

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: FRANK KASIMOV, PROGRAM SPECIALIST
HOUSING AND COMMUNITY SERVICES
SUBJECT: URBAN HOUSING COMMUNITIES' REQUEST TO AUTHORIZE
ISSUANCE, SALE AND DELIVERY OF TAX-EXEMPT
MULTIFAMILY HOUSING REVENUE NOTE IN A MAXIMUM
AMOUNT OF \$7,105,000 FOR THE CROSSINGS ON ASTON
APARTMENTS

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Council, by resolution, authorize the sale, execution and delivery of the tax-exempt City of Santa Rosa 2017 Multifamily Housing Revenue Note (The Crossings on Aston Apartments) in a maximum aggregate principal amount of \$7,105,000.

EXECUTIVE SUMMARY

Issuance of the City of Santa Rosa 2017 Multifamily Housing Revenue Note in a maximum aggregate principal amount of \$7,105,000 will facilitate the financing necessary for acquisition, construction and development of The Crossings on Aston Apartments, an affordable rental facility with 26 affordable units, one manager unit and one community room in 14 duplexes (the "Project"). Twenty-four units are 3-bedroom units, and three units are 1-bedroom units. Affordability is targeted to families whose household income ranges from 30% of area median income ("AMI") (Extremely Low-Income) to 60% AMI (Low-Income). Incomes and rents will be restricted for 55 years by regulatory agreements. Construction is expected to begin in October 2017 and take 10 months to complete.

Financing for the Project includes the Note, federal and state tax credit equity contributed by RBC Capital Markets, and loans and Project-Based Housing Choice Vouchers approved by the Housing Authority. The City of Santa Rosa is a conduit (or pass-through) lender, and Citibank, N.A., is the funding lender and risk taker on the real estate. All financial costs and obligations for issuance and repayment of the Note will be the responsibility of the borrower with no impact on the City's General Fund. The source of repayment will be revenue from the operation of the Project.

BACKGROUND

The Project is located at 1500-1555 John Richards Way, Santa Rosa (formerly 706-708 Aston Avenue), Assessor's Parcel Numbers 038-172-028 through 038-172-041 (the "Property") (see Attachment 1) in the Aston Avenue Neighborhood Revitalization Program Area. Prior to the recession, 14 duplexes were approved as a market rate housing development on the Property. During the recession, the Property went into foreclosure and was acquired for affordable housing development in 2013.

The Housing Authority has approved loans totaling \$5,486,685 for acquisition and development of the Project. To further assist the Project, the Housing Authority also approved six Section 8 Project-Based Housing Choice Vouchers. See Board/Commission/Committee Review and Recommendations for details.

The California Tax Credit Allocation Committee ("CTCAC") issued a Reservation Letter for state and federal Tax Exempt Credits on June 7, 2017, for Crossings on Aston.

The California Debt Limit Allocation Committee ("CDLAC") adopted Resolution No. 17-63 on July 19, 2017, awarding the City a private activity volume cap allocation of \$7,105,000 to be used for the Project.

PRIOR CITY COUNCIL REVIEW

On September 13, 2005, the City Council approved Resolution No. 26389 adopting a Mitigated Negative Declaration (see Environmental Impact below) for a proposed rezoning.

On September 27, 2005, the City Council adopted Ordinance No. 3745 rezoning the Property from the PC (Planned Community) to the R-3-15 (Multi-Family Residential) Zoning District.

On July 19, 2016, the City Council conducted a public hearing in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA Public Hearing") and adopted Resolution No. 28818 declaring its intention to issue tax exempt bonds for the Project. The project sponsor withdrew an application to CDLAC for a bond allocation because the sponsor was not successful in obtaining an allocation of competitive tax credits from CTCAC.

On June 6, 2017, the City Council conducted another TEFRA Public Hearing and adopted Resolution No. Res-2017-089 reaffirming its official intention to issue the Note in an amount not to exceed \$8 million for financing the Project.

ANALYSIS

The City of Santa Rosa is a conduit issuer, or pass-through entity, and Citibank, N.A., is the funding lender and risk taker on the real estate.

