SUMMARY REPORT PREPARED PURSUANT TO CALIFORNIA HEALTH AND SAFETY CODE SECTION 33433 ON A LAND DISPOSITION, DEVELOPMENT AND FUNDING AGREEMENT BETWEEN THE COUNTY OF SAN BERNARDINO; BLOOMINGTON III HOUSING PARTNERS, L.P.; HPI BLOOMINGTON III, LLC; AND BLOOMINGTON COMMUNITY CENTER DEVELOPER, LLC

The following Summary Report has been prepared pursuant to California Health and Safety Code Section 33433. The reports sets forth certain details of the proposed Disposition, Development and Funding Agreement (Agreement) between the County of San Bernardino (County); Bloomington III Housing Partners, L.P., a California limited partnership (Affordable Developer); HPI Bloomington III, LLC, a California limited liability company (Grantee), and Bloomington Community Center Developer, LLC, a California limited liability company (Community Center Developer). The Affordable Developer, the Grantee and the Community Center Developer are sometimes referred to collectively as the "Developers".

The purpose of the Agreement is to effectuate the replacement housing requirements imposed on the former San Sevaine Redevelopment Project Area. To that end, the Agreement calls for the County to convey to the Developers an approximately five-acre site of County-owned property in the unincorporated Bloomington area of San Bernardino County. The County acquired the site with Tax-Exempt Housing Bond Proceeds from the former Redevelopment Agency of the County of San Bernardino.

The proposed Agreement calls for the third phase of the Bloomington Mixed Use Development. The previous two phases can be described as follows:

1. Phase I of the master development was developed on approximately six acres of land. This property was subdivided into the following two condominium parcels:

    a. A 106-unit income-restricted multi-family and intergenerational apartment project; and

    b. An approximately 6,600 square foot public library.

2. Phase II of the master development was developed on approximately three acres of land. The Phase II development consisted of 84 affordable apartment units.

The Agreement is focused on the disposition, development and funding of Phase III of the Bloomington Mixed Use Development, which is proposed to consist of the following two condominium parcels:

1. A 98-unit income-restricted multi-family rental housing project (Phase III Affordable Development Parcel); and

2. An approximately 7,700 square foot community center (Community Center Parcel).

Under the terms of the Agreement, these Parcels will be conveyed in the form of separate ground leases that will each remain in effect for 57 years. In addition, the County will provide financial assistance to the Developers to fill the financial gaps created by the requirements imposed by the Agreement.

Due to the fact that a portion of the County-owned property was acquired with tax-exempt bonds secured by Property Tax Increment Housing Set-Aside (Set-Aside) funds, the proposed conveyance of the Phase III Affordable Development Parcel and the Community Center Parcel are subject to the reporting requirements imposed by Section 33433. Specifically, Section 33433 requires the conveying entity to prepare a report that summarizes the financial terms associated with the proposed disposition transaction. The following Summary Report is based upon the information contained within the Agreement, and is organized into the following seven sections:

I. **Salient Points of the Agreement**: This section summarizes the major responsibilities imposed on the Affordable Developer, the Grantee, the Community Center Developer and the County by the Agreement.

II. **Cost of the Agreement to the County**: This section details the total cost to the County associated with implementing the Agreement.

III. **Estimated Value of the Interests to be Conveyed Determined at the Highest Use Permitted under the Property's Zoning**: This section estimates the values of the interests to be conveyed determined at the highest use permitted under the requirements imposed by the zoning in place on the Phase III Affordable Development Parcel and the Community Center Parcel.

IV. **Estimated Reuse Value of the Interests to be Conveyed**: This section summarizes the valuation estimate for the Phase III Affordable Development Parcel and the Community Center Parcel based on the required scope of development, and the other conditions and covenants required by the Agreement.

V. **Consideration Received and Comparison with the Established Value**: This section describes the compensation to be received by the County, and explains any difference between the compensation to be received and the established value of the Phase III Affordable Development Parcel and the Community Center Parcel.

VI. **Blight Elimination**: This section describes the existing blighting conditions on the Phase III Affordable Development Parcel and the Community Center Parcel, and explains how the Agreement will assist in alleviating the blighting influence.

VII. **Conformance with the AB1290 Implementation Plan**: This section describes how the Agreement achieves goals identified in the adopted AB1290 Implementation Plan for the former San Sevaine Redevelopment Project Area.

This report and the Agreement are to be made available for public inspection prior to the approval of the Agreement.

