MEETING DATE: NOVEMBER 20, 2018
TO: JEFFREY C. PARKER, CITY MANAGER
FROM: ECONOMIC DEVELOPMENT DEPARTMENT
SUBJECT: DISPOSITION AND DEVELOPMENT AGREEMENT (DDA) WITH JHC-ACQUISITIONS LLC (AKA JAMBOREE HOUSING CORPORATION) FOR PARCEL 1A SOUTH AT TUSTIN LEGACY

SUMMARY:
Request for authorization to approve the DDA between JHC-Acquisitions LLC (Developer) and the City for the development of a one hundred fourteen (114) unit affordable housing development: fifty-four (54) affordable rental units for families (Phase I); and sixty (60) permanent supportive affordable rental units for the homeless (Phase II) on Parcel 1A South. The DDA outlines the terms and conditions under which the City property, approximately 3.55 acres, will be ground lease conveyed and developed by JHC-Acquisitions LLC. Financing for the project is dependent upon multiple sources including tax credits approved by the State. A 55-year ground lease, referenced in the DDA, must be negotiated prior to conveyance that will be submitted to Council for consideration.

RECOMMENDATION:
Authorize the City Manager to execute the DDA between the Developer and the City, subject to non-substantive modifications as may be deemed necessary and/or recommended by the City's special real estate counsel or the City Attorney.

FISCAL IMPACT:
Ground Leases and Loan
The project has two phases. Both Phases must close concurrently for the project (i.e., Phase I and II) to be feasible. For Phase II, the Developer will pay upon close of escrow a ground lease payment of $1,500,000. The City ground lease payment from Phase II (i.e., $1,500,000) will then be loaned to Phase I. The loan on Phase I will be paid over the term of the lease from net cash flow after senior debt obligations and operating expenses are met. The City will not be obligated to loan the project money if both Phases are not financed from third-party sources as described in this Agenda Report.
Other Developer Obligations

The Developer will pay transaction expenses of $150,000 and $458,026 for the Tustin Legacy Backbone Infrastructure Program.

CORRELATION TO THE STRATEGIC PLAN:

This action correlates to the City's Strategic Plan for Economic and Neighborhood Development (Goal A).

BACKGROUND:

On April 18, 2018, the City entered into an ENA with the Developer to negotiate the ground lease conveyance and development of an affordable housing project consisting of two phases: Phase I — 54 affordable rental units for families; and Phase II — 60 permanent supportive affordable rental units for the homeless. A portion of the property is owned in fee and a portion is subject to a Lease in Furtherance of Conveyance ("LIFOC") which is owed by the Navy and leased to the City.

The Developer is seeking $8.5 million in CalHFA Mental Health Services Act ("MHSA") Special Needs Housing Program funds and fifty-nine (59) project-based Section 8 vouchers from Orange County as part of their financing plan. In order to receive approval, Orange County requires the Developer to have site control, which the proposed DDA provides. The City will not enter into a fifty-five (55) year ground lease with the Developer until such time as the Developer has obtained all project financing, received entitlements, and the building permits are ready to be issued.

On October 8, 2018, the Developer submitted their entitlement application to Community Development for approval. It is anticipated the Developer's entitlement application will be considered at a January 2019 Planning Commission meeting.

DDA SUMMARY:

Project Description

The Developer will construct 54 affordable rental units for families and 60 permanent supportive affordable rental units for the homeless with an average density of approximately thirty-two (32) dwelling units per acre. Amenities include a pool, tot lot, community garden, half-court basketball court and 6,000 square foot community building.

Financing

Phase I

The total estimated development cost of Phase I is $22,263,332, excluding land value. Phase I will only proceed upon award by TCAC of the 9% Tax Credits.
Phase II will only proceed upon award of the following: Orange County Community Foundation Loan; Orange County MHSA funds and Section 8 Vouchers; and TCAC 4% Tax Credits. As previously indicated, Phase II close of escrow must take place before or concurrently with the Phase I close of escrow.

