



Legislation Text

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SUBJECT: Loan Agreements for Gateway Terrace II Apartments Housing Project

REPORT IN BRIEF

Authorizes the City to enter into various loans, subordinations, notes, and deeds of trust necessary to complete the financing of the Gateway Terrace II Housing Project.

RECOMMENDATION

City Council - Adopt a motion:

- A. Adopting **Resolution 2018-34**, a Resolution of the City Council of the City of Merced, California, approving a HOME investment partnerships loan to Merced Gateway Investors II, LP, in the principal amount of \$500,000, approving and authorizing the execution of a loan agreement, regulatory agreement, subordination agreement, and related loan documents, and authorizing certain other actions in connection therewith; and,
- B. Approving the HOME regulatory agreement; and,
- C. Approving the HOME notice of affordability; and,
- D. Approving the HOME deed restriction covenants and loan agreement; and,
- E. Approving the HOME agreement containing covenants affecting real property; and,
- F. Approving the HOME note; and,
- G. Approving the HOME deed of trust and security agreement; and,
- H. Adopting **Resolution 2018-35**, a Resolution of the City Council of the City of Merced, California, approving a Community Housing Development Organization HOME investment partnerships loan to Merced Gateway Investors II, LP, in the principal amount of \$514,410, approving and authorizing the execution of a loan agreement, regulatory agreement, subordination agreement, and related loan documents, and authorizing certain other actions in connection therewith; and,
- I. Approving the CHDO-HOME note; and,
- J. Approving the CHDO-HOME deed of trust and security agreement; and,

- K. Approving the CHDO-HOME deed restriction covenants and loan agreement; and
- L. Approving the CHDO-HOME notice of affordability restrictions; and,
- M. Approving the CHDO-HOME regulatory agreement; and,
- N. Approving the CHDO-HOME agreement containing covenants affecting real property; and,
- O. Adopting **Resolution 2018-36**, a Resolution of the City Council of the City of Merced, California, approving a Community Development Block Grant (CDBG) loan to Merced Gateway Investors II, LP, in the principal amount of \$370,590, approving and authorizing the execution of a loan agreement, regulatory agreement, subordination agreement, and related loan documents, and authorizing certain other actions in connection therewith; and,
- P. Approving the CDBG agreement containing covenants affecting real property; and,
- Q. Approving the CDBG note; and,
- R. Approving the CDBG deed of trust and security agreement; and,
- S. Approving the CDBG deed restrictions covenants and loan agreements; and,
- T. Approving the CDBG notice of affordability; and,
- U. Adopting **Resolution 2018-33**, a Resolution of the City Council of the City of Merced, California, approving the parking agreement with Merced Gateway Investors II regarding use of K Street between 12th Street and 13th Street; and,
- V. Approving the parking agreement; and,
- W. Approving modifications to aforementioned documents as required by the City Attorney's Office to correspond to the City loan commitment agreement with Merced Gateway Investors II, LP and pertinent state and federal grant agreements and guidelines; and,
- X. Authorizing the City Manager or Assistant City Manager to execute, and if necessary, make minor modifications to the agreements and Resolutions as described above as attached to this report and all associated documents.

ALTERNATIVES

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

AUTHORITY

Per Housing Urban Development Department (HUD), a participating jurisdiction is required to designate 15% of its HOME Investment Partnership Program (HOME) funds to a Community Housing Development Organization (CHDO); and, allowable by Community Development Block Grant Program as an eligible activity due to over 51% of the units and designated for Low-Income families and 22% (10 Units) are being reserved for veterans with VASH vouchers.

CITY COUNCIL PRIORITIES

The development is part of the Community's goals as described in the 2015-2020 HUD Consolidated Plan and budgeted in the 2017 HUD Annual Action Plan for the City of Merced.

DISCUSSION

Staff is requesting Council to approve three loans through several loan agreements totaling \$1,385,000. The loans through the City provide partial financial assistance to Merced Gateway Investors II, L.P. (Central Valley Coalition for Affordable Housing) for Merced Gateway Terrace II Development.

