**SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA HEALTH AND SAFETY CODE
ON
THE GROUND LEASE OF 33407, 33411, 33421, 33431, 33435, and 33459 MISSION BOULEVARD BY AND BETWEEN
THE CITY OF UNION CITY
AND
MP LAZULI LANDING ASSOCIATES, L.P.**

I. INTRODUCTION

The California Health and Safety Code, Section 33433, requires that if a 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 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 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 summary shall explain the reasons for the difference.

This report outlines the salient parts of the lease agreement (Agreement) and the Disposition, Development, and Loan Agreement (DDLA) to be entered into by and between the City of Union City (City) and MP Lazuli Landing Associates, L.P. (Developer)[1] for the lease of the subject property. An affiliate of MidPen Housing Corporation is the Managing General Partner of the Developer. This report is being prepared due to the fact that property tax increment funds from the former Redevelopment Agency of the City of Union City (RDA) were used to acquire the parcels that comprise the site between 2002 and 2003.

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 City and the Developer.

2. **Cost of the Agreement to the City** – This section outlines the cost of the Agreement to the City for costs that have been 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 City.

3. **Estimated Value of the Interest to be Conveyed** – This section summarizes the value of the property to be leased to the Developer.

4. **Consideration Received and Reasons Therefore** – This section describes the value of the payments to be made by the Developer to the City. 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. **Provision of Very Low, Low, or Moderate-Income Housing** – This section demonstrates how the lease/sale of the property will provide housing for Very Low-, Low-, or Moderate-Income persons.

6. **Elimination of Blight** – This section demonstrates how the Project satisfies the blight elimination criteria imposed by Section 33433 through the provisions of housing for Very Low- to Moderate-Income persons.

[1] The DDLA is being executed between the City of Union City and MidPen Housing Corporation. Per the terms of the DDLA, MidPen will assign the DDLA to MP Lazuli Landing Associates, L.P.

II. SUMMARY OF THE PROPOSED AGREEMENT

A. Description of the Property, Project, and Lease

The Property

The subject property is a 1.65-acre block bounded by Mission Boulevard, D Street, E street and 2nd Street. The property is comprised of six parcels as follows:

486-0003-028-00	486-0003-034-03
486-0003-029-00	486-0003-034-04
486-0003-030-00	486-0003-035-00

The 71,835 square foot property is vacant, level, fully served with utilities, and has street access on all sides.

The property's parcels were acquired by the RDA in 2002 and 2003 with proceeds from a 1999 bond issue secured by property tax increment. Upon the dissolution of Redevelopment, the property was transferred at no cost to the City of Union City pursuant to the Long-Range Property Management Plan (LRPMP).

In January 2018, a Request for Proposals (RFP) was issued by the City to solicit proposals for developing the site with a minimum of 60 units of 100 percent affordable family housing. Proposals were required to include integrating joint offices for Centro de Servicios (CDS) and Youth and Family Services (YFS) into the housing development. Nine housing providers submitted proposals and in May 2018 the City Council chose MidPen Housing Corporation as the master developer for the property.

On August 15, 2018, the City executed an Exclusive Negotiating Rights Agreement (ENRA) with MidPen.

Project Description

As proposed, the Developer will develop the subject site with 81 rental apartments, 6,319 square feet of space for the non-profit and City office users, and 121 parking spaces. The building will be 4 stories, with residential units and commercial space wrapped around a parking podium. The gross building area (excluding parking) will be approximately 98,000 square feet. The project will offer 21 one-bedroom units, 37 two-bedroom units, and 23 three-bedroom units with units ranging from 559 to 1,240 square feet and averaging 874 square feet.

All units, excluding one unit for a property manager, will be restricted affordable units pursuant to regulatory agreements with the City and other public agencies. The affordability covenants are detailed in Section II.B.

The Lease

The Lease term will be 99 years. The lease rate will be $1.00 per year. If and when the forty-one (41) units that are not subject to the City Regulatory Agreement but are subject to a regulatory agreement with the California Tax Credit Allocation Committee (TCAC) for an initial period of 55 years are no longer subject to affordability covenants, then the lease rate shall be reset based on the fair market value of the remaining leasehold interest. The fair market value will be established by an independent appraiser.

