



CITY OF HAYWARD

Hayward City Hall
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Cover Memo

File #: LB 16-053, **Version:** 1

DATE: May 17, 2016

TO: Mayor and City Council

FROM: Library and Community Services Director

SUBJECT

Authorization of Issuance of Multi-Family Housing Revenue Bonds (Acquisition and Rehabilitation of Glen Berry and Glen Eden Affordable Housing Developments) 2016 Series A and Execution of Related Documents

RECOMMENDATION

That the City Council:

- a) Adopts the attached resolution authorizing the issuance of up to \$15,000,000 in tax-exempt multifamily housing revenue bonds, to assist a new ownership entity controlled by Eden Housing, Inc. in the acquisition and rehabilitation of Glen Berry and Glen Eden, both currently owned by Eden Housing, Inc. or its Affiliates-and operated as affordable housing developments; and
- b) Authorizes the City Manager to execute implementing documents in connection with the proposed bond issuance.

BACKGROUND

On October 27, 2015, Council approved financing for the acquisition and rehabilitation of two Eden Housing Inc.-owned affordable housing developments in Hayward comprising a total of eighty six units of multifamily rental housing affordable to low and very low-income families (the "Project"). The report associated with this approval may be found at the following link: [CITY OF HAYWARD - File #: PH 15-091 <https://hayward.legistar.com/LegislationDetail.aspx?ID=2502631&GUID=B4A7A96B-E335-4443-94A1-23CA8A677777&Options=&Search=&FullText=1>](https://hayward.legistar.com/LegislationDetail.aspx?ID=2502631&GUID=B4A7A96B-E335-4443-94A1-23CA8A677777&Options=&Search=&FullText=1). Table A shows the names of the two properties, their addresses, and the number of units in each of them:

Table A: The Properties Comprising the Project

Property Name	Location	Number of Units
Glen Berry	625 Berry Avenue	50
Glen Eden	561 A Street	36
	Total:	86

Included in the City-approved financing are a series of loans (the “City Loans”) that the City provided to Eden Housing Inc. (“Eden”) to fund the properties at different stages of development. To facilitate the rehabilitation of the Project, the City Loans will be restructured. The criteria utilized by staff for restructuring the City Loans were described in detail at the October 27, 2015 meeting. As a result of the restructuring, the remaining City financing for the project will total approximately \$1.97 million. In order to make the project financially feasible, Eden has also requested that the City issue Tax-Exempt Multi-Family Housing Revenue Bonds (the “Bonds”) for the Project. The issuance of the Bonds will have no financial impact to the General Fund and the General Fund is not responsible for repayment of the Bonds. The City will receive nearly \$18,000 annually for monitoring and administrative fees.

DISCUSSION

Project Financing. In addition to the City-approved financing, the Project financing includes approximately \$15 million in Bonds that will be largely repaid (at the end of construction) from permanent funding sources, including approximately \$11.3 million of non-competitive 4% Low Income Housing Tax Credits (Tax Credits). The Bonds and the Tax Credits make up the largest sources of external financing for the Project. A significant amount of Bonds (\$3.13 million) will remain as new permanent financing for the Project, as further described below. The following is an estimate of new permanent funding sources for the Project:

Table B: New Permanent Sources of Funding for the Project

New Permanent Sources	Amount
Tax Exempt Bonds	\$3,131,000
Capital Contribution - Tax Credits/Limited Partner	\$11,293,419
Total:	\$14,424,419*

* The new permanent sources above are those which directly relate to funding the rehabilitation of the Project, ancillary costs, and bond-issuance related costs, and exclude soft funding sources (i.e., the City loans).

Project Acquisition. Since a re-syndication is part of the financing structure of the Project, a new ownership entity (a partnership) will have to be created to comply with Tax Credit regulations. In other words, although Eden or one of its affiliates is currently the Tax Credit *general partner* or ownership entity that manages the properties and provides the tax benefits to a *limited partner*, a new Tax Credit ownership entity (also an affiliate of Eden) will replace the current partnership. For this reason, the Project involves an acquisition.

The Bonds. Eden has requested that the City serve as issuer for the Bonds in an amount not to exceed \$15,000,000. In order to do so, in addition to approving the restructuring of the City Loans, at the October 27, 2015 meeting, the City Council conducted a Tax Equity and Fiscal Responsibility Act of 1985 (TEFRA) public hearing and approved a resolution of inducement for federal tax purposes, authorizing the issuance of Bonds for the Project, subject to the final approval of the City Council as recommended in this report. The Bonds are qualified private activity bonds which require an allocation of the private activity volume cap from the State. Thus, on October 27, 2015 staff also requested authorization from the City Council to apply to the California Debt Limit Allocation Committee (CDLAC) for an allocation of the

private activity bond volume cap.

