



City of Morgan Hill

Legislation Text

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CITY COUNCIL STAFF REPORT **MEETING DATE: SEPTEMBER 2, 2015**

PREPARED BY: Leslie A. Little, Asst. City Manager, Community Development
APPROVED BY: City Manager

SETTLEMENT AND RELEASE OF FUTURE CLAIMS WITH SOUTH COUNTY HOUSING CORPORATION AND AFFILIATES FOR CERTAIN OUTSTANDING HOUSING MATTERS

RECOMMENDATION(S)

Adopt resolution directing and authorizing the City Manager to take actions needed, including the execution of agreements, to effect the following proposed transactions:

1. Accept Villa Ciolino Parcel B (\$366,359) as consideration for termination of Villa Ciolino Parcel "B" outstanding loan \$179,062 and outstanding Madrone Plaza loan \$140,412, collectively \$319,475, and
2. Accept two payments \$252,822 and \$42,582, collectively \$295,404 from Crest Avenue Associates as Consideration for Viale Loan (\$364,384) and Madrone Plaza Unsecured Deficiency Note (\$214,465) recorded 12/19/12 with the sale of Madrone Parcel #3.

COUNCIL PRIORITIES, GOALS & STRATEGIES:

Ongoing Priorities

Maintaining fiscal responsibility

REPORT NARRATIVE:

For the past 18 months, the City and South County Housing (SCH) have been collaborating to facilitate the transfer of SCH housing assets to Eden Housing and the termination of South County's operations in Morgan Hill. This has been a difficult task, considering the many fruitful and productive years of partnership that the City and South County Housing have enjoyed. Previously, the City Council has taken several actions including the transfer of 8 former South County properties on April 1, 2015, to successor owner, Eden Housing, and provided the City Manager the authority to execute documents to facilitate these transfers.

In the final phase of reconciling assets, there are some "clean up" actions that are left to be

addressed resulting from outstanding loans between South County Housing and the City. The recommended actions for City Council consideration would resolve four (4) loans:

1. \$364,384 -	Vialé (Teachers Housing)	Original Loan 9/2/2004	\$875,000
		Post Const. Forgivable loan.	- (\$575,000)
		Interest	<u>\$ 64,384</u>
			\$364,384
2. \$214,465 -	Madrone Loan Parcel 3	Predevelopment loan \$2,000,000 in 2007, On 12/19/12 City Council approved collateral release to forgive loan and added a Deficiency Note of \$200,000, recorded at release of collateral and sale to MDM Investments when Wells Fargo suspended const. loan.	
		Interest	\$ 14,465
			\$214,465
3. \$179,062 -	Villa Ciolino Loan	Loan for Site Cleanup - 12/19/06 (\$285,000; actual draw down \$281,639) Balance Includes \$129,901 reimb. from State UST Fund.	\$151,738
		Interest	<u>\$ 27,324</u>
			\$179,062
4. \$140,412 -	Madrone Plaza Loan	Loan for property acquisition issued, \$1,600,000 approved by City Council 10/9/06 amended and restated loan agreement for \$1,900,000,(additional \$300,000 in principal plus accrued interest), subsequently converted to first time homebuyer downpayment assistance loans	
			Principal \$ 65,500
			Interest <u>\$ 74,912</u>
			\$140,412
			.
<u>\$898,323</u>	<u>Total Loans Outstanding</u>		
<u>-\$366,359</u>	<u>Villa Ciolino parcel</u>		
<u>-\$252,822</u>	<u>Cash Payment</u>		
<u>-\$ 42,582</u>	<u>Cash Payment</u>		

<\$236,560> Unrecovered (interest/deficiency note = \$214,465)

The unrecoverable balance of outstanding obligations is nearly the equivalent of the value of the Deficiency Note and Interest (hope note) that the former RDA filed upon the release of collateral and subsequent sale of the Madrone Parcel Three. The former RDA released its collateral for a previous loan during the Recession to facilitate the sale of the property for the satisfaction of the construction lender, Wells Fargo Bank. The RDA recorded the note in the "hope" that the market would return and that SCH would amass other assets and revenues that would allow the RDA to recover the lost equity and interest.

The Housing Team recommends accepting the two cash payments and the Via Ciolino property as payment in full for outstanding loans and interest, satisfied that South County Housing has made every attempt to deal with Morgan Hill in good faith and to return all revenues and Morgan Hill assets to support the community's future housing efforts. In addition, South County Housing has completed transition of all Morgan Hill physical properties to Eden Housing.

COMMUNITY ENGAGEMENT: **Inform**

ALTERNATIVE ACTIONS:

There are no alternative actions that could be identified that would benefit the City further.

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

The City Council has taken numerous actions since 2004 on loans and financing to support new affordable housing construction with non-profit housing partner South County Housing. Most recently, on December 19, 2012, the City Council released the Madrone Parcel 3 (collateral) to facilitate a sale of Parcel 3 to MDM Investments, satisfying the construction lender wells Fargo Bank. MDM completed the final phase of development of the Madrone Townhomes. The City recorded a \$200,000 Deficiency Note simultaneously with this action in the "hope" that the market conditions would improve and asset values in the SCH portfolio would grow and provide reimbursement. On April 1, 2015, the City Council approved the transfer of all of South County Housing's rental assets to Eden Housing, their successor.

FISCAL AND RESOURCE IMPACT:

The actions secure one housing parcel with a value of \$366,359, and a cash payment in the amount of \$295,404 in satisfaction of outstanding obligations. The property and cash will directly benefit the Housing Fund, and the planned construction of new affordable housing units. The acceptance of the "workout" does not fully repay the City's housing program for loans, interest and other obligations between the two parties. The repayment consideration approximates compensation for the principal value of the loans. Some accrued interest and deficiency "hope" note remain unsatisfied.

CEQA (California Environmental Quality Act):

Not a Project

This action proposes transfers of real property in satisfaction of certain outstanding loans.

LINKS/ATTACHMENTS:

1. Resolution
2. Obligation detail