



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Approve Loan Agreements with Crescent Terrace, Inc. to Rehabilitate Crescent Terrace Apartments

BACKGROUND

In January 2015, the City released a Request for Proposals (RFP) for affordable housing projects to be funded with Community Development Block Grant (CDBG) and/or HOME Investment Partnerships Program (HOME) funds in FY 2015/16. The City received one proposal from MidPen Housing Corporation (MidPen) to rehabilitate Crescent Terrace Apartments, a 48-unit affordable rental housing project for seniors, located at 130 Crescent Avenue in Sunnyvale. On May 5, 2015, (RTC 15-0158), Council approved a conditional award of \$500,000 in CDBG funds (the "CDBG loan") and \$550,000 in HOME funds (the "HOME loan") to rehabilitate Crescent Terrace as part of the 2015 HUD Action Plan. Funding for this project was included as a capital project in the FY 2015/16 Projects Budget approved by Council in June 2015 (RTC 15-0158).

The project did not get underway as soon as anticipated, 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).

The CDBG and HOME Loan Agreements, included as Attachments 1 and 2, respectively, to this Report, are consistent with the appropriation approved by Council in 2015 and sets forth the terms under which the City may provide \$500,000 in CDBG funds and \$550,000 in HOME funds toward the rehabilitation of Crescent Terrace. The Agreements include financing terms, general requirements, and CDBG/HOME program requirements.

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).) Under the National Environmental Policy Act (NEPA), the rehabilitation of multifamily residential buildings is categorically excluded pursuant to section 58.35 (a)(3)(ii) of Title 24 of the Code of

Federal Regulations.

DISCUSSION

Crescent Terrace is a 48-unit affordable rental housing project for low-income seniors. The property is owned by Crescent Terrace, Inc., an affiliate of MidPen Housing Corporation. Built in 1986, the property is aging and is in need of repairs and upgrades, particularly to its windows, roofs, decking, and unit interiors. Crescent Terrace consists of one existing three-story apartment building with balconies or patios for each unit, a community room, computer center, laundry room, and surface parking with carports. The property includes 48 one-bedroom units, one of which is a manager's unit.

The total cost of the planned rehabilitation scope of work is \$1,390,000, to be financed by the two City loans and a 25 percent match from MidPen. Approximately 88 percent of the project budget is for hard costs, including contingency, and the balance of 12 percent is for soft costs, such as design and engineering, permitting, and related soft costs, as shown in detail on Exhibit C of the proposed Loan Agreements.

Rehabilitation of the property consists of moderate rehabilitation work that will directly support the accessibility and efficiency of existing affordable housing. The energy and water savings improvements will enhance the project's environmental sustainability. The project scope of work includes the following:

- Accessibility improvements;
- Dry rot repairs (decks, railing, siding);
- Window replacements (higher efficiency);
- Kitchen cabinet replacements;
- Lighting improvements (LED lighting);
- Energy and water efficiency upgrades (dryer ventilation, green alternative motion sensor fans, solar hot water system);
- Replacement of the existing landscape sprinklers with a water-efficient irrigation system; and
- Modification of a flat roof with ponding issues.

Proposed Loan Agreements

Both agreements include financing terms, general requirements, and affordability restrictions consistent with standard practice for similar affordable housing projects, and with the applicable federal regulations.

CDBG Loan Agreement

The proposed CDBG Loan Agreement, provided in Attachment 1, sets forth the terms under which the City will provide \$500,000 in CDBG funds for the rehabilitation of Crescent Terrace. The terms include a 40-year term at three percent simple interest, with deferral of principal and interest for the first ten years, annual residual receipts payments beginning in year eleven, and any balance of principal or interest due at the end of the term, in addition to compliance with CDBG program requirements. The remaining loan documents (promissory note, deed of trust, and regulatory agreement) will be prepared consistent with the terms of the Loan Agreement and standard City loan document templates, and as approved by the City Attorney.

HOME Loan Agreement

The proposed HOME Loan Agreement, provided in Attachment 2, sets forth the terms under which the City will provide \$550,000 in HOME funds toward the rehabilitation of Crescent Terrace. The terms include a 40-year term at three percent simple interest, with deferral of principal and interest for the term, and compliance with HOME program requirements. The remaining loan documents (promissory note, deed of trust, and regulatory agreement) will be prepared consistent with the terms of the Loan Agreement and standard City loan document templates, and as approved by the City Attorney.

Affordability Requirements

In exchange for the City funding for this rehabilitation project, MidPen has agreed to enter into a CDBG regulatory agreement restricting 20 of the units to very low income rents, and 27 units to low income rents. The remaining unit will be an unrestricted manager's unit. The HOME regulatory agreement, which will apply to a subset of the CDBG units, will restrict 19 of the units: four as very low- and 15 as low-income HOME units, as shown in the table below. This unit mix is consistent with the current CalHFA restrictions on the property.

Affordability Level	HOME (<i>subset of CDBG units</i>)	CDBG	Unrestricted (Manager's Unit)	Total
Very Low	4	20		20
Low	15	27		27
			1	1
Total	19	47	1	48

Currently about 75 percent of the households are receiving Section 8 rent assistance which makes the units even more affordable. Use of Section 8 is not limited by the CDBG or HOME restrictions.

FISCAL IMPACT

The recommended action will not impact the City's General Fund. The proposed funding for this project is from the City's CDBG and HOME Funds which are derived from federal grants for affordable housing programs. CDBG and HOME allocations for this project were included in the FY 2015/16 Projects Budget and remain available for the project. The recommended action is consistent with the purpose of the federal grants 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 CDBG and HOME funding award for this project was reviewed and recommended by the Housing and Human Services Commission on April 22, 2015 and approved by Council on May 5, 2015.

RECOMMENDATION

Approve Loan Agreements with Crescent Terrace, Inc. for \$500,000 in Community Development

Block Grant Funds and \$550,000 in HOME Investment Partnerships Program Funds, in substantially the form provided in Attachments 1 and 2 of the report, and authorize the City Manager to execute the Agreements in a final form approved by the City Attorney.

Approval of the Loan Agreements between the City and Crescent Terrace, Inc. will enable the borrower to rehabilitate existing affordable housing in need of improvements. The rehabilitation project includes various sustainability measures, and will preserve Crescent Terrace as affordable rental housing for very low and low-income seniors 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; and the 2015-2020 Consolidated Plan goal to assist in the creation, improvement, and preservation of affordable housing for lower income and special needs households.

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Reviewed by: Walter C. Rossmann, Assistant City Manager
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ATTACHMENTS

1. CDBG Loan Agreement
2. HOME Loan Agreement