

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: JULIE GAREN, PROGRAM SPECIALIST
HOUSING AND COMMUNITY SERVICES
SUBJECT: BENNETT VALLEY APARTMENTS – MODIFICATION TO PRIOR
FUNDING COMMITMENT TO ALLOW \$2,000,000 OF
PREDEVELOPMENT LOAN FUNDS TO BE SECURED BY A
REPAYMENT GUARANTY UNTIL THE PROPERTY IS PURCHASED BY
DEVELOPER AND TO ALIGN THE TERM OF THE NOTE WITH THE
TERM OF AFFORDABILITY

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Housing Authority, by resolution, allow \$2,000,000 of the conditional commitment of loan funds for predevelopment-related costs to be secured by a repayment guaranty until the property is purchased by the developer, and to align the term of the Note with the term of affordability.

EXECUTIVE SUMMARY

On May 10, 2021 the Housing Authority approved a conditional commitment of \$5,800,000 in loan funds for construction-related costs to Freebird Development Company, LLC (the “Developer”) for Bennett Valley Apartments (the “Project”), which is to be developed on the City-owned site formerly used for the Bennett Valley Senior Center. On June 21, 2021, the Housing Authority approved a modification to the prior approval to allowing the award to be utilized for predevelopment costs in addition to construction-related costs. On December 20, 2021, the Developer requested that the Housing Authority further modify the prior approval to allow \$2,000,000 of predevelopment loan funds to be secured by a repayment guaranty, rather than by Deed of Trust recorded against the property, until Developer purchases the property from the City, and to align the term of the Promissory Note (the “Note”) with the term of affordability of the Project. By approving a repayment guarantee to secure the predevelopment loan funds, the Developer will be able to access the predevelopment funds now which will allow the Project to move forward. By approving the alignment of the term of the Note with the term of affordability for the Project, the Project will be better financially positioned to receive future funding awards from the State Housing and Community Development Department (HCD).

BACKGROUND

The Project is a 62-unit, multifamily apartment development with 51% of the units targeted to formerly homeless households. The unit mix includes 19 studios, 19 1-bedroom, 8 2-bedroom and 15 3-bedroom units with an affordability mix that includes 32 units targeted to households

with incomes up to 30% of Area Median Income (“AMI”), 29 units targeted to household incomes up to 50% AMI, and one non-restricted manager unit. The site of the Project is the former Bennett Valley Senior Center Complex located at the corner of Bennett Valley Road and Rutledge Avenue at 702 Bennett Valley Road, 716 Bennett Valley Road, 921 Rutledge Avenue and 927 Rutledge Avenue in Santa Rosa.

On May 10, 2021, the Housing Authority adopted Resolution No. 1717 (see Attachment 1) conditionally committing loan funds in the amount of \$5,800,000 for construction-related costs for the Project. On June 21, 2021 the Housing Authority approved Resolution No. 1719 to modify the prior loan commitment to allow the award to be utilized for pre-development and/or construction related costs (see Attachment 2). Then, on December 20, 2021 the developer requested a modification (see Attachment 3) to the prior approval to allow \$2,000,000 of the award to be secured by a repayment guaranty for the interim term until the purchase of the property from the City, at which time the \$3,800,000 commitment for construction-related costs and the \$2,000,000 commitment for predevelopment-related costs would both be secured against the property by a Deed of Trust. The Developer has also requested the term of the Note align with the term of affordability for the Project, which is 55 years from the Commencement of Term.

A Disposition and Development Agreement (DDA) between the Developer and the City was executed on June 29, 2021 which outlines the conditions and responsibilities of the City and the Developer related to the sale of the property.

ANALYSIS

The Project site, currently owned by the City, will be sold to the Developer once the conditions outlined in the DDA are fulfilled. Included in the Developer’s conditions prior to the sale of the property is the requirement that Developer shall have secured all sources of funding and such funding shall be committed and available to acquire and construct the Project. The timeline for the Project to obtain all funding commitments is estimated for the beginning of 2023. Once all funding sources are committed, and the property is sold to Developer, a Deed of Trust to secure the Housing Authority loan of \$5,800,000 can be recorded, construction can begin, and Developer can draw down the Housing Authority loan funds. With the modification to the Housing Authority award to allow predevelopment-related costs, and the Developer’s request to access these funds prior to the sale of the property in order to progress the Project, an alternative form of security for \$2,000,000 (the amount of the loan funds to be used for predevelopment-related costs) is needed.

To access the \$2,000,000 for predevelopment-related costs from the approved Housing Authority commitment, the Developer has requested to secure this amount by a repayment guaranty for the interim term until the property is purchased by Developer and a Deed of Trust can be recorded. To achieve this, the prior Housing Authority commitment would need to be modified to allow for two separate loans: one for \$2,000,000 for predevelopment-related costs and one for \$3,800,000 for construction-related costs. Separating the award into two loans, with the predevelopment portion secured by a repayment guaranty will allow the developer to access the \$2,000,000 in loan funds for predevelopment prior to the recordation of the Deed of Trust which will occur upon the sale of the property once the Project has obtained funding commitments for the full development cost of the Project. As an additional security measure, the

Developer has agreed, and it is a standard provision of Housing Authority loans, to give the Housing Authority a security interest in the predevelopment contracts entered into by the Developer.

