



City of Morgan Hill

Legislation Text

File #: 15-544, Version: 2

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

PREPARED BY: Rebecca Garcia, Housing Manager/Community Development
APPROVED BY: City Manager

EAH FIRST AMENDMENT TO LOAN AGREEMENT FOR DEVELOPMENT OF SCATTERED SITE HOUSING PROJECT

RECOMMENDATION(S)

Adopt resolution:

1. Authorizing the City Manager to execute a First Amendment to the EAH Affordable Housing Loan Agreement, and related financing documents to increase the loan from \$3,622,000 to \$4,500,000 for the purpose of constructing the Morgan Hill Family multi-site affordable housing development; and
2. Authorizing the City Manager to execute and administer a sale/transfer or financing agreement to facilitate the City's contribution of the third site, Villa Ciolino "Parcel B", to EAH Housing.

COUNCIL PRIORITIES, GOALS & STRATEGIES:

Ongoing Priorities

Maintaining fiscal responsibility

REPORT NARRATIVE:

As part of the March 2013 Affordable Housing Report, the Housing team initially discussed with Council particular developments that the City could create as a capstone to the City's rich legacy of affordable housing support. One of the development concepts discussed and approved was the EAH Morgan Hill Family and Transitional Age Youth (TAY) project. TAY Housing is specifically designed to target the housing needs of youth transitioning from foster care, which terminates at age 18. EAH Housing studied the housing product and financing potential, and surveyed a variety of locations for construction of the project. They ultimately proposed to build TAY in conjunction with a family project in order to integrate the housing types in a supportive neighborhood environment. They identified two sites, 40 E Dunne which is the former St. Catherine's school site as well as the site of the former Giovanni's Restaurant. The sites were close enough to be cooperatively managed. The Giovanni's site was not only suitable for affordable housing, but also has mixed use potential along Monterey Road. Both sites are close to transportation, recreational opportunities, and jobs, as well as the Gavilan College classrooms at the Community Cultural Center (CCC). This made this development

ideal for TAY and families.

Simultaneously, the City became aware of the unfortunate wind-down of South County Housing (SCH) and began to discuss their various outstanding obligations, one of which is an outstanding Villa Ciolino loan for \$179,062. In the final phase of reconciling all of the South County Housing debt and assets, it was apparent that the City would be best served by accepting the SCH owned Villa Ciolino "Parcel B" lot, valued at \$366,359 as payment consideration for the outstanding loan. This is one component of a broader South County Housing Settlement, Accord and Satisfaction Agreement (SCH Settlement Agreement). The Villa Ciolino parcel is owned free and clear, with no encumbrances, and is to be transferred to the City and or its designee (EAH Housing) to be added as the third site to the two existing EAH sites, for the development of this affordable housing project. SCH, the City and EAH are approaching the point at which the City is to execute an agreement to facilitate the City's contribution and transfer of Villa Ciolino "Parcel B," from South County Housing to EAH Housing, pending the City Council's approval. Staff will facilitate the transfer utilizing one of the following mechanisms.

Option 1

The SCH Villa Ciolino Partnership will convey the parcel to the City in exchange for forgiveness of debt and other concessions outlined in the SCH Settlement Agreement. The City will then convey the parcel to EAH.

Option 2

City provides a loan to EAH in the amount of the purchase price and or appraisal value, \$366,359 for Parcel B at three percent, residual receipts, simple interest. EAH then "pays" these funds to the SCH Villa Ciolino Partnership. The Villa Ciolino Partnership conveys the parcel to EAH, and then the SCH Villa Ciolino Partnership "pays" the funds to the City toward settlement of the amounts owed by South County Housing. Structuring the transaction as a loan enables the City to stay out of the chain of title while enabling EAH to receive the same State Tax Credit Allocation Committee (TCAC) scoring that they would receive if they were to receive the property directly from the City. This would be a separate financing transaction/loan in addition to the \$4,500,000 discussed below.

EAH entered the Villa Ciolino site in the RDSCS process in October of 2014, and received affordable housing allocations. The financial feasibility analysis was prepared for a project of 41 units and a 50% "tiebreaker" score from the State's TCAC application process. Scoring is based on local subsidy contribution (i.e., loans or land) population served, and affordability level. EAH is anticipated to receive a reservation of competitive 9% Low Income Housing Tax Credits. This analysis entails various Capital funding sources awarded by the County, including \$756,269 in HOME funds, \$660,723 Community Development Block Grant funds, and \$283,267 from the County Mental Health Services Act funding, all of which is provided from the County's Homeless program for the six Transition-Age Youth (TAY) units. In addition there is permanent debt and limited partner equity from the sale of tax credits and a request for project based rental subsidy for 8 units. The remaining gap to be funded by the City is \$4,500,000 (\$109,756 per unit) for the development of all three sites. The City would subsidize this amount to be repaid from residual receipts from the development (similar to the structure at the Bella Terra Senior Apartments).

