



Finance
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February 4, 2020

Mr. Luis Lopez
Development Services Director
City of Coachella
53990 Enterprise Way
Coachella, CA 92236

Re: Pueblo Viejo Villas Project
Architectural Review AR-19-08 (Approved 5-0 on 1/15/20)
Appeal of Planning Commission Conditions of Approval

Dear Mr. Lopez:

The developer is appealing certain conditions imposed on the project at the Planning Commission hearing held on January 15, 2020 in order to clarify requirements, adjust items that add cost to the project or request modifications to features that are otherwise infeasible. The intent of this letter is first to provide background information to update the City Council on changes in the Affordable Housing financing industry that drive specific items in the appeal. Below that background section, you will find the itemized request for changes to the conditions included in the Notice of Action by Planning Commission approved by the Planning Commission on January 15, 2020.

Background:

The Pueblo Viejo Villas and Transit Hub development is a public-private partnership between the City of Coachella, Sunshine Transit, and Chelsea Investment Corporation representing the 6th & Cesar Chavez CIC L.P.. After almost two years of work, the project is poised to start construction in July 2020. Chelsea applied for and has secured, or is calendared to secure, full funding commitments including the following competitive sources:

COMPETITIVE SOURCES OF FUNDS

Tax Exempt Bonds	\$	28,500,000	Recommended for approval at 2/12/2020	CDLAC
State Tax Credits	\$	4,969,038	Award conditioned on approval of bonds	2/12/2020
Federal Tax Credits	\$	13,478,152	Award conditioned on approval of bonds	2/12/2020
TOTAL	\$	51,916,228		

With the award of tax credits and bonds recommended for 2/12/20, the developer will have full financing commitments and will be required to start construction within 180 days. This will mark another milestone in the City of Coachella's vision for the Pueblo Viejo.

Project Financing:

Affordable housing development funding changed dramatically in the fall of 2019 when California Treasurer Fiona Ma announced that there was more demand for tax-exempt (TE) bonds than supply, and that the TE bond program for affordable housing would be competitive for the first time in over a decade starting with the November 2019 application round. Chelsea quickly responded to the new competitive financing environment and submitted the project for 4% Tax Credit and Bond financing in November 2019. Due to the new competition, these applications set the maximum budget for the project based on the information we had at the time.

Some items in the conditions of approval will materially increase the total cost of the project such that the financing per these submitted applications would be inadequate to build the project. Confirmation of the bond allocation will be made at the next California Debt Limitation and Allocation Committee (CDLAC) meeting 2/12/20. The developer must pull the project from the agenda by 2/11/2020 if it is not financially feasible thereby rejecting \$52 million in commitments.

We understand that the city wishes to add some new features to the project, however the bond program application creates a cap on construction costs. Regulations require that tax-exempt bonds fund at least 50% of the project's total costs of construction. In the past, if costs went up because additional items were added to the scope or due to unforeseen conditions, a developer could give up the current award and reapply for the higher bond authorization knowing there was little to no risk because the supply of TE bonds exceeded demand. Today, with the limited supply of bond and the newly competitive bond allocation process, it is not prudent to give up an award worth \$51.9 million since the success of a future competitive applications is very uncertain.

There is a deadline for resolution of the scope issues in the Pueblo Viejo Villas project. The developer cannot accept an award of bonds on 2/12/20 if the City's Conditions of Approval require items that increase costs beyond the limit set in the applications. After acceptance of the bonds the developer is faced with inflexible deadlines to pull building permits, close construction financing and start construction within six months. The penalty for failing to meet the deadlines will trigger bond recapture and penalize the developer's future operations by awarding "negative points" which effectively bars the developer from securing tax credit and bond financing for two years.

