SUMMARY REPORT PURSUANT TO
CALIFORNIA HEALTH AND SAFETY CODE SECTION 33433
ON A
DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT BY AND BETWEEN
PALM DESERT HOUSING AUTHORITY,
AND
CHELSEA INVESTMENT CORPORATION
A CALIFORNIA CORPORATION
(OR ITS DESIGNEE)

The following Summary Report has been prepared pursuant to California Health and Safety Code Section 33433 ("Section 33433"). The Summary Report sets forth certain details of the proposed Disposition, Development and Loan Agreement ("Agreement") between the Palm Desert Housing Authority ("Authority"), in its capacity as the Palm Desert Housing Successor, and Chelsea Investment Corporation, or its designee ("Developer"). The Agreement requires the Authority to convey the parcel located off of Country Club Drive ("Site") totaling 1.84-acres to the Developer for the development of an apartment project including 40 apartment units, including 39 income restricted units, 10 of which will be designated for use by individuals with special needs, and one unit to be used for on-site management ("Project").

In 2012, the City of Palm Desert ("City") designated the Authority as the Housing Successor for the former Palm Desert Redevelopment Agency ("Agency"). The Agency used low income housing set-aside funds to purchase the Site in July 2011. The Site was transferred to the Authority in 2012 per the Housing Asset Transfer list as was approved by the State of California's Department of Finance. The Authority also proposes to provide financial assistance to the Project from the Low and Moderate Income Housing Asset Fund ("LMIHAF"). The Project was approved by the Planning Commission on May 21, 2024.

The purpose of the Agreement is to implement the Authority's objective of improving and increasing the supply of affordable housing in the City of Palm Desert. Due to the funding source used to purchase and develop the Site, the proposed conveyance of the Site to the Developer is 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 disposition transaction for the Site.

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 Developer and the Authority by the Agreement.

II. **Cost of the Agreement to the Authority:** This section details the costs previously incurred by the Agency and Authority, and the additional costs that must be incurred by the Authority to implement the Agreement.

III. **Estimated Value of the Interests to be Conveyed Determined at the Highest Uses Permitted under the Redevelopment Plan:** This section estimates the value of the interests to be conveyed determined at the highest use permitted under the Redevelopment Plan.

IV. **Estimated Reuse Value of the Interests to be Conveyed:** This section summarizes the valuation estimate for the Site 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 Authority and explains any difference between the compensation to be received and the established value of the Site.

VI. **Blight Elimination:** This section explains how the Agreement will assist in alleviating blight in the former Project Area.

VII. **Conformance with the AB1290 Implementation Plan:** This section describes how the Agreement achieves goals identified in the adopted AB1290 Implementation Plan.

This Summary 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

Scope of Development

The proposed scope of development can be described as follows:

1. The Site is comprised of approximately 1.84-acres of vacant land that has P (Public Facility/Institution) zoning that allows for multifamily housing with a Conditional Use Permit ("CUP"). The Site has no visibility or direct access from Country Club Drive and will require an easement from Desert Arc to provide access.
2. The Project will have a total gross building area ("GBA"), as follows:

Gross Building Area (Sf)	
Gross Living Area	29,830
Community Room / Leasing Area	2,500
Common Area / Circulation	4,850
Total Gross Building Area	**37,180**

3. The building will be two stories and 49 surface parking spaces will be provided. A total of 40 parking spaces will be covered.

4. The Project will include the following unit mix:

	Number of Units	Unit Size (Sf)
One-bedroom Units	20	585
Two-bedroom Units	10	786
Three-bedroom Units	10	1,027
Totals / Averages	**40**	**746**

5. The Developer is proposing to allocate the units to the following income categories:[1]

	1-Bdrm Units	2-Bdrm Units	3-Bdrm Units	Total Units
Extremely-Low Income	2	1	1	4
Very-Low Income	10	5	5	20
Low Income (59% AMI)	8	3	4	15
Total Units	**20**	**9**	**10**	**39**

6. A total of 10 of the income restricted units will be designated for individuals with developmental and/or intellectual disabilities and/or Desert Arc participants.

7. The Project amenities will include a community lounge with office space and a communal kitchen, BBQ gathering spaces, laundry facilities, and enclosed tot-lot with play structure, shade structure and benches.

8. The onsite tenant services are to be provided by Desert Arc, a third party service provider. The tenant services will include a variety of services for their clients living at Arc Village and will likely include cooking classes, budgeting, living independently, etc. All residents will be able to attend these classes, at no cost, as well.

