

CITY OF SANTA ROSA  
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS  
FROM: FRANK KASIMOV, PROGRAM SPECIALIST  
HOUSING AND COMMUNITY SERVICES DEPARTMENT  
SUBJECT: 2017 CDBG NOTICE OF FUNDING AVAILABILITY –  
RECOMMENDATION AND CONDITIONAL COMMITMENT OF  
FUNDS FOR REHABILITATION OF CHELSEA GARDENS I & II,  
LOCATED AT 1220 MCMINN AVENUE AND 919 DELPORT  
AVENUE AND FOR APPLE VALLEY APARTMENTS, LOCATED  
AT 2862, 2866, 2870 AND 2874 APPLE VALLEY LANE, AND  
EXTENSION OF DUE DATES OF EXISTING APPLE VALLEY  
APARTMENTS LOANS

AGENDA ACTION: RESOLUTIONS

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RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Housing Authority, by two resolutions, (1) approve a conditional commitment of CDBG funds in the amount of \$560,236 to Chelsea Gardens Associates, L.P. for rehabilitation of Chelsea Gardens I and II; and (2) approve a conditional commitment of CDBG funds in the amount of \$600,926 to Burbank Housing Development Corporation for rehabilitation of Apple Valley Apartments and extend the due date of the existing loans on the properties to align with the term of this CDBG loan.

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EXECUTIVE SUMMARY

Two applications were submitted in response to a Notice of Funding Availability (“NOFA”) of U.S. Department of Housing and Urban Development (“HUD”) Community Development Block Grant (“CDBG”) funds in the amount of \$1,161,162. Chelsea Gardens Associates, L.P. submitted an application requesting \$787,652 to rehabilitate Chelsea Gardens I & II (“Chelsea Gardens”), 120 units located at 1220 McMinn Avenue and 919 Delport Avenue within the Sunset McMinn Neighborhood Revitalization Program (“NRP”) area. Burbank Housing Development Corporation (“Burbank Housing”) submitted an application requesting \$744,321 to rehabilitate eight units at Apple Valley Apartments, located at 2862, 2866, 2870 and 2874 Apple Valley Lane, continuing the rehabilitation effort of its properties in the Apple Valley-Papago Court NRP area.

## **BACKGROUND**

The Santa Rosa Housing Trust issued a NOFA announcing the availability of CDBG funds in the amount of \$1,161,162 on August 1, 2017, with applications due September 14, 2017. As stated in the NOFA, the funds may be used for all eligible affordable housing activities, such as land acquisition, rehabilitation (with or without acquisition), conversion, or preservation of affordable housing. The NOFA required that funds be expended by March 30, 2018, to assist with the spend-down of CDBG funding. Two applications were received, as described below.

### ***Chelsea Gardens:***

Chelsea Gardens consists of 16 residential buildings on two parcels and built in two phases. Chelsea Gardens I with eleven buildings and 80 units, located at 1220 McMinn Avenue, APN 125-261-045, was completed in 1979; and Chelsea Gardens II, with five buildings and 40 units, located at 919 Delport Avenue, APN 125-261-050, was completed in 1981. Roseland Creek separates the two parcels. The two phases are operated as one development by BRIDGE Property Management Company.

BRIDGE Housing Corporation (“BRIDGE”) purchased Chelsea Gardens in 1999 as an acquisition-rehabilitation development. The property is currently owned by Chelsea Gardens Associates, L.P., a limited partnership consisting of controlling General Partner Northpoint Housing, Inc. (a non-profit affiliate of BRIDGE) and Limited Partner Union Bank. BRIDGE is currently working with Union Bank to buy out its interest in the Partnership as envisioned in the agreements executed as part of the tax credit acquisition/rehab project in 1999. BRIDGE or an affiliate would serve as the Limited Partner until the property is resyndicated, currently anticipated to occur in 2019 or 2020.

