SUMMARY OF PROPOSED DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT
BETWEEN THE CITY OF SALINAS
AND MID-PENINSULA THE FARM, INC.
21 SOLEDAD STREET
CHINATOWN AFFORDABLE HOUSING

1. Background and Purpose.

On February 7, 2017, the City Council of the City of Salinas (the "City") will conduct a public hearing to consider approval of a Disposition, Development and Loan Agreement ("DDLA") between the City and Mid-Peninsula The Farm, Inc., a California nonprofit public benefit corporation (the "Developer"). City Council will consider approval of the DDLA on February 21, 2017. The City serves as the housing successor to the former Salinas Redevelopment Agency (the "Former Agency"). This Summary has been prepared and made available to the public in accordance with the requirements of Health and Safety Code Section 33433, which requires provision of the following information:

a. The cost of the DDLA to the City, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the City, plus the expected costs of any loans or bonds to finance the DDLA. Please refer to Section 5 of this Summary for information on City costs to the DDLA.

b. The estimated value of the Property to be sold to the Developer pursuant to the terms of the DDLA, determined under the highest and best uses permitted under applicable land use standards. Please refer to Section 6 of this Summary for information concerning the highest and best use value of the Property.

c. The estimated value of the fee interest in the Property to be conveyed, determined at the use and with the conditions, covenants, and development costs required for the development of the Property under the DDLA (sometimes referred to as the "reuse value" of the Property). Please refer to Section 7 of this Summary for information regarding the reuse value of the Property.

d. The total purchase price (the "Purchase Price") to be paid for the Property by the Developer under the terms of the DDLA, and, if the Purchase Price is less than the highest and best use value of the Property, an explanation of the reasons for such difference. Please refer to Section 8 of this Summary for information regarding the Purchase Price and the reasons why the Purchase Price is less than the highest and best use value of the Property.

e. An explanation of why the sale and redevelopment of the Property pursuant to the DDLA will assist in the elimination of blight, with reference to all supporting facts and materials of this explanation. Please refer to Section 9 of this Summary for information regarding the manner in which the conveyance and redevelopment of the Property will eliminate blight by providing affordable housing, as well as a description of other public benefits that will be achieved through execution and implementation of the DDLA in accordance with the Former

Agency's 2010-2014 Implementation Plan adopted on March 23, 2010 (the "Implementation Plan").

2. Description of Development

The City currently owns the real property located at 5, 7, 9, 11, 13, 13-1/2, 17, 19, and 21 Soledad Street in the Chinatown area of the City in Salinas (the "Property"). The Property contains a single story concrete block building currently being used on a temporary basis by the At Risk gallery, a fenced vacant lot and a temporary community garden. Pursuant to the DDLA, the City will convey to the Developer the Property at no cost, and the Developer will construct a 90-unit rental housing complex on the Property (the "Development"). The DDLA and related documents impose occupancy and affordability restrictions on the Development that require the Developer to maintain 30 of the Development's units as affordable housing for extremely low income persons and 14 of the Development's units as affordable housing for persons with incomes equal to or less than 60% of area median income for Monterey County.

3. City Responsibilities

The City's primary responsibility under the DDLA is:

a. Upon satisfaction by the Developer of certain conditions set forth in the DDLA, the City will donate the Property to the Developer at no cost.

The cost to the City of performing its obligations under the DDLA is detailed in Section 5 below.

4. Developer Responsibilities

The Developer's primary responsibilities under the DDLA are:

a. The Developer will prepare and submit preliminary plans for approval by the City.

b. The Developer will prepare construction plans and obtain all necessary governmental approvals for development of the Development, including a building permit.

c. The Developer will prepare a financing plan evidencing that available funds are sufficient to pay all costs of development.

d. The Developer will construct the Development in accordance with approved plans and applicable laws.

e. The Developer will operate the completed Development in accordance with the standards of the DDLA, and will make 30 of the Development's units available for occupancy at affordable rents to extremely low income persons and 14 of the Development's units available for occupancy at affordable rents to persons with incomes equal to or less than 60% of area median income for Monterey County.

f. The Developer will operate the Development pursuant to the terms and conditions of the DDLA and a Regulatory Agreement and Declaration of Restrictive Covenants (the "Regulatory Agreement") for the length of time specified in the DDLA and the Regulatory Agreement.

5. Cost to the City

The estimated costs to the City are generally as follows:

Property Acquisition	$525,950
Clean-Up Costs	$129,000
Fencing and Weed Abatement	$ 17,000
City Predevelopment Grant	$ 25,000
City SERAF Loan	$201,500
City CDBG Grant	$400,000
Total City Costs	$1,298,450

All City costs will be paid from City funds. The City has not borrowed the money that was used to pay these costs; consequently there is no interest required to be paid by the City in connection with these costs.