The Borrower of the Note is UHC 00596 Santa Rosa, L.P., a California limited partnership (the "Partnership"). The members of the Partnership currently include Central Valley Coalition for Affordable Housing ("Central Valley") a non-profit organization dedicated to providing low-income housing to families throughout California, as Managing General Partner, and UHC 00596 Santa Rosa Holdings, LLC ("UHC"), as Administrative General Partner. UHC is an affiliate of Urban Housing Communities, a mission-driven company dedicated to developing affordable, sustainable housing. In addition, RBC Capital Markets ("RBC"), the tax credit equity investor, will be the Limited Partner of the Partnership. RBC is a global investment bank.

Issuance of the Note will facilitate the financing necessary for acquisition, construction and development of 14 duplexes, with 26 affordable units, one manager unit and one unit to be used as a community room. Twenty-four units are 3-bedroom units, and three units are 1-bedroom units. Building permit applications have been submitted, and construction is expected to begin in October 2017 and take 10 months to complete.

Affordability is targeted to families whose household income ranges from 30% of area median income ("AMI") (Extremely Low-Income) to 60% AMI (Low-Income). Incomes and rents will be restricted for 55 years by regulatory agreements and monitored by the Department of Housing and Community Services.

The funding sources and amounts for the \$13,700,225 Project are also shown in the table below. The total cost per unit is \$507,416, consistent with the total cost per unit for two other current affordable housing developments. The development cost for Crossroads, a 79-unit City-County affordable housing development currently under development on Burbank Avenue, is approximately \$490,000/unit. The development cost for Benton Veterans Village, a 7-unit development for veterans is approximately \$515,000/unit.

<u>Construction financing sources</u>	<u>Amount:</u>	<u>per unit</u>
Housing Authority	\$5,486,685	\$203,211
Investor equity (4% tax credit equity)	\$512,242	\$18,972
Tax Exempt Note	\$7,105,000	\$263,148
Deferred Developer Fee	\$596,298	\$22,085
TOTAL	\$13,700,225	\$507,416

<u>Permanent financing sources:</u>	<u>Amount:</u>	<u>per unit</u>
Housing Authority	\$5,486,685	\$203,211
Investor equity (4% tax credit equity)	\$5,121,432	\$189,683
Tax Exempt Note (1 st Mortgage)	\$2,733,311	\$101,234
Deferred Developer Fee	\$358,797	\$13,289
TOTAL	\$13,700,225	\$507,416

In addition to the financing sources, the Housing Authority allocated six Section 8 Project-Based Housing Choice Vouchers to the Project.

The Note is similar in structure to a tax exempt multifamily revenue bond, as described in further detail in Attachments 2 and 3. However, rather than purchasing bonds, Citibank, N.A., makes a loan (the "Funding Loan") directly to the City. The City then loans the proceeds of the Citibank, N.A., Funding Loan directly to the Borrower (the "Borrower Loan"). This is basically a tax-exempt loan to a governmental lender, which loans the proceeds to the Borrower. Issuance of the Note involves approving and authorizing the execution and delivery by the Council of six documents, which are attached as Attachments 4 through 9. These include 1) Funding Loan Agreement, 2) Borrower Loan Agreement, 3) Regulatory Agreement and Declaration of Restrictive Covenants, 4) Assignment of Deed of Trust and Loan Documents, 5) Multifamily Note, and 6) Contingency Draw-Down Agreement. The City's bond counsel, Jones Hall, A Professional Law Corporation ("Jones Hall"), has prepared or reviewed these documents.

Central Valley and Urban Housing Communities successfully developed Crossings at Santa Rosa, a 49-unit affordable housing development located at 810-830 Jennings Avenue, completed in 2008.

FISCAL IMPACT

All financial costs and obligations for issuance and repayment of the Note will be the responsibility of the borrower with no impact on the City's General Fund. The source of repayment will be revenue from the operation of The Crossings on Aston. The Borrower is responsible for payment of all costs of the bond issuance, including the City's bond counsel and staff time. Tax-Exempt multifamily housing financings are structured so that the City will have no financial liability to the bondholders should the owner default on its payment obligations. Moreover, the credit rating agencies disregard multifamily housing revenue bond issues when evaluating the City's bond credit rating for other bond obligations. The City is responsible for compliance monitoring of the Property, for which a fee is paid to the City.