Developer Responsibilities

The Agreement requires the Developer to accept the following responsibilities:

1. Developer will acquire the Site from the Authority, in an "As-Is" condition, at no cost.

2. Developer will be solely responsible for constructing and operating the Project and developing the Site in accordance with the Scope of Development and the Schedule of Performance. Developer will also be responsible for all costs and expenses associated with the Project.

3. Developer must enter into either a Guaranteed Maximum Price or Stipulated Sum construction contract.

4. Developer shall design, construct, and maintain the Project in accordance with all environmental mitigation measures and requirements, if any, of the City's General Plan and Zoning Ordinance, and all permits and entitlements granted to the Developer.

5. At completion, 39 of the 40 units will be restricted to Extremely-Low, Very-Low and Low Income households at Extremely-Low, Very-Low and Low Income rents, as defined by the

[1] One two-bedroom unit will be unrestricted and reserved for the on-site manager.

California Health and Safety Code, and defined in the Housing Agreement, for a period of 55 years from the date of issuance of the final Certificate of Occupancy for the Project.

6. Prior to close of escrow, Developer must provide the Authority with the following:

   a. Demonstration that Developer has secured a bona fide award of Tax Credits and Senior Financing in amounts sufficient to provide for development of the Project and in accordance with the amounts and timing provided in the Project Budget/Proforma.

   b. Developer shall have obtained approval from the City for the requested entitlements for all improvements to be constructed on the Site.

   c. Deposited into Escrow the executed Promissory Note, Deed of Trust, Housing Agreement, Access Easement and Notice of Affordability Restrictions.

   d. Shall provide an AHAP contract.

   e. Shall not be in material Default in any of its obligations.

   f. Shall have obtained approval by the Authority of the affirmative fair housing Marketing Plan.

7. Developer will satisfy all conditions necessary to ensure that the Project conforms to all applicable CEQA and, if applicable, NEPA requirements.

8. Developer must have secured all funding sources, and the land must be conveyed to the Developer by December 31, 2025, or the Authority can terminate the Agreement. Construction must commence by March 1, 2026, grading must be completed by June 1, 2026, and the final Certificate of Occupancy must be issued by September 1, 2026.

9. The Developer must enter into a Facilities and Services Agreement with Desert Arc.

10. The following are limitations placed on fees and expenses during the term of the Authority Loan when calculating the residual receipts loan payments:

    a. The Limited Partner asset management fee shall be capped at $7,500.00 per year, increasing at 3.00% escalations annually;

    b. The Managing General Partner asset management fee shall be capped at $5,000.00 per year, increasing at 3.00% escalations annually;

    c. The Administrative General Partner asset management fee shall be capped at $5,000.00 per year, increasing at 3.00% escalations annually;

    d. Property Management fees shall not exceed 4.5% of gross revenues;

    e. Minimum Capital Reserves must be annually set-aside at $250.00 per unit; and

    f. The City Monitoring Fee is set at $5,000.00 per year, increasing at 3.00% escalations annually.

11. Developer will comply with all applicable federal state and local laws pertaining to the construction of the Project, including, without limitation, prevailing wage and environmental laws and regulations.

12. Developer must procure and maintain, at its sole cost and expense, satisfactory to the Authority, during the entire term of entry or construction, the following policies of insurance:

    a. Construction Bonds;

    b. Commercial General Liability Insurance;

    c. Worker Compensation Insurance;

    d. Automobile Liability Insurance;

    e. Builder's Risk Insurance;

    f. Professional Liability (Errors and Omissions) Insurance;

    g. Fire and Extended Coverage Insurance, excluding Earthquake coverage.

Authority Responsibilities

The Agreement imposes the following responsibilities on the Authority:

1. Authority agrees to donate the Site to the Developer at no cost to the Developer.

2. Authority agrees to provide a $3,000,000.00 loan to the Developer with the following loan terms:

    a. Unless accelerated due to a default by the Developer, the loan will mature 55 years from the date on which the final Certificate of Occupancy is issued;

    b. A 3.00% compounded interest rate during the construction period and a 3.00% simple interest rate once the final Certificate of Occupancy is issued;

    c. Annual debt service payments from 50% of residual receipts (prorated between the other soft financing sources);

    d. Any outstanding balance will be due and payable at the end of the term; and

    e. Subordinated to the conventional permanent loan.

3. Authority may terminate the Agreement if Developer fails to obtain an award of Tax Credits that is not materially consistent with the Financing Proposal and the closing of the land conveyance by December 31, 2025.