6. Estimated Value of Property at Highest and Best Use

The estimated fee simple value of the Property to be conveyed under the DDLA, at the highest use permitted under applicable land use controls, is Five Hundred Twenty-Five Thousand Dollars ($525,000) as determined by an appraisal of the Property prepared by Norman C. Hulberg, MAI, and Charles R. Marqueling, SRA, of Valbridge Property Advisors, with an effective date of July 19, 2016.

7. Estimated Reuse Value

The reuse value of the Property may be calculated as the balance of funds obtainable for the Development that remains after paying for all other costs of the Development. In turn, the funds obtainable for the Development are a function of the net operating revenue generated by the Development. Therefore, to determine the reuse value of the Property, the following analysis evaluates the Development's income-generating potential to determine the balance of funds available to pay for the Property.

a. Operating Income of the Development. A key covenant of the DDLA is that the Developer must rent 30 of the Development's units at affordable rents to extremely low income persons and 14 of the Development's units available at affordable rents to persons with incomes equal to or less than 60% of area median income for Monterey County. In addition, the California Tax Credit Allocation Committee will also restrict the rent for the remaining units to affordable rent levels for households with income at or less than 60% of the area median income for Monterey County. Under this covenants, the Developer is precluded from renting those units at market rents. Therefore, the total development revenue that the Developer may obtain will be considerably less than if the Developer could rent those units at an unrestricted market rent rate to tenants.

It is estimated that the Developer will receive an effective gross operating income of approximately $1,174,628 annually (after deduction for a vacancy allowance), which will increase gradually over time. The total annual operating expenses and reserves, exclusive of debt payments, are estimated to be $890,190, which will increase over time. The remaining funds are barely sufficient to make required payments on a private permanent loan of approximately $235,063 with making very limited payment on the City loan of $201,500 and other residual receipts loans. Based on the above analysis, there will be no remaining funds to pay for the Property.

b. <u>Conclusion - Reuse Value</u>. As described above, the annual rental income from the Development is sufficient only to meet annual operating costs and to cover payments on a permanent loan for the Development.

There is no cash flow remaining to fully support additional debt or equity. As a result, the Development would not be financially feasible if the costs of development, including the price of acquisition of the Property, were higher.

In summary, the value of excess operating revenues will be $0, and as a result, the reuse value of the Property will be $0.

8. <u>Purchase Price and Reason for Difference From Highest And Best Use Value</u>

The City will donate the Property to the Developer at no cost. This price for conveyance is equivalent to, and is a direct result of, the Property's reuse value of $0, as described in Section 7 above.

The price at which the City will convey the Property to the Developer is less than the Property's value at its highest and best use under applicable land use standards of $525,000, as described in Section 6 above. This difference reflects the difference between the highest and best use value of the Property and the Property's reuse value, and results from the difference between the net operating revenues that could be achieved from devoting the Property to its highest use under applicable land use standards, and the net development revenues that can be generated by developing and operating the Development for rental at restricted affordable rents to extremely low income persons and to persons with incomes equal to or less than 60% of area median income for Monterey County as mandated by the DDLA.

In other words, the difference between the Purchase Price under the DDLA and its highest and best use value is directly and completely attributable to the covenants, restrictions and development costs imposed by the DDLA in furtherance of the City's policy decision to devote the Property to affordable housing, thus achieving the public benefits described in Section 9 below.

9. Assistance for Housing and Consistency with Implementation Plan

The City Council 2013-15 Goals of Economic Diversity and Prosperity include a priority initiative/objective of Chinatown Revitalization. Chinatown is considered as a priority of the City Council for revitalization efforts as part the of the Chinatown Rebound – An Implementation Strategy for the Chinatown Renewal Project Plan. The sale of the Property to the Developer and the use of the Property to provide affordable housing as contemplated by the DDLA will assist the City in meeting its Chinatown renewal and affordable housing goals. The redevelopment of the Property will assist in the elimination of blight in the Chinatown community as the Development includes remediation of soils and is the culmination of an over 10-year effort to establish an affordable housing complex in the area to assist with the homelessness issues in the neighborhood. In addition, the sale and operation of the Property as provided in the DDLA will directly satisfy a specific goal of the Redevelopment Plan and the City's Implementation Plan to expand the availability of affordable housing units in the community. Finally, the development contemplated by the DDLA is a specific project listed on pages 13, 24 28 of the Implementation Plan.