ENVIRONMENTAL IMPACT

Environmental Review pursuant to the California Environmental Quality Act (CEQA) has been completed. A Mitigated Negative Declaration was approved by Planning Commission Resolution No. 10787, on July 14, 2005, and City Council Resolution No. 26389, on September 13, 2005. Pursuant to CEQA Guidelines Section 15162, no additional or subsequent environmental review is required because no substantial changes to the project or circumstances have occurred or no new information of substantial importance that reveals any significant effects has been identified that was not previously identified; nor are there mitigation measures which are considerably different from those analyzed in the adopted Negative Declaration that would substantially reduce one or more significant effects on the environment.

An Environmental Assessment was completed pursuant to the National Environmental Policy Act ("NEPA") prior to execution of loan documents and the close of escrow for the for the Community Development Block Grant ("CDBG") loan used to acquire the site. A separate environmental review was prepared for the six Project-Based Vouchers, as required by NEPA.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On July 14, 2005, the Planning Commission approved a tentative map and a residential small lot subdivision conditional use permit. The Planning Commission also recommended that the Council approve rezoning the Property to the R-3-15 (Multi-Family Residential) Zoning District and adopt a Mitigated Negative Declaration (see prior City Council Review above). The Final Map was recorded on November 24, 2008. The Design Review Board granted Preliminary and Final Design Review approval on September 1, 2011.

The Housing Authority has approved a total loan of \$5,486,685 and allocated six Project-Based Vouchers for the Project, as follows:

- On December 17, 2012, the Housing Authority adopted Resolution No. 1550 approving a Community Development Block Grant ("CDBG") loan in the amount of \$1,559,000 for acquisition of the Property, including existing infrastructure improvements.
- On August 24, 2015, the Housing Authority adopted Resolution No. 1602 approving a Further Advance in the amount of \$795,744 for pre-development and development costs.
- On December 14, 2015, the Housing Authority adopted Resolution No. 1607 allocating six Project-Based Vouchers under a fifteen (15) Year Project-Based Housing Assistance Payments ("HAP") Contract.

- On June 13, 2016, the Housing Authority adopted Resolution No. 1612 approving a Second Further Advance in the amount of \$3,131,941 for pre-development and development costs.

NOTIFICATION

Notification of the meeting was provided to Citibank, N.A., RBC, Central Valley, UHC, and their respective legal counsel.

ATTACHMENTS

- Attachment 1 - Site Vicinity Map
- Attachment 2 - Memorandum Dated August 23, 2017, to the City of Santa Rosa from Citibank Community Capital regarding Proposed Citigroup Private Placement Tax-Exempt Back-to-Back Loan Structure
- Attachment 3 - Letter dated August 28, 2017, to David E. Gouin from Stephen Melikian, City's Bond Counsel with Jones Hall, verifying the accuracy of the Citibank Community Capital memorandum (Attachment 2).
- Attachment 4 - Funding Loan Agreement between Citibank, N.A., as Funding Lender, and the City of Santa Rosa, as Government Lender
- Attachment 5 - Borrower Loan Agreement between the City of Santa Rosa, as Government Lender, and UHC 00596 Santa Rosa L.P., as Borrower
- Attachment 6 - Regulatory Agreement and Declaration of Restrictive Covenants between the City of Santa Rosa, as Issuer, and UHC 00596 Santa Rosa L.P.
- Attachment 7 - Assignment of Deed of Trust and Loan Documents made by the City of Santa Rosa, as Assignor, for the benefit of the Funding Lender, as Assignee
- Attachment 8 - Multifamily Note made by UHC 00596 Santa Rosa L.P., as Borrower, for the benefit of City of Santa Rosa and assigned by the City to Citibank, N.A., as Funding Lender
- Attachment 9 - Contingency Draw-Down Agreement between Citibank, N.A., as Funding Lender, and UHC 00596 Santa Rosa L.P., as Borrower, in connection with the City's Government Lender Note.
- Resolution

CONTACT

Frank Kasimov, fkasimov@srcity.org, (707) 543-3465