By approving the repayment guarantee for the predevelopment loan, the Developer will be able to access the loan funds to advance the Project. The repayment guaranty is an agreement between the Housing Authority and the Developer's financial partner L & M Development Partners LLC ("L&M") that legally binds L&M to unconditionally guaranty to: (i) perform all obligations of the Housing Authority under the Loan Documents, subject to the terms of such documents, and (ii) pay all monetary obligations, damages, costs, fees, expenses or any other liability accruing to the Housing Authority under any of the Loan Documents. L & M's financial capacity was evaluated as part of the Notice of Funding Availability (NOFA) application submitted by Developer. Additionally, the security interest in the predevelopment contracts would allow the Housing Authority to retain any predevelopment progress made on the Project in the event the Developer does not proceed with the Project prior to the sale of the property to Developer.

Once the Developer has secured funding commitments for the full cost of the Project and fulfilled all requirements of the DDA with the City, the property will be sold to the Developer. At this time the repayment guarantee for the \$2,000,000 predevelopment loan will terminate and a Deed of Trust will be recorded against the property for the full Housing Authority award of \$5,800,000.

Flexibility to use the loan funds for predevelopment costs for the Project will help the project avoid high interest predevelopment financing, saving the Project over \$100,000 in interest costs. Additionally, it will expedite the design development and construction document phases to better position the project for new funding opportunities as they arise. If the \$2,000,000 Housing Authority award for predevelopment funds remains as a loan secured by Deed of Trust secured against the property, the Developer will not be able to access the funds until early 2023, after the predevelopment phase, and when the property is anticipated to be sold to Developer. This would cost the Project approximately \$100,000 in additional interest costs.

Developer has also requested that the loan term of the Note, which is typically 55 years from the date of the Note, be modified to align with the term of affordability for the Project, which is 55 years from the Commencement of Term. The date of the Note is the date the Note is fully signed and executed, which occurs during Project underwriting and loan document preparation. For the predevelopment loan for the Project, this would occur shortly after Housing Authority approval. The Commencement of Term is the date the Developer notifies the Housing Authority that the units are ready for occupancy or advertises the units for rent, which would occur at construction completion. The anticipated construction completion for the Project is December 31, 2024.

Approval of a modified loan term in the Note would extend the term by approximately three years, based on the current construction timelines. Extension of the loan term to align with the term of affordability would better position the project to receive future funding awards from HCD programs like No Place Like Home, and the Multifamily Housing Program.

PRIOR HOUSING AUTHORITY REVIEW

On May 10, 2021, the Housing Authority adopted Resolution No. 1717 conditionally committing \$5,800,000 of loan funds to the Developer for the Project.

On June 21, 2021 the Housing Authority adopted Resolution No. 1719 modifying the prior commitment to allow funds to be used for predevelopment and/or construction related costs.

ARTICLE XXXIV

Article 34 of the California Constitution applies to low rent housing that is developed, constructed or acquired by a public entity or by private developers who receive federal, state or local assistance. An Article 34 allocation was made for 61 units at Bennett Valley Apartments by Resolution No. 1717 on May 10, 2021.

FISCAL IMPACT

The funds are included in the Housing Authority's 2021-2022 budget and were committed by Resolution No. 1717. Allowing predevelopment costs as an eligible use of the previously committed loan funds does not have an impact on the Housing Authority's budget.

ENVIRONMENTAL IMPACT

In response to a statewide housing shortage, the State has enacted Senate Bill 35 (SB35) that enables eligible housing projects to be constructed through an expedited, ministerial design review process. As required by SB35, the City Council adopted Objective Design Standards, Zoning Code Chapter 20-39. Housing proposals found in compliance with the City's Objective Design Standards are exempt from the California Environmental Quality Act (CEQA) as ministerial and may be approved by the Director of Planning and Economic Development or a designated staff member. The Bennett Valley Apartments project was approved through the SB-35 ministerial design review process and is exempt from CEQA.

A National Environmental Policy Act ("NEPA") Environmental Assessment for the Project was completed in April 2021 with a finding of No Significant Impact.

COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

None.

NOTIFICATION

The Developer was notified of the meeting.

ATTACHMENTS

- Attachment 1 – Housing Authority Resolution No. 1717
- Attachment 2 – Housing Authority Resolution No. 1719
- Attachment 3 – Letter from Freebird, December 20, 2021
- Resolution

BENNETT VALLEY APARTMENTS – MODIFICATION TO PRIOR FUNDING COMMITMENT TO ALLOW \$2,000,000 OF PREDEVELOPMENT LOAN FUNDS TO BE SECURED BY A REPAYMENT GUARANTY UNTIL PROPERTY IS PURCHASED BY DEVELOPER AND TO ALIGN THE TERM OF THE NOTE WITH THE TERM OF AFFORDABILITY
PAGE 5 OF 5

CONTACT

Julie Garen, Program Specialist, jgaren@srcity.org