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OFFICE OF THE CITY CLERK
OAKLAND

2015 AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Michelle Byrd
Director, HCDD

SUBJECT: Loan Restructuring for Affordable
Housing Projects

DATE: October 15, 2015

City Administrator Approval

Date:

10/28/15

RECOMMENDATION

Staff Recommends that the City Council adopt the following resolutions:

A Resolution Amending Resolution Nos. 89-108, 90-92, 2011-0017, 83921, And 84586 C.M.S. To Modify The Terms Of Existing Loans To The Marcus Garvey Commons Affordable Housing Project At 721 A Wood Street To (1) Allow The New Owner To Assume And Assign The Loans In Order To Consolidate The Loans With Loans For The Hismen Hin-Nu Terrace Project, (2) Extend The Maturity Date To 55 Years, And (3) Change The Interest Rate From 3% To The Applicable Federal Rate

A Resolution Amending Resolution Nos. 84038 And 85471 C.M.S. To Modify The Terms Of A \$1,517,000 Loan To East 14th Street Housing Associates For The Hismen Hin-Nu Terrace Affordable Housing Project To (1) Allow The New Owner To Assume And Assign The Loan In Order To Consolidate The Loan With Loans For The Marcus Garvey Commons Project, (2) Extend The Maturity Date To 55 Years, And (3) Change The Interest Rate From 3% To The Applicable Federal Rate

EXECUTIVE SUMMARY

The proposed amendment to the resolutions associated with the loans for Hismen Hin-Nu Terrace and Marcus Garvey Commons will allow a change to the ownership structure of these properties and facilitate the refinancing and rehabilitation of these projects. The amendment of these resolutions will allow for the assignment, assumption, modification, and consolidation of existing City loans for Hismen Hin-Nu Terrace and Marcus Garvey Commons to enable the new entity to leverage additional financing and tax credit equity. These amendments include:

1. Assignment and assumption of the loans by the new ownership entity, Hin-Nu Garvey Associates, LP, in order to consolidate loans.
2. Change interest rate from three percent simple interest to the Applicable Federal Rate (AFR) for the Agency loans for Marcus Garvey Commons in the amounts of \$334,500 and \$380,500 and Agency loan for Hismen Hin-Nu Terrace in the amount of \$1,517,000. The actual rate is determined at the time of loan closing, is compounding,

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Community and Economic Development Committee
November 10, 2015

and fixed for the term of the loan. The current AFR is 2.58%. Even though the rate is currently low, it would result in higher interest accruals due to the change from simple interest to compounding interest.

3. Extend the maturity dates by 55 years from the date of completion of construction on the \$1,517,000 Agency loan for Hismen Hin-Nu Terrace; \$352,000, \$334,500 and \$352,200 Agency loans for Marcus Garvey Commons; and, \$ 382,200 and the \$200,000 City loan for Marcus Garvey.

The amendment of these resolutions will also enable the project to leverage \$1.8 million additional equity from the acquisition of tax credits to invest in the rehabilitation of the projects.

BACKGROUND / LEGISLATIVE HISTORY

Hismen Hin-Nu Terrace

Hismen Hin-Nu Terrace, located at 2509 International Boulevard, is a 92 unit family affordable rental development with ground floor commercial space. East 14th Street Housing Associates, an affiliate of the East Bay Asian Local Development Corporations (EBALDC), constructed the property in 1995.

The Redevelopment Agency provided \$1,517,000 in loan funds towards the development of the property in 1989 pursuant to Redevelopment Agency Resolution No. 89-19 C.M.S., dated April 11, 1989. The \$1,517,000 loan documents were executed on June 7, 1989, with a 30-year term and six percent simple interest loan, with principal and interest payments deferred until the end of the 30-year term or until the property was sold.

In 1993, Agency Resolutions No. 93-25 C.M.S. dated April 27, 1993 and No. 93-30 C.M.S. dated June 8, 1993 provided for a construction loan guarantee and subordination of the Agency's 1989 Deed of Trust to other lenders. The property did not utilize the construction loan guarantee and has been operational and serving low-income families since 1995. The property's tax credit compliance period expired in 2010, which allowed EBALDC to transition the property from a limited partnership to nonprofit ownership structure.

The City Council adopted Resolution No. 83680 C.M.S. on January 10, 2012, electing to retain and assume the housing assets and functions of the Redevelopment Agency pursuant to Health & Safety Code Section 34176 upon Redevelopment Agency dissolution, which occurred on February 1, 2012. This loan is a housing asset retained and assumed by the City.

