



City of Sunnyvale

Agenda Item-No Attachments (PDF)

File #: 16-0442, Version: 1

REPORT TO COUNCIL

SUBJECT

Consent to Ownership Transfer of Affordable Rental Project Located at 183 Acalanes Drive ("Eight Trees") and Assignment and Assumption of City Loans and Authorize the City Manager to execute a new loan agreement in the amount of \$600,000

BACKGROUND

Eight Trees is a 24-unit affordable rental complex located at 183 Acalanes Drive in Sunnyvale. A map of the project vicinity is provided in Attachment 1. The property was built in 1958 as a market-rate rental project and sold to HomeFirst Services of Santa Clara County (HomeFirst), a non-profit agency, in 2002. HomeFirst, established in 1980 under the name Emergency Housing Consortium, provides emergency shelter, case management and supportive services for homeless people. Eight Trees is the only standard (long-term) rental property owned and operated by HomeFirst, although it operates several transitional housing facilities and shelters elsewhere in the County. HomeFirst applied for and received several loans from the City to partially finance the original acquisition and minor renovation of the property in 2002, as explained further below.

In addition to 24 rental units, the property has a laundry room, pool, courtyard, and covered parking. Eight Trees provides housing to lower-income households including families, individuals, and seniors. Most of the apartments are two-bedroom units, but there are several one- and three-bedroom units. All but one of the units are currently occupied. The property is dated and needs immediate repairs to address current deficiencies, as well as longer-term renovations to improve physical conditions, sustainability issues such as energy efficiency, and the safety and comfort of the residents.

When HomeFirst acquired this property in 2002, it expected to be allocated project-based vouchers by the Housing Authority to support the operational expenses such as property management, debt service, and supportive services. HomeFirst planned to house its homeless clients in the property as vacancies arose. Unfortunately, HomeFirst was never awarded project based vouchers for this project, and there was not as much tenant turn-over as expected, therefore its long-term vision for this property was never fully realized. In addition, due to the lack of operational support from the vouchers, the property has been operating with a negative cash flow for a number of years due to the upwardly adjusting interest rate on the first loan, and the situation is not sustainable long-term for HomeFirst.

Over a year ago, the leadership of HomeFirst decided to seek a new owner/operator (ideally another affordable housing provider) for the Eight Trees property because of its financial and operational difficulties. MidPen Housing, a local non-profit housing provider, was soon identified as a qualified entity, interested in and able to acquire, renovate and operate the property as affordable rental housing. Staff has been supportive of HomeFirst's transition plan, as it resolves the challenges facing the long-term sustainability of the property. HomeFirst and MidPen entered into a letter of interest

and subsequently a purchase and sale agreement in late 2015. Both agencies now request the consent of the City to the proposed transfer of the property and assignment/assumption of the outstanding debt. A letter from MidPen requesting this consent is provided in Attachment 2. The agencies have also requested the consent of the bond holder for the proposed transfer.

EXISTING POLICY

Policy A.2: Facilitate the development of affordable housing through regulatory incentives and concessions, and/or financial assistance.

Policy A.7: Support collaborative partnerships with non-profit organizations, affordable housing builders, and for-profit developers to gain greater access to various sources of affordable housing funds.

Goal E: Promote equal housing opportunities for all residents, including Sunnyvale's special needs populations, so that residents can reside in the housing of their choice.

ENVIRONMENTAL REVIEW

The actions being considered are exempt from the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15061(b)(3) as the activity is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

DISCUSSION

There are currently five outstanding loans on the property, consisting of a tax exempt bond for an original balance of \$2.6 million, held by the original seller (Combs), and several City loans funded by Community Development Block Grant (CDBG) funds, HOME Investments Partnership Program (HOME) funds, and Housing Mitigation Funds (HMF). The total debt on the property has a combined outstanding balance of approximately \$4 million. The loan details are summarized in Attachment 3.

The property is currently faced with financial challenges due to the significant amount of required annual debt service, primarily on the first loan. The property currently has a negative cash flow, because the debt service and operating expenses exceed the rental income, due in part to the highly restricted rents and the lack of any project-based vouchers. The acquisition by MidPen would allow the existing debt to be restructured by applying for tax credits and negotiating with the City for some revisions to the existing City loan terms, and put the property in a more sustainable financial position. MidPen also proposes to seek project-based vouchers and/or other new sources of funding to cover needed renovations, standard resident services, possibly some on-site supportive services, and rent subsidies for extremely low-income, at-risk tenants.

