ATTACHMENT 2

Citi Community Capital
Municipal Securities Division

MEMORANDUM

TO:	CITY OF SANTA ROSA
FROM:	GREGORY S. GOLDBERG, CITI COMMUNITY CAPITAL HAO LI, CITI COMMUNITY CAPITAL
CC:	WADE NORRIS, ESQ., EICHNER NORRIS & NEUMANN PLLC RYAN GEORGE, ESQ., EICHNER NORRIS & NEUMANN PLLC
DATE:	AUGUST 23, 2017
RE:	PROPOSED CITIGROUP PRIVATE PLACEMENT TAX-EXEMPT BACK-TO-BACK LOAN STRUCTURE

The purpose of this memorandum, which we have prepared with the assistance of our outside counsel, Wade Norris and Ryan George at Eichner Norris & Neumann PLLC, is to provide information for you to share with the City of Santa Rosa (the "City") regarding the back-to-back tax-exempt loan structure which Citi Community Capital ("Citigroup") has developed for the financing of affordable multifamily residential rental housing projects, and to compare that structure to the more traditional tax-exempt bond direct purchase structure also used by Citigroup and other lenders for the financing of affordable projects involving 4% tax credits.

The back-to-back loan structure for the financing of affordable multifamily housing projects involves a direct loan by Citibank, N.A., a national banking association, to a governmental entity such as the City. The City would use the proceeds of such loan to advance a project loan to the Borrower.

This alternative structure is necessary for Citigroup to receive Community Reinvestment Act lending, as opposed to investing, credit for tax-exempt affordable housing debt transactions and has certain other important advantages in how banks account for and carry this type of financing. Over the past seven years, Citigroup has closed financings utilizing this structure with a number of other state and local housing finance agencies, including the California State Housing Finance Agency, the Washington State Housing Finance Commission, the New York City Housing Development Corporation, the City of Chicago, the District of Columbia Housing Finance Agency, the Housing Authority of Miami-Dade County (Florida), the City of Los Angeles and over 35 other tax exempt bond issuers, and Citigroup has other such tax exempt back-to-back loan financings under way with a number of other active housing bond issuers.

Citigroup believes that while this structure, differs in form and appearance from a traditional bond direct placement structure, in substance it represents economically the same transaction for the project borrower. Moreover, the proposed alternative structure does not significantly change the role, responsibilities or liabilities of the governmental entity. The key substantive similarities between the back-to-back loan structure and a bond direct purchase are discussed below under the caption "Key Considerations."

Traditional Direct Purchase by Citigroup of Privately Placed Unrated Bonds

In the traditional 4% private placement tax-exempt multifamily bond transaction, Citigroup (through Citibank, N.A. or an affiliate) purchases tax-exempt bonds issued by an issuer such as the governmental entity, and the issuer lends the proceeds of the bonds to the borrower (typically a limited partnership or limited liability real estate development company). Documents for a direct purchase of bonds include:

- Trust Indenture between the issuer and the bond trustee – establishes the parameters for issuance of the bonds.

- Multifamily Note by the borrower to the order of the issuer – evidences the loan of bond proceeds by the issuer to the borrower.

