

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: ANGELA MORGAN, PROGRAM SPECIALIST
SUBJECT: MODIFICATION TO PRIOR FUNDING COMMITMENTS FOR
VIGIL LIGHT SENIOR APARTMENTS TO EXTEND THE LOAN
TERM AND AMEND AFFORDABILITY REQUIREMENTS AND
BORROWER NAME

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Housing Authority, by resolution, approve the following modifications to the funding commitments to PEP Housing, Inc. for Vigil Light Senior Apartments: 1) to extend the term of the loan and the regulatory agreement from 55 years to 60 years; 2) modify the affordability mix from 24 units at 30% Area Median Income and 24 units at 50% Area Median Income to all units to 50% of Area Median Income; and 3) allow the Borrower entity to be changed from PEP Housing to Caufield Lane Senior Housing Inc.

EXECUTIVE SUMMARY

PEP Housing (Borrower) has received two funding commitments from the Housing Authority (Authority) in the combined amount of \$3,293,583 for preservation, rehabilitation, and acquisition-related costs for the Vigil Light Senior Apartments (Project). The prior commitments included a 55-year loan and regulatory term, an affordability mix with 24 units targeted to households at 30% of Area Median Income (AMI) and 24 units targeted to households at 50% of AMI, and PEP Housing as the borrower. As required by the senior lender, the Borrower has requested a loan modification to extend the due date of the Authority's loan and the term of the regulatory agreement from 55 to 60 years. The Borrower has also requested to modify the affordability mix for all units to 50% of AMI to align with the requirements of their use agreement for the U.S. Department of Housing and Urban Development (HUD) Section 202 Supportive Housing for the Elderly Program. Lastly, Borrower has requested that the Authority allow its nonprofit subsidiary Caufield Lane Senior Housing, Inc., to be the borrower entity.

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BACKGROUND

Vigil Light Senior Apartments is an existing 49-unit senior multifamily rental housing development comprised of 1-bedroom and studio units located at 1945 Long Drive in Santa Rosa. The property was constructed in 1983 through the HUD Section 202 Supportive Housing for the Elderly financing program. The Project received a commitment of loan funds from the Authority in the amount of \$2,220,000 on June 20, 2022, for preservation, and rehabilitation-related costs for the Project. The Authority's funding commitment to PEP Housing ensures the ongoing affordability of the 48 restricted units through a new 55-year term Regulatory Agreement with the Authority. The affordability mix indicated for the Project at this time included 48 units targeted to households at 50% of AMI and one unrestricted manager's unit.

On July 24, 2023, the Authority approved an additional commitment of funds in the amount of \$1,073,583 and added an eligible use of the funds for both awards to clarify that acquisition-related costs were allowable. During this second application process, the Borrower lowered the affordability mix to reflect the actual income levels of existing residents, which was 24 units targeted to households at or below 30% of AMI, 24 units targeted to households at or below 50% of AMI, and one unrestricted manager's unit.

On December 6, 2023, the California Housing Tax Credit Allocation Committee awarded the Project federal 4% Low Income Housing Tax Credit (LIHTC) financing in the amount of \$14,778,808 for rehabilitation of the Project. The senior lender for tax credit financing will require all subordinate loans to mature no earlier than 55 years from completion of the rehabilitation. The Borrower has requested a modification to the Authority's loan terms to extend the due date of the Authority's loan and the term of the Regulatory Agreement from 55 to 60 years to fulfill this requirement.

The Borrower has also requested a modification to the affordability mix approved by the second funding commitment on July 24, 2023 via Resolution Number 1760 to allow all units to be restricted at 50% of AMI to align with the affordability mix prescribed by HUD for the Section 202 Program.

Lastly, for tax and auditing purposes, the Borrower has requested to change the borrower entity from PEP Housing Inc. to its nonprofit subsidiary, Caufield Lane Senior Housing, Inc.

PRIOR HOUSING AUTHORITY REVIEW

On June 20, 2022, the Housing Authority approved a conditional commitment of loan funds in the amount of \$2,220,000 to the Project for preservation and rehabilitation-related expenses.

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On September 26, 2022, the Housing Authority approved a clerical correction to the June 20, 2022 award resolution.

On July 24, 2023, the Housing Authority approved, via Resolution Number 1760, a conditional commitment of loan funds in the amount of \$1,073,583 for acquisition, preservation, and rehabilitation-related expenses, and further clarified the prior \$2,220,000 commitment of funds could also be used for acquisition-related costs.

