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August 17, 2021

Liane Takano
Southern California Director
The Related Companies of California
18201 Von Karman Avenue, Suite 900
Irvine, CA 92612

Dora Leong Gallo
Chief Executive Officer
A Community of Friends
3701 Wilshire Blvd., Suite 700
Los Angeles, CA 90010

Re: Crossroads at Washington
1126 and 1146 E. Washington Avenue, Santa Ana, CA 92701
First Amended and Restated Pre-Commitment Letter for: NSP Loan, HOME Loan,
Lease Agreement, and Seven (7) Project-Based Vouchers

Dear Ms. Takano and Ms. Gallo,

The Related Companies of California and A Community of Friends (collectively referred to as the “Developer”) requested financial assistance in connection with the proposed development of an eighty-six (86) unit affordable housing complex, with eighty-five (85) units restricted to extremely-low income households, to be located at 1126 and 1146 E. Washington Avenue, Santa Ana, CA 92701 (APNs 398-092-13 and 398-092-14) (“Project”).

The site consists of two adjacent parcels. The Housing Authority of the City of Santa Ana (“Housing Authority”) owns one parcel at 1126 E. Washington Ave. (APN 398-092-14) totaling approximately 1.43 acres of land area (“Housing Authority Parcel”). The County of Orange (“County”) owns an adjacent parcel (APN 398-092-13) totaling approximately .85 acres of land area (“County Parcel”). The Housing Authority and County have merged their respective parcels with joint ownership for purposes of master leasing the parcels to the Developer to construct the Project over a single parcel (“Property”).

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The City of Santa Ana (“City”) and the Housing Authority have reviewed the Developer’s request for assistance, and at the City Council/Housing Authority meeting on July 2, 2019, the City Council and Housing Authority Board authorized and approved issuance of this pre-commitment letter evidencing the preliminary award of (collectively, the “City Assistance”):

- A loan in the maximum amount of \$963,951.00 from the Neighborhood Stabilization Program (“NSP”) held by the City for the Project (“NSP Loan”);
- A loan in the maximum amount of \$3,007,489.00 from the HOME Investment Partnerships Program (“HOME”) held by the City for the Project (“HOME Loan”); and,
- A 62-year ground lease for the Housing Authority portion of the Property located at 1126 and 1146 E. Washington Avenue, Santa Ana, CA 92701 (APNs: 398-092-13 and 398-092-14); to be used for development of an eighty-six (86) unit affordable housing complex, with eighty-five (85) units restricted to extremely-low income households (“Ground Lease”).

On August 17, 2021, the City Council and the Housing Authority Board authorized and approved issuance of this amended and restated pre-commitment letter evidencing an additional award of:

- \$333,742 of NSP funds to the existing preliminary award of \$963,951 for a total of \$1,297,693 in NSP funds; and,
- Seven (7) Project-Based Vouchers (PBVs).

This amended and restated letter shall evidence the City’s pre-commitment of the City Assistance to the Developer for the Project subject to the conditions described below.

NSP and HOME Loans:

The amount of the proposed NSP and HOME Loans has been determined based upon the City’s review of the Developer’s request for the receipt of the City Assistance and the development proforma and projected cash flows for the Project submitted by the Developer to the City (“Proforma”). The City Manager has authority to approve revised development proformas and projected cash flows for the Project; provided, however, that the City Assistance is not increased or extended.

The NSP and HOME Loans shall include the following terms:

- The NSP Loan shall be for a maximum principal amount of \$1,297,693.00, or as much thereof as is disbursed for hard and soft costs in constructing the Project, provided from NSP funds.
- The HOME Loan shall be for a maximum principal amount of \$3,007,489.00, or as much thereof as is disbursed for hard and soft costs in constructing the Project, provided from HOME funds.