The applicant reports that the exteriors and many portions of the interiors of the buildings date back to the original construction and that BRIDGE last rehabilitated portions of the property in 1999, prioritizing repair needs with a limited budget. In recent years BRIDGE Property Management Company has expended nearly \$500,000 in repair or replacement work to address priority needs. This work included fully replacing the roof on two buildings, multiple smaller roof repairs in other buildings, repairing sidewalks, and replacing common area elements and structures. The properties need additional major improvements, some of which are included in this request and identified in the Analysis section below. Additional rehabilitation work is contemplated upon resyndication.

Chelsea Gardens I and II each has a project-based Section 8 Housing Assistance Payment (HAP) contract agreement. The HAP agreements restrict 118 units to households with incomes up to 50% Area Median Income (“AMI”) and expire on May 31, 2033. There are also less restrictive use restrictions associated with other funding sources. Loans funded by the California Housing Finance Agency restrict 20% of the

units to households earning 50% AMI. The loans are due in 2029, and the regulatory agreement terminates when the Section 8 funding ceases in 2033. Under the California Tax Credit Allocation Committee (“CTCAC”) regulatory agreement 118 of the subject units are restricted at 60% AMI for a 30-year term to 2029.

***Apple Valley Apartments:***

Apple Valley Apartments is located on two parcels: (1) 2862 and 2866 Apple Valley Lane, Assessor Parcel Number (“APN”) 015-520-038; and (2) 2870 and 2874 Apple Valley Lane, APN 015-520-039.

With the assistance of the Housing Authority and the Santa Rosa City Council, Burbank Housing acquired 106 units (including the 8 units at Apple Valley Apartments) in the Apple Valley/Papago Court neighborhood around 1999/2000. The purpose of the acquisition was to provide well-managed affordable housing and to help stabilize the neighborhood. Burbank Housing was subsequently successful in syndicating two of the properties (Papago Court Apartments and Paulin Creek Apartments, each with 48 units) and obtaining 4% low-income housing tax credits and tax-exempt bond financing for those properties. Burbank Housing Management Corporation manages all of Burbank’s Apple Valley/Papago Court properties.

While the original rehabilitation of Burbank’s properties in the neighborhood significantly improved the structures, 17 years later, these 50+ year old buildings are in need of further rehabilitation to extend the useful life of the buildings and to preserve this affordable housing stock.

Apple Valley Apartments consists of four duplex buildings, each building with two 2-bedroom units. Four units are income- and rent-restricted at 60% AMI; and four units are income-restricted at 80% AMI and rent-restricted at 60% AMI. The two Housing Authority Regulatory Agreements (one for each parcel) restrict maximum rents to 30%-60% AMI through January 1, 2053.

**PRIOR HOUSING AUTHORITY REVIEW**

The Housing Authority has loaned funds for Apple Valley Apartments in 1998, 2000 and 2004. Separate loans are for each parcel. The total outstanding principal is \$167,180 (rounded) with \$81,840 allocated to 2862-2866 Apple Valley Lane and \$85,340 allocated to 2870-2874 Apple Valley Lane. The outstanding principal balance reflects payments of principal in the amount of \$516 (rounded) for each property. The loan due date for these loans is April 16, 2034. Burbank Housing requested that the loan due date be extended to align with the loan due date of this current CDBG loan. The Housing Authority does not have funds invested in Chelsea Gardens.

## FISCAL IMPACT

The \$1,161,162 of CDBG funds are budgeted and available.

## ANALYSIS

The total funding available is \$1,161,162. Burbank Housing requested \$744,321, and Chelsea Gardens Associates requested \$787,652, for a total of \$1,532,521, or \$370,811 more than the total available funding. Staff and the applicants revised the scopes and reduced the budgets of the projects to allow both to receive funding, thus rehabilitating and extending affordability of more units in Santa Rosa's housing stock.

