



STAFF REPORT

Date: March 24, 2015
To: Bryan H. Montgomery, City Manager
From: Paul Abelson, Finance Director
SUBJECT: Adopt a Resolution Authorizing the Assignment and Subordination of a Housing Successor Affordable Housing Project Loan

Approved and Forwarded to the City Council:


Bryan Montgomery, City Manager

Background and Analysis

The Golden Oak Manor senior apartment complex was built as an affordable housing project in 1996 and is now in need of some significant maintenance and upgrades to meet accessibility requirements and to continue to ensure a safe and attractive environment for its residents. When it was originally constructed, the Contra Costa Redevelopment Agency made a loan to the owner/sponsor to finance predevelopment costs in the amount of \$93,000 and construction costs in the amount of \$687,000 (\$780,000 total). The Oakley Redevelopment Agency became owner of the note as successor to the County when it was formed and took over the responsibilities for the Oakley Redevelopment Project Area. Following dissolution of the Oakley Redevelopment Agency, the City became the Housing Successor, and now owns the note. The note accrues interest at 3% and is due in 2054, with all payments deferred until that time. From a security standpoint, the City's loan currently shares first position with a Contra Costa County loan that totaled \$680,000 at origination.

To fund the contemplated improvements, EAH Inc., the controlling entity of the current owner of the project, hopes to refinance the debt on the property, and is asking the City to make some modifications to the existing loan to facilitate the refinancing. The refinancing is expected to be accomplished through a re-syndication of the property to a new EAH Inc.-controlled entity, and the sale of new tax-exempt bonds to a bondholder. Thus, in order keep the refunding costs as low as possible, EAH's proposal is for both the City and County to authorize the assignment of their notes, in their existing form, to the new re-syndicated entity, and subordinate them to the debt from the sale of the bonds. The effects are twofold:

First, the assignment assures that the new entity would continue to bear the obligation of paying the existing notes according to their existing terms. For the City, that means payment in 2054, and interest continuing to accrue at 3%.

Second, the subordination places a new first loan above the City and County loans in priority. By agreeing to allow this new loan to have first position, the project owner should be able to secure much less expensive financing. In addition, this loan will be paid by the time the City's loan becomes due.

The property provides 50 one-bedroom affordable units for seniors and a community room in five interconnected buildings on 1.91 acres. Of chief importance to the City is that approval of the request will extend the existing deed restriction, requiring the property to be used for affordable housing units until 2070 (it is currently restricted until 2051); and the improvements will serve to modernize, improve and maintain the project, enhancing both its appearance and utility to the community, and extending its useful life.

Relative to security, the portion of the financing that would result in the new first loan is currently expected to be approximately \$1.9 million, and the City and County loans are currently valued, including accrued interest, at approximately \$2.3 million. By comparison, the current appraised value of the property is \$4.65 million, and the investment in improvements is expected to be approximately \$2.2 million. Viewed simply, that would mean after the refinancing and construction are completed, the project would have a value of approximately \$6.85 million, and debts equal to or senior to the City's note totaling \$4.2 million. Of course, because of the deed restrictions, the securitized value of the project won't necessarily increase by \$2.2 million; however, considering the long term nature of affordable housing investments and the value the community receives from a well maintained project, the benefits of the proposal are significant – and the financial risk to the City, regarding the repayment of the loan in 2054, is small.

The County is taking the lead with EAH Inc. on the bond issuance and tax credit portion of the transaction, so the City is being asked to demonstrate its support with the following specific actions:

Specific Actions Requested

1. Acknowledgement and Support of a Tax Exempt Bond issuance by the County of Contra Costa.
 - a. While approval by the City Council is not necessary for the County to complete its bond issuance, the County would appreciate an acknowledgement of that offering.
2. Assignment of existing City Debt to the new owner, Golden Oak Manor II, LP (or a variation thereof).
 - a. Golden Oak Manor II, LP will be acquiring the Golden Oak Manor property from the current owner, Golden Oak Manor, L.P., around September, 2015. The acquiring entity will be controlled by EAH Inc.
 - b. This Assignment confirms that the City debt maintains its connection with the actual property, and that the City deed of trust encumbers the new owner, Golden Oak Manor II, LP.
 - c. As of 9/1/15, unpaid principal will be \$ 780,000 and accrued interest will be \$468,698. All of the principal and accrued interest as of the date of close would be assumed by the new owner, and the terms of the note will remain the same, with interest accruing at 3% and payment of outstanding principal and interest in 2054, as described in the current note.

3. Subordination of existing City Debt to a new senior loan.
 - a. This is the same as the current structure, except a new senior mortgage will be in place (as discussed above).