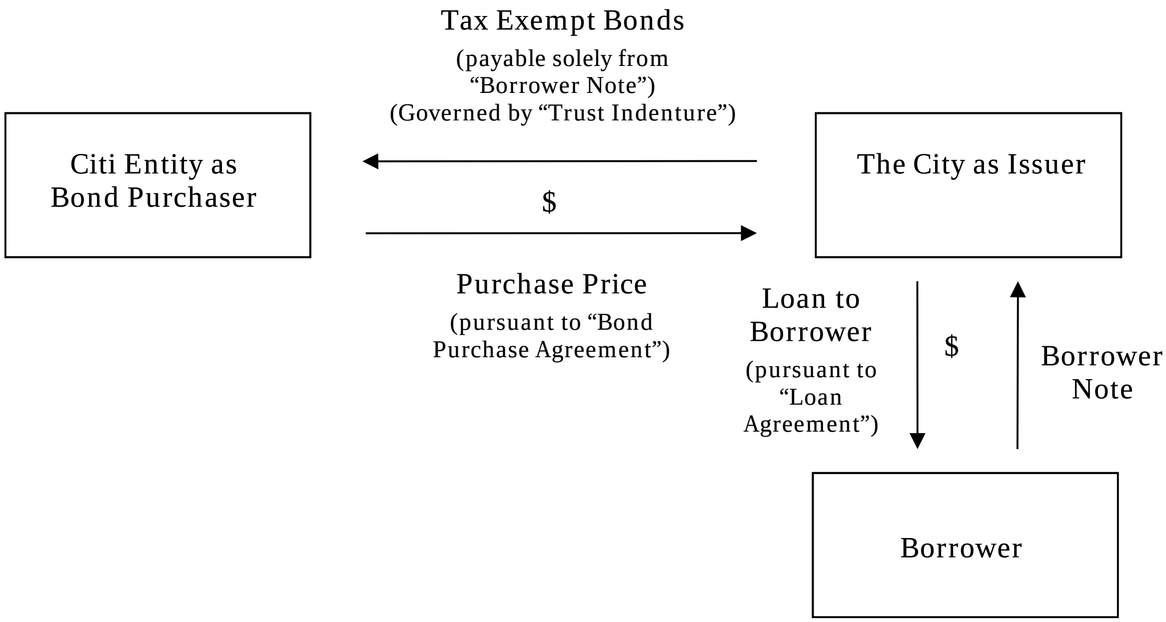
- Loan Agreement between the issuer, the bond trustee and the borrower establishes additional terms and conditions for the loan of the bond proceeds to the borrower.

- Bond Purchase Agreement among Citigroup, the issuer and the borrower, outlining the terms for Citigroup's purchase of the bonds.

- Construction Funding Agreement between the bond trustee and the borrower, outlining the terms and conditions precedent for the disbursement of construction draws.

- Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing by the borrower to the issuer for the benefit of the bondholders, securing the borrower's payment obligations under the note, loan agreement and other bond documents, which mortgage is simultaneously assigned by the issuer to the bond trustee (in some jurisdictions the Security Instrument runs directly to the bond trustee).

The following diagram represents a traditional private placement unrated tax-exempt bond purchase transaction:



<u>Alternative Structure - Direct "Funding Loan" by Citigroup Entity as "Funding Lender" to the City Coupled with "Borrower Loan" by the City as "Governmental Lender" to the Borrower</u>

Rather than purchasing bonds, Citigroup makes a loan (the "Funding Loan") directly to the City. The City (the "Governmental Lender") then loans the proceeds of the Citigroup loan directly to the borrower (the "Borrower Loan"). This is basically a tax-exempt loan to a governmental lender, which loans the proceeds to a project borrower. This conduit loan structure has been used in a wide array of tax-exempt financings for industrial development and other areas of municipal finance. A third party collateral agent may serve a role similar to that of the bond trustee.

Documents for a back-to-back loan include:

CITIGROUP / CITY DOCUMENTS

- <u>Funding Loan Agreement</u> between Citigroup and the City, as the "Governmental Lender", rather than "issuer" – outlines the terms and conditions of Citigroup's loan to the City. This document replaces the trust indenture.

- <u>Governmental Lender Note</u> by the City as the Governmental Lender payable to Citigroup – evidences Citigroup's loan to the City as Governmental Lender – secured by proceeds payable under the Borrower Note described below.

