rialto Housing Authority ("RHA") implemented a three-phase acquisition and rehabilitation project with LaBarge Industries in the 300 West Block of Jackson Street consisting of 46 affordable units (known as "Park Place"). Completed in 2012, Park Place is a safe and sanitary affordable rental housing community that provides comprehensive on-site management and community services. The RHA and the developer entered into three separate Affordable Housing Agreements for each phase. The Park Place Project is located across from the Jackson/Willow Parcels. A map depicting the Park Place Project and the neighboring Jackson/Willow Parcels is attached hereto as **Exhibit A**.

On July 24, 2019, the Economic Development Committee recommended to the City Council approval of the Affordable Housing Agreement and the Purchase and Sale Agreement.

### **ANALYSIS/DISCUSSION:**

In December 2017, LaBarge Industries/Rialto Jackson, LP (“Developer”) proposed to acquire the Jackson/Willow Parcels to develop 10 multi-family units as an affordable housing project (“Project”). Despite the off-premise location of the Project, the proposal utilizes the Park Place management staff to operate and maintain the Project and provide social resources for the Project’s residents.

#### **Affordable Housing Agreement**

The Affordable Housing Agreement (“AHA Agreement”) between the Developer and RHA establishes the major terms for the Project:

- 1) The Developer develops 10 new multi-family units, including 8 one-bedroom units and 2 two-bedroom units in accordance with the City’s zoning code.
- 2) The Developer submits applications and obtains entitlement approvals for the Project. The Developer intends to commence construction in 2020.
- 3) The AHA restricts the occupancy for lower income households for a term of 55 years, with 3 one-bedroom units restricted for extremely low-income households (30% of area median income or less); 2 one-bedroom units restricted for very low-income households (50% of area median income); and, 3 one-bedroom and 2 two-bedroom units restricted for low-income households (80% of area median income or less).
- 4) The Developer, or the Park Place management staff, will provide direct operational management and maintenance of each building. The Developer will submit a management plan that will include tenant rules/regulations, a form rental agreement, and criminal background checks.
- 5) The City contributes **\$1,428,551** from Neighborhood Stabilization Program (NSP) project income funds for construction and consultant/administrative costs and the RHA contributes **\$440,000** from the Low Moderate Income Housing Asset Fund for acquisition, construction, and consultant/administrative costs - totaling **\$1,868,551** (“RHA Funds”). The RHA will deposit the funds in an escrow account for reimbursing the Developer for construction and soft costs.
- 6) The RHA contributes the RHA Funds in the form of a residual receipt loan to the Project. The Developer will repay the RHA Funds based on 50% of residual income from the Project as defined in the AHA. At the end of 55 years, the remaining portion of the loan amount will become due and payable. Simple interest will accrue at the rate of one-quarter percent (0.25%) per annum.
- 7) The Developer obtains other sources of financing to cover the Project’s permanent funding gap of about \$1,277,379.
- 8) The Developer will own the site. Any future transfer of ownership will require RHA review of the new entity to ensure it is comparable in experience and resources to properly own and operate the Project per the AHA Agreement.
- 9) Five of the ten units will have project based VASH vouchers that provide rental assistance and

services to Veterans at risk of being homeless. The Housing Authority of the County of San Bernardino will provide the VASH vouchers in conjunction with supportive services through the Veteran Administration Hospital and KEYS program.

- 10) The RHA reimburses the Developer for pre-development expenses of \$200,000 for costs related to engineering, design, administrative, and other required services prior to closing escrow and commencing construction.

#### Purchase and Sale Agreement

The Purchase and Sale Agreement ("PSA Agreement") between the Developer and the RSA establishes the terms of conveyance for the Jackson/Willow Parcels from the RSA to the Developer:

- 1) The Developer acquires the Jackson/Willow Parcels for \$175,000. The RSA established the purchase price by appraisal. The RHA provides an acquisition loan of \$180,000 (covering purchase and closing costs) from RHA Funds utilizing the Low Moderate Income Housing Asset Funds. The RSA will distribute sale proceeds to the taxing entities pursuant to the CRDA -- the City will receive approximately 14% of purchase amount as property tax distributions, or \$24,500.
- 2) The RSA will convey the Jackson/Willow Parcels to the Developer upon satisfaction of conditions precedent including obtaining a building permit and providing evidence of sufficient funds for construction and permanent financing.
- 3) The Contingency Period is 210 Days (seven months) with two 60 day extensions (the Developer shall pay \$1,000 for each contingency period extension) to allow the Developer sufficient time to obtain entitlements and construction plan approvals and secure gap funding.

On March 21, 2018, the Rialto Oversight Board approved the PSA Agreement for a purchase price of \$140,000. Unfortunately, the Developer did not secure funding to proceed while also complying with the affordability requirements. Recently, the Developer modified the Project's pro-forma and financial plan. An updated appraisal increased the value to \$175,000. If the City Council approves the AHA and PSA, staff will submit the PSA to the County Oversight Board and the California Department of Finance ("CDF").

