



## Legislation Text

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**File #:** 16-349, **Version:** 1

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*Report Prepared by: Mark E. Hamilton, Housing Program Supervisor, Housing Division, Development Services Department*

**SUBJECT:** Consideration of a City Loan Commitment Agreement with the Central Valley Coalition for Affordable Housing for the Development of Gateway Terrace II Apartments

### REPORT IN BRIEF

Request to authorize a commitment of financial assistance to Gateway Terrace II Apartments for up to \$1,385,000 from HOME Investment Partnership, Community Housing Development Organization, and Community Development Block Grant Funds.

### RECOMMENDATION

**City Council** - Adopt a motion approving the funding agreement for Gateway Terrace II Apartments in the amount of \$1,385,000 with Central Valley Coalition for Affordable Housing; and authorizing the City Manager to execute all necessary documents.

### ALTERNATIVES

1. Approve as recommended by staff; or,
2. Approve, subject to other than recommended by staff (identify specific findings and/or conditions amended to be addressed in City Council motion); or,
3. Deny; or,
4. Refer to City Manager for reconsideration of specific items to be addressed in City Council motion); or,
5. Continued to a future City Council meeting (date and time to be specified in City Council motion).

### AUTHORITY

Title 24 of the Code of Federal Regulations, Part 570 (the U.S. Housing and Urban Development regulations concerning CDBG including Subpart M of these regulations), Sections 570.705(c) - Loan Guarantees and 570.706 - Federal Guarantee, Subrogation. And per HUD regulations HOME Investment Partnership Program; 24 CFR Part 92.201.

### CITY COUNCIL PRIORITIES

As provided for in the 2015-16 Adopted Budget and originally amended into the 2015 HUD Annual Plan.

### DISCUSSION

Staff is requesting Council consideration of the City Loan Commitment Agreement to provide financial assistance to the Central Valley Coalition for the Affordable Housing for the construction of 50 units.

The agreement is a part of the developer application to the State of California to receive tax-credits. The funding sources provided would be from Community Development Block Grant and HOME Investment Partnership Programs. If approved, \$585,000 from the Community Development Block Grant Program, \$300,000 from the HOME Investment Partnership Program, and \$500,000 from project income generated from loan payments received from existing affordable housing projects in the community would be used to fund the agreement.

The total amount of the three funding sources in the City Loan Commitment Agreement is \$1,385,000 or a cost of \$27,700 per unit (Attachment 1). The Developer would use these funds combined with development fees as leverage for the federal Low-Income Housing Tax Credit application submitted to the California Debt Limit Allocation Committee and California Tax Credit Allocation Committee.

The developer of the Gateway Terrace II Project, Central Valley Coalition for Affordable Housing (Coalition), will submit an application to the California Statewide Communities Development Authority for the construction of the project. The Coalition is seeking tax-exempt obligations in an aggregate principal amount not to exceed \$8,000,000 for the purpose of financing the development of a 50-unit multifamily affordable rental housing project located at 13th and K Streets. The owner of the project is expected to be Merced Gateway Investors II, LP, or another limited partnership to be established by the Coalition or an affiliate thereof ("Borrower").

The requested commitments are within the financial capacity of the Housing Program. The Housing Division recommends the following financing contribution for the project:

- \$150,000 CHDO-HOME FY 2015/16
  - Required to be spent on an eligible CHDO project
- \$150,000 CHDO-HOME FY 2016/17
  - Required to be spent on an eligible CHDO project
- \$500,000 HOME FY 2017/18
  - Reinvested Program Income from Loan Payments
- \$585,000 CDBG FY 2016/17
  - \$450,000 Reimbursed from the Sewer Department for replacement of failing Sewer Main
  - \$135,000 Reallocated from FY 2016/17 Sidewalk ADA Infrastructure Project

As a Participating Jurisdiction, the City of Merced is required to set aside a minimum of 15% of its HOME funds for use by a Community Housing Development Organization (CHDO). CHDO is a special HUD defined non-profit organization that has, as its mission, the development of affordable housing. The City and the State of California have designated the Central Valley Coalition for Affordable Housing as an eligible CHDO. The total amount to be awarded to the project as CHDO set-aside funds would be \$300,000. Funding the project through our CHDO will eliminate the duplication of efforts by the City staff for any administrative oversight involving a CHDO project.