City Loan

The City will be providing the project with a $5,034,924 million loan that will be available to fund construction costs and will roll over into a permanent loan[2]. This loan will be funded by three sources, as follows:

- $2,434,924 of housing in-lieu funds and proceeds from the sale of property (11th Street lot);
- $1.1 million of proceeds from housing bonds issued in 2015; and
- $1.5 million of housing tax increment funds.

The term of the City loan is 55 years[3] and it will carry a 0% rate of interest. During the 55-year term, the loan shall be repaid from a portion of net cash flow or "residual receipts" generated by the Project. Under the terms of the agreement, the public lenders will receive 75% of the project's residual receipts and 25% will be allocated to the Developer. The $5.03 million City Loan represents 15% of funding from public lenders. Therefore, the City will receive 15% of 75% of the project's annual residual receipts as repayment for the entire City Loan, of which 52% will represent repayment for the $2.6 million portion of the City Loan funded by tax increment. The project's annual "residual receipts" is defined as: the project's annual net operating income less payment of: 1) debt service on the first mortgage; 2) asset management fee of $7,000 per year (+ escalations); and 3) Partnership fee of $18,000 per year (+ escalations). Under the terms of the agreements, 25% of the project's annual residual receipts accrues to the owner.

In addition to receiving a share of annual residual receipts, the City is also entitled to receive a special one-time payment equal to its pro rata share of any net proceeds that are derived from permanent financing secured for the project.

Any remaining balance after the City's share of residual receipts shall be due and payable at the end of the 55-year loan term.

[2] Up to $2,345,000 of the City Loan may be used for predevelopment costs.

[3] The loan period commences when the project receives a certificate of occupancy.

Additional City Assistance

The City will be providing the project with additional assistance, which is not being funded from property tax increment, as follows:

- $1.8 million grant to be used to build the ground floor office spaces to be leased to the City for the City's Youth and Family Services Department and to Centro De Servicios, which is a local non-profit organization.

- A commitment of the City's allocation of Alameda County A-1 bond funds in the amount of $8,787,121 to the project.

B. Household Income and Unit Rent Restrictions

Eighty (80) of the units will be subject to long-term affordable housing deed restrictions that limit the income of eligible households and the maximum rent that can be charged on the units. Thirty - nine (39) units will be restricted for 99-years by the Regulatory Agreement between the City and the Developer[4]. All eighty (80) units will initially be restricted by a regulatory agreement between the Developer and TCAC for a period of not less than 55 years.

As the following chart indicates, during the first 55 years of the regulatory period, sixteen (16) units will be restricted to households earning no more than 20% of the Area Median Income (AMI), eighteen (18) units will be restricted to households earning no more than 40% of the AMI, eighteen (18) units will be restricted to households earning no more than 50% of the AMI, twenty-two (22) units will be restricted to households earning no more than 60% of the AMI and six (6) units will be restricted to households earning no more than 80% of the AMI. On average, the Project will serve Very Low-Income households, with an average affordability level approximating 47% of the AMI.

	Extremely Low-Income Units 20% of AMI)	Very Low-Income Units 40% of AMI)	Very Low-Income Units (50% of AMI)	Low Income Units (60% of AMI)	Low Income Units (80% of AMI)	Total Units
1-Bed	13	3	2	2	1	21
2-Bed	3	10	10	11	2	36
3-Bed		5	6	9	3	23
Unrestricted Mngr. Unit						1
Total Units	16	18	18	22	6	81

[4] The Regulatory Agreement provides that the affordability covenants will terminate on the earlier of (1) the termination of the Ground Lease or (2) 99 years from the issuance of the Certificate of Occupancy for the Project.

If the TCAC Regulatory Agreement expires prior to the expiration of the City's 99-year regulatory term, then the affordable housing limits on the 39 City-regulated units may change. At that time and if necessary for the Project to be financially feasible, the maximum income of eligible households to occupy the units may be increased to no more than 80% of the AMI and monthly rental rates may be increased to an amount necessary to make operation of the Project financially feasible. However, in no event will the rental rate of any City-restricted unit exceed 30% of 60% of the AMI divided by 12 for a household size appropriate to the unit, less a reasonable utilities allowance.

C. City Responsibilities

The City (Lessor) is responsible for:

1. Leasing the property and improvements to the Developer for a term of 99 years. At the end of the lease term, the property and improvements will revert to ownership by the City.