On March 16, 2016, CDLAC adopted a resolution granting an allocation of private activity bond volume cap to the City upon review of the application and a determination that the Project meets the program requirements. Eden has accepted a proposal from Wells Fargo Bank, N.A. (“Wells Fargo”) to purchase the Bonds on a private-placement basis. The Master Pledge and Assignment Agreement between the City and Wells Fargo (as agent for the City and as bondholder) provides that the City does not back the Bonds and is not liable to make bond payments under any circumstances. Thus, the City is free of any responsibility or obligation to pay principal or interest on the Bonds. In addition, the City’s credit worthiness is not involved in or affected by this transaction. In other words, the Bonds would be limited, special obligations of the City, meaning that the City simply acts as a conduit for the Bond issuance process and is not financially responsible for repayment.

The above-described bond-issuance and ownership structure guarantees that in case of a default of the general partner (Eden Housing or its affiliates) under the conditions of the bond-loan documents (including non-payment of the bond loan), Wells Fargo, as lender, may pursue the remedies stipulated in those documents only against the general partner. The default-related provisions of the bond loan documents also require that the general partner (Eden Housing or its affiliates) cures the default within specific timeframes and that Wells Fargo notifies the City of the default. The latter provision is to allow the City, in partnership with Wells Fargo, if necessary, to pursue the remedies included in its own Loan documents in order to guarantee, among other things, that the Project’s long-term affordability restrictions remain in place.

Affordable homes for families for fifty-five years. As mentioned above, the Bonds will be complemented by non-competitive 4% Tax Credits. When used together, both programs provide the most favorable financing for the Project to effectively leverage the City’s investment. In addition to this, most of the sources listed in the above table require soft repayment terms. This will enable the Project to rent approximately 45% of the units at rents affordable to families earning up to 50% of the Area Median Income (AMI). The rest of the units will be affordable to low-income families (those earning up to 60% of AMI in this case). Current Alameda County low- and very low-income limits for a four-person household are \$46,750 and \$71,600, respectively.

The different layers of Project financing (relating to the Bonds, Tax Credits, City Loans and existing State of California funding) will result in the recordation of several covenants against the Project. These covenants will overlap or complement each other, which will guarantee that all the units remain affordable for fifty-five years to income-eligible families.

The attached bond resolution conditionally authorizes the issuance of the Bonds and authorizes the City Manager to execute the associated Bond documents, which are on file in the Office of the City Clerk. The resolution also names the law firm of Jones Hall as bond counsel and CSG Advisors Incorporated as financial advisor to the City in connection with the issuance of the Bonds.

ECONOMIC IMPACT

An extensive list of the Project’s benefits for the community was included in the staff report to Council regarding the TEFRA Hearing and approval of the restructuring of the City Loans (see the October 27,

2015 staff report referenced above). However, it is important to note that addressing the Project's rehabilitation needs will improve the properties' operating performance and ensure their long-term affordability and viability, thus promoting Council priorities and the City's Housing Element goals. The Project financing also results in approximately \$12 million of investment towards the physical improvement of the Project properties and, by extension, in the local economy.

FISCAL IMPACT

The issuance of the Bonds does not represent a financial impact to the General Fund and the General Fund is not responsible for repayment of the Bonds. The City will receive nearly \$18,000 annually for bond issuance and administrative fees. These fees will offset some of the City staff costs associated with implementation and monitoring of the Project. All costs associated with issuance of the Bonds will be reimbursed through bond proceeds, including the City's financial advisors and legal counsel on affordable housing and bond counsel fees.

PUBLIC CONTACT

To comply with the Internal Revenue Code of 1986 (the Code), a Notice of the TEFRA hearing was published in the Daily Review on October 13, 2015. Consistent with the notice, the public hearing was later held by the City Council on October 27, 2015, when the restructuring of the existing City Loans was discussed and approved by Council. The formal approval of the bond documents by the City Council is the last legally-mandated public outreach step required for the issuance of the Bonds to take place. This requirement will be met if Council approves staff's recommendation in this report.

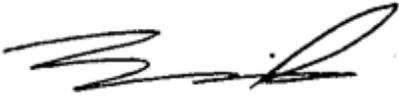
NEXT STEPS

If Council adopts the attached resolution, authorizing the issuance of the Bonds and the execution of the bond documents by the City Manager, the Project will be able to move forward. If Council approves the resolution, closing of the Project financing is expected to occur in July. Construction would commence soon thereafter and is projected to be completed in the early spring of 2017 as current Project financial projections call for a ten-month construction schedule.

Prepared by: Omar Cortez, Housing Development Specialist

Recommended by: Sean Reinhart, Library and Community Services Director

Approved by:



Fran David, City Manager

Attachments:

Attachment I

Resolution Authorizing the Issuance of Bonds and Related
Actions