Elevators:

Chelsea Investment Corporation is an extremely experienced affordable housing development company with over 10,000 units in our portfolio. The company is focused on bringing affordable housing units to the market in volume to meet the overwhelming need for housing in the State of California. We own and operate the housing that we build and take lessons learned from previous developments to ensure that future developments will have smooth operations for the long term. Chelsea does not include elevators in three-story apartments with on-grade parking when the residents are not specifically restricted to seniors primarily because it increases cost both of construction and for ongoing operations. This practice is supported by industry standards for the majority of similar developments.

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We communicated with city staff during the development of construction drawings that the design did not include elevators and that the budget did not include the added cost to install elevators. When we include elevators in a project, Chelsea's practice is always to install two elevators, because the second functions as a backup if one elevator is shut down for regular maintenance or in case an elevator becomes inoperable. Without a backup elevator, residents with disabilities are put at risk and are forced to call local fire, police or EMTs for assistance accessing their apartments. Keeping costs streamlined was a key feature of our successful competitive application for bonds to allow the project to move forward.

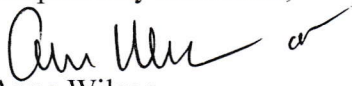
Although this requested feature was not included, we call to your attention the considerable list of other City requests that we have incorporated into development including enhanced design features, mixed use residential and commercial, net zero energy and \$6.5 million in grant funds for the City to facilitate constructions of the adjacent bus hub, purchase buses for service expansion, and improve sidewalks and bike lanes in the downtown area.

The developer will cooperate with the city's request to add elevators to the project with the caveat that this will add approximately \$850,000 to the cost, above and beyond the budget cap imposed by the competitive bond award. To add elevators and have a neutral impact on the budget and maintain financial feasibility, the Council shall remove both the 5th Street and 6th Street improvements from the Conditions of Approval and accept the transfer of responsibility from the developer to the City to build the improvements on 5th and 6th streets with alternative sources of financing such as the AHSC grant. If the City secures the additional \$500,000 in financial commitments from the County, some modifications can be made to the scope included with the residential development. Financial feasibility is defined as sources adequate to meet a "50% test" (at the industry standard) and fund the developer fee paid during development subject to stringent limitations from state financing partners.

Attached below please find itemization of Requested Changes to Notice of Action by Planning Commission conditions that constitute the developer's appeal.

In the interest of time, if you have questions or concerns related to these requests first contact the Development Executive, Colleen Edwards, at (323) 590-0233.

Respectfully submitted,



Anne Wilson

Director of Development

Project: Pueblo Viejo Villas

Requested Changes to Notice of Action by Planning Commission Conditions:

Condition 2d: Delete “masonry perimeter walls and”

Condition 2e. Add note “Note that an elevator can be added to the project as long as the project remains financially feasible. Financial feasibility is defined as sources adequate to meet a “50% test” (at the industry standard) and fund the developer fee paid during development subject to stringent limitations from state financing partners.”

Condition 2f: Replace “10 per cent of the total number of” with “10” units

Condition 2i: Replace “The owner shall enter” with “The owner shall have the option to enter”

Condition 2j: Delete the wording “and 6th Street” and add note “This requirement will be waived if ADA ramps are triggered due to differences in grade between sidewalk and entrances.”

Condition 28: Reword to read “Applicant shall not be required to construct any portion of 5th Street as part of the residential development.”

Condition 32: Reword to read: If the project includes shared facilities, provide a set of proposed Covenants, Conditions and Restrictions (CC&R) for review and approval. The proposed CC&Rs shall contain the Association’s/Owner’s maintenance obligations with respect to any shared facilities including, but not limited to, private landscaping, sidewalks, utilities, street lights, and Water Quality Management Plan (WQMP) features...” Reference to private street should be deleted.

Condition 33. Reword to read “Prior to issuance of building permits, all required public improvements, including landscaping and lighting of any retention basins...”

Condition 34. Reword to read “Prior to issuance of certificate of occupancy, all public improvements, including landscaping and lighting of any retention basins,

Condition 51. Delete the wording “The “purple pipe” water lines shall be installed along the entire Avenue 48 street frontage”.