Marcus Garvey Commons

Marcus Garvey Commons, located at 721 Wood Street, is a 22-unit family affordable rental development. The property was constructed in 1992 by a joint venture between EBALDC and Jubilee West. Currently, the property is owned by Gosswood Housing Associates, a California limited partnership and affiliate of EBALDC.

The Redevelopment Agency provided two loans to fund the construction of the property. The first loan was closed on August 13, 1990 in the amount of \$334,500 pursuant to Agency

Resolution No. 89-108 C.M.S. dated December 19, 1989 and as amended by Agency Resolution No. 90-91 dated October 16, 1990. The second loan was closed on April 30, 1991 in the amount of \$380,500 pursuant to Agency Resolution No. 90-92 C.M.S., dated October 16, 1990. Both loans initially had a 30-year term and six percent simple interest rate, with principal and interest payments deferred until the end of the term or until the property is sold.

Starting in 2011, Gosswood Associates obtained three loans in an effort to rehabilitate the aging property. The first loan was closed on March 1, 2013 in the amount of \$352,000 pursuant to Agency Resolution No. 2011-0017 C.M.S., dated March 3, 2011. The second loan was closed on August 22, 2013 in the amount of \$382,000 pursuant to City Resolution No. 83921 C.M.S., dated June 19, 2012. The third loan was closed on August 12, 2014 in the amount of \$200,000 pursuant to City Resolution No. 84856 C.M.S., dated March 4, 2014. All loans have a 55-year term and three percent simple interest rate, with principal and interest payments deferred until the end of the term or until the property is sold.

The City Council adopted Resolution No. 83680 C.M.S. on January 10, 2012, electing to retain and assume the housing assets and functions of the Redevelopment Agency pursuant to Health & Safety Code Section 34176 upon Redevelopment Agency dissolution, which occurred on February 1, 2012. This loan is a housing asset retained and assumed by the City.

Hismen Hin-Nu Terrace and Marcus Garvey Commons as One Project

Subsequently, on February 17, 2015, City Staff requested authority from City Council pursuant to City Resolution No. 85416 C.M.S. and Resolution No. 85417 C.M.S to reduce interest rates on older loans to be consistent with newer loans, extend loan terms, and assign the loans to a new ownership entity, Hin-Nu Garvey LP. This action was taken to combine Marcus Garvey Commons and Hismen Hin-Nu Terrace into one project, which allows the new project to leverage funds for both properties through refinance. Conditions set by funding sources require that the City make further modifications to the loans in order to leverage the maximum amount of funding for the joint project. These changes are particularly important in order to rehabilitate the projects through available tax credits.

ANALYSIS AND POLICY ALTERNATIVES

East Bay Asian Local Development Corporation (EBALDC) is undertaking a resyndication of the tax credits and leveraging tax-exempt bonds in order to rehabilitate Hismen Hin-Nu Terrace and Marcus Garvey Commons. These properties are existing affordable housing projects in the City's portfolio. The Hismen Hin-Nu property was built in 1994 and the Marcus Garvey property was built in 1992. Both require substantial rehabilitation. Due to its small size, the Marcus Garvey project cannot support refinancing costs as a stand-alone project.

As part of the new transaction, the two projects will be combined under one common financing structure and ownership entity. The City loans require restructuring as part of the combination of the two projects into one project and in order to enable the new financing to fully leverage available funds.

A loan extension is necessary to make the City loan term coterminous with the California Tax Credit Allocation Committee's (CTCAC) regulatory period of 55 years. The term begins after the completion of construction.

Amending the interest rate from three percent to the Applicable Federal Rate (AFR) enables the project to leverage \$1.8 M additional equity from the acquisition tax credits. The AFR is being used as an index. The Internal Revenue Service publishes it for the purposes of determining a threshold interest rate that distinguishes a loan from a gift. The current AFR is 2.58%. The interest that accrues at AFR is compounding. Therefore, the City loan will accrue more interest than it would with the three percent simple interest rate over the term of the loan as estimated in the chart below (**Table 1**). In order to simplify the calculation for the purpose of comparison, **Table 1** presents both the compound and simple interest methods.