4. Prior to close of escrow, Authority must provide the Developer with the following:

    a. Deposited into escrow the executed Housing Agreement and Notice of Affordability Restrictions.

    b. Shall not be in Material Default in any of its obligations.

    c. Provided a written approval to the Developer for the Marketing Plan.

5. Authority is to approve any Property Manager that is not the Developer. Authority will also have the ability to require the Developer to hire a third-party management company acceptable to the Authority if there are problems with the management company.

6. The Authority will have the ability to remove the property manager if there are property management issues.

7. The Authority Housing Agreement placed on the Property shall terminate 55 years from the date of issuance of the final Certificate of Occupancy and will be unsubordinated. The Authority Housing Agreement will restrict the units as follows:

   a. Not less than two (2) of the 1-bedroom units, one (1) of the 2-bedroom units, and one (1) of the 3-bedroom units are to be restricted to Extremely-Low Income Households;

   b. Not less than 10 of the 1-bedroom units, five (5) of the 2-bedroom units, and five (5) of the three-bedroom units are to be restricted to Very-Low Income Households; and

   c. Not less than eight (8) of the 1-bedroom units, three (3) of the 2-bedroom units, and four (4) of the 3-bedroom units are to be restricted to Low Income Households up to 59% of the Riverside area median income ("AMI").

II. COST OF THE AGREEMENT TO THE AUTHORITY

The Authority has incurred costs associated with assembling and maintaining the Site. The Authority will be required to incur additional costs to implement the proposed Agreement. These costs are detailed in this section of the analysis.

	Costs Previously Incurred by Agency / Authority	Costs to be Incurred by Authority due to Agreement	Total Costs Incurred by Authority due to Agreement
Land Acquisition Costs	$1,000,000	$0	$1,000,000
Authority Loan	0	3,000,000	3,000,000
(Less) Land Payment	(0)	(0)	(0)
(Less) Authority Loan Payments [2]	(0)	(7,950,000)	(7,950,000)
Total Net Incurred Costs / (Revenues)	**$1,000,000**	**($4,950,000)**	**($3,950,000)**

The total net revenues to the Authority are estimated to equal approximately $3,950,000. It is anticipated that the Note, totaling $3,000,000.00, will be fully repaid by the end of the loan term. However, given that the debt service on the Note is completely dependent on the cash flow produced by the Project 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 Note.

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 Authority to identify the value of the interests being conveyed at the highest use permitted under the zoning in place on the Site. The valuation must be based on the assumption that the property is vacant, and that near-term

[2] Based on projected nominal loan payment over the 55-year loan period.

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 Authority.

The currently vacant Site is zoned P (Public Facilities/Institutional) by the City's Planning Department. The P district is specifically reserved for public, institutional and open space. Multifamily development in this zone may be allowed with a Conditional Use Permit. In an appraisal by CBRE dated September 26, 2023, with a June 28, 2023, date of value, the highest and best use is determined to be multifamily residential, and the value of the Site is $1,600,000.00, or $19.96 per square foot of land area.

IV. ESTIMATED REUSE VALUE OF THE INTERESTS TO BE CONVEYED

Keyser Marston Associates, Inc. (KMA), the Authority's financial consultant, prepared a reuse valuation analysis in January 2020 of the Site based on the financial terms and conditions imposed by the Agreement. The KMA analysis concluded that the fair reuse value of the Site is $0.00. This means that the Site would need to be conveyed to the Developer at no cost to make the scope of development required by the Agreement financially feasible. This valuation also assumes that the Authority will provide a $3,000,000.00 loan to the Project and enable it to be successful when competing for 9% Tax Credits in July 2024.

It is important to note that the amount of the Authority assistance package identified in the Agreement is predicated on the assumption that the Project will receive competitively awarded 9% Tax Credits. If this source is not received by the Project, 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 Property. The impacts created by these requirements reduce the value of the Property from $1,600,000.00 at the highest use permitted under the Property zoning, to the established fair reuse value of $0.00.

The Agreement states that the Authority will donate the Site to the Developer at no cost. Given that the proceeds received by the Authority for the Site ($0.00) will be equal to the established fair reuse value of $0.00, it can be concluded that the Authority is receiving fair consideration for the interests being conveyed to the Developer.

VI. BLIGHT ELIMINATION

The Agreement includes placing affordability restrictions on the units for 55 years. 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 Project will meet the affordable housing goals and objectives identified in the most recent Five Year Implementation Plan for the former Agency. In addition, the Site is listed in the City's Housing Element as a potential affordable housing site.