SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA HEALTH AND SAFETY CODE
ON
THE SALE OF LOT 1 – ROSELAND VILLAGE NEIGHBORHOOD CENTER BY AND BETWEEN
THE SONOMA COUNTY COMMUNITY DEVELOPMENT COMMISSION
AND
MIDPEN HOUSING CORPORATION

I. INTRODUCTION

The California Health and Safety Code, Section 33433, requires that if a Housing Successor of a former redevelopment agency wishes to sell or lease property to which it holds title and if that property was acquired in whole or in part with property tax increment funds, the Housing Successor must first secure approval of the proposed sale or lease agreement from its local legislative body after a public hearing. Section 33433 also requires a copy of the proposed sale or lease agreement and a summary report that describes and contains specific financing elements of the proposed transaction to be available for public inspection prior to the public hearing. As contained in the Code, the following information shall be included in the summary report:

1. The cost of the agreement to the Housing Successor that is to be funded from property tax increment, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the Housing Successor, plus the expected interest on any loans or bonds to finance the agreement;

2. The estimated value of the interest to be conveyed or leased, determined at the highest and best use permitted under the redevelopment plan;

3. The estimated value of the interest to be conveyed in accordance with the uses, covenants, and development costs required under the proposed agreement with the Housing Successor, i.e., the reuse value of the site;

4. An explanation of how the sale or lease of the property will assist in the elimination of blight; and

5. The purchase price or sum of the lease payments that the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then the Housing Successor shall provide as part of the summary an explanation of the reasons for the difference.

This report outlines the salient parts of the ***Disposition, Development and Funding Agreement for Roseland Village Neighborhood Center – Phase 1*** (the "Agreement") to be entered into by and between the Sonoma County Community Development Commission (Commission) and MidPen Housing Corporation (MidPen / Developer) for the sale and redevelopment of the subject property.   This report is being prepared due to the fact that property tax increment funds from the former Redevelopment Agency of the County of Sonoma (RDA) were used to acquire the subject property.

This report is based upon information in the proposed Agreement and is organized into the following five sections:

1. **Summary of the Proposed Agreement** – This section includes a description of the property, the proposed development and the major responsibilities of the Commission and Midpen.

2. **Cost of the Agreement to the Commission** – This section outlines the cost of the Agreement to the Commission for costs that have been/will be funded with property tax increment funds. It presents the terms of the property's lease, and sets forth the net cost of the Agreement to the Commission.

3. **Estimated Value of the Interest to be Conveyed** – This section summarizes the value of the property to be sold to Midpen.

4. **Consideration Received and Reasons Therefore** – This section describes the value of the payments to be made by Midpen. It also contains a comparison of the purchase price and the fair market value at the highest and best use consistent with the redevelopment plan for the interests conveyed.

5. **Provision of Very Low, Low, or Moderate Income Housing** – This section demonstrates how the lease/sale of the property will provide housing for Very Low-, Low-, or Moderate-Income persons.

6. **Elimination of Blight** – This section demonstrates how the Project satisfies the blight elimination criteria imposed by Section 33433 through the provisions of housing for Very Low- to Moderate-Income persons.

II. SUMMARY OF THE PROPOSED AGREEMENT

A. Description of the Property and Project

Property

Within the context of the subject Agreement, the subject property is known as “the affordable development parcel” and is a 1.53 acre portion of the “Master Development Site”, which is comprised of “the Roseland Site” and the “Gee Parcel”. The Master Development Site is located in the Roseland community, in the City of Santa Rosa. The Roseland Site property is identified as Assessor’s Parcel Number 125-111-037 and the address of 665 Sebastopol Road, Santa Rosa. The property is a total of 6.81 acres square feet and is improved with one building that is currently occupied by a Dollar Store, the Sonoma County Library and the Boys and Girls Club. The 0.6-acre Gee Parcel is located immediately adjacent to the Roseland Site. It is identified as Assessor Parcel Number 125-101-031and the address of 883 Sebastopol Road, Santa Rosa.

The Roseland Site was acquired by the Sonoma County Community Redevelopment Agency on March 18, 2011 with low and moderate income housing funds to further the goals of the June 2007 Sebastopol Road Corridor Urban Vision Plan. In 2012 the Board of Supervisors selected the Commission to retain the housing assets of the dissolved Redevelopment Agency and to assume the responsibility of implementing t the Redevelopment Plan. In September 2015, the Successor Agency entered into a Settlement Agreement with the Department of Finance that authorized the Successor Agency to use up to $6,920,000 in non-housing tax increment funds to pay for public improvements to support mixed-use development on the Roseland Site.

