

**CITY OF PALM DESERT
AND PALM DESERT HOUSING AUTHORITY
STAFF REPORT**

MEETING DATE: March 27, 2025

PREPARED BY: Jessica Gonzales, Housing Manager

SUBJECT: PUBLIC HEARING TO APPORVE AN AMENDMENT TO DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT, AND RELATED RESOLUTIONS, FOR ARC VILLAGE PROJECT WITH CHELSEA INVESTMENT COPORATION PURUSANT TO H&S SECTION 33433

RECOMMENDATION:

1. Hold a joint public hearing and adopt a Housing Authority Resolution entitled "A RESOLUTION OF THE PALM DESERT HOUSING AUTHORITY APPROVING AN AMENDMENT TO DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT BETWEEN THE AUTHORITY AND CHELSEA INVESTMENT CORPORATION, OR ITS DESIGNEE ("Parties") PURSUANT TO HEALTH AND SAFETY CODE SECTION 33433."
2. Adopt a Housing Authority Resolution entitled "A RESOLUTION OF THE PALM DESERT HOUSING AUTHORITY DECLARING A HOUSING AUTHORITY OWNED PARCEL LOCATED OFF COUNTY CLUB DRIVE IN THE CITY OF PALM DESERT TO BE EXEMPT SURPLUS LAND PURSUANT TO GOVERNMENT CODE SECTION 54221(F)(1)(F)."
3. Approve Amendment to Disposition Development and Loan Agreement ("Amendment to DDLA") between the Parties, including the exhibits, for the conveyance of the Authority-owned vacant property located off of Country Club known as APN 622-370-014 to Chelsea Investment Corporation, or its designee, (the "Developer" or "Chelsea") for the construction of 39 units for rental to extremely low, very low and low income qualified households and one manager unit (the "Project"), pursuant to Health and Safety Code Section 33433.
4. Authorize Housing Authority Loan to the Developer for the purchase and construction of the Project in the amount of \$4,680,000, pursuant to terms of the Amendment to DDLA with the loan being secured by a subordinate deed of trust on the Project.
5. Authorize Director of Finance to Appropriate \$1,680,000 from unobligated Housing Asset Fund monies to Account Number 8734195-4663900.
6. Authorize the Executive Director to finalize and execute the Amendment to DDLA and documents deemed necessary to effectuate the Amendment to DDLA, the conveyance of the property and conditions of approval, with such changes thereto as the Executive Director, in consultation with legal counsel, may deem necessary and consistent with the purpose of the DDLA, as amended by the Amendment to DDLA, and conditions of approval.
7. Authorize the Chairperson and Executive Director to execute documents necessary to effectuate the transfer.
8. Adopt a City Resolution entitled "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT MAKING FINDINGS PURSUANT TO THE HEALTH AND SAFETY CODE SECTION 33433 IN CONNECTION WITH A PROPOSED AMENDMENT TO DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT BETWEEN THE PALM DESERT HOUSING AUTHORITY AND CHELSEA INVESTMENT CORPORATION OR ITS DESIGNEE."

BACKGROUND/ANALYSIS:

On June 13, 2024, the Housing Authority Board approved the conveyance/donation of the Palm Desert Housing Authority (“Authority”) owned 1.84-acre site located off of County Club Drive identified as APN 622-370-014 (“Property” or “Project Site”) to Chelsea Investment Corporation to develop a two-story multi-family residential apartment building and amenities, in which certain units will be made available to income qualified and developmentally disabled households. The Authority Board also approved a loan from the Housing Asset Fund (“Housing Fund”) for construction costs in the amount of \$3,000,000.

As part of the approval, the Developer was authorized to submit applications to the various financial funding sources identified for the Project. The Developer applied and received an award from the Tax Credit Allocation Committee (“TCAC”) for an allocation of nine percent (9%) Federal Tax Credits. The Project has also obtained funding awards from the Inland Regional Center (\$1,500,000), and eight (8) Project Based Vouchers from the Riverside County Housing Authority.

The Developer requested an amendment to the DDLA to restructure the disposition from a donation to a sale of the Property. The Amendment to the DDLA authorizes the Authority to convey the Project Site to the Developer for the development of the Project for the purchase price of \$1,680,000, which is fair market value based on a recent appraisal. It also authorizes increasing the loan to Chelsea to \$4,680,000 to make a purchase money loan to Chelsea for the acquisition of the Property. The sale of the Project Site removes the requirement for prevailing wage, thus not increasing the construction costs by approximately 20%.

Pursuant to Government Code Section 54221(f)(1)(F) surplus land will qualify as “exempt surplus land” if it will be 100% affordable housing Project subject to a recorded covenant or restriction that runs with the land and is enforceable against the owner and any successors in interest. Because the Authority plans to sell the Property for the development of a 100% affordable housing project and with the required restrictions pursuant to Government Code Section 54221(f)(1)(F), it complies and meets the criteria for “exempt surplus land.”

Authority Loan Terms.