I. SALIENT POINTS OF THE AGREEMENT

A. Project Description

Phase III Affordable Development

The Phase III Affordable Development includes 98 apartment units (Phase III Affordable Development Improvements). The Phase III Affordable Development Improvements can be described as follows:

1. The Phase III Affordable Development consists of the following unit mix:

   a. Inland Empire Health Plan (IEHP) Units:

      i. Seven (7) one-bedroom units; and

      ii. Three (3) two-bedroom units.

   b. Mental Health Services Act (MHSA) Units:

      i. Six (6) one-bedroom units; and

      ii. Four (4) two-bedroom units; and

   c. Affordable Family Units:

      i. Fifty-one (51) two-bedroom units; and

      ii. Twenty-six (26) three-bedroom units.

d. One (1) two-bedroom unit to be provided for an on-site manager.

2. Community room space totaling approximately 1,200 square feet will be provided.

Community Center Development

The Community Center Development consists of approximately 7,700 square feet of gross building area (Community Center Improvements). The Community Center Developer will be responsible for constructing the Community Center Improvements.

Parking

The Phase III Affordable Development and the Community Center Development will be served by 209 surface parking spaces.

B. Financial Assistance Package

The financial assistance package identified in the Agreement can be summarized as follows:

Phase III Affordable Development Parcel:

1. The Phase III Affordable Development Parcel is being conveyed to the Affordable Developer in the form of a long-term ground lease that carries a capitalized land rent of $6.70 million.[1] The Agreement calls for the $6.70 million capitalized land rent to be treated as a grant to the Phase III Affordable Development.

2. The County has already provided the Affordable Developer with an $875,000 predevelopment loan using NSP 3 Program Income funds and County Housing Monies. The predevelopment loan will be included in the Residual Receipts Loan.

3. The County will provide a $500,000 grant to fund off-site infrastructure improvements. This grant will be provided using tax-exempt bond proceeds that were secured with Set-Aside funds.

4. IEHP will provide a $1.50 million grant to fund construction costs associated with the Phase III Affordable Development.

[1] The County used tax-exempt bonds secured by Set-Aside funds to acquire the property for $1.35 million.

5. The County will provide a $7.98 million loan to fund construction costs associated with the Phase III Affordable Development. This loan consists of the following funding sources:

    a. $3.68 million in County Housing Monies;

    b. $800,000 in Low and Moderate Income Housing Asset Funds (LMIHAF); and

    c. $3.50 million in County HOME funds.

Community Center Parcel:

1. The Community Center Parcel is being conveyed to the Community Center Developer in the form of long-term ground lease that carries nominal payments of $1.00 per year.

2. The County will provide the Community Center Developer with approximately $2.10 million in grant assistance to construct the Community Center Improvements. This assistance will be provided using Neighborhood Stabilization Program Income funds.

The County financial assistance packages to be provided to the Phase III Affordable Development and the Community Center Development are summarized in the following table:

	Residual Receipts Loan	Grant	Total
Phase III Affordable Development			
Capitalized Land Rent	--$0--	$6,700,000	$6,700,000
Predevelopment Loan	875,000	--0--	875,000
Off-Site Improvements	--0--	$500,000	500,000
IEHP Construction Funding	--0--	1,500,000	1,500,000
Construction Cost Gap	7,975,000	--0--	7,975,000
Total Financial Assistance: Phase III Affordable Development	$8,850,000	$8,700,000	$17,550,000
Community Center Development Assistance	--0--	$2,100,000	$2,100,000
Grand Total Financial Assistance	$8,850,000	$10,800,000	$19,650,000

The $8,850,000 Residual Receipts Loan will be provided on an interest-free basis, and will be repaid by the Affordable Developer over a 57-year term. The repayment will be derived from the cash flow remaining each year after payment of the following obligations:

1. General Operating Expenses:

   a. Typical property management fees and reimbursements;

   b. Utilities costs paid for by the Affordable Developer;

   c. Maintenance and repair costs;

   d. Premium payments for property damage and liability insurance;

   e. Annual licenses and fees required to operate the Phase III Affordable Development;

   f. Security services;

   g. Advertising and marketing costs;

   h. Reasonable accounting and legal fees; and

   i. Annual audit, inspection and monitoring fees.

2. Property taxes and assessments imposed on the Phase III Affordable Development.

3. The costs incurred to provide social services.

4. Required debt service due on a non-optional basis on loans associated with the Phase III Affordable Development and approved by the County in the Approved Affordable Housing Financing Plan.

5. Annual regulatory compliance monitoring fee of $7,500 payable to the County.

6. Cash deposited into capital replacement and operating reserve accounts in amounts approved by the County.

7. An asset management fee for the first 15 years of the Phase III Affordable Development's operation in amounts approved by the County.

