

TO: James App, City Manager

FROM: Robert A. Lata, Community Development Director

SUBJECT: Supplemental Low and Moderate Income Housing Funds for Canyon Creek Apartments

DATE: September 20, 2005

NEEDS: For the Redevelopment Agency to consider a request from Peoples' Self-Help Housing Corp. (PSHHC) for additional assistance from the Low and Moderate Income Housing (LMIH) Funds to assist in the Development of Canyon Creek Apartments.

FACTS:

1. Canyon Creek is a 68 unit family apartment complex presently being constructed by PSHHC at 400 Oak Hill Road. Residency in Canyon Creek will be limited to households whose income is 50 percent or less of the County Median Income.
2. At its meeting of February 20, 2001, the Redevelopment Agency approved a Participation Agreement whereby PSHHC was approved for a loan of \$300,000 in LMIH Funds to assist in the development of Canyon Creek Apartments.
3. At its meeting of May 4, 2004, the Redevelopment Agency amended the Participation Agreement to extend the period of the loan of LMIH Funds from 35 years to 55 years to coincide with the period of affordability required by both LMIH and Tax Credit funding.
4. In a letter August 23, 2005, (copy attached to the attached resolution) PSHHC requests that the Redevelopment Agency provide additional LMIH funds to this project to help offset cost overruns attributable to the December 2003 earthquake, building codes, and the cost of construction.
5. The Project Area Committee (PAC) is scheduled to review this request at a meeting to be held on September 14, 2005. The PAC's recommendation will be verbally reported to the Council at its meeting of September 20.

#### ANALYSIS AND

CONCLUSION: The housing project would meet an urgent need for more affordable housing. The project and use of funds is consistent with the Housing Element and the Redevelopment Implementation Plan.

The \$300,000 in LMIH assistance provided to date to this 68 unit project amounts to \$4,400 per unit. The Creekside Gardens and Oak Park Senior Housing projects received grants of \$630,000 and \$545,000, respectively, which amount to subsidies of \$21,700 and \$13,600 per unit. It would appear, therefore, that a request for additional funds would be consistent with LMIH assistance provided to other affordable housing projects.

The LMIH fund is projected to have an uncommitted balance of \$268,400 by June 30, 2006. (Please see the attached LMIH Fund Status sheet.)

PSHHC's letter cites an increase of \$1 million in construction costs. Their letter also explains the variety of educational, health, and other "enrichment" services that they will provide to residents of Canyon Creek, and to the greater community at their community room. Although not explicitly stated in their letter, in meetings with staff, PSHHC has verbally

expressed a desire for relief from the recurring costs associated with the annual Payment in Lieu of Taxes (PILOT) required as a condition of the development plan (PD) for Canyon Creek.

The State's Revenue and Taxation Code provides that low income housing projects owned by nonprofit housing corporations may receive a "welfare exemption" from property taxes. The purpose of the PILOT condition was to provide a means for offsetting impacts to city services that would be associated with the loss of property tax revenue. It is estimated that the PILOT payments would start at about \$23,000 per year in the first full fiscal year following completion of the project and thereafter increase 2% annually, as provided by Proposition 13.

The enrichment services to residents and to the community listed in PSHHC's letter demonstrates an alternative means to offset the impacts to city services. The PILOT condition cannot be rescinded without amending the development plan application. As an alternative way to offset the PILOT costs to PSHHC, it is proposed that the Redevelopment Agency consider allocating a portion of LMIH Funds to offset the PILOT payments for the current fiscal year and for the next 5 years, after which the effectiveness of the enrichment services could be evaluated and a variety of options considered.

Therefore, the following forms of assistance are suggested for the Agency's consideration:

1. A one-time grant of LMIH funds to help offset construction cost increases in the amount of \$259,000.
2. A recurring annual grant to offset the PILOT payments for the current fiscal year and for the next 5 fiscal years.

The above allocations would commit all of the available balance of LMIH funds through the end of the present fiscal year and commit \$23,000 - \$25,000 per year for the next 5 fiscal years.

The original Participation Agreement for the Canyon Creek project will need to be amended with an Implementation Agreement. The City Attorney has indicated that the Agency could adopt a resolution approving the grants, subject to execution of an Implementation Agreement at a later date, and provide that the Agency's Secretary (City Manager) be authorized to execute the agreement without further Agency action.

The Redevelopment Budget is adopted by ordinance and, therefore, must be amended by ordinance. A draft ordinance is attached to appropriate LMIH funds for this purpose.

REFERENCE: California Redevelopment Law; 2004 Redevelopment Implementation Plan; Housing Element

FISCAL

IMPACT: The total of \$268,000 in LMIH Assistance (for the present fiscal year) has no effect on the General fund.