2. Providing a \$5.03 million construction/permanent loan. The loan will carry an interest rate of 0% and will be repaid from a portion of the project's annual residual receipts. The remaining balance of the loan will be due and payable upon the termination of the 55-year loan period.

3. Providing a \$1.8 million grant to be used to build the ground floor office spaces to be subleased to the City for the City's Youth and Family Services Department and to Centro De Servicios, which is a local non-profit organization, and/or other nonprofit and community organizations as determined by City.

4. Subleasing approximately 6,300 square feet of the ground floor office space to be occupied by the City's Youth and Family Services Department and Centro De Servicios and/or other nonprofit and community organizations as determined by City in accordance with the terms specified in the DDLA.

5. Committing the City's allocation of Alameda County A-1 bond funds in the amount of \$8,787,121 to the project.

6. Reviewing the annual occupancy compliance reports to be submitted by the Developer.

D. Lessee Responsibilities

MP Lazuli Landing Associates, L.P. (Lessee) is responsible for:

1. Obtaining approximately \$76 million of equity and financing commitments in addition to the funding to be provided by the City to fund the Project's development. It is anticipated that funding obligations will be obtained from the syndication of Low-Income Housing

Tax Credits, a permanent lender, HCD Infrastructure Infill Grant and Strategic Growth Council Affordable Housing and Sustainable Communities programs, Alameda County, the General Partner and other funding sources.

2. Developing the Project.

3. Leasing the 6,300 square feet of ground floor office space to the City for the City's Youth and Family Services Department and to Centro De Servicios, and/or other nonprofit and community organizations as determined by City.

4. Managing the project and maintaining the property and improvements.

5. Ensuring compliance with the affordability covenants described in Section IIB.

6. Annually submitting an annual report to the City detailing the property's compliance with the rent and occupancy restrictions.

7. Submitting annual residual receipts loan payments in accordance with the terms of the DDLA.

8. Paying the City annual ground rent during the 99-year lease term.

9. Meeting all terms, responsibilities and conditions identified in the lease agreement with the City.

10. Repaying any outstanding balance on the City's loan no later than 55 years after conversion to the permanent loan. The loan is anticipated to become due and payable in year 2078.

III. COST OF THE AGREEMENT TO THE CITY

This section presents the total and net cost of the Agreement to the City that will be funded from Low and Moderate-Income Housing Asset Funds and tax increment funds received by the former Redevelopment Agency. Therefore the pertinent expenditures of this transaction are:

- The former RDA's purchase of the property and related expenses; and
- $2.6 million of the $5.03 million City Loan, or 51.64% of the City Loan, which is being funded from tax increment and bond proceeds supported by tax increment

The "net cost" of the Project after consideration of the revenues that will accrue to the Low/Mod Fund, 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 City (funded by property tax increment of former Redevelopment Agency and/or Successor)

The costs to the City associated with this specific transaction that were or are being funded from tax increment include the following:

- the price that the City's former Redevelopment Agency paid to acquire the site;
- relocation costs, third party expenses and site improvement costs associated with acquiring the site;
- site improvements funded by the RDA;
- estimated bond interest carry costs on site acquisition and related expenditures;
- the portion of the City Loan that is being funded from Low and Moderate Income Housing Fund property tax increment; and
- estimated interest carry costs associated with the portion of the City Loan that is being funded from bond proceeds.

The breakdown of the City's costs by funding source is as follows:

	Cost	Funding Source	Method for Estimating Cost
Site Acquisition	$2,179,585	1999 Tax Allocation Bonds; refunded by 2007 and 2017bonds	Not applicable
Relocation and third-party Expenses	$759,900	1999 Tax Allocation Bonds; Refunded by 2007 and 2017 bonds	Not applicable
Interest Costs on Land Acquisition and Relocation Expenses		Tax Increment	Acquisition costs' pro rata share of bond issuance applied to debt interest payments through repayment term
City Loan funded by TI	$1.5 million	Tax Increment	Not applicable
City Loan funded by bonds secured by TI	$1.1 million	2015 bond issue	Not applicable
Interest Carry on $1.1 million portion of City Loan		Tax Increment	City's loan's pro rata share of bond issuance applied to debt interest payments through repayment term

As shown below, the total cost of this transaction to the City to be funded with property tax increment is estimated to total $9.57 million in nominal dollars and $11.68 million in $2020 dollars[5]