8. One-time payments of insurance deductibles associated with casualty losses not normally paid from reserves, and the cost to replace, repair or restore uninsured losses no normally paid from reserves.

9. Other ordinary and extraordinary operating expenses approved by the County.

The Affordable Developer must commit 50% of the Phase III Affordable Development's cash flow to the repayment of the County's $8,850,000 Residual Receipts Loan and the MHSA Loan.

C. Developers' Responsibilities

The Developers must adhere to the following requirements:

1. Development Plans:

    a. The Developers must comply with all government entities' regulatory and administrative processes related to the land use approvals required for the Phase III Affordable Development and Community Center Development.

    b. The County has approved the Conceptual Site Plan submitted by the Developers for the Phase III Affordable Development Improvements and Community Center Improvements. These Conceptual Site Plans must serve as the basis for the plans submitted by the Developers to receive government approvals for the development.

    c. The Developers and the County must collectively create a condominium, parcel, or subdivision map that identifies the Phase III Affordable Development Parcel and the Community Center Parcel. The Developers and the County must also execute a Reciprocal Easement Agreement that covers the Phase III Affordable Development and Community Center Parcels.

    d. If necessary, the Developers and the County must work with the developers of the Phase I Development and the Phase II Development to execute a Joint Use Agreement, or amend an existing Joint Use Agreement.

    e. The Developers must obtain building permits for the Phase III Affordable Development and the Community Center Development in accordance with the timeline set forth in the Schedule of Performance attachment to the Agreement.

2. Financial Requirements:

    a. A financing plan that identifies all the sources and uses of funds required to develop the Phase III Affordable Development and the Community Center Development is provided as an attachment to the Agreement. Any proposed modifications to the approved financing plan must be submitted to the County for approval.

    b. The Developers must submit a construction completion guaranty for the Phase III Affordable Development and Community Center Development, executed by The Related Companies, L.P., a New York limited partnership.

c. The Developers must submit to the County evidence that insurance coverage has been obtained that meets the requirements imposed by the Agreement.

d. The Developers may not apply to the State Board of Equalization to obtain a welfare exemption from the property taxes applicable to the Phase III Affordable Development or the Community Center Development.

3. Labor Requirements:

a. To the extent required by law, the Developer shall pay all contractors and subcontractors engaged to construct the Phase III Affordable Development and Community Center Development the greater of the wage rates required by the federal Davis-Bacon Act and California Labor Code Section 1720.

b. The Developers are prohibited from any form of discrimination on the basis of race, color, creed, religion, sex, sexual orientation, marital status, national origin or ancestry, or source of income, in the hiring, firing, promoting or demoting of any person engaged in the construction of the Phase III Affordable Development and the Community Center Development.

D. Affordable Developer Responsibilities

The Agreement requires the Affordable Developer to accept the following responsibilities:

1. The Affordable Developer must accept conveyance of the Phase III Affordable Development Parcel in the form of a ground lease:

a. The Affordable Developer must accept the Phase III Affordable Development Parcel in an “as is” condition.

b. The ground lease term is set at 57 years; and

c. The capitalized land rent is set at $6.70 million.

2. In accordance with the schedule of performance attachment to the Agreement, the Affordable Developer must submit evidence that the financing and funding identified in the financing plan will be available for disbursement prior to the close of escrow for the construction of the Phase III Affordable Development. These financing sources are comprised of:

a. Conventional permanent loan(s);

b. 9% Low Income Housing Tax Credits (Tax Credits) awarded on a competitive basis by the California Tax Credit Allocation Committee (TCAC);[2]

c. State Tax Credits awarded by TCAC;

d. IEHP Funds awarded by IEHP;

e. MHSA Funds awarded by CalHFA; and

f. Project Based Housing Vouchers that are allocated by Housing Authority of the County of San Bernardino.

3. The Affordable Developer is entitled to receive a Developer Fee in return for providing development and construction management services. The maximum Developer Fee amount is set at $2.10 million.

4. The Affordable Developer must include a $250,000 Supplemental Replacement Reserve in the Project's budget to pay for extraordinary damage to the physical unit or fixtures of the IEHP or MHSA units.

5. The Affordable Developer must include a $100,000 Cash Flow Deficit Reserve in the Project's budget to be utilized to make debt service payments in the case of insufficient cash flow.

6. The costs to develop the Phase III Affordable Development are being funded in part with NSP 3 funds. The Affordable Developer is required to comply with all applicable laws and regulations pertaining to the use of the NSP 3 funds over the course of the 20-year NSP term.

