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Title: Action on Amendments to the Promissory Note and Covenants with Riverwood Place Associates, L.P. (MidPen Housing Corporation) to Extend the Affordable Housing Requirements for 148 Rental Units within the Project Located at 5090 Lick Mill Boulevard [Council Pillars: Promote and Enhance Economic and Housing Development]

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Attachments: 1. Amendment 1 to Promissory Note, 2. Amendment 1 to Agreement Containing Covenants

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REPORT TO COUNCIL

SUBJECT

Action on Amendments to the Promissory Note and Covenants with Riverwood Place Associates, L.P. (MidPen Housing Corporation) to Extend the Affordable Housing Requirements for 148 Rental Units within the Project Located at 5090 Lick Mill Boulevard [Council Pillars: Promote and Enhance Economic and Housing Development]

BACKGROUND

Riverwood Place Apartments is an affordable housing complex located at 5090 Lick Mill Boulevard, Santa Clara, CA 95054. The property consists of 148 studio apartments serving low income, special needs adults with incomes of up to 60% of the Area Median Income. The property is owned by Riverwood Place Associates (“Borrower”), a California limited partnership, and an affiliate of MidPen Housing Corporation.

The development of Riverwood Place Apartments originated in 1998 from the City of Santa Clara Redevelopment Agency’s Request for Proposals for affordable housing at the site. The City Council selected MidPen Housing from among several housing development and management firms. The property was constructed with financing obtained through the Low-Income Housing Tax Credit (LIHTC) program, combined with funding from the City of Santa Clara Redevelopment Agency (RDA), California Housing Finance Agency (CalHFA) and a conventional loan through Citibank. The City of Santa Clara RDA made a \$4,690,000 loan to the Borrower evidenced by a Promissory Note dated March 14, 2001 (the “Note”). An Agreement Containing Covenants Including Affordable Housing Requirements dated March 14, 2001 (the “Covenants”) also encumber the real property. The RDA has since been dissolved and the City has succeeded to the housing assets of the Agency, including the Loan and Covenants.

Riverwood Place is the winner of the Gold Nugget Award of Merit from the Pacific Coast Builder's Conference and a Builder's Choice Award of Merit from Builder Magazine. The property provides partially furnished efficiency studios with a kitchenette, bed and dresser. Residents enjoy many amenities including community space for organized activities and three private, landscaped courtyards with tables and seating. MidPen Resident Services Corporation provides residents with access to social services and onsite training and programs.

The Borrower desires to obtain a \$500,000 private loan for energy efficient solar rehabilitation at the Property (the "Solar Loan") and has requested that the City modify certain terms of the Loan in order to facilitate the Solar Loan and rehabilitation.

DISCUSSION

In July of 2019, MidPen expressed interest in pursuing the City's Energy Efficient Grant Program (up to \$100,000) along with solar incentive programs through Silicon Valley Power for up to \$80,000. Recognizing solar as a great opportunity for long-term sustainability and cost savings, MidPen staff worked with a third-party consultant to design a scope of work appropriate for energy production at Riverwood Place. The estimated capital cost was estimated to be around \$680,000. While City of Santa Clara and Silicon Valley Power incentives can fund up to \$180,000 of this cost, additional funds are needed to perform installation of the complete recommended project scope.

MidPen approached the City of Santa Clara with a proposal to fund a private loan in the principal amount of up to \$500,000 through MidPen Housing Corporation for the purpose of solar panel installation at Riverwood Place Apartments. MidPen Housing also proposed, as part of the financing strategy, to modify the terms of the City's existing Promissory Note. Whereas the original Promissory Note entitled the City to 75% of residual cash flow receipts, the proposed modification would entail a conventional 50/50 split of residual receipts between the City and MidPen, which would ultimately delay full repayment of the City loan. In exchange for the requested modification, staff requested to increase the interest rate to 2% from the original 0% and to extend the affordability covenants maturity date from March 14, 2056 to March 14, 2074, thereby preserving 148 studio apartments serving special needs adults for an additional 18 years.

Preservation of affordable housing helps the City accomplish its goal of maintaining high-quality, livable, neighborhoods and providing housing within for persons of all economic levels. Additionally, the anticipated savings in energy costs and energy consumption will benefit the environment, the community, and its residents.

A summary of the proposed changes to the existing City Note includes the following:

1. **LOAN MATURITY DATE**: The maturity date of the City Loan will be extended from March 14, 2036 to March 14, 2049.
2. **INTEREST RATE**: The City Loan will be amended to bear simple interest at 2%, effective January 1, 2020. Interest will be fixed throughout the term of the Loan.
3. **RESIDUAL RECEIPT SHARE**: 50% to the City and 50% to MidPen Housing Corporation, a California nonprofit corporation.
4. **COMPLIANCE**: Prior to closing, the Sponsor must be in compliance on all of its projects with the City including, but not limited to, rent and income compliance and document submission

compliance.

A summary of the proposed changes to the existing City Covenants includes the following:

1. **TERM:** The term of the City's Agreement Containing Covenants ("Covenant Agreement") will be extended from March 14, 2056 to March 14, 2074 ("Amended Covenant Agreement").
2. **AFFORDABILITY UNIT MIX:** The units shall be restricted as follows: 146 units shall be restricted at 60% AMI and 2 managers' units shall be restricted up to 120% AMI.
3. **AGREEMENT CONTAINING COVENANTS SUBORDINATION:** The Covenant Agreement and the Amended Covenant Agreement will not be subordinated to any senior financing.
4. **ANNUAL MONITORING FEE:** In addition to the changes in the term of the Covenant Agreement, the City will charge an annual monitoring fee of \$111.43 per unit per year pursuant to the Municipal Fee Schedule updated from time to time and shall not exceed 10% per year. The fee shall be paid in advance by June 30 of each year beginning June 30, 2020, above-the-line, before allowable operating expenses, prior to calculation of residual receipts.

ENVIRONMENTAL REVIEW

The action being considered is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15301, Class I Existing Facilities, in that the activity consists of the permitting of a proposed use that involves negligible or minimal expansion of use.

COORDINATION

This report has been coordinated with the City Attorney's Office.

FISCAL IMPACT

There is no additional capital required for the solar rehabilitation and associated legal amendments. Pending approval of \$180,000 of incentives for the solar rehabilitation project, \$100,000 will be funded from the City Affordable Housing Fund and \$80,000 from the Electric Operating Grant Trust Fund. Funding was approved in the FY 2019/20 Adopted Operating Budget.

As noted above, the proposed amendments would ultimately delay full repayment of the City loan to its Housing Successor Fund by approximately \$50,000 per year. However, in exchange the City will be receiving an increased interest rate of 2% from the original 0% (approximately \$60,000 per year paid or accrued), an 18-year extension of the affordability period for 148 low-income units, increased cash flow of approximately \$25,000 due to energy savings related to the solar rehabilitation, and the authority to charge an annual monitoring fee of \$111.43 per unit per year pursuant to the Municipal Fee Schedule (approximately \$15,000 per year).

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> .

RECOMMENDATION

Approve the proposed amendments to the Promissory Note and Covenants with Riverwood Place Associates, L.P. (MidPen Housing Corporation) to extend the affordable housing requirements for 148 rental units within the project located at 5090 Lick Mill Boulevard and to make modifications to the Promissory Note and Covenants as reviewed by the City Attorney for form and consistency.

Reviewed by: Andrew Crabtree, Director of Community Development

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Amendment 1 to Promissory Note
2. Amendment 1 to Agreement Containing Covenants