DRAFT SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA HEALTH AND SAFETY CODE
ON
THE SALE OF 2.10- ACRE ROSELAND VILLAGE NEIGHBORHOOD CENTER SITE BY AND BETWEEN
THE SONOMA COUNTY COMMUNITY DEVELOPMENT COMMISSION
AND
URBAN MIX DEVELOPMENT, LLC

I. INTRODUCTION

The California Health and Safety Code, Section 33433, requires that if a Housing Successor of a former redevelopment agency wishes to sell or lease property to which it holds title and if that property was acquired in whole or in part with property tax increment funds, the Housing Successor must first secure approval of the proposed sale or lease agreement from its local legislative body after a public hearing. Section 33433 also requires a copy of the proposed sale or lease agreement and a summary report that describes and contains specific financing elements of the proposed transaction to be available for public inspection prior to the public hearing. As contained in the Code, the following information shall be included in the summary report:

1. The cost of the agreement to the Housing Successor that is to be funded from property tax increment, including land acquisition costs, clearance costs, relocation costs, the costs of any improvements to be provided by the Housing Successor, plus the expected interest on any loans or bonds to finance the agreement;

2. The estimated value of the interest to be conveyed or leased, determined at the highest and best use permitted under the redevelopment plan;

3. The estimated value of the interest to be conveyed in accordance with the uses, covenants, and development costs required under the proposed agreement with the Housing Successor, i.e., the reuse value of the site;

4. An explanation of how the sale or lease of the property will assist in the elimination of blight; and

5. The purchase price or sum of the lease payments that the lessor will be required to make during the term of the lease. If the sale price or total rental amount is less than the fair market value of the interest to be conveyed or leased, determined at the highest and best use consistent with the redevelopment plan, then the Housing Successor shall provide as part of the summary an explanation of the reasons for the difference.

This report outlines the salient parts of the ***Disposition, Development and Funding Agreement for Roseland Village Neighborhood Center – Phase 1*** (the "Agreement") to be entered into by and between the Sonoma County Community Development Commission (Commission) and Urban Mix Development, LLC (Urban Mix / Developer) for the sale and redevelopment of the subject property. This report is being prepared because property tax increment funds from the former Redevelopment Agency of the County of Sonoma (RDA) were used to acquire the subject property.

This report is based upon information in the proposed Agreement and is organized into the following five sections:

1. **Summary of the Proposed Agreement** – This section includes a description of the property, the proposed development and the major responsibilities of the Commission and Urban Mix.

2. **Cost of the Agreement to the Commission** – This section outlines the cost of the Agreement to the Commission for costs that have been/will be funded with property tax increment funds. It presents the terms of the property's lease, and sets forth the net cost of the Agreement to the Commission.

3. **Estimated Value of the Interest to be Conveyed** – This section summarizes the value of the property to be sold to Urban Mix.

4. **Consideration Received and Reasons Therefore** – This section describes the value of the payments to be made by Urban Mix. It also contains a comparison of the purchase price and the fair market value at the highest and best use consistent with the redevelopment plan for the interests conveyed.

5. **Elimination of Blight** – This section demonstrates how the Project satisfies the blight elimination criteria imposed by Section 33433 of the California Health and Safety Code.

II. SUMMARY OF THE PROPOSED AGREEMENT

A. Description of the Property and Project

Property

Within the context of the subject Agreement, the subject property is known as “the market rate development parcel” and is an approximate 91,476-square foot (2.1 acres) portion of the “Master Development Site”, which is comprised of “the Roseland Site” and the “Gee Parcel”. The Master Development Site is 7.56 acres and is to be redeveloped with the proposed “Roseland Village Neighborhood Village”. The site is located in the heart of the unincorporated Roseland community, adjacent to the City of Santa Rosa. The Roseland Site property is identified as Assessor’s Parcel Number 125-111-037 and the address of 665 Sebastopol Road, Santa Rosa. The Roseland Site property is 6.81 acres square feet and is improved with one building that is currently occupied by a Dollar Store, the Sonoma County Library and the Boys and Girls Club. The 0.6-acre Gee Parcel is located immediately adjacent to the Roseland Site. It is identified as Assessor Parcel Number 125-101-031and the address of 883 Sebastopol Road, Santa Rosa.

The Roseland Site was acquired by the Sonoma County Community Redevelopment Agency on March 18, 2011 with low and moderate income housing funds to further the goals of the June 2007 Sebastopol Road Corridor Urban Vision Plan. In 2012, the Board of Supervisors selected the Commission to retain the housing assets of the dissolved Redevelopment Agency and to assume the responsibility of implementing t the Redevelopment Plan. In September 2015, the Successor Agency entered into a Settlement Agreement with the Department of Finance that authorized the Successor Agency to use up to $6,920,000 in non-housing tax increment funds to pay for public improvements to support mixed-use development on the Roseland Site.