CITY / BORROWER DOCUMENTS

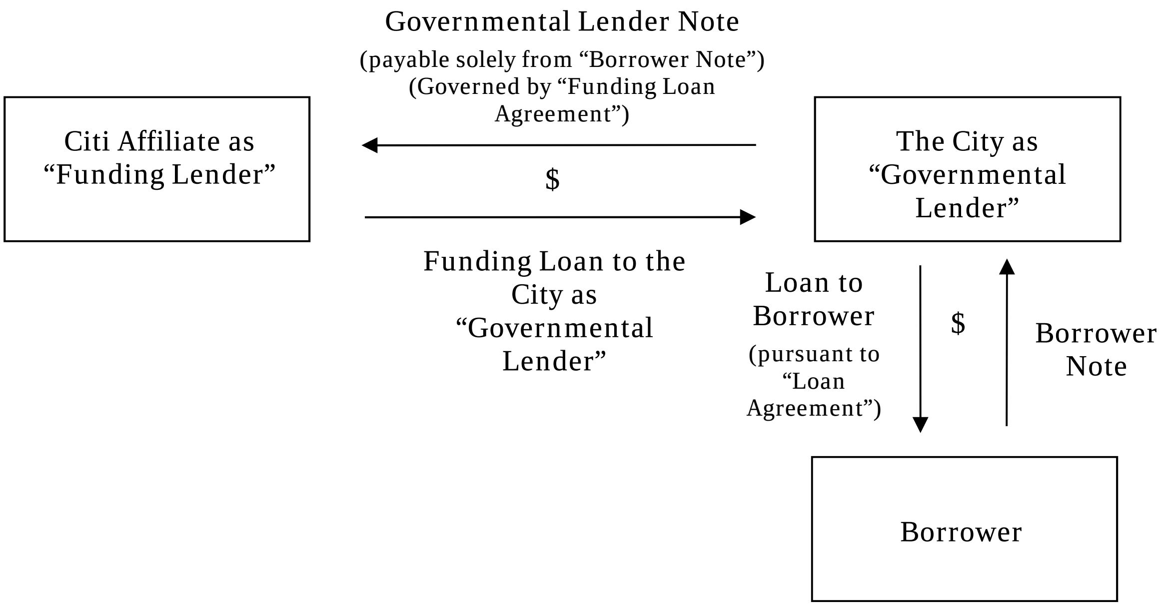
- <u>Borrower Loan Agreement</u> between the City as the Governmental Lender and the Borrower – outlines the terms and conditions of Governmental Lender's loan to the Borrower; Citigroup, as the Funding Lender, is a third party beneficiary.

- <u>Multifamily Note</u> by the Borrower (the "Borrower Note") to the order of the Governmental Lender evidences the loan by the Governmental Lender to the Borrower.

SECURITY INSTRUMENT

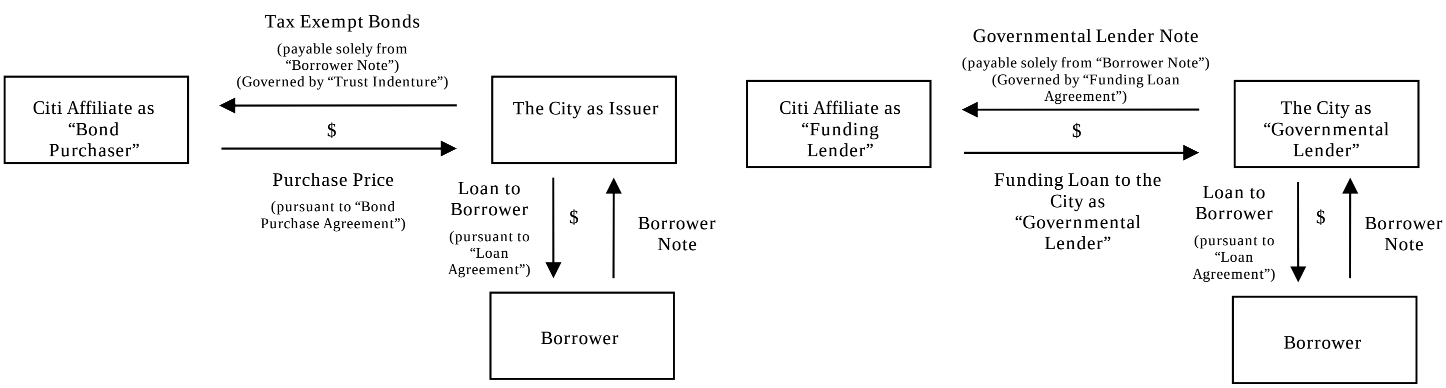
- <u>Multifamily Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing</u> by the Borrower to the Governmental Lender (the "Security Instrument") securing the Borrower's payment obligations under the Borrower Note and the Borrower Loan Agreement, which is assigned by the Governmental Lender to Citigroup pursuant to an Assignment of Deed of Trust and Loan Documents from the Governmental Lender to Citigroup. For so long as Citigroup's loan to the Governmental Lender remains outstanding, Citigroup would control all rights (other than traditionally reserved rights) as if it were the sole mortgagee under the Security Instrument.

The following diagram represents the tax-exempt back-to-back loan program:



<u>Side-by-Side Comparison</u>

A side by side comparison of these two structures illustrate their similarities.