As a first step, working with the initial two sites, the City executed a loan in the amount of \$3,622,000, which consisted of land costs, and predevelopment funds for the St. Catherine's and the former

Giovanni's restaurant sites, with the intent to return to City Council to execute an amendment to the Loan Agreement and promissory note upon the City's settlement with South County Housing that would provide the City with the third site "Villa Ciolino Parcel B," and subsequently increase the loan from \$3,622,000 to a total of \$4,500,000, for the purposes of constructing the Morgan Hill Family three-site affordable housing project. The \$4,500,000 would include increasing the \$500,000 predevelopment funding to \$620,000, a \$120,000 increase for predevelopment costs for Villa Ciolino Parcel B. The purpose of the amendment to the loan agreement is to make up the remaining gap that was originally projected and will be needed for the development of the third site.

The loan agreement has a term of 55 years with 3% simple interest. The Project will include the construction of forty-one (41) units of affordable multi-family housing on the Property consisting of (Ciolino Site = 8 allocations; E. Dunne = 14 allocations & Monterey = 19 allocations).

The current mix (by property) is as follows:

Size	E. Dunne	Ciolino	Monterey	Total
1-Bed	-	-	6	6
2-Bed	6	8	4	18
3-Bed	8	-	9	17
Total:	14	8	19	41

The current Area Median Income (AMI)% Targeting is as follows:

Unit Size	30%	40%	50%	60%	Unrestrict Staff	Total
1 BR	6	-	-	-	-	6
2 BR	2	6	5	5	-	18
3 BR	3	2	5	6	-	16
3 BR-Staff	-	-	-	-	1	1
Total:	11	8	10	11	1	41

In summary, it is recommended that the City Council authorize an amendment to the loan agreement to reflect the additional financing and the addition of the Parcel B site, and authorize the City Manager to transfer "Villa Ciolino Parcel B" to EAH or arrange for the transfer of Parcel B upon receiving it from South County Housing because the proposed project:

- Provides mixed use and residential affordable housing opportunity on three vacant underutilized parcels, removing functionally obsolete vacant buildings
- Meets both City and Regional Housing Needs with an innovative project with the construction of TAY units
- Received RDCS allocations in 2014 for all 3 sites designed as a Family - Scattered Site project
- Successfully compete, and was awarded County funds

- Will submit either a competitive 9% Tax Credit application in March 2016 with an anticipated award in June 2016 or a 4% Tax Credit application with competitive state credits on the same time frame
- Anticipates the start of construction is expected to begin November 2016, it is expected to be completed by December 2017

COMMUNITY ENGAGEMENT: **Not Applicable**

ALTERNATIVE ACTIONS:

The alternative is not to amend the loan agreement from \$3,622,000 to \$4,500,000, and not authorize the City Manager to execute and administer an agreement that facilitates the transfer of Villa Ciolino "Parcel B" to EAH for the third site of the Morgan Hill Family/TAY Project. However, these actions dilute the City's ability to facilitate construction of the third site, and do not provide a resolution to the loans and commitments outstanding between the City of Morgan Hill and South County Housing.

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

On August 6, 2014 the City Council adopted a resolution authorizing the City Manager to execute a Loan Agreement in the amount of \$3,622,000 for two initial sites for the development of the Morgan Hill Family/TAY Project, with the intent of amending the loan to include a third site, Via Ciolino, at a later date if the site could be acquired. The Loan Agreement would then be increased to \$4.5 million to meet the gap financing need for three sites, supporting 41 units, instead of two sites, supporting 33 units. This request is consistent with previous actions.

FISCAL AND RESOURCE IMPACT:

The action requests increasing the current loan commitment by \$878,000 for an amount not exceed \$4,500,000. The funds would be disbursed in multiple fiscal years. A portion of the funding for this project is contained within the approved FY 15-16 Budget, Housing Fund 236. The remaining funds will be included in subsequent year budgets.

CEQA (California Environmental Quality Act):

Categorical Exemption

This item, because it is the approval of an amendment to a Loan Agreement only, is exempt from the California Environmental Quality Act (CEQA) under Sections 15061(b)(3), actions which do not have a potential impact on the environment. Because the project will use a combination of federal, State and local funds, both NEPA and CEQA review will be performed on all three sites as part of the entitlement application process.

LINKS/ATTACHMENTS:

1. Resolution
2. Amendment to Loan Agreement