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# REPORT TO COUNCIL

## SUBJECT
Loan Amendment to Convert 2004 Housing Mitigation Loan on Moulton Plaza Affordable Housing Project from Partially Deferred to Fully Deferred

## BACKGROUND
Moulton Plaza, built in 2006, is a 66-unit affordable rental housing project located at 1601 Tenaka Place in Sunnyvale. The development provides housing for lower-income households, including families and seniors. The project is owned and operated by a limited partnership (New Homestead Associates) between MidPen Housing, a non-profit housing developer (MidPen), as its managing general partner, and an investor as the limited partner. This project was built on a portion of the Homestead Park Apartments site. Moulton Plaza was MidPen's first redevelopment of a portion of one of its existing affordable housing projects. In 2004, the City loaned roughly $3.5 million to partially finance the development of Moulton Plaza. There are three loans, funded with three different sources: two federal grant pass-through funds (HOME and Community Development Block Grant funds), and local Housing Mitigation funds (HMF). A table of the outstanding loans on the property and their key terms is provided in Attachment 1.

## EXISTING POLICY
**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 B**: Maintain and enhance the condition and affordability of existing housing in Sunnyvale.

## 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
One of the three City loans on this property is a loan of $992,000 in original principal funded with HMF at 3 percent simple interest (the 2004 HMF loan). This loan was originally structured as a partially deferred loan, with all principal and interest payments deferred from the original loan date until December 2016, at which time the borrower was required to begin making mandatory annual payments of slightly over $72,000. This type of loan structure was often used by the City at that time; however, it is not consistent with current industry practices for these types of public sector junior loans on affordable housing projects, often referred to as "soft debt" in the affordable housing sector.

Current best practices usually include one of two options for soft debt on these types of projects: either a fully deferred loan, where all payments of principal and interest are deferred until the end of the loan term, at which time a property will typically be refinanced or sold, which allows the loan to be paid off; or as a fully deferred loan with residual receipts payments, which are paid only if the property generates enough cash flow from rents and other income to exceed property operational costs and “hard debt” payments on the senior loan.

The Director of Community Development administratively extended the loan payment due in December 2016 until May 1, 2017. This extension was needed to provide sufficient time negotiating loan terms and agreement and scheduling of the loan amendment for City Council consideration.

MidPen recently sent a letter to the City (Attachment 2) to request modification of the 2004 HMF loan to defer all required payments of principal and interest to the end of the term (2040), rather than requiring the annual payments of approximately $72,000. Payments of this amount would create operational funding shortages to the project. The project’s rents do not generate enough surplus cash to cover this payment in addition to other required debt service and operating expenses, including maintenance and resident services. Attachment 3 is a draft amendment to the existing promissory note on this loan that would allow that deferral.

**FISCAL IMPACT**
The recommended action would not impact the General Fund.  Its impact on the Housing Fund would be to defer annual payments of $72,175 until December 31, 2040, the maturity date. The approval of the recommended action would allow more total interest to accrue on the City loan, resulting in a higher total payment (principal and interest) by the end of the term, because these annual payments would not be reducing the amount of interest accrued. The Housing Mitigation Fund was created to develop and preserve affordable housing projects such as Moulton Plaza, so the impact of the recommended action is consistent with the purpose of this fund.

**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**
Approve an amendment to the 2004 Promissory Note with New Homestead Associates to convert the 2004 Home Mitigation Funds Loan of $992,000 from partially deferred to fully deferred and authorize the City Manager to execute the Amendment.

Approval of this loan amendment will allow the borrower to continue providing planned property maintenance and resident services at Moulton Plaza and help to preserve it long-term as affordable housing.

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## ATTACHMENTS

1. Outstanding Loans
2. MidPen Letter
3. Draft Amendment to Promissory Note