In contemplation of the Roseland Village Neighborhood Center Project, MidPen Housing acquired the Gee Parcel in 2016 and expects to transfer the parcel to the Commission in early 2019.
The Gee Parcel and the Roseland Site will be subdivided in accordance with the Agreement to create at least five separate development parcels: 1) the subject “market rate development parcel”, which will be conveyed to Urban Mix for the development of the subject market rate rental apartment project; 2) an “affordable development parcel”, which will be conveyed to MidPen for the development of a 75- unit affordable rental housing project; 3) a “commercial development parcel” to be transferred for development at some time in the future; 4) a “plaza parcel”; and 5) a “civic development parcel” to be developed at some time in the future.

Developer

The Developer of the subject market rate rental apartment project is Urban Mix Development, LLC, which is a California limited liability company.

Project Description

Prior to the sale of the subject property to Urban Mix, preconstruction activities will be required on the Master Development Site. Predevelopment activities include: approval of a final subdivision map, approval of a public improvement plan, demolition of existing buildings, relocation of existing tenants, the realignment or construction of certain utilities and other public infrastructure, and the remediation of hazardous materials. Under the terms of the Agreement, the Commission will make best efforts to secure funding and undertake the predevelopment activities.

Once the requisite predevelopment activities are complete, the Commission will sell the subject property to Urban Mix for the purpose of developing a 100-unit market rate rental housing project comprised of one and two-bedroom units. The units will range in size, with an average unit size of 820 square feet. The residential project will consist of one 3-story building and one 4-story building. In addition to the residential units, the project will also provide 126 parking spaces, 1,000 square feet of rental retail space, and 500 feet of locker storage space. Amenities will include a roof deck, storage lockers, bike storage and bike work area and a business center / communal office area.

B. Commission's Responsibilities

The Commission is responsible for:

1. Making best efforts to secure funding for and undertaking the requisite predevelopment work. This includes: relocating the existing tenants; causing the demolition of the existing buildings, applying for and accepting additional funding for the remediation work; funding the preparation and recordation of a tentative map; completing the active remediation work on the Roseland Site; complete the construction of infrastructure improvements; and undertake improvements to the plaza.

2. Selling the subject property to Urban Mix.

C. Developer's Responsibilities

Urban Mix (Developer) is responsible for:

1. Participating in predevelopment work, including assisting the Commission in applying for funding;
2. Submitting an updated Financing Plan, evidencing the availability of funds necessary to finance the acquisition of the development parcel, develop the residential project and operate the project;
3. Applying for and obtaining all governmental approvals necessary for the development and operation of the residential project;

4. Submitting evidence that the funding and financing of the approved Financing Plan will be available at the close of escrow of the development parcel for the development and operation of the subject market rate residential project.
5. Acquiring the market rate development parcel at the parcel's appraised fair market value.
6. Constructing the housing project in compliance with the requirements of the Agreement.
7. Managing and maintaining the property and improvements.

III. COST OF THE AGREEMENT TO THE COMMISSION

This section presents the total cost of the Agreement to the Commission that will be funded with property tax increment funds which were distributed to the former redevelopment agency prior to the dissolution of the agency or from available Roseland cash reserves and future Redevelopment Site Tax Trust Fund ("RPTTF") receipts.

The "net cost" of the Project after consideration of the revenues that will accrue to the Commission, if any, is also evaluated. The net cost can be either an actual cost, when expenditures exceed receipts, or a net gain, when revenues created by implementation of the Agreement exceed expenditures.

A. Estimated Cost to the Commission (costs funded with property tax increment)

The cost to the Commission associated with this transaction is comprised of:

1. *The original acquisition cost (funded by property tax increment) of the portion of the Roseland Site that will be conveyed to Urban Mix.* The 6.81-acre site was acquired in 2011 for $3,740,000. Approximately 2.1 acres of the site will be sold to Urban Mix, which represents 30.84% of the Roseland site. Therefore the acquisition cost associated with this transaction is $1,153,304.

2. *The market rate development parcel's pro rata share of predevelopment expenses that will be funded with tax increment funds.* It is estimated that predevelopment expenses for the entire Master Development site will total $9.2 million with tax increment funding $6.6 million of the total. The market rate development parcel's pro rata share of the entire Master Development site is 30.84% (based on acreage). Therefore, the market rate development parcel's pro rata share of predevelopment costs funded by tax increment is $2,035,242.