While the documentation and the legal, accounting and regulatory implications of these two transactions are very different, Citigroup, as the real estate secured source of funding for both structures, treats the transactions similarly from a risk and credit perspective. The City, as the tax-exempt government debt issuer or lender, is also in substantially the same position in both structures, serving as the conduit lender through which a borrower can obtain Citigroup funds at a tax-exempt rate of interest. As we have mentioned, the proposed structure offers substantial advantage to Citigroup under the Community Reinvestment Act and from other standpoints, and this will enable us to extend the financing for projects on more favorable terms than a traditional direct purchase of municipal bonds.

Key Issuer Considerations

Certain key aspects of our proposed Tax-Exempt Back-to-Back Loan Structure which we have found important to issuers with whom we have discussed the program are set forth below.

1. Limited Liability/Nonrecourse. The obligations of the City as the "Governmental Lender" under this structure, will be strictly limited, non-recourse obligations of the City, secured only by and payable only from, payments received from the Borrower under the Borrower Loan Agreement, just as would be the case under a private placement tax exempt bond structure. Really, all we are doing is having Citigroup provide the funding by making a "funding loan" to the City evidenced by the City's non-recourse, limited liability "governmental lender note," rather than purchasing the City's non-recourse, limited liability "bond." **Citigroup believes that the limited liability/non-recourse language with respect to the governmental entity is virtually identical under the two structures.**

2. Documents. On documents, **we substitute a "Funding Loan Agreement" evidencing that Funding Loan for the indenture** under which the City would issue its bond under the bond placement structure. Under both structures, the proceeds received from Citigroup are loaned by the City to the Borrower under a loan agreement between the City and the Borrower. **The payments by the Borrower under that Borrower Loan are pledged and, together with the deed of trust on the Project, provide the sole source of security for repayment of the City's obligations under the Governmental Lender Note,** just as this same loan payments are pledged and provide the sole security for repayment of bond issued by the City under t bond private placement structure.

3. No Change in the City's Role as Conduit. This structure also does not change the fundamental role of the City as a conduit provider of tax exempt financing. Citigroup, as the Funding Lender and/or a servicer, **is responsible for disbursing and administering the Borrower Loan** on behalf of the City, just as it would be under a typical bond financed private placement structure. **Funds and accounts are maintained by the Funding Lender** rather than by a bond trustee, but **the governmental entity's "non-involvement" in these matters is unchanged.**

4. Private Activity Bond Volume and 4% LIHTC Allocations. We have now closed well over 50 tax exempt back-to-back multi-family housing financings. There has been no impairment in the private activity bond volume allocation received by the borrowers from bond volume allocating authorities or of the 4% LIHTC allocation from tax credit allocators as a result of shifting the transactions to the tax exempt back-to-back loan structure from a bond private placement transaction. In substance it is the same type of private extension of credit by the very same institution to the same borrower and project. In effect, the volume allocators appear to be treating the two alternative financing structures with Citigroup as fungible for private activity bond volume and 4% LIHTC allocation purposes.

5. Significant Importance of CRA "Lending Credit" and Other Advantages to Citigroup. As noted above, this structure **enables Citigroup to receive CRA "lending credit." In many markets, including California, "lending credit" is much more valuable to Citigroup for CRA purposes** than the "investment credit" Citigroup receives for CRA purposes when it purchases a bond. **The structure also provides other important advantages in how Citigroup can account for and carry this kind of paper. These advantages are very important to Citigroup. Receiving the "lending credit" under the Community Reinvestment Act and the other advantages which the proposed structure affords Citigroup is an important factor in enabling Citigroup to continue to provide this type of construction and/or long-term debt financing to affordable housing projects across the United States on the most competitive terms.**

6. The governmental entity in both the tax-exempt private placement and the back-to-back loan must ensure that it has the legal authority to enter into each type of transaction. Some authorizing statutes only permit an entity to "issue debt securities" or "act as issuer in a sale of municipal securities" which may not be sufficient to permit the use of the back-to-back loan structure. However, many statutes allow the governmental entity to issue securities or incur indebtedness, including entering into loan agreements.

We are sensitive to and knowledgeable of the requirements of state and local governmental entities for transactions of this type, and we, together with our tax-exempt loan matters counsel, Eichner Norris & Neumann PLLC, will work with the City and its counsel to assure that the documents we would present to implement this structure reflect the City's requirements.

We would, of course, be delighted to answer any questions the City might have regarding the structure.