In contemplation of the subject project, MidPen acquired the Gee Parcel in 2016 and will transfer the parcel to the Commission at the same time as the approval of the conveyance agreement with the Developer. The Gee Parcel and the Roseland Site will be subdivided in accordance with the Agreement to create at least five separate development parcels: 1) the subject “affordable development parcel”, which will be conveyed to MidPen for the development of the subject affordable housing project; 2) a “market rate development parcel”, which will be conveyed to UrbanMix Development, LLC for the development of new market rate housing; 3) a “commercial development parcel” to be transferred for development at some time in the future; 4) a “plaza parcel”; and 5) a “civic development parcel” to be developed at some time in the future.

Developer

The Developer of the subject affordable housing project is MidPen Housing Corporation.

Project Description

Prior to the sale of the subject property to MidPen, preconstruction activities will be required on the Master Development Site. Predevelopment activities include: approval of a final subdivision map, approval of a public improvement plan, demolition of existing buildings, relocation of existing tenants, the realignment or construction of certain utilities and other public infrastructure, and the remediation of hazardous materials. Under the terms of the Agreement, the Commission will make best efforts to secure funding and undertake the predevelopment activities.

Once the requisite predevelopment activities are complete, the Commission will sell the subject property to MidPen for the purpose of developing a 75-unit affordable housing rental project. The units will range in size from one to three bedrooms, with an average units size of 960 square feet. The residential project will contain approximately 99,000 square feet of gross building area and will be four (4) stories in height. In addition to the residential units, the project will also provide 108 parking spaces and 4,600 square feet of common area. Amenities will include: a community room, community kitchen, a learning center, computer room, and bike storage.

B. Income and Rent Restrictions

Affordable housing restrictions will be recorded against the fee interest of the affordable development parcel that will restrict the incomes of occupants and the rental rates that can be charged in perpetuity. The project will provide 12 units restricted to "Extremely Low" income households, 12 units restricted to "Very Low" income households, 50 units restricted to "Low Income" households and one unrestricted manager unit.

C. Commission's Responsibilities

The Commission is responsible for:

1. Making best efforts to secure funding for and undertaking the requisite predevelopment work. This includes: relocating the existing tenants; causing the demolition of the existing buildings, applying for and accepting additional funding for the remediation work; funding the preparation and recordation of a tentative map; completing the active remediation work on the Roseland Site; complete the construction of infrastructure improvements; and undertake improvements to the plaza and Plaza Temporal.

2. Selling the subject property to MidPen.

3. Recording affordable housing deed restrictions on the subject property.

4. Providing an "affordable housing loan" to MidPen to assist in funding the development of the affordable housing project. Under the terms of the Agreement the loan to Midpen will not exceed $7.07 million, which is comprised of $4.5 million of cash to fund vertical improvements, and a $2.57 million note to fund a combination of the affordable housing's estimated share of $2.0 million of horizontal infrastructure improvements and the site's purchase price which will be set at the property's appraised fair market value. A recent appraisal set the site's current value at $570,000.

5. Monitoring the compliance of the completed project with the affordable housing covenants.

D. Developer's Responsibilities

MidPen Housing Corporation (Developer) is responsible for:

1. Participating in predevelopment work, including assisting the Commission in applying for funding to complete the radiation work; coordinating the construction of the infrastructure improvements, and implement the temporary improvements on the plaza,
2. Securing funding for the affordable housing project that is not funded by the Commission's loan.
3. Acquiring the affordable housing development parcel at the parcel's appraised fair market value. The purchase price will be funded by a portion of the affordable housing loan to be provided by the Commission to MidPen.
4. Constructing the affordable housing project in compliance with the requirements of the Agreement.
5. Managing and maintaining the property and improvements.
6. Repaying the affordable housing loan funded by the Commission in accordance with the terms of the Agreement.
7. Submitting annual compliance reports to the Commission demonstrating compliance with occupancy and rent restrictions.