HomeFirst has expressed a desire to continue providing supportive services to its existing clients living at the property, and maintaining a relationship with the property owner/manager for possible future client placements and/or provision of services. The two agencies are negotiating an agreement to cover these matters, in consultation with the City and the County, which is also assisting in facilitating the transfer, in order to stabilize HomeFirst and the property.

After meeting with all of the jurisdictions and funders, and with the agreement of both agencies' boards of directors, Midpen agreed to purchase the Eight Trees property and assume the obligations

of HomeFirst under the Loans and property management functions in November 24, 2015. HomeFirst has agreed to sell the Eight Trees Property and assign its obligations under the Loans to MidPen, subject to obtaining a release from liability for the performance of the obligations of the Borrower after the close of escrow.

As shown in the proposed term sheet (Attachment 4), part of MidPen's proposed plan to stabilize this property includes a larger scope of rehabilitation work, for which Midpen would seek additional financing from tax credits, the City, and other soft lenders, such as the County, Housing Trust, or possibly others. MidPen has also requested an initial commitment of \$600,000 from the City as a condition of its taking title to the property, to address urgent repairs, such as correcting some exterior and interior deficiencies including work on balconies, and to pay off one City loan of approximately \$100,000, which is due in full on June 30, 2016.

The current outstanding debt on the property is approximately equal to the current estimated value of the property. One of the major constraints on the appraised value is the very low cash flow potential due to relatively strict rent restrictions imposed by the City, without any project-based vouchers to provide sufficient operating funds. In order to address this situation, MidPen has requested that the City, post-acquisition, modify the existing rent restrictions from very low to low income levels, for the interim period between July 2016 and March 2017, before the new tax credits are awarded, to slightly increase the property value to support additional financing for the renovation and refinancing of the first loan. The restrictions would then be re-adjusted in July of 2017 upon closing of the new financing to serve a mix of income levels, from extremely low to low, but with the support of additional operating reserves and/or vouchers. During this interim period, MidPen has committed to keeping current tenants at the current rent levels. A timeline of these steps is included on page 2 of Attachment 4.

City approval of the proposed transfer is required prior to close of escrow, according to the terms of the original City loan documents. The parties plan to close escrow on or shortly after June 30, 2016. Approval of the transfer will improve the long-term financial health and physical integrity of the property and preserve this affordable housing resource for current and future occupants.

FISCAL IMPACT

The recommended actions would not impact the City's General Fund. With regard to the housing funds from which the current City loans originated, staff projects that approval of the recommended actions would have a positive impact on those funds, because the restructured loan terms will most likely result in a higher total amount of program income paid to these funds than would be received if no action is taken. In addition, the proposed action greatly reduces the risk that the current property owner, HomeFirst, could default on any or all of the existing loans which could create significant legal or other related expenses for the City in the event of a possible foreclosure by the first lender.

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.

RECOMMENDATION

1) Consent to the Title Transfer, Assignment and Assumption of City Loans on 183 Acalanes Drive

from HomeFirst SCC, Inc. to MP Eight Trees LLC and authorize the City Manager to execute documents necessary to indicate the City's consent; and 2) Approve a new loan of \$600,000 in Housing Mitigation Funds to MP Eight Trees LLC for urgent repairs following close of escrow and authorize the City Manager to execute a loan agreement and any other document required to facilitate the escrow transaction, in final form approved by the City Attorney.

The recommended actions will allow MidPen to stabilize the Eight Trees property operations, complete urgent repairs needed to improve safety at the property, and preserve this important affordable housing resource for the future. Following close of escrow, staff will work with MidPen to facilitate completion of the immediate repairs and to further refine the next phase of restructuring to address long-term financial and physical sustainability of the property, consistent with the attached term sheet and timeline. Staff will return to Council for consideration of additional actions once the restructuring plan has been refined.

Prepared by: Shila Behzadiaria, Assistant Planner

Reviewed by: Suzanne Isé, Housing Officer

Reviewed by: Trudi Ryan, Director, Community Development

Reviewed by: Walter C. Rossmann, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Vicinity Map
2. Request for Consent
3. Loan Summary
4. Proposed Term Sheet