On September 25, 2023, the Housing Authority approved a modification to Resolution 1760 to change the condition that the loan award was contingent upon the Project receiving a tax credit award from its May 2023 application to its September 2023 application to TCAC.

ANALYSIS

The Borrower has requested the following modifications to the funding commitments for the Project: 1) to extend the term of the loan and the regulatory agreement from 55 years to 60 years; 2) modify the affordability for all units to 50% of Area Median Income; and 3) allow the Borrower entity to be changed to Caufield Lane Senior Housing Inc.

Term Extension

On December 6, 2023 the Project was awarded tax credit financing in the amount of \$12,112,480. The senior lender for the tax credit syndication will require the term of the loan and the Regulatory Agreement to exceed the term of their loan, which will be 55-years from the completion of the rehabilitation. The Authority's standard loan terms include loan repayment 55 years from the date of the Promissory Note, which must be executed before rehabilitation begins. To facilitate the term required by the senior lender, the Borrower has requested that the Authority's loan term for the combined loan commitments of \$3,293,583 be extended from 55 years to 60 years, with the Regulatory Agreement term also extended to 60 years from the date of recordation of the Deed of Trust. Surplus Cash repayments will continue to be paid during the term of the loan.

Affordability

In response to the Authority's Fiscal Year 2022-2023 NOFA, the Project was awarded \$2,220,000 for rehabilitation, preservation, and acquisition-related costs. In connection with this application, the Project was approved with an affordability mix of all units targeted to households at 50% of AMI.

In response to the Authority's Fiscal Year 2023-2024 NOFA the Project was awarded a subsequent conditional commitment of loan funds in the amount of \$1,073,583, in which PEP Housing further restricted the affordability mix down to 24 units restricted to households with incomes up to 30% of AMI and 24 units restricted to households with incomes up to 50% of AMI, and one unrestricted manager's unit.

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Although the current resident population at the Project is in alignment with the lower affordability, the Borrower has requested to amend the affordability mix of the Project back to the previously approved level of all units at 50% of AMI to align with the HUD Section 202 Program's requirements related to income limits.

The Project's application to the Fiscal Year 2023-2024 NOFA was scored and ranked using a point system as follows.

- Readiness – up to 10 points
- Affordability – up to 20 points
- Bedroom Sizes – up to 8 points
- Special Needs Set Aside Units – up to 12 Points
- Leveraging – up to 10 points
- Project Competitiveness (CDLAC/TCAC/MHP scoring if applicable) – up to 10 points
- Developer/Manager Experience – up to 15 points
- On-Site Services – up to 7 points
- Amenities – up to 3 points
- Other Factors – up to 5 points

The Project received a total score of 76%, received 18 out of 20 points possible in the Affordability category, due to the 24 units targeted to households at 30% of AMI, and was ranked second out of the four complete applications received. Had the Project initially applied with an affordability mix of all units targeted to households at 50% of AMI, the application would have received a total score of 56%, 0 out of 20 points in the Affordability category, been ranked fourth. The Project would not have been recommended for a funding award if it had been originally ranked fourth due to the amount of funding requested by the other three applicants that exceeded the funds available in the NOFA. While the Borrower's request increases the affordability mix to all units at 50% AMI to align with the HUD Section 202 Program requirements, the actual affordability mix of existing residents remains unchanged and reflects half of the units occupied by households at or below 30% of AMI.

Borrower

The final request by the Borrower is to change the borrower entity for the Project's funding commitments from PEP Housing to its nonprofit subsidiary, Caufield Lane Senior Housing, Inc. The Authority's funding commitments to the Project include approximately \$1.4MM from Community Development Block Grant funds which must be loaned to a nonprofit entity. The Project is currently held by Vigil Light Senior Apartments, LLC and was initially planned to be acquired by PEP Housing as the nonprofit borrower. By allowing Caufield Lane Senior Housing, Inc. to become the nonprofit borrower, PEP Housing will avoid increased tax liabilities and audit costs associated with the parent company holding the property. Caufield Lane Senior Housing, Inc. has been vetted by the Authority previously and is the borrower entity for

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the Linda Tunis Senior Apartments project.

FISCAL IMPACT

Approval of this action does not have a fiscal impact on the Housing Authority's budget.

ENVIRONMENTAL IMPACT

The Housing Authority finds that the proposed action is exempt from the provisions of the California Environmental Quality Act (CEQA) under section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and that no further environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not Applicable.

NOTIFICATION

PEP Housing was notified of this meeting.

ATTACHMENTS

- Attachment 1 – PEP Housing Request Letter
- Resolution