

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: REBECCA LANE, PROGRAM SPECIALIST
HOUSING AND COMMUNITY SERVICES
SUBJECT: MODIFICATION OF LOAN TERMS FOR STONY POINT FLATS
APARTMENTS

AGENDA ACTION: RESOLUTIONS

RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Housing Authority, through two resolutions: 1) modify the terms of the loan, in the amount of \$1,200,000 to Stony Point Flats, L.P. for Stony Point Flats Apartments, located at 2270 Stony Point Road, to increase the interest rate from 3% to the current Applicable Federal Rate of 4.10%; and 2) modify the terms of the further advance of \$600,000, to increase the interest rate from 3% to the current Applicable Federal Rate of 4.10%; and revise the source of loan funds from state funds (Permanent Local Housing Allocation funds) to a local funding source (In-Lieu Fee Funds) to expedite conversion to permanent financing.

EXECUTIVE SUMMARY

On June 20, 2022, the Housing Authority awarded \$1,200,000 to Stony Point Flats, L.P. (Developer) for construction costs for Stony Point Flats Apartments (Project). The Developer entered into a Loan Agreement for these funds on October 11, 2022, for a loan term of 55 years at 3% simple interest per annum per Housing Authority policy. On October 28, 2024, the Housing Authority awarded additional funds in the amount of \$600,000 for the Project under the same loan terms.

The Developer is anticipating closing on the permanent financing in December 2024. As part of this transaction, the Project representatives are requesting that the interest rate for the total combined loan of \$1,800,000 be adjusted to the current United States Treasury Applicable Federal Rate ("AFR") of 4.10% as of the date of the loan modification.

BACKGROUND

The Project is a newly constructed 50-unit affordable housing development located at 2270 Stony Point Road. The Project consists of 12 one-bedroom, 24 two-bedroom and 13 three-bedroom units affordable to households between 30% and 60% of Area Median Income (AMI). The Project completed construction in April 2024 and is fully leased up.

On June 20, 2022, the Housing Authority awarded the Project \$1,200,000 and subsequently entered into a Promissory Note, Loan Agreement, Deed of Trust and Regulatory Agreement (Loan Documents) with the Developer. The loan term is 55 years at 3% simple interest per annum per Housing Authority policy. Payments are due under the loan only to the extent that surplus development costs and surplus cash are available.

To bridge a financing gap that resulted from increased construction material costs, additional required off-site improvement costs and weather-related impacts during calendar years 2022 and 2023, the Housing Authority awarded the Project a further advance in the amount of \$600,000 on October 28, 2024 under the same loan terms.

In reviewing the Housing Authority Loan Documents, the Project's tax credit investor identified an issue with the 3% interest rate being lower than the current AFR of 4.10%. When an interest rate is below the AFR, the difference between the AFR and the lower rate is considered income to the project, which may result in income and tax consequences for the tax credit investor. The Project representatives are requesting that the interest rate on the Housing Authority loans be adjusted to 4.10% when the loan is modified to include the further advance of \$600,000.

Additionally, when approved in October 2024, the primary source of funds for the further advance of \$600,000 was the California Department of Housing and Community Development's (HCD) Permanent Local Housing Allocation (PLHA) program. To expedite conversion to permanent financing, staff is recommending that the source of funds for the further advance be changed to In-Lieu Fees, a local funding source.

PRIOR HOUSING AUTHORITY REVIEW

On June 20, 2022, the Housing Authority adopted Resolution Number 1742 awarding \$1,200,000 to Stony Point Flats Apartments.

On October 24, 2024, the Housing Authority adopted Resolution Number 1784 awarding an additional \$600,000 to Stony Point Flats Apartments.

FISCAL IMPACT

Approval of this item may increase future interest revenue by approximately \$1,089,000 over the life of the fifty-five (55) year loan by increasing the annual simple interest rate

from 3% to 4.10%.

ENVIRONMENTAL IMPACT

The proposed project was previously reviewed in compliance with the California Environmental Quality Act (CEQA) in that an Addendum to the Final Environmental Impact Report (EIR) for the 2016 Roseland Area/Sebastopol Road Specific Plan and Roseland Area Annexation Projects Final Environment Impact Report (2016 FEIR) (State Clearinghouse Number 2016012030) was prepared in compliance with CEQA Guidelines Section 15164 and was reviewed by City Staff who determined that the project would not cause new significant environmental effects or substantial increases in the severity of significant effects beyond those previously identified in the 2016 FEIR. The Addendum was approved by the City's Design Review Board in 2021, and none of the circumstances under CEQA Guidelines Section 15162 are triggered; therefore, no additional environmental review is required.

COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

The Developer was notified of the meeting.

ATTACHMENTS

- Attachment 1 – Housing Authority Resolution No. 1742
- Attachment 2 – Housing Authority Resolution No. 1784
- Attachment 3 – Interest Rate Adjustment Request letter, December 2, 2024
- Resolution 1
- Resolution 2

CONTACT

Rebecca Lane, Program Specialist