7. The costs to develop the Phase III Affordable Development are being funded in part with HOME funds. The Affordable Developer is required to comply with all applicable laws and regulations pertaining to the use of the HOME funds over the course of the 20-year HOME term.

8. The Affordable Developer must construct a 98-unit apartment development in accordance with the Scope of Development and Schedule of Performance attachments to the Agreement.

9. The rent limits that must be imposed on the Phase III Affordable Development must comply with the most stringent of the requirements imposed on the use of Set-Aside funds, NSP funds, HOME funds, Tax Credit funds, MHSA funds, and Project Based

[2] The Agreement requires the Developer to submit a Tax Credit application in second application period offered by TCAC in 2019. If Tax Credits are not awarded to the Phase III Affordable Development in the second round, the Agreement allows the Affordable Developer to apply in the following two rounds.

Housing Vouchers. Based on these requirements, the rents must be based on the following standards:

a. One (1) unit must be rented to an on-site manager. This unit is not subject to income and affordability restrictions.

b. Sixteen (16) units must be rented to households earning less than 30% of the Tax Credit median income or 30% of the San Bernardino County median income published by the California Department of Housing and Community Development (HCD).

c. Four (4) units must be rented to households earning less than: 30% of the Tax Credit median or 30% of the median income published by HCD or Low HOME rents.

d. One (1) unit must be rented to households earning less than 30% of the Tax Credit median or 110% of the median income published by HCD or Low HOME rents.

e. Two (2) units must be rented to households earning less than 30% of the Tax Credit median or 110% of the median income published by HCD.

f. Twelve (12) units must be rented to households earning less than 40% of the Tax Credit median income or 110% of the median income published by HCD or High HOME rents.

g. Three (3) units must be rented to households earning less than 40% of the Tax Credit median income or 110% of the median income published by HCD.

h. Ten (10) units must be rented to households earning less than 50% of the Tax Credit median income or 110% of the median income published by HCD.

i. Forty-nine (49) units must be rented to households earning less than 60% of the Tax Credit median or 110% of the median income published by HCD.

10. Each year, the Affordable Developer must submit to the County a certification of compliance with the income and affordable housing cost covenants imposed by the Agreement. The monitoring document must comply with the requirements imposed by California Health and Safety Code Section 33418.

11. The Affordable Developer must operate and maintain the Phase III Affordable Development in conformance with the standards imposed in the Agreement over the entire 55-year covenant period. Specifically, the Developer must comply with the following requirements:

12. The Affordable Developer must submit a Management Plan and a Marketing Plan to the County for approval.

13. Throughout the term of the Agreement, the on-site manager must participate in the San Bernardino County Sheriff-Coroner Department's Crime Free Multi-Housing Unit Program.

14. The Affordable Developer must keep the Phase III Affordable Development free from all graffiti, accumulation of shopping carts, debris and waste material.

15. The Affordable Developer shall employ crime prevention measures such as maintaining adequate lighting in parking areas and pathways, and by providing dead-bolt locks and solid-core doors for every entry door in the Phase III Affordable Development.

16. The Affordable Developer must pay all real and personal property taxes, assessments and charges; and all franchise, income, employment, old age benefit, withholding, sales and other taxes applicable to the Phase III Affordable Development.

17. The Affordable Developer must repay the Residual Receipts Loan in accordance with the terms set forth in the Promissory Note attachment to the Agreement.

E. Community Center Developer Responsibilities

The Agreement imposes the following responsibilities on the Community Center Developer:

1. The Community Center Developer must accept conveyance of the Community Center Development Parcel in the form of a ground lease:

    a. The Community Center Developer must accept the Community Center Development Parcel in an "as is" condition.

    b. The ground lease term is set at 57 year; and

    c. The annual ground lease payment is set at $1.00.

2. The Community Center Developer must maintain the exterior of the Community Center Improvements.

F. County Responsibilities

The Agreement imposes the following responsibilities on the County:

1. The County must convey the County Parcels to the Developers in accordance with the ground-lease terms set forth in the Agreement.

2. Financial Assistance: The County must provide $17.55 million in financial assistance to the Affordable Developer and $2.10 million in assistance to the Community Center Developer. The total assistance package equals $19.65 million.

3. The County must disburse the funds in accordance with the Schedule of Performance attachment to the Agreement.

4. After completion of the Phase III Affordable Development, the County must provide the Developers with “Certificates of Completion” for the Phase III Affordable Development and the Community Center Development.

