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DATE: November 21, 2022

TO: Honorable Mayor and Members of the City Council through City Manager

FROM: Karen Shimizu, Housing Manager

SUBJECT: Resolution Authorizing Extension of the City Loan Term for PEP Housing 575 Vallejo Street Senior Apartments and Finding This Item is Not a “Project” Pursuant to CEQA Guidelines Section 15378(b)(4-5)

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### **RECOMMENDATION**

It is recommended that the City Council adopt the attached Resolution authorizing the City Manager to extend for an additional 10 years the term of the \$851,800 Borrower Note executed between the City and PEP Housing 575 Vallejo Street Associates loaning funds for acquisition and development of the Vallejo Street Senior Apartments project at 575 Vallejo Street in Petaluma. The Borrower Note executed in December 1992 and modified in 1993 expires on December 11, 2022.

### **BACKGROUND**

On December 11, 2022, the City entered into an Affordability Restrictions Agreement with Petaluma Ecumenical Projects (PEP Housing, a California nonprofit public benefit corporation, and executed a Borrower Note to loan \$591,800 to PEP to be applied toward the acquisition of property at 575 Vallejo Street in Petaluma for the Vallejo Street Senior Apartments project developed as 575 Vallejo Street Associates. The Borrower Note for \$591,800 was executed on December 11, 1992, with a 30-year term expiring December 11, 2022. The total principal due under this Note was increased to \$851,800 with the advance of an additional \$260,000 as a loan modification and under the original Deed of Trust on October 6, 1993. (Attachment 2)

PEP Housing completed the 45-unit Vallejo Street Senior Apartments development in 1994 and has operated the project continuously since occupancy in accordance with requirements of the December 1992 Affordability Restrictions Agreement with the City including Affordability Covenants, Operation and Maintenance Requirements, Income Certification and Reporting Provisions.

### **DISCUSSION**

The Borrower Note securing the 575 Vallejo Street property defines Interest on the Note at a rate of three percent (3%) per annum, with the original principal amount of \$591,800 earning interest commencing with the original date of the Note in December 1992 until paid in full, and the additional advance of \$260,000 in the Loan Modification Agreement earning interest commencing at the date of the October 6, 1993, until paid in full.

The December 11, 1992 Affordability Restrictions Agreement states in Article 5.1 – Term - that upon expiration of the original thirty (30) year Term of the Borrower Note on December 11, 2022, the City has the option of deferring all payments due under the Borrower Note for an additional ten (10) years at three percent (3%) simple interest, in consideration for which the Developer (575 Vallejo Street Associates) shall agree to extend the provisions of the Affordability Restrictions Agreement. PEP Housing has officially requested to exercise this extension, according to the terms of the loan agreement, with the intention of re-financing the property in the next few years and combining it with their 579 Vallejo Street property.

### **PUBLIC OUTREACH**

This agenda item appeared on the City’s tentative agenda document on November 7, 2022, which was a publicly noticed meeting.

### **COUNCIL GOAL ALIGNMENT**

The extension of the Borrower Note term for the Vallejo Street Senior Apartments project aligns with the City Council Goal “A Safe Community That Thrives,” supporting facilities and design programs that create a healthy, resilient, and engaged community that is prepared, safe, and housed.

This project also is consistent with the City of Petaluma 2020-2024 Consolidated Plan, specifically the goals to:

- Provide housing and services to the low-income populations, including but not limited to, children, seniors and special needs population.
- Improve housing opportunities by preserving existing affordable housing - the extension of the term of the Borrower Note for Vallejo Street Senior Apartments at 575 Vallejo Street supports the current City of Petaluma’s 2015-2023 Housing Element Plan and draft Housing Element Plan for 2024-2032. The project is included in the affordable housing inventory of the City for Very Low- and Low- Income Seniors.

### **CLIMATE ACTION/SUSTAINABILITY EFFORTS**

There is no climate action or sustainability impacts associated with this item.

### **ENVIRONMENTAL REVIEW**

Compliance with California Environmental Quality Act (CEQA) for this item was already completed during the approval of the initial loan. Additionally, the proposed action is exempt from

the requirements of CEQA in accordance with CEQA Guidelines Section 15378, in that extending the loan terms does not meet CEQA's definition of a “project,” because the action does not have the potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and because the action constitutes organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

### **FINANCIAL IMPACTS**

There are no immediate financial impacts for the City, but if the loan terms were to not be extended, PEP Housing would need to repay the principal and interest according to the loan terms by December of 2022.

### **ATTACHMENTS**

1. Draft Resolution
2. Original “Affordability Restrictions Agreement”