- The Authority loan will be used to assist the development with construction costs and acquisition in the combined amount of \$4,680,000.
- The loan will be made from the Housing Asset Fund with a fifty-five (55) year term from the date the Certificate of Occupancy is issued.
- The \$3,000,000 cash component of the loan will bear 3% simple interest per year, upon sale of the Property. The \$1,680,000 land carry-back portion will have an annually compounded interest rate set at the adjusted Applicable Federal Rate (AFR) for April 2025 (the rate for March 2025 is 3.64%).
- The principal and interest will be repaid from a proportional share of (50%) of the Projects residual receipts and due and payable at the end of the loan term.

Housing Agreement. The Housing Agreement restricts all units, except for the manager’s unit, as follows:

	30% AMI	50% AMI	59% AMI	Totals
1-Bedroom Units	2	10	7	19
2-Bedroom Units	1	5	4	10
3-Bedroom Units	1	5	4	10
Total Units	4	20	15	39

Total development costs for the Project are estimated at \$23,483,000 or \$587,100 per unit. The Project has secured multiple funding sources including conventional loan proceeds, 9% Federal Tax Credits, a \$1,500,000 IRC Loan, an aggregate of eight (8) PBVs provided by the County, deferred developer fee, and the Authority loan.

FUNDING SOURCE	ESTIMATED AMOUNT
LIHTC Equity	\$13,774,310
GP Equity	\$100
Perm Loan (Tranche A)	\$3,130,000
Priority Deferred Developer Fee	\$352,771
Acquisition Loan	\$1,680,000
Palm Desert Housing Authority Loan	\$3,000,000
DDS – CRDP	\$1,500,000
TCAC Deposit Refund / Monitoring Fee	\$45,819
Total Development Cost	\$23,483,000

Keyser Marston Associates, Inc. (“KMA”), a state-wide provider of affordable housing consulting services, was engaged to provide technical analysis to determine if the Developer’s updated pro forma projections, feasibility and the request for the Loan were reasonable.

KMA’s evaluation included a detailed review of the Developer’s proforma. The Project’s assumptions, methodologies, and calculations were reviewed for reasonableness and accuracy. A financial gap analysis memorandum was updated and provided by KMA on March 13, 2025. Their analysis concluded that the modified loan of \$4,680,000 from the Authority allows the Project to realize significant cost savings by removing the prevailing wage requirement, with closing anticipated no later than April 11, 2025, and construction to start shortly thereafter.

While the Authority’s proposed \$117,000 per unit loan is higher than what the Authority has historically provided, a 40-unit project is much less efficient than projects with higher number of units. Part of KMA’s analysis included evaluating the proposed Project in comparison to recent projects and found the Developer’s request for financial assistance is still warranted. KMA concluded that in the current environment of high interest rates and construction costs and less federal and

state funding sources available to affordable housing projects, the Developer's request is reasonable to allow the Project to be developed in a timely manner.

A noticed public hearing on the DDLA and proposed donation of the Project Site was held on May 30, 2024. Notice of a new public hearing to be held on March 27, 2025, for the proposed Amendment to the DDLA was published once a week for two successive weeks in the Desert Sun.

Staff believes that based on the proximity to Desert Arc and its clients, the Property's location near public transit, accessibility to health services, and other community services, this is the best use for the Property. Access to the Property will be coordinated through Desert Arc with secondary gate access (fire access) through Las Serenas.

Staff therefore recommends that the Authority Board and City Council hold a joint public hearing on the proposed Amendment to the DDLA and conveyance of the Property in accordance with the amended DDLA, approve the draft Amendment to DDLA and other Loan Documents, and authorize the Executive Director and legal counsel to finalize and execute all other necessary documents.

Legal Review:

This report and resolutions have been reviewed by the Special Legal Counsel.

Strategic Plan:

One of the priorities of the City of Palm Desert's (the "City") Envision Palm Desert Strategic Plan, as part of Land, Use, Housing and Open Space, is to facilitate development of high-quality housing for people of all income levels. This request meets objective by diversifying the City's housing stock for moderate- and lower-income households.

Environment Review:

Via Resolution No. 2868, the Arc Village Apartments Project was approved by the Planning Commission on May 21, 2024, pursuant to California Environmental Quality Act ("CEQA") Guidelines Section 15332, for In-fill Development Projects (Class 32). The proposed DDLA, Amendment to DDLA, parcel conveyance and related approvals are approvals of the Arc Village Apartments project and thus exempt from CEQA pursuant to CEQA Guidelines section 15332.

FINANCIAL IMPACT:

Loan Funds in the amount of \$3,000,000 have been carried forward from the prior year approval as part of the FY 2024-25 Annual Budget. An appropriation of \$1,680,000 to Housing Asset Fund Account Number 8734195-4663900 is necessary to facilitate this request and fund the additional amount necessary for the property acquisition. There is no fiscal impact to the City's General Fund.

ATTACHMENTS:

1. Notice of Joint Public Hearing H&S 33433
2. Housing Authority Resolution – Surplus Land Act Exemption
3. Summary Report H&S 33433 (dated 05.29.24 and revised 03.13.25)
4. Housing Authority Resolution – H&S 33433
5. Draft Amendment to DDLA and Exhibits with Chelsea for Arc Village Apartments
6. City Council Resolution – H&S 33433