III. COST OF THE AGREEMENT TO THE COMMISSION

This section presents the total cost of the Agreement to the Commission that will be funded with property tax increment funds which were distributed to the former redevelopment agency prior to the dissolution of the agency or from available Roseland cash reserves and future Redevelopment Site Tax Trust Fund ("RPTTF") receipts.

The "net cost" of the Project after consideration of the revenues that will accrue to the Commission, if any, is also evaluated. The net cost can be either an actual cost, when expenditures exceed receipts, or a net gain, when revenues created by implementation of the Agreement exceed expenditures.

A. Estimated Cost to the Commission (costs funded with property tax increment)

The cost to the Commission associated with this transaction is comprised of:

1. *The original acquisition cost (funded by property tax increment) of the portion of the Roseland Site that will be conveyed to MidPen.* The entire 6.81-acre site was acquired in 2011 for $3,740,000. Approximately 1.53 acres of the site will be sold to MidPen, which represents approximately 22.47% of the total site. Therefore the acquisition cost associated with this transaction is $840,264.

2. *The affordable development parcel's pro rata share of predevelopment expenses that will be funded with tax increment funds.* It is estimated that predevelopment expenses for the entire Master Development site will total $9.2 million with tax increment funding $6.6 million of the total. The affordable development parcel's pro rata share of the entire Master Development site is 22.47% (based on acreage). Therefore, the affordable development parcel's pro rata share of predevelopment costs funded by tax increment is $1,482,819.

3. *The portion of the affordable housing loan to MidPen that will be funded by tax increment and will be used to fund the Project's development costs other than land acquisition costs and predevelopment costs.* It is anticipated that no tax increment will be used to fund the affordable housing loan.

Affordable Parcel	***Nominal Dollars***	***Current (2019) Dollars***
1. Pro rata share of initial Roseland Site Acquisition funded with tax increment	***$ 840,264***	***$1,027,331***
2. Pro rata share of predevelopment expenses to be funded with tax increment	***$ 1,482,819***	***$1,628,062***
3. Share of Affordable Housing Loan to be funded with tax increment	***$0***	***$0***
Total Cost to be Funded with tax increment funds	***$ 2,323,084***	***$2,655,392***

Commission costs to be funded with tax increment are estimated to total $2,323,084. Given that costs will be incurred at various points in time, costs are also expressed in current 2019 dollars. As shown, in 2019 dollars, costs are estimated to total $2,655,392.

B. Revenues to the Commission

The revenues to the Commission consist of payments from MidPen to repay the portion of the Affordable Housing Loan that is the purchase price of the site. Based on the recent appraisal, the price would be $570,000, or 8.06% of the $7.07 million affordable housing loan. Therefore, the portion of loan payments attributable to paying the purchase price of the site is 8.06%. Under the terms of the Agreement, the loan will carry a 3.0% interest rate and a term of 57 years. Annual debt service payments will consist of 8.06% of the Commission's 50% share of the project's residual receipts. Any outstanding balance will be due and payable at the end of the 57-year term. Based on the project's operating projection, it is anticipated that the Commission will receive approximately $63,200 of the project's cash flow in its first operating year. Of that total, approximately $5,400 will be used to retire the portion of the loan attributable to the purchase of the site. Over the 57-year term, it is projected that payments on land and accured interest from cash flow will total $774,000. The balance due at the end of the 57-year term will approximate $1.4 million.

	Nominal Dollars	2019 Current (2019) Dollars
Estimated Land Purchase Loan Payments from Annual Cash Flow	$774,000	$316,000
Loan Payments from Projected Sale of Project	0	0
Estimated Balloon Payment at End of Loan Term	$1,369,000	$254,000
Est. Total Land Loan Payments (Revenues to the Commission)	$2,143,000	$

As shown, nominal payments on the portion of the loan attributable to purchasing the site are estimated to total $2.143 million over the 57-year term. The present value of the payments is equal to the purchase price of the land – $570,000.

C. Net Cost to the Commission (Property Tax Increment)

The net cost to the Commission resulting from this transaction is the difference between the Commission's costs funded with tax increment and projected revenues. As shown below, it is estimated that the net cost to the Commission resulting from the subject transaction is $180,084 in nominal dollars or $2,085,392 when expressed in uninflated 2019 dollars.