The City Council approved the Gateway Terrace II Apartment City Loan Commitment Agreement (CLCA) and loan package on July 19, 2017. The Merced Gateway Terrace II Development is a 50 unit residential complex consisting of one (1) Moderate-Income Unit, thirty-nine (39) Low-Income Units, and ten (10) Units reserved for Veterans with VASH Vouchers.

Of the 50-units in the development, the City is providing financial assistance to the following:

- HOME Investment Partnership Program (HOME) loan would fund 3 (three) of the Low-Income units;
- Community Housing Development Organization (CHDO) loan provides general assistance for the development of low-income rentals funding 4 (four) of the Low-Income units; and,
- Community Development Block Grant loan provides financial assistance to the developer for the on and off-site infrastructure improvements.

In order for the development to be financially feasible, the developer would partner with the local Veteran's Affairs office to provide housing to 10 (ten) veterans.

City Housing is providing a total of \$1,385,000 in Home Investment Partnerships Program (HOME & CHDO) and Community Development Block Grant funds. These funding sources, combined with Sewer and Water Enterprise Funds combined with Federal Tax Credits inject enough capital to allow Gateway Terrace Development to move forward.

The financing contributions are as follows:

Community Development Block Grant:

- \$370,590 - CDBG - FY 2015/16

HOME Investment Partnership Program:

- \$300,000 - HOME - FY Pre-2015
- \$55,000 - HOME - FY 2015/16
- \$145,000 - HOME - FY 2016/17

Community Housing Development Organization / HOME Investment Partnership Program:

- \$150,000 - CHDO (HOME) - FY 2015/16
- \$150,000 - CHDO (HOME) - FY 2016/17
- \$214,410 - CHDO (HOME) - FY 2017/18

Total = \$1,385,000

The City Loan Commitment Agreement (Attachment 3) approved by the City Council on July 19, 2017, provides for a 3% interest rate on each of the loans and indicates repayment will be made by the Project's net cash flow.

When the funding allocations were established in 2017, they were based upon funding availability at that point in time. Since then the funding amounts available from each grant year has varied due to expenditures during the current fiscal year. However, the total amount allocated to fund the development of the project has not changed.

HOME Loan

The HOME Investment Partnership Program (HOME) funds are provided to assist with developing and increasing the amount of Low-Income Housing units available within our community. HOME funds available for this development are from three funding cycles. HOME funds from the Fiscal Year 2017/18 would be returned to HUD if the Loan Documents are not approved. HUD requires all funds must be obligated to a specific activity (Gateway Terrace II) within 24 months of disbursement to a participating jurisdiction. In order for City Housing to provide financial assistance, each loan would require approval by the City Council. Once these loan documents are approved and recorded, construction of this development could begin.

The HOME loan is reflected in the following documents:

- Attachment 9 - HOME - Resolution No. 2018-34
- Attachment 10 - HOME - Regulatory Agreement
- Attachment 11 - HOME - Notice of Affordability
- Attachment 12 - HOME - Deed Restrictions Covenants & Loan Agreement
- Attachment 13 - HOME - Agreement Containing Covenants Affecting Real Property
- Attachment 14 - HOME - Note
- Attachment 15 - HOME - Deed of Trust & Security Agreement

The funding through the California Statewide Communities Development Authority (CSCDA) is intended to be the first funding for the project. Citibank is CSCDA's lender for this purpose. As a condition of funding, Citibank is requiring that its loan be in the first position and all other loans be in a second or subsequent position. This means that the City's rights to enforce its agreements are subject to consent of Citibank as the Senior Lender. It also means that, should the borrower default

on its first loan, the City's loans could not be repaid.

The CHDO Loan

As a Participating Jurisdiction, the City of Merced is required to set aside at least 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 Central Valley Coalition for Affordable Housing as an eligible CHDO.

The City has provided funding to the Central Valley Coalition for Affordable Housing for several years per HUD regulations regarding CHDOs. As a CHDO, funding provided from the City must be used on a low-income housing or multi-family housing project and requires only a note and loan agreement between the City and CHDO.