- 3% simple interest per annum.
- Repayment from 33.3% of Residual Receipts (pro-rata with payments due in connection with other financing provided by other public agencies) (after payment of operating expenses including social services expenses and monitoring fees, debt service, any deferred developer fee, and partnership fees to be described in the Agreement), with 33.4% to the County, and the remaining 33.3% to be disbursed to the Developer.
- Remaining principal and accrued interest due upon the 55th anniversary of the issuance of Certificate of Occupancy or earlier upon sale, refinancing or default. On that date, the City and Housing Authority agree to review the performance of the Property and consider in good faith any reasonable request by Developer to modify the terms or extend the term of the City Promissory Notes. Additionally, the City will receive 33.3% of the net proceeds received from any sale or refinancing of the Project in order to repay any outstanding principal or interest due on the City Promissory Notes, after payment of outstanding conventional debt and payment in full of any deferred developer fee and establishment of any reserves and transaction costs.
- Cost savings from the Project, if any, will be applied first to pay down the NSP and HOME Loans, subject to compliance with the Tax Credit Allocation Committee ("TCAC") Regulations and California Health and Safety Code, as applicable.
- After all other funding sources have been secured through enforceable funding commitments, a HOME Subsidy Layering Review is required in order to confirm the amount of HOME funds committed to the Project.

The HOME Loan shall also require specific HOME designated units in the Project. Based on a preliminary HOME Cost Allocation Analysis, the City must designate at least sixteen (16) units in the Project as HOME assisted-units per the following preliminary unit mix:

- Three (3) studio units;
- Five (5) one-bedroom units;
- Four (4) two-bedroom units;
- Three (3) three-bedroom units; and,
- One (1) four-bedroom unit.

As least 20% of the HOME designated units must be designated as Low HOME units. This equates to four (4) Low HOME units based on a sixteen (16) unit HOME requirement. The remainder of the HOME designated units can be restricted as High HOME units. This is subject to change based on a final HOME Cost Allocation Analysis to be completed after the HOME Subsidy Layering Review has been performed.

Ground Lease:

The Project will be located on the Property at 1126 and 1146 E. Washington Avenue, currently owned by the Housing Authority, as well as the adjacent parcel owned by the County (APNs: 398-092-13 and 398-092-14). The Housing Authority will be working with the County to draft and negotiate the necessary documents to join ownership so that the Project may be constructed over the combined Property under a master lease with the Housing Authority and County, as joint owners.

The ground lease payment will be structured as capitalized ground rent payment based on the appraised fair market value of the Property. The Developer estimates the current value of the Property at \$5,580,000. This figure will need to be confirmed through an appraisal, but based on the Developer's assessment, the capitalized ground rent payments are estimated as follows:

- The capitalized ground rent payment for the County parcel is estimated at \$2,500,000; and,
- The capitalized ground rent payments for the Housing Authority parcel is estimated at \$3,080,000.

These amounts will be paid at closing with funds provided by loans made by the City and County which will be secured by promissory notes on the Property and be repaid through a share of the Project's Residual Receipts as noted above (i.e., 33.4% to the County and 33.3% to the Housing Authority). This will not be a cash transaction; the closing escrow statement will show a credit and debit of \$3,080,000.

Based on the above, the Housing Authority Board authorized a preliminary award of a 62-year lease of the Housing Authority portion of the Property to the Developer for the Project. After Developer secures a commitment from the County for a 62-year lease of the County portion of the Property, staff will return to the Housing Authority for consideration of a 62-year Ground Lease Agreement. There will only be one Ground Lease Agreement that will have all three parties: the County, City (as tenants in common) and the Developer. The Ground Lease Agreement will require the successful development of the Project by the Developer.

Project-Based Vouchers:

- Funding Source: The seven (7) PBVs will be funded out of the Housing Choice Voucher Program annual budget authority received by the Housing Authority from HUD.
- Rents: The Project-Based Voucher Housing Assistance Payments (HAP) Contract rents below are preliminary and contingent upon a reasonable rent determination to be conducted by the Housing Authority at the time of execution of the HAP Contract:
 - Two PBVs for the 3-bedroom Units: \$2,937
 - Five PBVs for the 4-bedroom Units: \$3,382

In accordance with HUD regulations and SAHA's Administrative Plan, these rents are subject to review prior to the execution of a HAP contract.

