

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: FRANK KASIMOV, PROGRAM SPECIALIST
HOUSING AND COMMUNITY SERVICES
SUBJECT: TEFRA PUBLIC HEARING FOR A TAX-EXEMPT BOND
ISSUANCE BY THE CALIFORNIA MUNICIPAL FINANCE
AUTHORITY IN AN AMOUNT NOT TO EXCEED \$66 MILLION
– QUAIL RUN APARTMENTS – 1018 BELLEVUE AVENUE

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Council, by resolution, (1) approve the issuance by the California Municipal Finance Authority (CMFA) of tax exempt, multifamily housing revenue bonds in an amount not to exceed \$66 million to finance the acquisition, rehabilitation and associated costs of Quail Run Apartments, 1018 Bellevue Avenue; and (2) appropriate the City's share of CMFA's issuance fee (approximately \$18,000) to Fund 2295 – Housing Compliance Fund for affordable housing purposes.

EXECUTIVE SUMMARY

Eden Housing, Inc., ("Eden") is recapitalizing Quail Run Apartments, an existing 200-unit multifamily affordable housing development, to finance acquisition and rehabilitation of the 20-year-old property. The primary funding sources for the \$88 million project include a tax-exempt bond issuance and a new allocation of tax credits. Eden has selected the California Municipal Finance Authority ("CMFA"), a joint powers authority of which the City is a member, to be the issuer of multifamily housing revenue bonds in an amount not to exceed \$66 million. Eden has requested that the City Council conduct a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act ("TEFRA"). The issuance of tax exempt, private activity bonds, even by an outside joint-powers authority, must be approved by the governing body in whose jurisdiction the project is located following a public hearing. All financial obligations of the bond issuance are the responsibility of the borrower/new owner.

This Item relates to the Council's goal to meet housing needs because reinvestment and rehabilitation of the property preserves and protects the structures and brings the property up to code.

BACKGROUND

Quail Run is a 200-unit affordable housing development constructed in 1999. The development is comprised of 10 2-story and 3-story walk-up apartment buildings and one community building on 10 acres with 48 1-bedroom units, 64 2-bedroom units, 76 3-bedroom units, and 12 4-bedroom units (the “Project”). The Project is located at 1018 Bellevue Avenue, Santa Rosa, California, also identified as Assessor’s Parcel Numbers 044-330-056 and 044-330-057 (the “Property”).

On May 1, 1997, the City Council issued tax-exempt multifamily housing revenue bonds in the amount of \$12,850,000. The proceeds were used by Santa Rosa Limited Partners Limited Partnership (the “Partnership”) in combination with tax credits for acquisition and construction of the Project. On February 10, 2011, the Partnership paid off the bonds from the proceeds of a new loan. A bond regulatory agreement restricted the rents and incomes to households earning up to 60% of the Area Median Income (“AMI”) for 40% or 80 of the 200 units through its expiration on May 7, 2016.

Prior to the expiration of the bond regulatory agreement, on February 24, 2014, the Housing Authority approved a loan in the amount of \$350,000 for Eden to acquire a general partnership interest through its affiliate. Eden also became the property manager through its management affiliate. A new Regulatory Agreement entered into with the Santa Rosa Housing Authority was recorded against the property on March 28, 2014, restricting rents and household incomes for 199 of the 200 units at 60% AMI for a 55-year term of affordability; rents are calculated at 30% of income level. This Regulatory Agreement remains in place.

CMFA was created on January 1, 2004 pursuant to a joint exercise of powers agreement to promote economic, cultural and community development, through the financing of economic development and charitable activities, including the issuance of taxable and tax-exempt bonds aimed at improving the standard of living throughout California. To date, over 300 municipalities, including the City of Santa Rosa, are members of CMFA.

PRIOR CITY COUNCIL REVIEW

On May 13, 1997, the Council adopted Resolution No. 23122 authorizing the issuance of tax-exempt Multifamily Housing Revenue Bonds in the amount of \$12,850,000, the proceeds of which were used by the Partnership for acquisition and construction of the Project.

On January 5, 2010, the Council adopted Resolution No. 27555 authorizing and directing execution of a Joint Exercise of Powers Agreement relating to the California Municipal Finance Authority. The Agreement was executed on January 12, 2010.

ANALYSIS

Quail Run is 20 years old and has major rehabilitation needs. The following are priority rehabilitation items: replace exterior stair towers; replace roofs on all buildings; add additional roof insulation; achieve compliance with accessibility standards in 5% of the units, path of travel, community buildings and common areas, such as the pool and playground; replace siding where needed; waterproof balconies; replace old and inefficient hot water heaters, refrigerators and dishwashers with new energy and water efficient units; install energy efficient LED lighting; replace the air conditioning units in the community building; replace bathroom fans; upgrade irrigation system with water efficient system; and redesign and replace trash enclosures. The following items will be prioritized with remaining budget: replace countertops and cabinets in kitchens and bathrooms; replace flooring; replace windows and sliding doors; and replace doors and hardware.

Eden is recapitalizing the property to finance the \$88 million acquisition and rehabilitation project. The rehabilitation investment is approximately \$20 million of the total cost. Eden will remain in the new ownership structure as the general partner and the property manager through its affiliates.

Eden has selected the CMFA, a joint powers authority of which the City is a member, to be the issuer of multifamily housing revenue bonds in an amount not to exceed \$66 million. Other financing will come from a new allocation of tax credits, seller take back note, deferred developer fee and project reserves.

The issuance of tax exempt, private activity bonds, even by an outside joint powers authority, must be approved by the governing body in whose jurisdiction the project is located following a public hearing in accordance with TEFRA requirements.

The Board of Directors of the California Foundation for Stronger Communities, a California non-profit public benefit corporation (the "Foundation"), acts as the Board of Directors for the CMFA. Through its conduit issuance activities, the CMFA shares 25% of the issuance fees it receives with its member communities and donates an additional 25% of the total fees that it collects to the Foundation for the support of charitable organizations in California. The City's portion of the CMFA fee-sharing for this bond issuance is expected to be approximately \$18,000. The funds are recommended to be deposited into the Housing Authority's Housing Compliance Fund to be used for affordable housing purposes.

FISCAL IMPACT

Approval of this action does not have a fiscal impact on the General Fund. The owner is not requesting any City funds for the acquisition and rehabilitation of Quail Run Apartments. The bonds and the obligation to pay principal and interest and any redemption premium will not constitute indebtedness or an obligation of the City. The

City will have not any obligation to repay the bonds or to acquire, rehabilitate, improve, equip or operate the Project.

Financing documents with respect to the issuance of the bonds will contain clear disclaimers that the bonds are not obligations of the City but are to be paid for solely from funds provided by the new owner/borrower. All financial obligations for the bonds and all fees and costs associated with the bonds will be the sole responsibility of the owner/borrower.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline Section 15378. The action is not a commitment to a project, nor commitment of funding to a project, but authorizes an outside joint-powers agency to issue tax-exempt multifamily housing bonds to finance the acquisition, rehabilitation, improvement and equipping of Quail Run Apartments.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

A public hearing notice was published in the Press Democrat on August 26, 2019.

ATTACHMENTS

- Attachment 1 – Locational Graphic
- Attachment 2 – Request from Eden Housing, Inc. for the TEFRA public hearing
- Resolution

CONTACT

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