OPTIONS: After consideration of all public testimony, that the Redevelopment Agency consider the following options:

Approve Peoples' Self-Help Housing Corp.'s request via the following actions:

**REDEVELOPMENT AGENCY ACTION**

Adopt Resolution No. RA 05-XX approving a grant of Redevelopment Low and Moderate Income Housing funds to Peoples' Self-Help Housing Corp. to assist the development of Canyon Creek Apartments. The current fiscal year's grant would total \$268,000, with subsequent grant of up to \$25,000 per year for the next five fiscal years.

**CITY COUNCIL ACTION**

Introduce for first reading Ordinance No. XXX N.S. amending the Redevelopment Budget and appropriating funds for said grant; and set October 4, 2005, as the date for adoption of said Ordinance.

b. Amend, modify, or reject the above option.

Prepared By:

Ed Gallagher  
Housing Programs Manager

ATTACHMENTS:

1. Resolution RA 05-XX with attached Letter from Peoples' Self-Help Housing Corp. dated August 23, 2005
2. Ordinance No. XXX N.S.
3. LMIH Fund Status

RESOLUTION NO. RA 05- XX

RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF PASO ROBLES  
APPROVING AN ADDITIONAL GRANT OF LOW AND MODERATE INCOME HOUSING  
FUNDS TO ASSIST THE DEVELOPMENT OF CANYON CREEK APARTMENTS

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WHEREAS, Action Item 1 supporting Policy H-1B of the Housing Element calls for the City to “Work with developers to create an inventory of 485 new dwelling units by June 30, 2009 which will be affordable to very low and low income households”; and

WHEREAS, the first priority for use of Redevelopment Low and Moderate Income Housing (“LMIH”) funds as stated in the 2004 Redevelopment Implementation Plan calls for the Redevelopment Agency (“Agency”) to “Promote the development of rental units throughout the City” and provides that “Towards this effort, the Agency may enter into participation agreements with housing developers to provide LMIH funds as grants or loans for such expenses as land acquisition, payment of City fees, construction of off-site improvements, and/or housing construction costs”;

WHEREAS, pursuant to a Participation Agreement dated May 17, 2001, a First Implementation Agreement dated October 16, 2001, and a Second Implementation Agreement dated May 4, 2004, the Agency has provided financial assistance in the form of a long-term loan of \$300,000 from the LMIH Fund to Peoples’ Self-Help Housing Corp. (“PSHHC”) to assist the purchase and development of 68 units rental housing development for low income persons located at 400 Oak Hill Road known as Canyon Creek Apartments (the “Project”); and

WHEREAS, in a letter dated August 23, 2005, attached hereto as Exhibit “A”, PSHHC submitted a request that the Agency provide additional LMIH funds to this project to help offset \$1 million in construction cost overruns attributable to the December 2003 earthquake, changes in applicable building codes, and the cost of construction;

WHEREAS, Resolution 99-130 which approved PD 98016, the development plan for the Project, contained the following:

- A recital (the 29<sup>th</sup>) which stated that the applicants for the project had agreed to make “payments in lieu of taxes” (PILOT) to the City of Paso Robles equal to the amount that the City would have received from the project if there was no welfare exemption from property taxes.
- Finding #2, which stated that “The fiscal impacts to the City resulting from the loss of property tax revenue may be offset through either ‘payments in lieu of taxes’ or equivalent measures.”

WHEREAS, as stated in Exhibit “A”, PSHHC proposes to provide a variety of educational, health, and other “enrichment” services that they will provide to residents of Canyon Creek, and to the greater community at the Project’s Community Room; and

WHEREAS, it is estimated that the amount of the PILOT for the Project will be about \$9,000 in Fiscal Year 2005/2006 and will increase to about \$23,000 in Fiscal Year 2006/2007, and thereafter to increase at a rate of 2 per cent per year; and

WHEREAS, it is estimated that the amount of LMIH funds to be available in Fiscal Year 2005/2006 for assisting housing projects will be \$268,000; and

WHEREAS, on September 14, 2005, the Redevelopment Project Area Committee (PAC) reviewed PSHHC's request and recommended that its approval by the Agency.

NOW, THEREFORE, BE IT FOUND by the Paso Robles Redevelopment Agency that:

1. The enrichment services to residents and to the community listed in Exhibit "A" demonstrates a possible "equivalent" means to offset the impacts to city services that would be addressed by the PILOT, and the Agency is willing to evaluate such equivalency over the current fiscal year and the next 5 fiscal years;
2. The requested additional financial assistance is consistent with the policies and priorities set forth in the Housing Element and in the Redevelopment Implementation Plan.

