



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Approve Loan and Regulatory Agreements with MP Morse Court Associates, LP for a Loan of \$1 Million in Housing Mitigation Funds to Rehabilitate Morse Court Apartments

#### **BACKGROUND**

In February 2014, the City released a Request for Proposals (RFP) for affordable housing projects to be funded with Housing Mitigation Funds (HMF) in FY 2014/15. The City received two proposals from MidPen Housing Corporation (MidPen), one of which, the project to rehabilitate Morse Court, was selected for funding. Funding for this project was included as a capital project in the FY 2014/15 Projects Budget approved by Council in June 2014. MP Morse Court Associates, LP, is the MidPen affiliate entity (limited partnership) that owns the Morse Court property.

Morse Court Apartments, a 35-unit affordable rental housing complex, is located at 825 Morse Avenue. The conditional funding commitment was conditioned on completing any necessary environmental review of the project, written approval of the new loan by the senior lienholder, and Council approval of the loan and regulatory agreements ("the Agreements"). The project was slightly delayed due to the need for additional time for City and MidPen staff to finalize the scope of work, negotiate the Agreements, and allow for the required review by the senior lienholder, the California Housing Finance Agency (CalHFA).

#### **EXISTING POLICY**

##### **General Plan: Housing Element**

Policy B.3: Strengthen multi-family neighborhoods through partnership with non-profit housing organizations in the acquisition and rehabilitation of older residential properties and maintenance as long-term affordable housing.

##### **2015-2020 Sunnyvale Consolidated Plan**

Goal A.1.a: Provide financial and/or technical assistance to qualified affordable housing developers for rehabilitation, construction and/or preservation of affordable rental housing and/or site acquisition.

#### **ENVIRONMENTAL REVIEW**

This project is exempt from the requirements of the California Environmental Quality Act (CEQA) as a Class 1 project involving only rehabilitation of existing structures. (CEQA Guidelines section 15301 (d).) No federal funds will be used for this project, therefore federal environmental review under the National Environmental Policy Act (NEPA) is not required.

#### **DISCUSSION**

Morse Court was built in 1983 and is currently subject to rent limits imposed by CalHFA which restrict seven of the units to very low income rents (50% of area median income, or AMI) and the remaining

27 units to low income rents (60% of AMI). The remaining unit is a manager's unit. Many of the units in the project currently receive project-based Section 8 subsidies which make those units even more affordable. The current tenants include 30 extremely low income (ELI) households and 4 very low income (VLI) households.

Morse Court is a typical garden apartment-style complex, with five existing two-story apartment buildings with balconies or patios, a small tot-lot, laundry room, and surface parking with carports. The property includes 16 one-bedroom units, 15 two-bedroom units and 4 three-bedroom units. Two of the one-bedroom units are accessible.

The rehabilitation scope of work includes replacement of roofs, windows, siding, and decking; sustainability improvements, such as improved ventilation systems, higher efficiency windows, LED lighting to replace current exterior lighting; and replacement of the existing landscape sprinklers with a water-efficient irrigation system.

The total project cost is \$1,333,333, to be financed by the City loan and MidPen's matching funds. Approximately 84% of the project budget is for hard costs, including contingency, and the balance of 16% is for soft costs, such as design and engineering, permitting, and related soft costs, as shown in detail on Page 19 of the proposed Loan Agreement (Attachment 1).

MidPen has met all of the conditions of the conditional loan commitment and is ready to begin the project pending Council approval and recording of the loan documents. The proposed Loan Agreement is consistent with the appropriation approved by Council in 2014, and sets forth the terms of the City loan, including financing terms, and general requirements for the project and for ongoing operations.

The proposed loan terms include a 40-year term at three percent simple interest, with annual residual receipt payments to the City and any balance of principal or interest due at the end of the term. The proposed Regulatory Agreement (Attachment 2) will restrict seven units to the ELI rent and income limits, another seven to VLI limits, and the remaining 20 units to low-income limits. The manager's unit will remain unrestricted. This is consistent with, but slightly stricter than, the existing CalHFA restrictions, which do not require any ELI units. CalHFA has reviewed and approved the Agreements.

### **FISCAL IMPACT**

The recommended action will not impact the City's General Fund. The HMF allocation for this project was included in the FY 2014/15 Projects Budget and remains available for the project. The HMF exists for the purpose of funding affordable housing projects such as the rehabilitation of Morse Court, so the recommended action is consistent with its purpose and various city policies regarding affordable housing.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

The HMF conditional funding award for this project was reviewed and recommended by the Housing and Human Services Commission on April 23, 2014 and approved by Council on June 24, 2014.

### **RECOMMENDATION**

Find that the project is exempt from CEQA pursuant to Guideline 15301(d) and approve the Agreements with MP Morse Court Associates, LP in substantially the form provided in Attachments 1 and 2 to the report, and authorize the City Manager to execute the Agreements in final form as approved by the City Attorney.

Approval of the Agreements between the City and MP Morse Court Associates, LP will enable completion of the rehabilitation work and sustainability improvements; ensure the property is physically sound; and preserve Morse Court as affordable rental housing for low-income households for at least another forty years. Completion of this project will assist the City in meeting its 2015-2023 Housing Element goals for preservation of rental units affordable to lower-income households.

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Reviewed by: Suzanne Isé, Housing Officer

Reviewed by: Hanson Hom, Director, Community Development

Reviewed by: Jane Chambers, Interim Assistant City Manager

Approved by: Kent Steffens, Assistant City Manager

For Deanna J. Santana, City Manager

### **ATTACHMENTS**

1. Loan Agreement
2. Regulatory Agreement