



DATE: September 18, 2023

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

FROM: Karen Shimizu, Housing Manager

SUBJECT: Resolution Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority in an Aggregate Principal Amount Not to Exceed \$35,000,000 to Finance an Affordable Rental Housing Facility for the Benefit of Eden Housing, Inc., and Certain Other Matters Relating Thereto

RECOMMENDATION

It is recommended that the City Council adopt the attached Resolution of the City of Petaluma City Council Approving the Issuance of Multifamily Housing Revenue Bonds for the Purpose of Financing the Acquisition and Construction of Downtown River Apartments.

BACKGROUND

The Downtown River Apartments is an existing, occupied 81-unit apartment development with three ground floor retail/commercial spaces located at 35 East Washington Street in Petaluma. The development is adjacent to the Petaluma River to the west and is part of the downtown core. The building has three stories of wood frame construction with stucco siding over a podium garage. One elevator serves upper-level floors. The podium parking contains 129 stalls for residents and commercial tenants. Downtown River is 100% affordable and contains apartments ranging from 1-3 bedrooms. The development also currently contains 5,210 sq. ft. of ground floor commercial space. One of the three commercial spaces is occupied by a restaurant and the other two are vacant. The project includes substantial rehabilitation of the interior and exterior of the building including ventilation and energy efficiency upgrades. Six new units will be added by renovating the under-utilized ground floor commercial space using the recently adopted state Accessory Dwelling Unit (ADU) laws. The financing of this project will result in preserving affordable housing for 80 low-income households and the addition of 6 new units of affordable housing in the City of Petaluma for the next 55 years.

In 2003, the City entered into an Affordability Restrictions Agreement with Downtown River Associates, L.P., a California nonprofit public benefit corporation, and executed two Borrower Notes to Downtown River Associates to be applied toward the Downtown River Apartments affordable family rental development. The first Borrower Note was executed to loan \$3,662,837

from the City Housing Program Fund. The second Borrower Note was executed to loan \$3,400,000 from the City Home Investment Partnership Program. Both of these notes were executed on September 1, 2003. The total principal due under the Home Investment Partnership Note was increased to \$3,466,000 with the advance of an additional \$66,000 under the original Deed of Trust on November 1, 2005. Also on November 1, 2005, the City executed a loan from the Community Development Commission to Downtown River Associates to be applied to the Downtown River Apartments development project. All three loans currently have a maturity date of September 1, 2058.

On January 26, 2023, the Petaluma City Council Adopted Resolution 2023-012 N.C.S authorizing the City Manager to extend, assign, and modify the City's existing regulatory agreements and loans to the new Downtown River Apartments tax credit partnership (Downtown River Two, L.P), which will own the fee interest and improvements of the project. The terms of the City loans will be extended to a new term of 55 years. The accrued interest to the date that the construction financing closes would be capitalized into the new principal amount and the new interest rate would be reset to the **Applicable Federal Rate (AFR)** on the date of construction financing closing, as determined by tax counsel.

DISCUSSION

In June 2022, the City provided a letter to Eden Housing, Inc. acknowledging the intent of Eden Housing to sponsor a new Federal Low Income Housing Tax Credit partnership for the purpose of substantially rehabilitating Downtown River Apartments. An Eden affiliate will control the General Partner in this new tax credit partnership. Eden will be able to demonstrate site control to tax credit and tax-exempt bond financing committees. The projected project schedule includes the following key milestones:

- PBV Award 06/2022
- Soft Funding 03/2023
- CDLAC/TCAC Application 02/2023
- CDLAC/TCAC Allocation 5/2023
- Closing Date 11/2023
- Construction Begin 03/2024
- Construction End 03/2025

The proposed substantial rehabilitation project will prepare the building for the next two decades of service, continuing to provide high quality affordable housing to a significant number of Petaluma families. The current estimate to complete the proposed substantial rehabilitation is approximately \$43,628,994. The goal of the requested City Council action is to complete the financing plan to allow start of the construction of Downtown River Apartments. Eden Housing, Inc. is recommending a financial strategy similar to that utilized in financing previously approved, affordable housing projects utilizing tax-exempt bonds.

The developer has requested that the California Municipal Finance Agency (CMFA) issue bonds for the project. The City has been a member of that Joint Powers Authority since January 2007. There are a series of actions necessary to accomplish this transaction:

(1) The Internal Revenue Code of 1986 requires that the City Council conduct a public hearing known as a TEFRA hearing (Tax Equity Fiscal Reform Act) to authorize the issuance by another agency of tax-exempt housing revenue bonds. The TEFRA hearing is an opportunity for all interested persons to speak or to submit written comments concerning the proposal to issue debt and the nature or location of the proposed project.

(2) A resolution by the City Council approving the issuance of multi-family revenue bonds. The resolution does not commit, approve, or constitute any other action or funding for the project by the City.

No financial impacts: The City’s membership in CMFA bears no cost or other financing obligations but serves as a public acknowledgement by the City of the project financing.

The City will not be a party to the bond financing documents. The debt will not be secured by any form of taxation or by any obligation of either the City or CMFA; neither would the debt represent or constitute a general obligation of either the City or CMFA. Pursuant to the governing California statutes and the JPA Agreement, a member of CMFA is not responsible for the repayment of obligations incurred by CMFA. The debt will be payable solely from amounts received pursuant to the terms and provisions of financing agreements to be executed by Eden Housing, Inc. In the financing documents the developer will also provide comprehensive indemnification to CMFA and its members, including the City.

PUBLIC OUTREACH

This agenda item appeared on the City’s tentative agenda document on August 8, 2023, which was a publicly noticed meeting. The 30-day public notice for the TEFRA hearing was published on August 18th, 2023, in the Argus Courier.

COUNCIL GOAL ALIGNMENT

The proposed council item for the Downtown River 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 proposed Borrower Note modifications also support the current City of Petaluma’s 2015-2023 Housing Element Plan and Approved Housing Element Plan for 2024-2032. The project is included in the affordable housing inventory of the City for Very Low- and Low-Income Families.

CLIMATE ACTION/SUSTAINABILITY EFFORTS

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

ENVIRONMENTAL REVIEW

The proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines Section 15378, as the action does not meet CEQA's definition of a "project," because extending a loan term is not a project as this action constitutes organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment. Further, the building was constructed in 2005 and analysis for compliance with CEQA was established at that time. Moreover, the project would be exempt pursuant to CEQA Guidelines Section 15301 (Existing Facilities).

FINANCIAL IMPACTS

There are no fiscal impacts related to this item. The accrued interest to the date that the construction financing closes would be capitalized in the new principal amount of the loans.

ATTACHMENTS

1. Resolution