Fiscal Impact

The effect of the refinancing is to leave the City in essentially the same position it is today. The interest rate, loan structure, and term of the loan are exactly the same. The likelihood of the City being repaid (the security) is improved because the project will receive a significant investment to correct deficiencies and make improvements.

Recommendation

Adopt the attached resolution which authorizes the City Manager to execute the documents necessary to facilitate the transaction as described, the most critical of which are to assign the existing City Debt to the new owner, most likely named Golden Oak Manor II, LP, and subordinate the existing City Debt to a new senior loan.

Attachments

1. Resolution
2. Proposed Project Timeline
3. Scope of Work

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OAKLEY AUTHORIZING THE CITY MANAGER TO EXECUTE A LOAN ASSIGNMENT, SUBORDINATION AND OTHER DOCUMENTS NECESSARY TO FACILITATE THE REFINANCING OF GOLDEN OAK MANOR

WHEREAS, the City holds a note on the affordable housing project known as Golden Oak Manor, in the City of Oakley; and

WHEREAS, EAH Inc., the controlling entity of the current Owners of the Golden Oak Project, wish to rehabilitate, modernize and improve the facilities and finance this project through a refinancing of the property, and a re-syndication of the property to a new EAH Inc. controlled entity; and

WHEREAS, EAH Inc. request the City agree to assist in facilitating the refinancing transaction by assigning the City's existing note to the new entity, and agreeing to subordinate the existing note to a new first loan on the property in the amount of approximately \$1.9 million; and

WHEREAS, in exchange for participating in the transaction in this way, the affordable housing deed restriction on the property will be extended from 2051 to 2070, and the property will receive a substantial improvement that will benefit not only its residents, but the surrounding community, as well; and

WHEREAS, Contra Costa County will be taking the lead role in facilitating a tax-exempt bond financing to support the Owners' efforts, and seeks confirmation from the City that it supports the proposed transaction.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Oakley authorizes the City Manager to execute the documents necessary to facilitate this transaction, as proposed. The City Council also acknowledges Contra Costa County's efforts in facilitating a tax-exempt bond issue to support the refinancing transaction, and expresses its support for the issuance of the bonds.

The foregoing resolution was introduced at a regular meeting of the City Council of the City of Oakley held on the 24th day of March 2015 and adopted by the following vote:

AYES:
NOES:
ABSTENTION:
ABSENT:

APPROVED: _____
Doug Hardcastle, MAYOR

ATTEST:

Libby Vreonis, CITY CLERK

Proposed Transaction Timeline

- March 24, 2015 City of Oakley City Council Meeting approving the assignment & subordination of the City Note. (City Action)
- May 15, 2015 Submit Application for Tax Credits and an Allocation of Tax Exempt Bond authorization. (Owner and County Action)
- July 15, 2015 Allocation of Tax Credit Award and Tax Exempt Bond authorization. (Owner and County Action)
- October 7, 2015 Closing of the Refinancing and Construction Funding of Golden Oak Manor. (Owner, City and County Action).
- October 14, 2015 Commence Rehabilitation. (Owner Action)
- July 1, 2016 Completion of Rehabilitation (9 months of construction)

Proposed Scope of Work

While it is still preliminary and EAH has yet to get pricing from a general contractor, they currently anticipate the following improvements in the rehabilitation budget:

1. Site Improvements

Site improvements will focus on repairing the parking lot, adding more security lighting and adding timers for the project's exterior lighting overall, landscaping maintenance, and repairs to the projects irrigation systems, vehicle gates and fencing and drainage systems.

2. Structure Frames & Envelopes

Improvements to all the project's structures include new roofing, repairs for dry rot where there have been water intrusions, repairs to balcony framing, and repainting of the buildings, wood trellises, carports and other exposed wood throughout.

3. Common Areas

Common area improvements include repairing the flooring and remodeling to improve the layout in the community room, laundry room and management office.

4. Mechanical/Electrical/Plumbing

Major mechanical, electrical and plumbing replacements are planned throughout the project, including upgrading lighting in all the units to LED, replacing all PTAC units (heating and cooling) with higher efficiency models, replacing bathroom fans and toilets in all the units, and replacing all the hot water boilers with higher efficiency models and adding solar thermal to improve efficiency further. Plans also include repairing the fire alarm system and upgrading the electrical.

5. Unit Interiors

Interior improvements, as needed throughout the project, include replacing kitchens and baths, flooring and carpeting, repainting and replacement of window blinds.

6. Accessibility/ADA Compliance

Upgrades include bringing public walkways into compliance with current accessibility requirements, and in accessible units, to meet the latest building code requirements.