



# City of Sunnyvale

## Agenda Item

24-0709

Agenda Date: 6/26/2024

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### REPORT TO HOUSING AND HUMAN SERVICES COMMISSION

#### SUBJECT

Consider Authorizing City Manager to Negotiate and Execute an Amended Loan Agreement with MidPen Housing to Extend the \$964,750 HOME Loan for Carroll Inn for 55 Years

#### BACKGROUND

In October 1991, the City selected MidPen Housing Corporation (MidPen) to develop a single room occupancy (SRO) affordable housing development. The City entered into a purchase agreement (of then City-owned property) with MidPen for \$964,750 and issued a loan in March 1994 in the same amount for development of Carroll Inn, a 122-unit SRO affordable housing development, with a 3% simple interest. The 30-year loan was funded with federal HOME funds and the property is deed restricted for thirty (30) years to provide affordable housing. Carroll Inn serves special needs households with incomes at or below 40% of the Area Median Income.

The loan is currently split into two repayment directives:

- A principal loan amount of \$750,000 with accrued interest being deferred for the loan term of thirty (30) years and due in full in March 2024.
- Remaining principal amount of \$214,750 and accrued interest repaid in annual residual receipt payments (defined in the Second Amended Agreement regarding the SRO project at 174 Carroll Street in Attachment 2), with any unpaid principal and interest being due and payable in June 2024.

As of December 31, 2023, the loan issued by the City of Sunnyvale has a principal and interest balance of \$1,433,526.

The development of the Carroll Inn received other loans for the construction of the project totaling approximately \$15 million. After the initial construction, additional loans have been awarded for maintenance and upgrades to the development (or are pending award in the coming months). Other funding for the initial development came from the State and County of Santa Clara.

On January 18, 2024, MidPen formally requested a fifty-five (55) year extension of the City's HOME loan. Staff has currently allowed a pause on repayment until the Council considers this item.

During the March Housing and Human Services Commission (HHSC) meeting, the Commission recommended the item be continued to allow time for MidPen to meet with staff and the California Department of Housing and Community Development (HCD) to identify ways to restructure the loan to include set monthly payments with a limited extension period. Around this time, staff met with MidPen on several occasions to discuss modifications to the loan that HCD would allow and that would also fit within the financing structure of Carroll Inn. This report and staff recommendation reflect those conversations. The Council will consider this item on July 23, 2024.

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## **EXISTING POLICY**

### **Housing Element of the General Plan**

**GOAL H-2 Affordable Housing and Home Buyer Assistance** - Assist in the provision of affordable housing to meet the diverse needs of Sunnyvale's lower- and moderate-income households.

**Policy H-2.1 Maximize Affordable Housing.** Leverage local financial assistance with other sources of funding and identify new funding sources for affordable housing to maximize the number of affordable units and to reach the deepest level of affordability.

**Policy H-3.4 Preservation of Affordable Rental Housing.** Work with property owners, tenants, and non-profit purchasers to facilitate the preservation of publicly-assisted rental housing and at-risk below-market rate units to maintain affordability to lower-income households.

## **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a "project" with the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

## **DISCUSSION**

On January 18, 2024, MidPen sent a letter to the City requesting that the City Council consider extending the loan repayment date for fifty-five (55) years, or from June 2024 to June 2079 (Attachment 3).

As is common with aging affordable housing developments, MidPen is actively working on substantial maintenance and renovation of the development to ensure the property is suitable to provide high-quality affordable housing in perpetuity. Work is being done on electrification, energy efficiency, elevator repairs, roofing, standard interior upgrades, and more. Carroll Inn is currently 30 years old and MidPen has recently focused on prioritizing funds for improving the condition of the property rather than putting funding aside in reserves for loan repayments, making repayment of loans very challenging at this time. There is currently very little debt on the property; the main debt is a loan from the California Department of Housing and Community Development, Rental Housing Construction Program (HCD-RHCP) in a senior position that restricts rent increases (and requires the greatest annual payments), limiting MidPen's ability to pay down junior loans (such as the one from the City), and a HOME loan from the County. MidPen also requested a 55-year extension for the loan from the County that was approved by the Board of Supervisors in February 2024.

As of the March 2024, MidPen has paid down the \$214,750 portion of the loan which has residual receipt payment requirements. Payments received have totaled \$371,154 (applied toward principal and interest) with a remaining principal balance of \$12,516. While residual receipt payments can vary annually, the average loan payment made over the past ten (10) years is \$42,000 per year. The remaining \$750,000 principal portion of the loan, which is not payable from residual receipts and originally was due in March 2024, was fully deferred for thirty (30) years.

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### **Recommended Modifications from March HHSC Meeting**

At the March HHSC meeting, the Commission recommended the item be continued to allow time for MidPen to meet with staff and HCD to identify ways to restructure the loan to include set monthly payments with a reduced extension period of approximately 20 years with forgiven or reduced interest. During this time, staff met with MidPen on several occasions to discuss modifications to the loan that HCD would allow and that would also fit within the financing structure of Carroll Inn. Unfortunately, due to the limited options for flexibility on HCD loans and repayment structuring of junior loans, there were no other options to allow a loan product with standard monthly payments with a shorter maturity window. Therefore, the options presented at the March meeting remain the same loan options presented now (Attachment 4).