5. The County must approve the Resident Services Plan and Resident Services Budget.

II. COST OF THE AGREEMENT TO THE COUNTY

The costs incurred by the County to implement the Agreement are estimated as follows:

<u>Phase III Affordable Development</u>		
NSP 3 Funds – Predevelopment Loan		$237,362
County Housing Monies		
Predevelopment Loan	$637,638	
Construction Cost Gap	3,675,000	
Total County Housing Monies		$4,312,638
LMIHAF Funds – Construction Cost Gap		$800,000
HOME Funds – Construction Cost Gap		$3,500,000
IEHP Funds – Construction Cost Gap		$1,500,000
Tax-Exempt Bond Funds		
Property Acquisition	$1,350,000	
Off-Site Infrastructure Costs	$500,000	
Total Tax Exempt Bond Funds		$1,850,000
Additional Land Value (Above Acquisition Costs)		$5,350,000
Total Affordable Housing Development Funds		**$17,550,000**
Community Center Development: NSP 3 Program Income		$2,100,000
Total Cost to the County		**$19,650,000**

The assistance package is allocated to an $8.85 million Residual Receipts Loan and an $8.70 million grant. The total cost to the County equals $19.65 million.

It is anticipated that the $8.85 million Residual Receipts Loan will be fully repaid by the end of the loan term. However, given that the debt service on the Residual Receipts Loan is completely dependent on the cash flow produced by the Phase III Affordable Development over time, it is too speculative to predict the net present value of the debt service payments that will be made over the term of the Residual Receipts Loan.

III. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE HIGHEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

California Health and Safety Code Section 33433 requires the County to identify the value of the interests being conveyed at the highest use permitted under the zoning in place on the Phase III Affordable Development and Community Center Parcels. The valuation must be based on the assumption that the property is vacant, and that near-term development is required. The valuation does not take into consideration any extraordinary use, quality and/or income restrictions being imposed on the development by the County.

The site to be developed consists of a 4.91-acre vacant property that was acquired by the County for $1,350,000 or $6.31 per square foot of land area. The Developers recently obtained a fair market value appraisal of the site which estimates the highest and best use value of the property at $6.70 million.

IV. ESTIMATED REUSE VALUE OF THE INTERESTS TO BE CONVEYED

Keyser Marston Associates, Inc. (KMA), the County's financial consultant, prepared a reuse valuation analysis of the Phase III Affordable Development and the Community Center Development Parcels based on the financial terms and conditions imposed by the Agreement. The KMA analysis concluded that the fair reuse value of the Parcels is negative $12.92 million. This estimate is approximately equal to the Developer's financial gap estimate of $12.95 million As such, this means that the Parcels would need to be conveyed to the Phase III Affordable Development and Community Center Development at no cost, and that $12.95 million in direct financial assistance would need to be provided, to make the scope of development required by the Agreement financially feasible.[3]

It is important to note that the amount of the County assistance package identified in the Agreement is predicated on the assumption that the Phase III Affordable Development will receive the competitively awarded 9% Tax Credits, State Tax Credits, MHSA funds, and Project Based Housing Vouchers. If any of these sources are not received by the Phase III Affordable Development, the fair reuse valuation conclusion will need to be re-evaluated.

V. CONSIDERATION RECEIVED AND COMPARISON WITH THE ESTABLISHED VALUE

The Agreement imposes extraordinary controls on the Phase III Affordable Development and Community Center Development Parcels. The impacts created by these requirements reduce the value of the Phase III Affordable Development and Community Center Development Parcels

[3] The negative reuse value is comprised of the $10.85 million financial gap associated with the Affordable Development and the $2.10 million financial gap associated with the Community Center Development.

from $6.70 million at the highest use permitted under the Parcels zoning, to the established fair reuse value of negative $12.92 million.

The Agreement treats $8.85 million of the costs incurred by the County as a Residual Receipts Loan that must be repaid out of the cash flow generated by the Phase III Affordable Development over time. At the end of the covenant period, the Affordable Developer must repay any outstanding balance on the Residual Receipts Loan. Given that the repayment proceeds received by the County will be greater than the established fair reuse value of negative $12.92 million, it can be concluded that the County is receiving fair consideration for the interests being conveyed to the Developers.

VI. BLIGHT ELIMINATION

The Phase III Affordable Development includes the development of 98 residential units, of which 97 units are subject to long-term income and affordability restrictions. 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 scope of development required by the Agreement fulfills the blight elimination requirement.

VII. CONFORMANCE WITH THE AB1290 IMPLEMENTATION PLAN

The proposed Phase III Affordable Development fulfills replacement housing obligations that have been imposed on the County. These replacement housing obligations were identified in the Implementation Plans for redevelopment project areas within San Bernardino County. Thus, it can be concluded that the Phase III Affordable Development furthers the goals established by the AB1290 Implementation Plan.