The commitment of \$585,000 of Community Development Block Grant is a combination of funds being used to replace a failing sewer main currently located in the middle of the project site and repairing non-compliant ADA sidewalks and ramps.

The financial package for the Gateway Terrace II project would not absorb all of the Housing

Division's Fiscal Year 2017/18 funds. This is due to the amount of program income the housing division is anticipating to receive from loan payments from other CHDO projects currently located within Merced.

The loan commitment only guarantees funds received from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) programs. If the City's yearly grant allocation received from HUD for either CDBG or HOME is reduced below the amount committed by this agreement, Housing staff will process a Substantial Amendment adjusting the funding amounts. In working with Central Valley Coalition to ensure this project would be fiscally responsible, staff determined we would need to receive financial payments from previous projects.

The developer agreed to pay \$500,000 to the City from previously funded affordable housing projects. The housing division, in an effort to change past procedures of fiscal accountability for new Affordable Housing projects in the community, also changed the type of loans being offered. In the past, projects would offer loans with payments based upon "net proceeds." Realizing the return on investment was nominal, the loan for this project will be a 15 year-deferred loan which will be required to be refinance at the end of the term.

The benefits of a deferred loan to one based upon "net-proceeds" are for both the City and the Developer. A deferred loan benefits the developer by reducing the required fiscal documentation, payments don't have to be made, and allowing the developer to use the loan amount to receive tax-benefits. A deferred loan benefits the City by reducing the amount of staff time processing invoices and the loan has a greater possibility of being reimbursed when the loan is refinanced. It is a new way of doing business for the Housing Division.

Additionally, working with the developer, we were able to reduce the unit costs. The project reviewed in 2015 had a unit cost of \$215,000 per unit with the City contributing approximately \$35,714 to each unit. The current project costs the developer \$196,000 per unit with the City contributing \$27,700 to each unit. That is a savings of \$20,000 per unit to the developer and \$8,000 per unit to the City.

The loan commitment is not guaranteed with General Fund monies in the event the aggregate amount received from HUD for CDBG and HOME program funds is below the contract amount.

The City Housing Division will provide oversight to Central Valley Coalition for Affordable Housing to ensure environmental compliance and monitoring of the project. The oversight is required to ensure the project remains in compliance with the Department of Housing and Urban Developments rules and regulations.

### **History and Past Actions**

In June 2007, the Housing Authority of the County of Merced received approval from the City of Merced to construct the Gateway Terrace II Apartment complex on the southwest corner of 13th Street and "K" Street (Attachment 2).

In 2007, the City of Merced approved Gateway Terrace and Gateway Terrace II Apartments complexes. Both developments are owned by the same partnership and would be managed by Central Valley Coalition for Affordable Housing.

On April 6, 2015, the project was reviewed by City Council. The project was supported by Council to apply for a State grant which it did not receive. However, Council's suggestion to increase the project's density was considered and incorporated into the project (Attachment 3).

In 2016, Central Valley Coalition was able to secure 11 HUD Veteran's Affairs Supportive Housing (VASH) Vouchers from Merced County Housing Authority for Veterans. This ensures a minimum of 20% of the units will be reserved for veterans within the Gateway Terrace II development (Attachment 4).

## **IMPACT ON CITY RESOURCES**

The action will not impact the City's General Fund.

## **ATTACHMENTS**

1. City Loan Commitment Agreement
2. Location Map
3. Site Plan
4. Letter Regarding HUD VASH Vouchers