Table 1: Marcus Garvey/Hismen Hin-nu – Compound vs. Simple Interest Comparison

	Projected Balance 12/3/15			Projected Balance - end of 55 year term*					
	Principal	Accrued Interest	Total Principal and Interest	3% simple Interest			AFR (2.58%, compounding interest)		
Principal				Accrued Interest	Total Principal and Interest	Principal	Accrued Interest	Total Principal and Interest	
Marcus	616,984	455,150	1,072,134	616,984	1,144,216	1,761,200	616,984	3,744,457	4,361,441
Hismen	1,517,000	2,194,130	3,711,130	1,517,000	4,700,973	6,217,973	1,517,000	13,579,877	15,096,877
Total	2,133,984	2,649,280	4,783,264	2,133,984	5,845,189	7,979,173	2,133,984	17,324,334	19,458,318
* Assuming no repayments of principal or interest during the 55 year term									

FISCAL IMPACT

There is no fiscal impact to this change beyond that described in the analysis in **Table 1** above. No new loans will be originated. According to the financial projections, the compounding interest rate will result in higher balance due to the City over time. The City will continue to be paid from residual receipts under either scenario, which means that payments are contingent on property cash flow. The City will receive a one percent loan fee on loans that have yet to be funded. Additionally, the City will be paid a loan modification fee and a subordination fee per the City's Master Fee Schedule.

PUBLIC OUTREACH / INTEREST

EBALDC has held two meetings with residents at Marcus Garvey Commons regarding the scope of repairs and to introduce them to the contractor. Tenants were provided an opportunity to provide input. EBALDC has plans to have similar meetings at Hismen Hin-Nu Terrace starting in November 2015.

COORDINATION

The City Attorney's Office was consulted to ensure legality of resolutions. The Controller's Bureau and Residential Lending staff were consulted to confirm existing loan principal and interest balances.

SUSTAINABLE OPPORTUNITIES

Economic: *This action will enable the rehabilitation of Hismen Hin-Nu Terrace and Marcus Garvey Commons as well as potentially increase the City's residual receipts loan repayments over time due the compounding interest rate. Providing families with affordable housing increases a household's disposable income to be spent on other goods and services in Oakland, and the extension of the affordability term will guarantee that this benefit is provided through the end of the 55 years regulatory term.*

Environmental: *Hismen Hin-Nu Terrace is located along the transit rich International Boulevard corridor. Its proximity to mass transit enables residents to reduce dependency on automobiles and further reduce any adverse environmental impacts of development. Preservation and rehabilitation of affordable housing decreases the use of raw materials and the impacts of new construction.*

Social Equity: *Affordable housing is a means of achieving greater social equity. Both Hismen Hin-Nu and Marcus Garvey provide affordable rental housing for low and very low-income residents. Social services, such as financial literacy training, are a component of EBALDC's programs for residents, and further build social equity.*

CEQA

The recommended actions contained herein do not constitute a project under CEQA.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends that the City Council adopt the following resolutions:

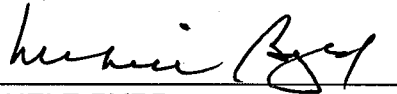
Resolution Amending Resolution Nos. 89-108, 90-92, 2011-0017, 83921, And 84586c.M.S. To Modify The Terms Of Existing Loans To The Marcus Garvey Commons Affordable Housing Project At 721 A Wood Street To (1) Allow The New Owner To Assume And Assign The Loans In Order To Consolidate The Loans With Loans For The Hismen Hin-Nu Terrace Project, (2) Extend The Maturity Date To 55 Years, And (3) Change The Interest Rate From 3% To The Applicable Federal Rate

Resolution Amending Resolution Nos. 84038 And 85471 C.M.S. To Modify The Terms Of A \$1,517,000 Loan To East 14th Street Housing Associates For The Hismen Hin-Nu Terrace Affordable Housing Project To (1) Allow The New Owner To Assume And Assign The Loan In Order To Consolidate The Loan With Loans For The Marcus Garvey

Commons Project, (2) Extend The Maturity Date To 55 Years, And (3) Change The Interest Rate From 3% To The Applicable Federal Rate

For questions regarding this report, please contact Norma Thompson, Housing Development Manager, at (510) 238-7137.

Respectfully submitted,



MICHELE BYRD
Director, Housing and Community Development
Department

Reviewed by:
Norma Thompson
Manager, Housing Development Services

Prepared by:
Antoinette Pietras and Christina Morales,
Housing Development Coordinators
Housing Development Services

FILED
OFFICE OF THE CITY CLERK
OAKLAND

Approved as to Form and Legality


Deputy City Attorney

2015 OCT 29 PM 2:15
OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S.

RESOLUTION AMENDING RESOLUTION NOS. 89-108, 90-92, 2011-0017, 83921, AND 84586 C.M.S. TO MODIFY THE TERMS OF EXISTING LOANS TO THE MARCUS GARVEY COMMONS AFFORDABLE HOUSING PROJECT AT 721 A WOOD STREET TO (1) ALLOW THE NEW OWNER TO ASSUME AND ASSIGN THE LOANS IN ORDER TO CONSOLIDATE THE LOANS WITH LOANS FOR THE HISMEN HIN-NU TERRACE PROJECT, (2) EXTEND THE MATURITY DATE TO 55 YEARS, AND (3) CHANGE THE INTEREST RATE FROM 3% TO THE APPLICABLE FEDERAL RATE