	Nominal Dollars	***2020 Dollars***
Site Acquisition/Relocation/Site work	$2,939,000	$4,527,000
City Loan	$2,600,000	$2,600,000
Bond Interest Costs, Site Acquisition	$3,455,000	$4,075,000
Bond Interest Costs, City Loan	$578,000	$480,000
Total Cost to be Funded with Tax Increment Funds	**$9,572,000**	**$11,682,000**

B. Revenues to the City (Low/Mod Fund)

Under the terms of the Agreement, the City will receive ground lease payments equal to $1 per year throughout the 99-year term[6], a portion of the project's annual residual receipts to lenders proportionate to the share of the City Loan funded with tax increment relative to all loans issued by public lenders, and the outstanding balance of unpaid principal and interest upon the end of the 55- year loan term.

In addition to lease and loan payments, the City will also retain full ownership of the site and improvements upon the termination of the lease. For purposes of this analysis, it is assumed that the improvements will have no value upon the termination of the 99-year lease and that the site retains its current estimated fair market value of $9.32 million.

[5] For purposes of this analysis a 3% average annual discount factor has been used convert future expenditures into 2020 dollars. The historic CPI has been used to convert past nominal expenditures into 2020 dollars.

[6] While ground lease payments may increase after year 55 if the TCAC affordability covenants are lifted, for purposes of this report, it is conservatively assumed that ground lease payments remain at $1 per year for the duration of the ground lease term.

Revenues to the City are estimated to total $171.43 million in nominal terms or $9.81 million in uninflated dollars.

	Nominal Dollars	***2020 Dollars***
Ground lease payments	$99.00	$30.00
Annual Residual Receipts + balloon payment at end of 55-year term[7]	$2,600,000	$485,000
Property Value at End of 99-year Lease Term	$168,836,000	$9,320,000
Total Revenues to Repay TI Expends.	**$171,436,099**	**$9,805,030**

C. Net Cost to the City (Low/Mod Fund)

The net cost to the City resulting from this transaction is the difference between the City's costs funded with property tax increment and revenues to be received by the City. The net cost in current 2020 dollars is approximately $1.88 million. In nominal (inflated dollars), the transaction is estimated to result in a net surplus to the City of $161.87 million. The surplus is due to the assumption that that value of the unimproved development site will increase at an annual rate of 3% per year over the 99-year term.

	Nominal Dollars	***2020 Dollars***
Costs to the City	$9,572,000	$11,682,000
Revenues to the City	$171,436,000	$9,805,000
Net Cost to the City	**-$161,864,000**	**$1,877,000**

[7] The total City Loan is $5.03 million, of which $2.6 million is funded from tax increment revenues. While the entire City Loan will be repaid upon the termination of the loan term, the focus of the financial section of this report is the portion of the loan funded from tax increment revenues.

IV. VALUE OF THE INTEREST TO BE CONVEYED

A. 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 Developer will be responsible for developing the property with the proposed project and leasing 80 of the units to income eligible households at restricted rent levels. If operational in 2020, the average monthly rental rate excluding payments for utilities would approximate $1,177 per month, which is less than 50% of the reported average market rate rent of $2,415 per month[8] for a two-bedroom unit in Union City as of the first quarter of 2020.

The project is anticipated to generate sufficient cash flow to fund annual operating expenses, capital replacement reserves, an annual administrative fee to HCD, annual debt service on a $3.57 million loan funded by tax-exempt bonds, and annual asset and partnership management fees. The project's anticipated cash flow is insufficient, however, to fund annual amortization payments on the $40.5million of financial assistance that is being provided to fund the project's development costs, including the $5.03 million loan being provided by the City.

Because the project's cash flow is insufficient to cover 100% of capital construction costs, there is not available cash flow to fund a market-rate ground lease payment. Therefore, the near-term reuse value of the property is negligible.

If the TCAC affordability covenants expire and are not replaced by other covenants, then the rental income of the Project will be less constrained and the Property's reuse value could increase. If that occurs, then the property's reuse value will be reevaluated through the preparation of an independent appraisal, who will estimate the fair market value of the leasehold interest over the remaining term of the ground lease. The annual ground lease rate will then be adjusted accordingly.

Upon the expiration of the lease, the City will hold title and all rights to the property, which will afford the City the opportunity to generate a market rate return on the property at that time.