**PHASE I REVENUE SOURCES**

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<th>Source</th>
<th>Amount</th>
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<tr>
<td>Net Investor Equity</td>
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<td>Permanent Loan</td>
<td>$3,946,763</td>
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<td>City of Tustin Loan</td>
<td>$1,500,000</td>
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<td>Deferred Developer Fee</td>
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<td><strong>TOTAL</strong></td>
<td>$22,263,332</td>
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**Phase II**

The total estimated development cost of Phase II is $25,347,228, excluding land value. As previously indicated, the Developer has submitted applications to Orange County for CalHFA MHSA funding and project-based Section 8 vouchers for Phase II of the development. In January 2019, the Developer will submit a financing application to the Orange County Community Foundation. Orange County will be awarding funding for MHSA and the Section 8 Vouchers in January/February 2019. In March, the Developer will submit applications to the California Tax Credit Allocation Committee (“TCAC”) for nine percent (9%) Tax Credits for Phase I and four percent (4%) Tax Credits for Phase II.

**PHASE II REVENUE SOURCES**

<table>
<thead>
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<th>Source</th>
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<td>$9,024,098</td>
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<td>Permanent Loan</td>
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<td>Orange County MHSA</td>
<td>$8,590,400</td>
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<tr>
<td>Orange County Community Foundation Loan</td>
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<tr>
<td>Deferred Developer Fee</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>$25,347,228</td>
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</tbody>
</table>

**Construction Schedule**

If the Developer is successful with their initial application in March 2019, TCAC tax credits are awarded in June 2019. Upon award, the Developer will submit grading and construction drawings for the permits to construct the horizontal and vertical improvements and, in accordance with TCAC, they must commence construction within six (6) months. Escrow on the Ground Leases for Phase I and II will close when the Developer has all required financing and the City is ready to issue permits. Assuming the Developer is awarded TCAC tax credits in their first submittal, construction will commence in December 2019, with an anticipated completion in April 2021.
The TCAC tax credit applications are highly competitive and the DDA provides the Developer with four (4) opportunities within a two-year time period to secure the tax credits. If the Developer is not successful in the first round, there is another opportunity in July 2019, and two (2) opportunities in 2020, March and July. Once awarded TCAC tax credits, construction commences within 6 months and the Developer anticipates a construction period of sixteen months.

ENVIRONMENTAL

On January 16, 2001, the City of Tustin certified the program FEIS/EIR for the reuse and disposal of MCAS Tustin. On December 6, 2004, the City Council adopted Resolution No. 04-76 approving a Supplement to the FEIS/EIR for the extension of Tustin Ranch Road between Walnut Avenue and the future alignment of Valencia north loop road. On April 3, 2006, the City Council adopted Resolution No. 06-43 approving an Addendum to the FEIS/EIR and, on May 13, 2013, the City Council adopted Resolution No. 13-32 approving a Second Addendum to the FEIS/EIR. On July 5, 2017, the City Council adopted Resolution No. 17-23 approving a second Supplement to the FEIS/EIR. The FEIS/EIR, along with its addendums and supplements, is a program EIR under the California Environmental Quality Act (CEQA). The FEIS/EIR, addendums and supplementals considered the potential environmental impacts associated with development on the former MCAS, Tustin.

An Environmental Checklist has been prepared and concluded that the proposed actions do not result in any new significant environmental impacts or a substantial increase in the severity of any previously identified significant impacts in the FEIS/EIR. Moreover, no new information of substantial importance has surfaced since certification of the FEIS/EIR.

DISCUSSION:

As proposed, the development will provide managed affordable rental opportunities for families and permanent supportive housing for the homeless through a ground lease, which provides the City with financial flexibility at the end of 55 years. In addition, the Developer has demonstrated the expertise to develop the project.

Attachments: DDA between the City of Tustin and JHC-Acquisitions LLC
Environmental Analysis Checklist