There are several similarities between the properties and the applications. Both properties are in an NRP neighborhood and in a City designated Priority Development Area (a planned area of increased residential development around existing or planned transit). Both projects were acquisition/rehabilitation developments around 1999 and currently meet CDBG eligibility requirements as an Eligible Activity (24 CFR 570.202 (a)(1) – Rehabilitation of Privately Owned Residential Buildings) and a National Objective (24 CFR 570.208 (a)(3) – Activities benefiting low- and moderate-income persons – housing activities. Each applicant has lined up a consultant to prepare the environmental review pursuant to the National Environmental Quality Act (“NEPA”) and have committed to drawing the CDBG funds by March 30, 2018, as requested in the NOFA, in order that the City of Santa Rosa carries out CDBG activities in a timely manner.

Burbank Housing and BRIDGE are willing to consider prioritizing unit(s) for households experiencing homelessness, who are engaged through Catholic Charities (or another service provider). This request was included in the NOFA following a discussion by the Housing Authority at its April 2017 meeting.

Delaying the award of CDBG funds to either property and retaining the funds for any time period until a Notification of CDBG-Disaster Recovery award is made would result in the City not being able to carry out the CDBG activities in a timely manner. Consequences of inaction could result in the City losing the next grant by the amount that has not been spent timely. In addition, if the funds are not awarded, the properties and neighborhoods will not be improved nor the residents' quality of life improved.

Additional information is attached for each project: locational graphic, project description, loan application, Selection Guidelines for Funding Affordable Housing Developments, budget/scope of work associated with the recommended funding allocations, and 30-year cash flow analysis.

### ***Chelsea Gardens***

Chelsea Gardens Associates submitted an application requesting \$787,652 matched

with \$860,612 of replacement reserves, for a Total Development Cost of \$1,648,264, or \$13,736 per unit to rehabilitate Chelsea Gardens I & II (“Chelsea Gardens”), 120 units located within the Sunset McMinn NRP area.

The requested CDBG funding and owner’s replacement reserves would fund the following scope of work:

- Replace external stairs on 5 buildings (Chelsea Gardens II).
- Rebuild cantilevered second story porches on 11 buildings. (Chelsea Gardens I).
- Mitigate flooding and other barriers on pedestrian pathways.
- Rehabilitate laundry room to meet accessibility standards, including grading and related work (Chelsea Gardens II).
- Upgrade and replace unit ventilation systems for units in 5 buildings (Chelsea Gardens II).
- Replace roofs and gutters on 5 buildings (Chelsea Gardens II).
- Patch and repair roofs and gutters on 9 buildings (Chelsea Gardens I).
- Improve community room exterior where trellis was removed due to weather damage.
- Construct two trash boxes, per new City standard, to prevent rain runoff into sewers/creek. (Chelsea Gardens II).
- Replace kitchen and bathroom cabinets in select units as needed.

The recommended funding for Chelsea Gardens is \$560,236. With this funding, the owner would complete the scope of work identified above with the exception of replacing external stairs on 5 buildings (Chelsea Gardens II), which would be deferred until 2019 or 2020 when a larger rehabilitation project would be completed or until sufficient replacement reserves are available. The owner states that the external stairs component is the only part of the project scope that requires relocation and that the stairs do not present an immediate life safety issue. The rehabilitation will be managed by BRIDGE.

The following table provides more details about Chelsea Gardens:

<b>Chelsea Gardens</b>		
Applicant: Chelsea Gardens Associates, LP		
Total Units	120	
Affordable units	118	
Total development cost	\$1,648,264	
Development cost per unit	\$13,736	
Soft cost per unit	\$2,526	
Hard cost per unit	\$11,210	
Proposed Financing Sources:	Amount:	Per unit:
Recommended CDBG Loan	\$560,236	\$4,669
Chelsea Gardens Replacement Reserve	\$860,612	\$7,172
TOTAL	\$1,420,848	\$11,841
Targeted Affordable Units	Existing/Proposed:	
	118	units @ 50%
	<u>2</u>	<u>units unrestricted</u>
	120	TOTAL
Unit mix and rent range		
0 bedroom (studio) – 12 units	\$865	
1 bedroom - 60 units	\$1,081-\$1,109	
2 bedrooms – 44 units	\$1,352-\$1,378	
3 bedrooms – 2 units	\$1,622	
Manager’s unit – 2 units	Unrestricted	

### ***Apple Valley Apartments***

The Apple Valley Apartments project continues the recent rehabilitation effort of other Burbank Housing properties in the Apple Valley-Papago Court NRP area, specifically, Paulin Creek Apartments and Papago Court Apartments.