- Annual Amount: The Project will receive PBVs for seven (7) units:

Unit Size	30% AMI	
	No. Units	Proposed Rent
Three-Bedroom	2	\$2,937
Four-Bedroom	5	\$3,382
Total	7	

- Term: The HAP Contract will have a term of twenty (20) years. Any time before the expiration of the HAP Contract, the Developer may request an additional twenty (20) years, subject to a determination by the Housing Authority that it is appropriate to continue providing affordable housing for low-income families or to expand housing opportunities and HUD funding. Subsequent extensions are subject to the same requirements.
- Units Receiving Assistance: The maximum number of units receiving assistance from the Housing Authority will be seven (7).

General Provisions:

The City's obligation to provide the City Assistance to the Project is subject to each of the following conditions:

- Developer must provide proof that it has secured all of its remaining financing for the development of the Project in the form of enforceable funding commitments, which may include 9% or 4% Federal Low Income Housing Tax Credits, State Housing Tax Credits, a loan of affordable housing funds from the County of Orange, Section 8 project-based vouchers from the Orange County Housing Authority, or any other funding sources necessary in the Project's capital stack to close on their financing, before staff will return to the City Council for consideration of the NSP and HOME Loan Agreements.
- Developer must provide proof that the County has approved or committed to approve a 62-year ground lease for the County portion of the Property located at 1126 and 1146 E. Washington Avenue, Santa Ana, CA 92701 (APNs: 398-092-13 and 398-092-14) before staff will return to the Housing Authority for consideration of the Ground Lease Agreement.
- All of the affordable units (less 1 manager's unit) in the Project will be restricted to extremely low-income households.

- The rent standards for the Project must be in compliance with the strictest of the standards imposed by TCAC and HOME Program regulations, or other funding sources contributed to the Project, as applicable.
- All provided funding and Project requirements shall conform to the City's adopted Affordable Housing Funds Policies and Procedures, unless alternative requirements are expressly provided in the executed NSP and HOME Loan Agreements, Ground Lease Agreement, or any other documents related to the development of the Project.
- Approval of all required entitlements and discretionary actions, to allow the construction of an 86-unit affordable housing complex to be located at 1126 and 1146 E. Washington Avenue, Santa Ana, CA 92701.
- The City's obligation to provide the NSP Loan and HOME Loan is and shall remain subject to all covenants, conditions, and restrictions set forth in the Loan Agreements, and in particular City's analysis of the available funding sources and development and operating costs of the Project and the overall economic feasibility of the Project.
- Review and approval of the documents evidencing the NSP Loan and HOME Loan by the City Council.
- Review and approval of the documents evidencing the Ground Lease by the Housing Authority and the County.
- The Housing Authority's obligation to provide the seven (7) PBVs is and shall remain subject to the City's analysis of the available funding sources and development and operating costs of the Project and the overall economic feasibility of the Project.
- Project funding is contingent on the successful execution of a 62-year Ground Lease Agreement by the Developer with the Housing Authority and County.
- Compliance with California Health and Safety Code and applicable regulations set forth in Section 34176.

Developer, at its sole cost and expense, will be responsible for securing any and all permits and discretionary approvals that may be required for the Project by the City, Housing Authority, County, or any other federal, state, or local governmental entity having or claiming jurisdiction over the Property or Project. Notably, this first amended and restated pre-commitment letter shall not obligate the City or any department thereof to approve any application or request for or take any other action in connection with any planning approval, permit or other action necessary for the construction, rehabilitation, installation or operation of the Project.

This first amended and restated pre-commitment letter for the project will expire on August 17, 2023.

If you have any questions or require any additional information regarding this pre-commitment letter, please contact Judson Brown, Housing Division Manager, by telephone at (714) 667-2241 or by e-mail at jbrown@santa-ana.org.

Sincerely,

On behalf of the City of Santa Ana:

Kristine Ridge
City Manager

Attest:

Daisy Gomez
Clerk of the Council

On behalf of the Housing Authority of the City of Santa Ana:

Steven A. Mendoza
Housing Authority Executive Director

Attest:

Daisy Gomez
Recording Secretary