



DATE: February 19, 2019

TO: Mayor and City Council

FROM: Deputy City Manager

SUBJECT: Public TEFRA Hearing as Required by the Internal Revenue Code of 1986, and Adoption of a Resolution Approving the Issuance by California Public Finance Authority of Multifamily Housing Revenue Bonds to Finance the Acquisition, Rehabilitation of Leisure Terrace Apartments

RECOMMENDATION

That Council:

1. Conduct a public hearing to consider the issuance of Tax-Exempt Multifamily Housing Revenue Bonds by the California Public Finance Authority (CalPFA) to assist in the financing of the Leisure Terrace Apartments.
2. Adopt the attached resolution approving the issuance by CalPFA of Multifamily Housing Revenue Bonds for the Leisure Terrace Apartments (Attachment II).

SUMMARY

The Council has been asked to conduct a public hearing under the Tax and Equity Fiscal Responsibility Act (“TEFRA”) in connection with the proposed issuance of revenue bonds by CalPFA in an amount not to exceed \$23,000,000. The bonds will be used for the acquisition and rehabilitation of a 68-unit multifamily rental housing project located at 1638 E Street, Hayward, California, generally known as Leisure Terrace Apartments. Reliant Group Management (“Reliant”) proposes to use both bond financing and Low-Income Housing Tax Credits (“LIHTC”) to convert the property from a market rate apartment complex to an affordable housing complex with rents restricted for low- and very low-income residents. The proposed project will both improve the quality of housing provided by Leisure Terrace Apartments and protect residents most vulnerable to displacement caused by the new acquisition and investment.

BACKGROUND

Leisure Terrace Apartments is a multifamily rental housing development located at 1638 E Street, Hayward, California consisting of 68 market rate housing units. The subject property was built in 1974, has not been adequately maintained, and is in need of material upgrades to systems and unit interiors. The property is currently occupied. The property is subject to the

Residential Rent Stabilization Ordinance (RRSO). However, 60 of the 68 units are exempt from the rent increase limitations stipulated in the RRSO.

DISCUSSION

Reliant has requested that CalPFA adopt a plan of financing providing for the issuance of one or more series of revenue bonds issued from time to time, including bonds issued to refund such revenue bonds in one or more series from time to time, in an aggregate principal amount not to exceed \$23,000,000 for the acquisition, rehabilitation, improvement, and equipping of a 68-unit multifamily rental housing project located at 1638 E Street, Hayward, California, generally known as Leisure Terrace Apartments. The apartments will be managed post-closing by Reliant Property Management, an affiliate of Reliant. CalPFA is a political subdivision of the state of California and was created on May 12, 2015 to assist local governments, non-profit organizations, and businesses with the issuance of taxable and tax-exempt financing to promote economic, cultural, and community development opportunities that create temporary and permanent jobs, affordable housing, community infrastructure, and improve the overall quality of life in local communities. To date, thirty-five public agencies have become members of CalPFA.

Project

Reliant, an apartment investment group, has requested public bond financing from CalPFA in order to acquire, rehabilitate, and convert the Leisure Terrace Apartments located at 1638 E Street in the City to a 100% deed restricted affordable housing project. The properties will undergo an extensive interior and exterior renovation ranging between \$45,000 to \$50,000 per unit in hard costs and between \$55,000 to \$60,000 in total construction costs. The renovation will focus on curing all deferred maintenance, updating unit interiors, improving curb appeal, improving energy efficiency, reducing operating and utility costs, and ensuring the longevity of the assets. Ten percent of the units will be renovated to become fully accessible for tenants with disabilities, and seismic upgrades will be completed bringing the buildings up to California earthquake code. The renovation will include a number of “green” improvements including a Solar Photovoltaic system to offset 100% of the electrical usage, solar thermal heating systems and numerous water saving measures. The renovation work is expected to take eight months to complete and will be done with tenants in place. Reliant has completed similar LIHTC renovations of over 4,000 units with tenants in place. The use of bond financing and LIHTC will convert the property from a market rental project to a 100% deed restricted affordable housing project. Rents will be restricted to low- and very low-income households for a 55-year term. Attachment III provides the 2018 rent and income limits for a very-low income household as determined by the California Tax Credit Allocation Committee. Rent and income limits are adjusted annually and are based on changes to the area median income. Rents and income limits for the project are currently known and will be in-place at tax credit closing.

Rainbow Housing Assistance Corporation (“Rainbow”) is a 501(c)3 public benefit corporation who focuses on providing “service enriched” housing programs to over 35,000 low income families across the United States. Rainbow will serve as managing general partner and

provide access to resources for residents at Leisure Terrace. This housing model is based on the concept of providing programs and services that meet the diverse but specific needs of resident populations. These services provide the resources and support necessary for low and moderate income residents to improve their lives. Sample programs include youth enrichment and development programs, after-school programs, continuing education, GED classes, computer skills training, job skills training, money management classes, recreational opportunities, and cultural awareness activities.