The Apple Valley Apartments rehabilitation involves only the requested CDBG funding and does not involve owner funds, other outside financing or matching funding.

The Total Development Cost and requested funding amount is \$744,321, or \$93,040 per unit. This amount would fund the following scope of work for all four buildings: replacement of roofing, gutters, siding, windows, wall insulation, exterior painting and sidewalk replacement. The rehabilitation work will be managed by Burbank Housing.

The recommended funding for Apple Valley Apartments is \$600,926. This amount covers the scope of work identified above with the exception of replacing siding, windows, wall insulation, sidewalks and repainting of one building.

The following table provides more details about Apple Valley Apartments:

<b>Apple Valley Apartments</b>		
Applicant: Burbank Housing		
Total Units	8	
Affordable units	8	
Total development cost (full scope of work)	\$744,321	
Development cost per unit	\$93,040	
Soft cost per unit	\$8,297	
Hard cost per unit	\$84,743	
Proposed Financing Sources:	Amount:	Per unit:
Recommended CDBG loan	\$600,926	\$75,116
TOTAL	\$600,926	\$75,116
Targeted Affordable Units	Existing/Proposed:	
	4 units @ 60%	
	<u>4 units @ 80%*</u>	
	8 TOTAL	
Unit mix and rent range		
2 bedrooms – 8 units	\$1,044 - \$1,063	

\*Rent at 60% AMI, Income at 80% AMI

### **Loan to Value Ratio**

The following tables show loan to value ratios on existing and proposed debt for Apple Valley Apartments and Chelsea Gardens.

The Chelsea Gardens estimated valuation is provided by BRIDGE Housing in an appraisal report prepared on March 3, 2017, by Watts, Cohn and Partners, Inc. for BRIDGE and others. The as-is market value of Chelsea Gardens as of February 10, 2017, is estimated to be \$6,000,000.

<b>Chelsea Gardens Loan to Value* Ratio</b>		
	<b>Principal</b>	<b>Loan to Value %</b>
Existing Housing Authority Loans	\$0	0%
CalHFA Existing 1st Mortgage Loan Dec. as of 2016 (P&I paid in monthly installments through due date in 2029)	\$2,886,053	48%
CalHFA Existing 2nd Mortgage Loan as of Dec. 2016 (\$450,000 of original \$750,000 Principal, then P&I, paid with excess cash distribution)	\$551,851	9%
Recommended CDBG Funding	\$560,236	9%
<b>Total Loans</b>	<b>\$3,998,140</b>	<b>67%</b>

\*Value estimated to be \$6,000,000

The valuation of Apple Valley Apartments is estimated by Burbank Housing to be \$358,750 per duplex or \$1,435,000 for the four duplexes. This figure is derived from a range of comparable sales from September 2017 of \$332,500 - \$385,000 per duplex. An adjacent 4-plex sold for \$665,000, or \$166,250 per unit, on August 7, 2017.

<b>Apple Valley Loan to Value* Ratio</b>		
	<b>Principal</b>	<b>Loan to Value %</b>
Existing Housing Authority Loans	\$167,180	12%
Midland Mortgage First Mortgage Loans as of 2017	\$243,334	17%
Recommended CDBG Funding	\$600,926	42%
<b>Total Loans</b>	<b>\$1,011,440</b>	<b>70%</b>

\*Value estimated to be \$1,435,000



## **Loan Terms**

The recommended loan terms are as follows:

### ***Chelsea Gardens***

The loan amount is \$560,236. The terms include three percent (3%) simple interest deferred for fifty-five (55) years per annum, secured by a deed of trust, and payments based on residual receipts. Interest shall commence with the recordation of the deed of trust. The term of affordability will be 55 years.