NOW, THEREFORE, BE IT RESOLVED BY THE PASO ROBLES REDEVELOPMENT AGENCY to approve PSHHC's request in the following form and subject to the following conditions:

1. A one-time grant of LMIH funds to help offset construction cost increases in the amount of \$259,000.
2. A recurring annual grant to offset the PILOT payments for the current fiscal year and for the next 5 fiscal years. For Fiscal Year 2005/2006, the PILOT is estimated to be \$9,000; for Fiscal Year 2006/2007, the PILOT is expected to be about \$23,000; for subsequent fiscal years, the PILOT is expected to increase by 2 percent.
3. A Third Implementation Agreement shall be prepared, subject to approval of Agency General Counsel, and executed to address the above-stated forms of assistance prior to disbursement or transfer of LMIH Funds for said purposes. Said Third Implementation Agreement may provide that the Agency directly transfer LMIH funds to offset PILOT payments on behalf of PSHHC.
4. The Agency Secretary/City Manager is hereby authorized to execute the Third Implementation Agreement on behalf of the Agency within the above conditions and allowing for minor adjustments to the amounts of LMIH funds stated to account for refinements in the estimates of funds available and actual PILOT payments.

PASSED AND ADOPTED by the Redevelopment Agency of the City of Paso Robles this 20th day of September 2005 by the following vote:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

ATTEST:

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Gary A. Nemeth, Chairman

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James A. App, Agency Secretary



Exhibit A  
**Peoples' Self-Help Housing Corporation**

Mr. James App, City Manager  
City of Paso Robles  
1000 Spring Street  
Paso Robles, CA 93446

August 23, 2005

**RECEIVED**

AUG 24 2005

Community Development

RE: Canyon Creek Affordable Apartments

Dear Mr. App,

The purpose of this correspondence is to inquire into the availability of additional City Redevelopment Agency or other housing funds to complete our Canyon Creek affordable housing development in Paso Robles. Canyon Creek consists of 68 two, three and four-bedroom family apartments. Rents will be set at rates affordable to families at or below 50% of area median income (very low-income).

In addition to the apartments, Canyon Creek includes construction of a large 5,000 square foot community facility with space for individualized K – 12 education assistance, adult education, and health screening. Services planned for Canyon Creek include:

- PSH Education Enhancement Program (EEP) – PSH credentialed educators provide on-site afterschool education to grades K-12, with an emphasis on getting all children to perform at or above grade level, increasing their GPA (grade point average), completing high school and enrolling in college. EEP seeks to improve students study skills, increase their self-esteem, and increase parent participation in the school system.
- Adult Education – PSH adult education programs include completion of high school GED, financial literacy, and classes to improve skills needed by local business.
- On-Site Health Programming – PSH, in collaboration with healthcare partners, plans to offer health education, back to school immunization clinics, cancer screenings and on-site treatments.
- First-time Homebuyer Training – PSH provides an ongoing series of classes that prepare residents for homeownership. Instruction includes training on financial management and family budgeting, saving for a downpayment, credit counseling, and qualifying for a loan.

Peoples' Self-Help Housing has utilized multiple financing sources for Canyon Creek, attempting to leverage as many non-City resources as possible. Funds for land acquisition, architecture and permits came from the \$300,000 City Redevelopment Agency loan, the County's \$250,000 HOME Program loan, and funds from the Federal Home Loan Bank AHP (Affordable Housing Program). Construction financing is provided by a loan from the State Department of Housing, Rural Communities Assistance Corporation (RCAC), and Washington Mutual. Construction financing will be paid off with a combination of investor equity, and a permanent mortgage. Presently we have a 30 year permanent mortgage commitment from the California Community Reinvestment Corp (CCRC) at 7.5%.

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San Luis Obispo, California 93401  
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26 E. Victoria Street  
Santa Barbara, California 93101  
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Email: sboffice@pshhc.org

**Exhibit A**

However, due to several factors, the cost to complete Canyon Creek is anticipated to exceed construction funds committed to the project by approximately \$1 million. These cost increases are due primarily to 3 factors:

- 1) The San Simeon Earthquake (declared a national disaster and causing deaths and millions in property damage to Paso Robles) occurred after Canyon Creek was designed and construction drawings were already in City plan check. After the earthquake the foundations were re-evaluated by the structural and soils consultants, who then required deeper footings and 118 caissons, drilled an average of 24 feet deep, filled with concrete and iron rebar, and tied into each buildings foundation system.
- 2) Exterior stairways were added to each building as additional safety exits which were not in the original design.
- 3) Construction liability insurance tripled, from the original budget of \$150,000 to \$430,000.

Canyon Creek's original construction budget was based upon an estimate of \$117 per square foot. This estimate was reasonable, in that it was based upon other jobs recently completed by PSH, adjusted for inflation. Specifically, PSH recently completed a 52 unit family complex in Santa Maria at \$111 per square foot, and an 80 unit family complex in Guadalupe at \$90 per square foot. What was not anticipated was the San Simeon Earthquake and its impacts on cost.

