



## Legislation Text

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**File #:** 17-357, **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 Merced Gateway Investors II, LP 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:

- A. Approving the City Loan Commitment Agreement for Gateway Terrace II Apartments in the amount of \$1,385,000 with Merced Gateway Investors II, LP (Attachment 3); and,
- B. Approving an Interdepartmental Cooperative Agreement (Attachment 4) between the Engineering Division and Housing Division in the amount not to exceed \$526,738 as identified in the 2017 Department of Housing and Urban Development (HUD) Annual Plan with Community Development Block Grant (CDBG) funds from the 2017/18 Fiscal Year; and,
- C. Authorizing the City Manager or Assistant City Manager to execute, and if necessary, make minor modifications to the agreements and Memorandums of Understanding as described above as attached to this report and all associated 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. Continue 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 HUD regulations HOME Investment

Partnership Program; 24 CFR Part 92.201.

## **CITY COUNCIL PRIORITIES**

As provided for in the 2017-18 Adopted Budget, amended into the 2017 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 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, the funding would be as follows:

- \$370,590 from the Community Development Block Grant Program; and,
- \$500,000 from the HOME Investment Partnership Program; and,
- \$514,410 from the Community Housing Development Organization requirement of the HOME Investment Partnership Program.

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 3). 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 multi-family 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:

- \$370,590 CDBG FY 2016/17
  - Carryover funds being reinvested into the Gateway Terrace II 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
- \$214,410 CHDO - HOME FY 2017/18
  - Required to be spent on an eligible CHDO project
- \$500,000 HOME FY 2017/18
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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 \$514,410. Funding the project through our CHDO will eliminate the duplication of efforts by City staff for any administrative oversight involving a CHDO project.

The commitment of \$370,590 of Community Development Block Grant funds is a combination of funds being used to replace a failing sewer main, antiquated water mains, and repairing non-compliant ADA sidewalks and ramps in the project area. The CDBG funds will be combined with \$526,738 from the Sewer and Water Main Enterprise accounts to assist the developer with the replacement of the off-site sewer and water mains extending from the project site east to Martin Luther King Jr. Way.

The Gateway Terrace II project and the amounts requested of \$1,385,000 from HUD Funding (CDBG and HOME) combined with \$526,738 from Enterprise Funds (Sewer and Water) were previously discussed by City Council in April 2017. The request for funding was part of Council's approval of projects considered for incorporation into the 2017 Department of Housing and Urban Development (HUD) Annual Action Plan.

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 Community Development Block Grant and HOME Program projects.

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. In working with Central Valley Coalition to ensure this project would be fiscally responsible, staff determined the City 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 loan commitment is not guaranteed with any City funds 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 the 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 Development's 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 1).

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 the City Council and an application for a State grant

was approved. Unfortunately, the grant was not received, but the Council's suggestion to increase the project's density was considered and incorporated into the project (Attachment 2).

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 6).

On August 15, 2016, Council approved the City Loan Commitment Agreement with Central Valley Coalition for Affordable Housing. This previous agreement will become null and void with the approval of the proposed agreement with Merced Gateway Investors II LP.

## **IMPACT ON CITY RESOURCES**

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

## **ATTACHMENTS**

1. Location Map
2. Site Plan
3. City Loan Commitment Agreement
4. Interdepartmental Agreement
5. Resolution from Central Valley Coalition for Affordable Housing Board
6. Letter Regarding HUD VASH Vouchers