Net Cost to the Commission		
	Nominal Dollars	***2019 Dollars***
Costs to the Commission funded with Tax Increment	$2,323,084	$2,655,392
Revenues to the Commission	$2,143,000	$570,000
Net Cost to the Commission	**$180,084**	**$2,085,392**

IV. VALUE OF THE INTEREST TO BE CONVEYED

A. Reuse Value

The reuse value of the development site is directly a function of the economics of the property under the specific terms of the transaction. In this case, the Agreement requires the Developer to build 75 affordable rental units and 108 parking spaces. All of the units (except for the manager's unit) will be restricted to Extremely Low to Low Income households, as follows:

Extremely-Low Income units (rents at 30% of the Area Median Income)	12 units
Very Low Income units (rents at 50% of the Area Median Income)	12 units
Low Income units (rents at 60% of the Area Median Income)	50 units

The income and rent restrictions will remain in place in perpetuity, which severely limits the Project's annual revenue and ability to support payments on debt and equity investment in the Project. Given the income restrictions, it is estimated that the average monthly rental rate net of utilities for the units would approximate $1,000 per month if the project were to be operating in 2019. In addition to rental income, it is anticipated that the Project will receive Section 8 income on 25 of the units, which will generate approximately $405,000 of additional annual income. It is estimated that the project's annual net operating income would approximate $721,000.

The Project's development costs (excluding land costs) are estimated to total $54.1 million. Given the deep affordability requirements, the Project's income stream will not support 100% of the Project's construction costs. The Project is anticipated to generate sufficient cash flow to support approximately $6.8 million of commercial debt with a set amortization schedule, which accounts for approximately 13% of the cost to build the Project (excluding land costs). The remaining $47.3 million of development costs will be funded through the application of a myriad of "soft" residual receipts loans, public subsidy sources, developer equity and deferred developer fees. The anticipated financing plan is as follows:

Anticipated Funding Sources	Total Project
Permanent Loan, Tranche A	$2.4 million
Permanent Loan, Tranche B	$4.5 million
Low Income Housing Tax Credit Proceeds (4% credits)	$21.7 million
Sonoma County Funds	$4.5 million
Sonoma County Infrastructure Contribution	$2.0 million
AHP	$0.7 million
General Partner Equity	$3.0 million
Deferred Developer Fee	$0.5 million
State AHSC Housing Loan	$11.8 million
City of Santa Rosa Affordable Housing Loan	$3.0 million
Total Sources, excluding county loan to acquire site	$54.1 million

It is estimated that the Project's anticipated revenues would support a total up-front investment of approximately $10.4 million, compared to total costs of $54.1 million. Given that the revenues are sufficient to support only 19% of the Project's costs excluding land costs, the Project's economics do not support an up-front purchase price for the development site. Therefore, the site's fair reuse value is nominal.

B. Estimated Value at Highest and Best Use

The property was recently appraised, with a valuation date of January 11, 2019. The appraisal determined that the property's highest and best use would be affordable rate multi-family residential housing. The appraisal established the property's fee simple value at $570,000.

V. CONSIDERATION RECEIVED AND REASONS THEREFORE

Under the terms of the Agreement, the development site will be conveyed to MidPen at the appraised value and the Commission will provide MidPen with a residual proceeds affordable housing loan of that amount (to assist in building the project. The loan and accrued interest will be fully repaid through a combination of payments from the project's annual cash flow and, if required, a balloon payment at the end of the loan term. As presented in Section IV.A, conveying the site to the Developer for the appraised value for affordable housing and providing a loan for the purchase price is consistent with the site's Reuse Value and fair market value.

VI. PROVISION OF VERY LOW, LOW, AND MODERATE INCOME HOUSING

The Project will provide 74 permanent housing units for Extremely Low to Low-Income households in perpetuity. The incomes of occupying households and the rental rates charged to the households will be restricted as follows:

Extremely-Low Income units (rents at 30% of the Area Median Income)	12 units
Very Low Income units (rents at 50% of the Area Median Income)	12 units
Low Income units (rents at 60% of the Area Median Income)	50 units

VII. BLIGHT ELIMINATION

The Project consists of the development of 74 housing units for Extremely Low to Low-Income households. The units will be subject to affordability restrictions in perpetuity. In accordance with California Redevelopment Law, as portrayed in the California Health and Safety Code Section 33433, the conveyance of property that results in the provision of housing for Low- or Moderate-Income persons satisfies the blight elimination criteria imposed by Section 33433. Thus, the subject transaction fulfills the blight elimination requirement.