### ***Apple Valley***

The loan amount is \$600,926 (there are two sets of loans for Apple Valley Apartments, one for each parcel). Burbank Housing has requested that the recommended funds be allocated as follows: \$224,989 for 2870-2874 Apple Valley Way and \$375,937 for 2862-2866 Apple Valley Way.

The terms include three percent (3%) simple interest per annum, deferred for thirty (30) years, secured by modification of the existing deeds of trust, and payments based on residual receipts. Interest shall commence with the recordation of the Third Further Advance. The term of affordability will align with the existing Housing Authority Regulatory Agreement through January 1, 2053.

In addition, it is recommended that Burbank Housing's existing loans on the properties, with a total principal balance of \$167,179.93, be extended to align with this CDBG loan.

## **Policy Consistency**

### **LOW-INCOME HOUSING PRODUCTION SUBSIDY PROGRAM POLICY**

Apple Valley: The new loan for Papago will exceed the per unit maximum loan amount set forth in the Low-Income Housing Production Subsidy Program Policy. A waiver of the maximum amounts may be made based on findings of special circumstances and overriding concerns by the Housing Authority.

Chelsea Gardens: The loan will not exceed the per unit maximum loan amount set forth in the Low-Income Housing Production Subsidy Program Policy.

### **HOUSING ELEMENT POLICIES**

The proposed Project is consistent with several General Plan affordable housing policies and, therefore, public objectives to meet community needs with multifamily

rental housing for low-income households:

H-A-3 Promote conservation and rehabilitation of the existing housing stock and discourage intrusion of incompatible uses into residential neighborhoods which would erode the character of established neighborhoods or lead to use conflicts.

H-B-1 Rehabilitate 500 housing units annually through the city's rehabilitation programs, focusing on very low- and low-income beneficiaries.

H-C-4 Utilize the Santa Rosa Housing Trust to maximize and leverage available federal, state, and local funding to assist in the development of affordable housing, the preservation and rehabilitation of low-income housing, the development and maintenance of homeless shelters, and the acquisition and development of facilities for the physically and developmentally disabled.

H-C-5 Continue to provide funding for affordable housing projects, particularly if a portion of the project units are targeted to extremely low-income households.

H-C-10 Aggressively participate in available federal, state, and private non-profit programs for the provision of affordable housing.

#### ARTICLE XXXIV

Article 34 does not apply to rehabilitation of existing affordable housing units.

#### ENVIRONMENTAL IMPACT

Completion of environmental review pursuant to NEPA is part of each project's scope prior to the release of CDBG funds. Both projects are exempt from environmental review under the California Environmental Quality Act, Class 1, Existing Facilities, because the projects consist of repair, maintenance, or minor alteration of existing structures, involving no expansion of use.

#### COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

A Housing Authority subcommittee was not convened because only two applications for eligible rehabilitation projects were received, and each requested less than the total amount of available funding. The applicants reduced their requests and modified their scope of services to provide sufficient funds for both projects.

#### NOTIFICATION

Interested parties are notified by email.

## ATTACHMENTS

- Attachment 1 – Notice of Funding Availability
- Attachment 2 – Chelsea Gardens Locational Graphic
- Attachment 3 – Chelsea Gardens Project Description
- Attachment 4 – Chelsea Gardens Loan Application
- Attachment 5 – Chelsea Gardens Selection Guidelines for Funding Affordable Housing Developments
- Attachment 6 – Chelsea Gardens Budget
- Attachment 7 – Chelsea Gardens Cash Flow
- Attachment 8 – Apple Valley Apartments Locational Graphic
- Attachment 9 – Apple Valley Project Description
- Attachment 10 – Apple Valley Loan Application
- Attachment 11 – Apple Valley Selection Guidelines for Funding Affordable Housing Developments
- Attachment 12 – Apple Valley Budget
- Attachment 13 – Apple Valley Cash Flow
- Resolution - Chelsea Gardens
- Resolution – Apple Valley

## CONTACT

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