We are proposing to cover the funding gap as follows:

- Peoples' Self-Help Housing will raise \$350,000 from private contributions. We are also not reimbursing our staff costs associated with development of the project.
- We have discussed assistance with the County, and are working with the County on the possibility of supplemental HOME or other County housing funds.
- We are discussing with our mortgage lender, CCRC, the possibility of increasing their loan amount, and looking at the possibility of alternative mortgage lenders that might offer a lower interest rate.

We are hopeful that by combining these sources, along with some assistance from the City's housing program, we will be successful in offsetting some of the extraordinary costs experienced at Canyon Creek.

We look forward to discussing this matter with you at your earliest convenience.

Sincerely,



Jeanette Duncan  
Executive Director  
Peoples' Self-Help Housing

ORDINANCE NO. XXX N.S.

AN ORDINANCE OF THE CITY OF EL PASO DE ROBLES  
AMENDING CHAPTER 3.40 REVENUE AND FINANCE OF THE MUNICIPAL CODE  
TO MODIFY THE FISCAL YEAR 2005/2006 BUDGET FOR THE  
REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES

The City Council of the City of El Paso de Robles, State of California, does hereby ordain as follows:

SECTION 1. That a budget amendment, for the Redevelopment Low and Moderate Income Housing (LMIH) Fund, in the amounts, and for the purposes set forth below, for the Redevelopment Agency of the City of El Paso de Robles for the fiscal year commencing July 1, 2005 and ending June 30, 2006 is hereby approved and adopted for said fiscal year.

- a. \$259,000 as authorized by Redevelopment Agency Resolution No. RA 05-0XX and the Participation Agreement to be executed in accordance with said resolution, to be used for construction costs for Peoples' Self-Help Housing Corp.'s 68 unit Canyon Creek Apartment project; budget account number 701-810-5235-484.
- b. \$9,000 as authorized by Redevelopment Agency Resolution No. RA 05-0XX and the Participation Agreement to be executed in accordance with said resolution, to be used for payment in lieu of taxes for Peoples' Self-Help Housing Corp.'s 68 unit Canyon Creek Apartment project for Fiscal Year 2005/2006; budget account number 701-810-5235-484.

SECTION 2. That the budget amendment for expenditures as proposed shall be and become appropriated to the Agency for the respective objects and purposes therein set forth below, subject to expenditures pursuant to the provisions of all applicable statutes of this State.

SECTION 3. That the Agency hereby finds and determines:

- a. That the proposed budget amendment is for a Redevelopment activity consistent with California Health and Safety Code Section 33678 in that they are for carrying out the Redevelopment Project and related development activities, as defined in California Health and Safety Code Sections 33020 and 33021, and primarily benefit the Redevelopment Project.
- b. That the proposed budget amendment is for the purposes of increasing, improving, and preserving the community's supply of low- and moderate-income housing pursuant to California Health and Safety Code Section 33334.2.
- c. That none of the funds are to be used for the purposes of paying for employee or for contractual services for the City of El Paso de Robles or any other local government agency, except for such services which are directly related to Redevelopment activities as defined in California Health and Safety Code Sections 33020 and 33021 and the powers established in Community Redevelopment Law.

SECTION 4. That the appropriation and expenditure of funds shall be consistent with the terms as established by cooperative agreement between the Redevelopment Agency of the City of El Paso de Robles and the City of El Paso de Robles per Agency and City adopting implementing resolutions.



SECTION 5. Publication. The City Clerk shall cause this ordinance to be published once within fifteen (15) days after its passage in a newspaper of general circulation, printed, published and circulated in the City in accordance with Section 36933 of the Government Code.

SECTION 6. Effective date. This ordinance shall go into effect and be in full force and effect at 12:01 a.m. on the 31st day after its passage.

SECTION 7. Inconsistency. To the extent that the terms of provisions of this Ordinance may be inconsistent or in conflict with the terms or conditions of any prior City ordinance(s), motion, resolution, rule or regulation governing the same subject, the terms of this Ordinance shall prevail with respect to the subject matter thereof and such inconsistent and conflicting provisions of prior ordinances, motions, resolutions, rules and regulations are hereby repealed.

SECTION 8. Severability. If any section, subsection, sentence, clause, or phrase of this Ordinance is, for any reason, found to be invalid or unconstitutional, such finding shall not affect the remaining portion of this Ordinance.

The City Council hereby declares that it would have passed this ordinance by section, subsection, sentence, clause or phrase irrespective of the fact that any one or more sections, subsections, sentences, clauses, or phrases are declared invalid or unconstitutional.

Introduced at a regular meeting of the City Council held on September 20, 2005, and passed and adopted by the City Council of the City of El Paso de Robles on the 4th day of October 2005 by the following roll call vote, to wit:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

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Frank R. Mecham, Mayor

ATTEST:

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Sharilyn M. Ryan, Deputy City Clerk