	Nominal Dollars	***Current (2019) Dollars***
1. Pro rata share of initial Roseland Site Acquisition funded with tax increment	$1,153,304	$1,410,062
2. Pro rata share of predevelopment expenses to be funded with tax increment	$2,035,242	$2,234,594
Total Cost to be Funded with tax increment funds	**$3,188,546**	**$3,644,656**

Commission costs to be funded with tax increment are estimated to total $3,188,546. Given that costs will be incurred at various points in time, costs are also expressed net of inflation in 2019 dollars. As shown, in 2019 dollars, costs are estimated to total $3,644,656

B. Revenues to the Commission

The revenues to the Commission consist of the payment to acquire the market rate development parcel. Under the terms of the Agreement, Urban Mix will acquire the property at its appraised fair market value. The property was recently appraised and its value as of December 27, 2018 was determined to be $2.01 million.

	Nominal Dollars	***Current (2019) Dollars***
Fair market value price of development parcel	To be determined at time of sale – for purposes of this analysis it is assumed that the property is sold in the near term at the current fair market value of $2.01 million	$2.01 million
Total Revenues to the Commission	$2.01 million	$2.01 million

Whenever the site is sold, the price will be equal to the site's fair market value at that time. For purposes of this summary report, it is assumed that the site is sold in the near term at the current fair market value of $2.01 million.

C. Net Cost to the Commission (Property Tax Increment)

The net cost to the Commission resulting from this transaction is the difference between the Commission's costs funded with tax increment and projected revenues. As shown below, it is estimated that the net cost to the Commission resulting from the subject transaction is $1,178,546 in nominal dollars or $1,634,656 when expressed in uninflated 2019 dollars.

Net Cost to the Commission		
	Nominal Dollars	***2019 Dollars***
Costs to the Commission funded with Tax Increment	$3,188,546	$3,644,656
Revenues to the Commission	$2,010,000	$2,010,000
Net Cost to the Commission	**$1,178,546**	**$1,634,656**

IV. VALUE OF THE INTEREST TO BE CONVEYED

A. Estimated Value at Highest and Best Use

A fair market value appraisal was issued for the subject property on January 4, 2019. The date of valuation was December 27, 2018. The appraiser determined that the property's highest and best use "as if vacant" is to be developed with a market rate multi-family residential project. Using both the sales comparison approach and the "Extraction Method" (which used the income capitalization approach and the cost approach), the appraiser determined that the site's fair market value at its highest and best use is $2.01 million. This value was based on the assumption that infrastructure improvements would be available to the site, that no hazardous materials need to be addressed, and that all existing improvements are demolished prior to the sale of the site to Urban Mix.

B. Reuse Value

The reuse value of the development site is directly a function of the economics of the property under the specific terms of the transaction. In this case, the Agreement requires the Developer to build 100 market rate multi-family apartments and 126 parking spaces. The appraiser estimated the site's fair market value using the "Extraction Method." As described in the appraisal,

> "the extraction Method" is applied by estimating the market value of the subject property as improved by utilizing the Income Capitalization Approach. Once an improve value is derived, construction costs and entrepreneurial incentive are then deducted, and the remaining value is attributed to the underlying land area."

This description of the "Extraction Method" is equivalent to a description of "Reuse Value." In both cases, the value of the proposed project is estimated and compared with the estimated cost of building the proposed project. The difference between the value and the development cost (including a profit margin to the developer) is the residual value for land investment that is warranted by the project's development economics. The appraiser estimated that the site's extraction value or reuse value is $2.01 million. In this case, the reuse value is equal to the site's fair market value because the proposed market rate development project is perceived to represent the site's highest and best use.

V. CONSIDERATION RECEIVED AND REASONS THEREFORE

Under the terms of the Agreement, the development site will be conveyed to Urban Mix at its appraised fair market value. Based on the recent appraisal, the site’s price would be $2.01 million if it were to be sold in the near term. Once infrastructure improvements are complete and the site is ready for transfer, it will be reappraised to determine the final sales price.

As noted in Section IV, the sales price is equal to the fair market appraised value because the market rate development that Urban Mix is proposing to develop on the subject site and the terms and conditions of the Agreement are consistent with the site’s highest and best use.

VI. BLIGHT ELIMINATION

There are a number of “blighting conditions” currently present on the development site, including:

- Hazardous materials (perchloroethylene in the soils and groundwater) by the dry cleaning operations that previously operated on the property;
- Lack of adequate infrastructure to serve the site, including streets, sewer, storm drain and water improvements; and
- Existing deteriorating buildings.

All of these blighting conditions will be eliminated by the proposed predevelopment work to be undertaken by the Commission prior to the conveyance of the development site to Urban Mix.