WHEREAS, in 1990, the Redevelopment Agency of the City of Oakland loaned \$334,500 to a joint venture between East Bay Asian Local Development Corporation (“EBALDC”), and Jubilee West, for the development of the 22 unit Marcus Garvey Commons affordable housing project at 721 A Wood Street, at an interest rate of six percent, per Redevelopment Agency Resolution No. 89-108 C.M.S., which will come due on August 13, 2020; and

WHEREAS, in 1991, the Redevelopment Agency of the City of Oakland loaned \$380,500 to Gosswood Housing Associates, L.P., for the Marcus Garvey Commons affordable housing project, at an interest rate of six percent, per Redevelopment Agency Resolution No. 90-92 C.M.S. , which will come due on April 30, 2021; and

WHEREAS, in 2011, the Redevelopment Agency of the City of Oakland loaned \$352,000 to Gosswood Housing Associates, L.P., for the Marcus Garvey Commons affordable housing project at an interest rate of three percent, per Redevelopment Agency Resolution No. 2011-0017 C.M.S., which will come due on March 3, 2066; and

WHEREAS, the Oakland City Council adopted Resolution No. 83680 C.M.S. on January 10, 2012, electing to retain and assume the housing assets and functions of the Redevelopment Agency pursuant to Health & Safety Code Section 34176 upon Redevelopment Agency dissolution; and

WHEREAS, the Redevelopment Agency dissolved on February 1, 2012; and

WHEREAS, the Redevelopment Agency loans to the Marcus Garvey Commons affordable housing project are housing assets retained and assumed by the City; and

WHEREAS, in 2013, the City of Oakland loaned \$382,000 to Gosswood Housing Associates, L.P., for the Marcus Garvey Commons affordable housing project, at an interest rate of three percent, per Oakland City Council Resolution No. 83921 C.M.S. , which will come due on August 22, 2068; and

WHEREAS, in 2014, the City of Oakland loaned \$200,000 to Gosswood Housing Associates, L.P., for the Marcus Garvey Commons affordable housing project, at an interest rate of three percent, per Oakland City Council Resolution No. 84856 C.M.S. , which will come due on August 12, 2069; and

WHEREAS, EBALDC is forming a new ownership entity and financial structure that include both Marcus Garvey Commons and the 92 unit Hismen Hin-Nu Terrace affordable housing project in order to leverage funds that will mutually benefit both properties; and

WHEREAS, EBALDC is pursuing a refinance and resyndication opportunity for Marcus Garvey Commons jointly with Hismen Hin-Nu Terrace in order to receive tax credit equity that will be used towards project rehabilitation; and

WHEREAS, an extension of the loan maturity date to 55 years from construction completion is necessary for the project to comply with tax credit requirements and receive additional equity; and

WHEREAS, the City recognizes that consolidating the loans for this project and Hismen Hin-Nu Terrace, extending the loan maturity dates, and modifying the interest rates to the Applicable Federal Rate will ensure the long term financial health and preservation of Marcus Garvey Commons; now, therefore, be it

RESOLVED: That the City Council hereby amends Resolution Nos. 89-108, 90-92, 2011-0017, 83921, and 84586 C.M.S to authorize the amendment of the existing affordable housing loans to the Marcus Garvey Commons affordable housing project to reduce the interest rate to the Applicable Federal Rate; and be it

FURTHER RESOLVED: That the City Council hereby authorizes a further amendment to the loans to extend the loan maturity date to 55 years after the date of construction completion; and be it

FURTHER RESOLVED: That the City Council authorizes the existing loans on the project to be assigned to and assumed by Hin-Nu Garvey Associates LP, an affiliate of the original borrower, or its affiliate; and be it

FURTHER RESOLVED: That loans assumed by Hin-Nu Garvey Associates, LP may be consolidated with the loan to the Hismen Hin-Nu Terrace project; and be it

FURTHER RESOLVED: That the City Council authorizes the City Administrator to modify other loan terms as necessary to effectuate the assignment and consolidation; and be it

FURTHER RESOLVED: That the City Administrator or her designee is authorized to negotiate and enter into amendments to the loan documents, and to take any other actions with respect to the existing loans to the Marcus Garvey Commons affordable housing project consistent with this Resolution and its basic purposes.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID, and PRESIDENT GIBSON
MCELHANEY

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____

LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2015 OCT 29 PM 2:15

Approved as to Form and Legality


Deputy City Attorney

OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C.M.S.