Current in-place rents range from \$1,080 to \$1,552 for studios, one-bed and two-bedroom apartments. Current rents are not only below market rents, but, in some cases, are also below LIHTC credit rents. The LIHTC rents will be \$1,221 for studios, \$1,308 for one bedroom and \$1,569 for two bedroom apartments. Comparable market rate properties' rents are \$2,122 for studios, \$2,145 for one bedroom and \$2,472 for two bedroom apartments, representing a 42%, 38% and 35% discount to market rents respectively. Based on limited information currently available to Reliant, it is anticipated that a little over half of the residents will qualify as low or very-low income under the LIHTC program. Tenants that are over income and not eligible under LIHTC program will be displaced. By financing the project with bond financing and LIHTC, the most vulnerable lower income residents, who are at a higher risk of becoming homeless, would be protected. Additionally, the conversion of the project to an affordable housing project would restrict 68 housing units that serve low and very-low income households. These restrictions will remain in effect for a period of 55 years and will survive a repayment of the bonds.

If Reliant does not receive approval for the public bond financing and LIHTC, they will acquire the apartments with private financing and will have to significantly increase rents to market levels in order to finance the intended investment and rehabilitation of the apartment units. In this scenario, a majority of the tenants will experience an economic displacement.

Evaluation of Eligibility and Relocation

Once Reliant has acquired the property, they will hold a meeting with the residents, explain the LIHTC program and its requirements, and the scope of the rehabilitation. They will then meet with tenants to determine income eligibility for the LIHTC program. Residents that do not qualify will be informed and will be provided 90 days to relocate.

The City's Role in the Project

For all or a portion of the bonds to qualify as tax-exempt bonds, the City must conduct a TEFRA Hearing that provides members of the community an opportunity to speak in favor of or against the use of tax-exempt bonds for the financing of the project. Prior to such TEFRA Hearing, reasonable notice must be provided to the members of the community. The Notice for this TEFRA hearing was published February 1, 2019. Following the close of the TEFRA Hearing, an elected representative of the governmental unit hosting the project must provide its approval of the issuance of the bonds to finance the project.

While investment that causes displacement is not supported by the City, the City's role in this transaction cannot prevent displacement. However, Reliant has been working with staff to consider options that would mitigate displacement and provide residents with extended notice in the event that their tenancy has to be terminated. Approval of the issuance of the bonds to finance the project will protect the most vulnerable residents who could be at-risk of homelessness if displaced.

ECONOMIC IMPACT

The project would contribute to the neighborhood by investing in an aging apartment complex, improving the quality of existing housing stock, and contribute to the character and revitalization of the neighborhood. Additionally, social research indicates that access to affordable housing can improve educational outcomes, increase health and wellbeing, boost economic activity, and lower the costs for state and local governments to provide emergency housing, mental health crisis services, emergency medical care, and other services to assist the homeless or families and individuals with a housing crisis. Additionally, there are some direct economic benefits of affordable housing including increasing the buying power of residents by reducing housing cost and, improving worker and employer attraction and retention by providing housing stability to the workforce.

FISCAL IMPACT

The bonds to be issued by the CalPFA for the project will be the sole responsibility of the borrower, and the City will have no financial, legal, moral obligation, liability or responsibility for the project or the repayment of the bonds. All financing documents with respect to the issuance of the bonds will contain clear disclaimers that the bonds are not obligations of the City or the State of California but are to be paid for solely from funds provided by the borrower.

STRATEGIC INITIATIVES

This agenda item relates to the Complete Communities Initiative. The purpose of the Complete Communities initiative is to create and support structures, services, and amenities to provide inclusive and equitable access with the goal of becoming a thriving and promising place to live, work and play for all. This agenda item relates to the following goal and objectives:

Goal 1. Provide a mix of housing stock for all Hayward residents and community members, including the expansions of affordable housing opportunities and resources.

Objective 2: Conserve and improve the existing housing stock.

Objective 3 Increase supply of affordable, safe and resilient housing in Hayward.

PUBLIC CONTACT

Public noticing requirements related to TEFRA public hearings were strictly adhered to and followed. Notice of this public hearing was published in the Daily Review on February 1, 2019.

NEXT STEPS

Considering the foregoing, and to support affordable housing, staff recommends that the City Council conducts the TEFRA Hearing and adopts the resolution in favor of the issuance of the bonds by the CalPFA.

Prepared by: Christina Morales, Housing Manager

Recommended by: Jennifer Ott, Deputy City Manager

Approved by:

A handwritten signature in black ink, appearing to read 'K. McAdoo', written over a horizontal line.

Kelly McAdoo, City Manager