

Agenda Report



MEETING DATE: Tuesday, August 27, 2024

TO: City Council

FROM: COMMUNITY DEVELOPMENT DIRECTOR MERRIAM
HOUSING MANAGER LANDAVERRY

SUBJECT: APPROVAL OF FINANCING LOAN DOCUMENTS FOR THE
PERMANENT LOCAL HOUSING ALLOCATION (PLHA)
FINANCING FOR TABASA GARDENS AFFORDABLE HOUSING
DEVELOPMENT AND APPROPRIATION OF FUNDS

RECOMMENDED ACTION:

It is recommended that the City Council, by Resolution, approve the financing loan documents for the Permanent Local Housing Allocation Program (PLHA) financing for Tabasa Gardens affordable housing project located at 1482 Freedom Boulevard and appropriate \$1,000,000 in grant money awarded for the project from the California Department of Housing and Community Development (HCD) to subordinate the loans to the construction lender and to HCD, and authorize and direct the City Manager to negotiate and execute any loan and subordination documents necessary to implement the loan agreements subject to legal approval.

DISCUSSION:

On February 23, 2021, the City Council approved a 53-unit affordable housing project proposed by Eden Housing located at 1482 Freedom Boulevard, commonly known as Tabasa Gardens, rented at an affordable housing cost to low, very-low, and extremely-low income families. The project is in the final stages of completing its financing with a closing scheduled for September 2024. Eden Housing has formed a Limited Partnership for the purposes of the construction and operation of this project called Eden Freedom Investors, L.P.

The City is financing only a portion of the project financing through the City's Successor Agency Housing Fund (\$1,000,000) approved by Council and Council in its capacity as the Successor to the Housing Assets, by Resolution Nos. 204-20 (CM) and 7-20 (SHA) respectively, on November 10, 2020, and the State's Permanent Local Housing Allocation Program (PLHA) (\$1,000,000) for which the Council approved an application on October 11, 2022, for a total of \$2,000,000.

The loan is structured with a term of 55 years at 3% simple interest. The City will receive 50% of any residual receipts through the life of the loan, which means that the City will receive payments in years that gross income exceeds annual operating expenses. This is a standard loan structure that the City has used in the past with non-profit housing developments.

The City was awarded \$1,000,000 from the PLHA grant program to apply towards Tabasa Gardens financing and staff is now recommending appropriation of these funds through this agenda item. Tabasa Gardens is financing approximately \$14,140,000 with US Bank through a Development Loan Agreement, \$5,758,788 through the HCD's Joe Serna Program pursuant to a Development Loan Agreement and \$1,471,885 through HCD's No Place Like Home Program pursuant to a Development Loan Agreement.

The City's PLHA loan will include the execution of a PLHA Affordable Housing Regulatory Agreement, a Secured Promissory Note, a Loan Agreement and a Deed of Trust which were drafted by the City Attorney and are attached to this staff report (the Loan Documents). The California Department of Housing and Community Development is reviewing these documents and staff expect to receive approval in the coming weeks. There will be other subordination agreements the City will be required to enter into related to each of these financing sources which are still being developed. The City will be required to subordinate its security interest to the above-enumerated financings, which is not an unusual request from entities like US Bank and the California Department of Housing and Community Development. A copy of the initial draft of the US Bank subordination is attached along with the other documents listed above.

Currently, there are still numerous parties related to this financing that are still making edits to the many documents that make up this financing package. The closing for this financing is scheduled for September 2024, but it is likely that edits to many of the agreements, including the City documents, may continue up to closing. Staff is therefore recommending Council give direction and delegate authority to the City Manager to review and execute any additional changes to existing agreements or new agreements necessary to close this financing. Staff is also recommending Council appropriate the PLHA grant in the amount of \$1,000,000.00 into the City's budget in a Special Revenue Fund.

STRATEGIC PLAN:

The creation and maintenance of affordable housing is consistent with the policies and goals of the City's General Plan and Housing Element as well as the following City's strategic goals:

3-Housing. The provision of \$1 million loan towards the development and permanent financing for the 53- unit housing project supports the Council's Strategic Plan Goal to provide high-quality housing for the City.

CEQA

The preparation of the loan documents is not subject to CEQA, as the action is not a project as defined in Section 15378(b) (2) of the Public Resources Code, and therefore no further review is required.

FINANCIAL IMPACT:

The City's \$1,000,000 contribution to the project will be fully funded with PLHA funds allocated from the California Department of Housing and Community Development Permanent Local Housing Allocation Program in the Affordable Housing Fund (0221).

ALTERNATIVE ACTION:

The Council has the following alternatives to consider:

1. Do not approve the financing Loan Documents; or
2. Provide alternative direction to staff.

ATTACHMENTS AND/OR REFERENCES (If any):

1. WATSONVILLE-EDEN PLHA Loan – Regulatory Agreement
2. WATSONVILLE-EDEN PLHA Loan – Loan Agreement
3. WATSONVILLE-EDEN PLHA Loan – Promissory Note
4. WATSONVILLE-EDEN PLHA Loan – Deed of Trust
5. Subordinate Agreement – US Bank – 2024