RESOLUTION AMENDING RESOLUTION NOS. 84038 AND 85471 C.M.S. TO MODIFY THE TERMS OF A \$1,517,000 LOAN TO EAST 14TH STREET HOUSING ASSOCIATES FOR THE HISMEN HIN-NU TERRACE AFFORDABLE HOUSING PROJECT TO (1) ALLOW THE NEW OWNER TO ASSUME AND ASSIGN THE LOAN IN ORDER TO CONSOLIDATE THE LOAN WITH LOANS FOR THE MARCUS GARVEY COMMONS PROJECT, (2) EXTEND THE MATURITY DATE TO 55 YEARS, AND (3) CHANGE THE INTEREST RATE FROM 3% TO THE APPLICABLE FEDERAL RATE

WHEREAS, in 1989, the Redevelopment Agency of the City of Oakland loaned \$1,517,000 to an affiliate of the East Bay Asian Local Development Corporation ("EBALDC"), East 14th Street Housing Associates, LP, for the development of the 92 unit Hismen Hin-nu Terrace affordable housing project, per Redevelopment Agency Resolution No. 89-19 CMS; and

WHEREAS, the Oakland City Council adopted Resolution No. 83680 C.M.S. on January 10, 2012, electing to retain and assume the housing assets and functions of the Redevelopment Agency pursuant to Health & Safety Code Section 34176 upon Redevelopment Agency dissolution; and

WHEREAS, the Redevelopment Agency dissolved on February 1, 2012; and

WHEREAS, this loan is a housing asset retained and assumed by the City; and

WHEREAS, in 2012, Oakland City Council Resolution No. 84038 C.M.S. authorized an amendment to the loan to (1) reduce the six percent interest rate to three percent simple interest; (2) extend the loan maturity date from June 7, 2019, to June 7, 2043; and (3) convert the loan into a residual receipts loan; and

WHEREAS, in 2015, Oakland City Council Resolution No. 85417 C.M.S. authorized an amendment to the loan to extend the loan maturity date to December 31, 2071; and

WHEREAS, EBALDC is forming a new ownership entity and financial structure that

includes both Hismen Hin-Nu Terrace and the 22 unit Marcus Garvey Commons affordable housing project at 721 A Wood Street in order to leverage funds that will mutually benefit both properties; and

WHEREAS, the tax credit compliance period expired in 2010, and EBALDC is pursuing a loan restructuring and refinance opportunity in order to ensure the long term financial health of Hismen Hin-nu Terrace jointly with Marcus Garvey Commons; and

WHEREAS, an extension of the loan maturity date to 55 years from construction completion is necessary for the project to comply with tax credit requirements and receive additional equity; and

WHEREAS, the City recognizes that consolidating the loans, extending the loan maturity date and modifying loan terms will ensure the long term financial health of Hismen Hin-nu Terrace and EBALDC; now, therefore, be it

RESOLVED: That the City Council hereby amends Resolution Nos. 84038 and 85471 C.M.S to authorize an amendment of the \$1,517,000 loan to East 14th Street Housing Associates, LP, for the development of the Hismen Hin-nu Terrace affordable housing project to reduce the three percent interest rate to the Applicable Federal Rate; and be it

FURTHER RESOLVED: That the City Council hereby authorizes a further amendment to the loan to extend the loan maturity date to 55 years after the date of construction completion; and be it

FURTHER RESOLVED: That the City Council authorizes the existing loan on the project to be assigned to and assumed by Hin-Nu Garvey Associates LP, an affiliate of the original borrower, or its affiliate; and be it

FURTHER RESOLVED: That loans assumed by Hin-Nu Garvey Associates, LP may be consolidated with loans to the Marcus Garvey Commons project; and be it

FURTHER RESOLVED: That the City Council authorizes the City Administrator to modify other loan terms as necessary to effectuate the assignment and consolidation; and be it

FURTHER RESOLVED: That the City Administrator or her designee is authorized to negotiate and enter into documents amendments to the loan documents, and to take any other actions with respect to this loan consistent with this Resolution and its basic purposes.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL WASHINGTON, GALLO, GUILLEN, KALB, KAPLAN, REID and PRESIDENT GIBSON MCELHANEY

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California