B. Estimated Value at Highest and Best Use

The most recent appraisal of the property was prepared in October 2019. The appraisal determined that the property's highest and best is for high density residential development consistent with the maximum density as allowed by the City of Union City under the General Plan, and established the property's fee simple value at $9.32 million with entitlements that would permit the development of 81 residential units. Based on the appraisal, the fair market value of the property at its highest and best use as of the date of conveyance to the Developer is $9.32 million.

[8] Per Costar.

V. CONSIDERATION RECEIVED AND REASONS THEREFORE

Under the terms of the Agreement, the base ground lease rate will be $1 per year, with lease payments totaling $99 over the 99-year term. As detailed in Section IIA, the ground rent may increase if and when the 41units initially restricted only by TCAC affordability covenants are no longer subject to affordability covenants.

A market rate project would typically make an annual ground lease payment equal to 4% to 7% of the fair market value of the property. Based on the subject site's fair market value of $9.32 million, a fair market annual ground lease payment would typically range from $373,000 to $652,000. As discussed in Section IV.A, the subject project is an affordable housing project with long term restrictions that limit the rents that can be charged to levels that are significantly below market. As a result, the project's economics cannot support 100% of the project's construction costs, much less paying a market rate ground lease payment. The annual lease rate of $1 is consistent with the property's economics and nominal reuse value if the affordability restrictions remain in place for 99 years. If the restrictions on 41 units are lifted, the ground lease rate will be increased based on the property's fair market value and affordability covenants at that time. This will ensure that the City receives a ground rent that is based on the property's reuse value over the duration of the ground lease term.

Once the lease term expires, the City will have the option to sell the site at its then highest and best use, which will enable the City to receive a price equal to the site's fair unrestricted market value.

VI. PROVISION OF VERY LOW, LOW, AND MODERATE-INCOME HOUSING

Eighty (80) of the units will be subject to long-term affordable housing deed restrictions that limit the income of eligible households and the maximum rent that can be charged on the units. Thirty - nine (39) units will be restricted for 99-years by the Regulatory Agreement between the City and the Developer. All units will initially be restricted by a regulatory agreement between the Developer and the Tax Credit Allocation Committee (TCAC) for a period of not less than 55 years.

As the following chart indicates, during the first 55 years of the regulatory period, sixteen (16) units will be restricted to households earning no more than 20% of the Area Median Income (AMI), eighteen (18) units will be restricted to households earning no more than 40% of the AMI, eighteen (18) units will be restricted to households earning no more than 50% of the AMI, twenty-two (22) units will be restricted to households earning no more than 60% of the AMI and six (6) units will be restricted to households earning no more than 80% of the AMI. On average, the Project will serve Very Low-Income households, with an average affordability level approximating 47% of the AMI.

	Extremely Low-Income Units 20% of AMI)	Very Low-Income Units 40% of AMI)	Very Low-Income Units (50% of AMI)	Low Income Units (60% of AMI)	Low Income Units (80% of AMI)	Total Units
1-Bed	13	3	2	2	1	21
2-Bed	3	10	10	11	2	36
3-Bed		5	6	9	3	23
Unrestricted Mngr. Unit						1
Total Units	16	18	18	22	6	81

If the TCAC Regulatory Agreement expires prior to the expiration of the City's 99-year regulatory term and the deed restrictions on 41 units are lifted, then the affordable housing limits on the 39 City-regulated units may change. At that time and if necessary for the Project to be financially feasible, the maximum income of eligible households to occupy the units may be increased to no more than 80% of the AMI and monthly rental rates may be increased to an amount necessary to make operation of the Project financially feasible. However, in no event will the rental rate of any City-restricted unit exceed 30% of 60% of the AMI divided by 12 for a household size appropriate to the unit, less a reasonable utilities allowance.

VII. BLIGHT ELIMINATION

Thirty-nine (39) of the Project's 81 units will be subject to rent and income restrictions for 99 years. The remaining forty-one (41) units will be restricted for a minimum of 55 years. In accordance with California Redevelopment Law, as stated in the California Health and Safety Code Section 33433, the conveyance of property shall either result in the provision of housing for Low- or Moderate-Income persons or result in blight elimination. Thus, conveyance of the property for the construction of housing for low and moderate income persons fulfills this requirement.