Staff recommends approval of the loan extension and requirement of residual receipt payments annually for the entire remaining loan principal balance, which will supplement available HOME funds. Residual receipt payments vary widely based on annual cash flow and other Senior debt payments in higher priority than the City's loan. In addition, since MidPen has other loans which require residual receipt payments for Carroll Inn, the amount of payment to the City's HOME loan will be limited since each loan would receive a fair share of residual receipts. If the loan extension request is approved, the loan and affordability period would extend for fifty-five (55) additional years.

If the loan extension request is not approved, the entirety of the loan would be due and payable immediately; while the City's affordability restrictions would expire as well, there are other deed restrictions on the property from the State and County that would continue to mandate affordability of the units.

### **City Use of HOME Loan Repayments**

As an Entitlement City, Sunnyvale is allocated non-competitive federal HOME funds annually from the Federal Department of Housing and Urban Development (HUD); recent annual allocations average \$400,000. Each fall, Sunnyvale staff release a request for proposals to award HOME funds to local nonprofits who support lower income households. Historically, during times when the City received greater HOME allocations, HOME funds were commonly used for affordable housing land acquisition, construction, and rehabilitation. However, in recent years as funding remains flat or even slightly decreases, the City has been setting aside all HOME funds for Tenant Based Rental Assistance, a rental subsidy program serving about 40 households, currently administered by Sunnyvale Community Services.

Payments received on HOME loans are deposited back into the City's HOME fund as "Program Income" (PI). This revenue is then reallocated for future grants and loans and can help supplement the City's limited HOME annual allocation. Historical PI revenue often greatly exceeds the annual allocation, so much so that the City has recently been able to release upwards of \$1 million annually towards the Tenant Based Rental Assistance (TBRA) program. The City has received \$2.7 million in HOME PI over the last five years and anticipates receiving approximately \$1 million in total income over the next ten (10) years between residual receipt loan payments and loan maturity payments (not accounting for loan repayment of this loan for Carroll Inn). New allocations of funding for TBRA are expected to be significantly reduced in (about) 2027.

### **FISCAL IMPACT**

If the request to extend this loan for an additional 55 years is approved, the HOME fund would not receive full loan repayment until 2079; however, annual residual receipt payments would still be

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deposited into the HOME fund as Carroll Inn cash flow allows. Approving the extension of this loan and lack of full repayment in 2024 would lead to less available funding in future cycles of HOME funding availability for TBRA. As an example, \$1 million (a value similar to the loan amount request for extension by MidPen) in HOME funds currently serves 40 households with rental assistance for one year. There is no impact to the General Fund.

**PUBLIC CONTACT**

Public contact was made through posting of the Housing and Human Services Commission agenda on the City’s official-notice bulletin board, on the City’s website, and the availability of the agenda and report in the Office of the City Clerk.

**ALTERNATIVES**

Recommend the City Council:

1. Authorize the City Manager to negotiate and execute an Amended Loan Agreement with MidPen extending the remaining balance of the HOME Loan for Carroll Inn for an additional 55 years and requiring annual residual receipt payments.
2. Authorize the City Manager to negotiate and execute an Amended Loan Agreement with MidPen extending the remaining balance of the HOME Loan for Carroll Inn for an additional 55 years, with no loan modifications, allowing the \$750,000 principal to continue to be deferred for the new term of the loan.
3. Do not grant MidPen’s request for a 55-year extension of the HOME loan for Carroll Inn.

**RECOMMENDATION**

Alternative 1: Authorize the City Manager to negotiate and execute an Amended Loan Agreement with MidPen extending the remaining balance of the HOME Loan for Carroll Inn for an additional 55 years and requiring annual residual receipt payments.

While the repayment of this HOME loan would allow the City to award greater funds to the Tenant Based Rental Assistance program over future years, preservation of Carroll Inn is a priority to ensure these 122 very low-income SRO units in downtown Sunnyvale continue to be available and habitable.

**LEVINE ACT**

The Levine Act (Gov. Code Section 84308) prohibits city officials from participating in certain decisions regarding licenses, permits, and other entitlements for use if the official has received a campaign contribution of more than \$250 from a party, participant, or agent of a party or participant in the previous 12 months. The Levine Act is intended to prevent financial influence on decisions that affect specific, identifiable persons or participants. For more information see the Fair Political Practices Commission website: [www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html](http://www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html)

A check or “Y” in the checklist below indicates that the action being considered falls under a Levine Act category or exemption:

**SUBJECT TO THE LEVINE ACT**

- Land development entitlements
- Other permit, license, or entitlement for use
- Contract or franchise

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**EXEMPT FROM THE LEVINE ACT**

- Competitively bid contract
- Labor or personal employment contract
- General policy and legislative actions

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Reviewed by: Sarah Johnson-Rios, Assistant City Manager  
Approved by: Kent Steffens, City Manager

**ATTACHMENTS**

1. Reserved for Report to Council
2. Existing Loan Agreement for Carroll Inn
3. Loan Extension Request from MidPen - January 18, 2024
4. Carroll Inn Loan Extension Follow Up Letter - May 31, 2024