#### Project Finance

The total project cost is \$3,145,930 (\$315,000/unit). The Developer proposes to use \$1,428,551 of NSP funds (\$805,715 from NSP1 program income and \$622,836 from NSP3 program income), \$440,000 from RHA's Low Moderate Income Housing Asset Funds, \$544,707 from private financing, \$450,000 from the County Housing Authority KEYS program, and \$282,672 from a Home Depot grant. The table below summarizes the sources and uses of funding:

Project Uses	Amount	Project Sources	Amount
Acquisition	\$ 180,000	City NSP1	\$ 805,715
Design & Engineering Services	\$ 260,000	City NSP3	\$ 622,836
Fees and Permits	\$ 373,800	RHA Low-Mod Fund	\$ 440,000
Construction Costs	\$ 1,700,130	Permanent Financing	\$ 544,707
Financing Costs	\$ 100,000	VACH Program	\$ 450,000
Other Costs	\$ 232,000	Home Depot Grant	\$ 282,672
Developer Fee	\$ 300,000		
<b>TOTAL</b>	<b>\$ 3,145,930</b>	<b>TOTAL</b>	<b>\$ 3,145,930</b>

### Affordable Units

The Project consists of ten units, with three units restricted for Extremely Low-Income Household ("ELIH"), two units for Very Low-Income Households ("VLIH"), and five units for Low-Income Households ("LIH"). The monthly rents are: (a) for each ELIH, \$337 for a one-bedroom unit, (b) for each VLIH, \$592 for a one-bedroom unit, and (c) for each LIH, \$778 for a one-bedroom unit and \$920 for a two-bedroom unit. Under the NSP rules, the City must allocate five units for ELIH and VLIH and five units for LIH. The income restricted units and rents are as follows:

	<u>1-Bedroom</u>	<u>2-Bedroom</u>
<u>Extremely Low-Income Household (30% AMI)</u>	3 Units	N/A
Monthly Rent - VASH Vouchers (LMIHF & NSP funds)	<b>\$337</b>	
<u>Very Low-Income Household (50% AMI)</u>	2 Units	N/A
Monthly Rent - VASH Vouchers (NSP Funds)	<b>\$592</b>	
<u>Low-Income Household (80% AMI)</u>	3 Units	2 Units
Monthly Rent - Non-Vouchers (NSP Funds)	<b>\$778</b>	<b>\$920</b>

California Health and Safety Code Section 34176.1 ("SB 341") requires that agencies allocate low-moderate income housing funds (LMIHF) over a five-year period, with at least 30% of the LMIHF funds expended for ELIH and not more than 20% expended for LIH. The RHA retained Keyser Marston Associates (KMA) to ensure that the Project complies with SB 341 and that the Project warrants the additional funding. The SB341 analysis is in KMA's Financial Gap Analysis attached hereto as **Exhibit B**.

### Summary Report

Health and Safety Code Sections 33431 and 33433 require a public hearing prior to entering into an agreement to sell real property acquired using tax increment funding of a former redevelopment agency. The City will publish a notice of joint public hearing between the RHA and the City Council in the San Bernardino Sun at least once per week for two successive weeks prior to the public hearing as required by law. The Sun will publish the notice on August 27 and September 3, 2019. Attached hereto is the notice as **Exhibit C**.

### ENVIRONMENTAL IMPACT:

The proposed acquisition and development is categorically exempt from the application of the California Environmental Quality Act (California Public Resources Code Section 21000 et seq., "CEQA") as a "Class 32" exemption for "infill development on an urban parcel of up to five acres with no significant effects on traffic, noise, air quality or water quality" (CEQA Section 15332).

#### **GENERAL PLAN CONSISTENCY:**

The proposed project is consistent with the following goals and policies of the Rialto General Plan:

Goal 3-5: Assist in the preservation, improvement, and production of housing stock available to lower - and moderate-income residents.

Policy 3-5.1: Use Housing Funds to assist low-income households and senior households with housing maintenance and major improvements, and to develop new affordable housing stock.

#### **LEGAL REVIEW:**

The City Attorney reviewed and approved this staff report and assisted in the negotiation related to the Affordable Housing Agreement and the Purchase and Sale Agreement.

#### **FINANCIAL IMPACT:**

##### Operating Budget Impact

The RHA will incur maximum cost of \$100.00 for costs to publish the public hearing notice with the Sun paid from Account Number 236-500-1793-2021.

##### Capital Improvement Budget Impact

Setting the public hearing does not create impact to the Capital Improvement Budget. However, the Project requires Capital Improvement Budget funding that staff will address in the public hearing staff report.

#### **RECOMMENDATION:**

Staff recommends that the City Council and the Rialto Housing Authority Board Set a Public Hearing for September 10, 2019, to Consider Approving an Affordable Housing Agreement between the Rialto Jackson, LP and the Rialto Housing Authority and a Purchase and Sales Agreement between Rialto Jackson, LP and the City of Rialto, acting for the Rialto Successor Agency, for proposed affordable housing project at the northeast corner of Willow Avenue and Jackson Street.