The CHDO loan is reflected in the following documents:

Attachment 16 - CHDO - Resolution No. 2018-35
Attachment 17 - CHDO - Note
Attachment 18 - CHDO - Deed of Trust & Security Agreement
Attachment 19 - CHDO - Deed Restrictions Covenants & Loan Agreement
Attachment 20 - CHDO - Notice of Affordability
Attachment 21 - CHDO - Regulatory Agreement
Attachment 22 - CHDO - Agreement Containing Covenants Affecting Real Property

Community Development Block Grant Loan

The Community Development Block Grant Loan commitment of \$370,590 is an allowable activity for this grant. CDBG funds are only allowed to reimburse the on- and off-site infrastructure improvements for the project. Per HUD's Rules and Regulations, CDBG funds are not allowed to fund the construction of new housing units. The Housing Division is only allowed to use CDBG funds within this project due to the necessary infrastructure improvements required.

The CDBG loan is reflected in the following documents:

Attachment 23 - CDBG - Resolution No. 2018-36
Attachment 24 - CDBG - Agreement Containing Covenants Affecting Real Property
Attachment 25 - CDBG - Note
Attachment 26 - CDBG - Deed of Trust & Security Agreement
Attachment 27 - CDBG - Deed Restrictions Covenants & Loan Agreement
Attachment 28 - CDBG - Notice of Affordability

Staff is recommending approval of the loan agreements for the development with the exception of allowing the City Legal Counsel to make adjustments as might be needed to maintain conformity to the provisions of the City Loan Commitment Agreement (CLCA) and other Grant agreements.

Additionally, in order for the project to serve the clientele and maximize the density of the site, Housing Staff is recommending the approval of the Parking Agreement (Attachments 7 & 8). Housing Staff and the Developer analyzed the parking demands of other affordable housing projects that serve a specialized clientele such as Gateway Terrace II (10 units reserved for Veterans). The

analysis determined a demand of less than one parking space is used within similar types of affordable housing projects. The Developer is asking for a reduction of required parking for the development to 51 total parking spaces.

With the project having a total of 50 units, this would provide one space per unit, plus one additional parking space. The property is zoned for High Density Residential (R-4) and permits multi-family dwellings. The project meets the City's General Plan and Housing Element goals to develop quality multi-family projects within the community. Housing Staff does not foresee a parking issue for this project from the reduction as there is ample on-street parking available surrounding the project site on 12th and 13th Streets.

IMPACT ON CITY RESOURCES

The City Council approved the CLCA and loan package on July 19, 2017. The necessary budget actions were made at that time and no adjustments are needed.

ATTACHMENTS

1. Location Map
2. Site Plan
3. City Loan Commitment Agreement
4. Letter Regarding HUD VASH Vouchers
5. Resolution form CVCAH Board
6. Interdepartmental Agreement - Gateway Terrace II
7. Parking Agreement Resolution No. 2018-33
8. Parking Agreement
9. HOME - Resolution No. 2018-34
10. HOME - Regulatory Agreement
11. HOME - Notice of Affordability
12. HOME - Deed Restrictions Covenants & Loan Agreement
13. HOME - Agreement Containing Covenants Affecting Real Property
14. HOME - City of Merced Note
15. HOME - Deed of Trust & Security Agreement
16. CHDO - Resolution No. 2018-35
17. CHDO - City of Merced Note
18. CHDO - Deed of Trust & Security Agreement
19. CHDO - Deed Restrictions Covenants & Loan Agreement
20. CHDO - Notice of Affordability
21. CHDO - Regulatory Agreement
22. CHDO - Agreement Containing Covenants Affecting Real Property
23. CDBG - Resolution No. 2018-36
24. CDBG - Agreement Containing Covenants Affecting Real Property
25. CDBG - City of Merced Note
26. CDBG - Deed of Trust & Security Agreement
27. CDBG - Deed Restrictions Covenants & Loan Agreement
28. CDBG - Notice of Affordability