

CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY ADMINISTRATOR
2006 SEP 16 AM 9:56

TO: Office of the City Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: September 26, 2006

RE: **A Resolution Amending Resolution No. 63120 C.M.S. Authorizing a \$1,350,000 Housing Development Grant (HDG) Loan to FHP Housing Associates for the Foothill Plaza Rental Project Located at 6311 Foothill Boulevard to Change the Terms of the Loan from a 30 Year Amortizing Loan to a 55 Year Residual Receipts Loan**

SUMMARY

The City Of Oakland currently has a \$1,350,000 HUD Housing Development Grant (HDG) program loan with FHP Housing Associates, a nonprofit affiliate of Oakland Community Housing, Inc., for the Foothill Plaza Apartments located at 6311 Foothill Boulevard. The original loan to Foothill Plaza Partnership was made pursuant to City Council Resolution No. 63120 C.M.S. on June 25, 1985. Last year FHP Housing Associates (FHPHA) acquired the 54 unit rental development, and assumed the HDG loan, with the intention to rehabilitate Foothill Plaza Apartments and to expand the affordability of the project so that at least 53 of the units on the property are kept affordable for an additional 55 years to households at or below 60% of Area Median Income. The current outstanding principal balance of the HDG loan is \$1,029,583. On March 7, 2006, the City Council authorized a \$1,600,000 development loan as part of the financing needed to proceed with the rehabilitation. FHPHA is seeking additional funding from the State Multifamily Housing Program (MHP), an extremely competitive process, and from other public and private sources. FHPHA has determined that it is necessary to convert the amortizing HDG loan to a residual receipts loan with a term of 55 years both to compete successfully for the MHP funding and to keep the project feasible over the long run.

Based on its analysis of FHPHA's request, staff is recommending that the HDG loan be restructured to change the terms from an amortizing loan due in 30 years to a residual receipts loan due in 55 years. Staff is further recommending that this restructuring be authorized by City Council prior to the MHP application deadline of October 10, 2006 so that an enforceable commitment for this restructuring can be included in the MHP application for this project. The commitment would be contingent upon obtaining commitment of permanent financing sufficient for project financing feasibility.

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FISCAL IMPACT

On March 10, 2006, FHPHA acquired the property from Foothill Plaza Partners (FPP). In addition, FHPHA, the City and FPP entered into an Assumption Agreement with FHPHA assuming the amortizing HDG loan of \$1,350,000 which had a \$1,054,053 principal balance and a 3% interest rate. The loan is current as of September 1, 2006 with a balance of \$1,029,583. Monthly payments of \$5,691.65 have been deposited to HUD CDBF Fund (2108), Municipal Lending Organization (88939), HODAG Revenue Loans Project (G06340). The term of the existing amortized 30 year loan will expire in 2017. Restructuring the loan to a residual receipts loan with a 3% interest rate and extending the term for 55 years will mean that the loan will not be repaid as soon as anticipated. The new residual receipts loan terms will only require payments be made to the extent the building generates excess cash flow, with the balance of principal and interest due at the end of the 55-year term. However, the restructuring of this loan allows the developer to apply for competitive State funds and leverage our funding. Furthermore, the development will provide 53 affordable units for 55 years.

BACKGROUND

The City first provided the federal HDG funding to this affordable housing project in 1986 pursuant to Council Resolution No. 63120 C.M.S. FHPHA acquired the property and assumed the loan from FPP in March, 2006. With the City's commitment to restructuring of the loan, the FHPHA is anticipated to score sufficient points to be awarded State Multifamily Housing Program funding and will be able to complete the much needed rehabilitation of the complex. As a condition of making the changes, the City will require that 53 of the 54 units will be kept affordable for that same 55 years.

KEY ISSUES AND IMPACTS

The City indicated its desire to preserve and enhance the Property as affordable housing by consenting to the transfer of the fee interest in the property to FHPHA and by awarding affordable housing funds in the amount of \$1.6 million in last year's Notice Of Funding Availability (NOFA) FHPHA's original plan included acquisition/ rehabilitation of the property. The developer is applying for \$2.5 million in permanent funding from the State of California's MHP funds and in order to be competitive, the HDG loan must be restructured to match the terms of the City's development loan, a residual receipts loan. The project's operating budget cannot support continuing hard debt service payments on the HDG loan after March 2007 at the projected affordable rental rates.

This may be the last round of MHP funding. Unless the State housing bond is approved on the November 2006 ballot, there will be no future rounds of MHP funding beyond this October round. It is critical that the developer submit a competitive application in this round to increase their chances of receiving this key project funding source. To have any assurance that the project will

receive sufficient funding, the project must submit an application that includes enforceable funding commitments from all funders to cover the total cost of the project.

SUSTAINABLE OPPORTUNITIES

In order to incorporate sustainable development principles pursuant to City Council Resolution No. 74678, C.M.S. adopted on December 1, 1998, developers are required to submit a *Sustainability Statement* outlining the economic, environmental, and social equity benefits of their projects. As part of its City NOFA funding application last year, FHPHA submitted a sustainability plan. Staff will continue to encourage FHPHA to follow and, when possible, broaden the sustainability plans for this project.

- **Economic:** The substantial rehabilitation contemplated for this project will expand the affordable housing inventory in Oakland and generate construction and professional services contracts.
- **Environmental:** As an existing urban infill development located along a major thoroughfare, the development provides housing that is not dependent on constant use of the automobile and is an alternative to urban sprawl. In addition, FHPHA intends to use green materials as much as possible during the rehabilitation.
- **Social Equity:** The quality of life for tenant families and for the neighborhood will be enhanced by the rehabilitation anticipated for this project and by the improved management.

DISABILITY AND SENIOR CITIZEN ACCESS

All housing development projects that receive federal funds are required to construct and set aside units to be occupied by persons with disabilities (Federal Section 504 regulations). This project received federal funds in 1986 and was built in compliance with requirements that were in place at the time. The State's Title 24 and the Americans with Disabilities Act require consideration of persons with disabilities in design and construction of housing. In all rental unit housing types, those requirements include accessible units and facilities. FHPHA is required to devise a strategy to effectively market these housing units to the disabled community and present this strategy as part of their Affirmative Fair Marketing Plan.

RECOMMENDATION(S) AND RATIONALE

Staff is recommending that the City Council authorize amending Resolution No. 63120 C.M.S., thereby restructuring the terms of the HDG loan to a residual receipts loan, with a 3% interest rate due in 55 years, contingent on the project receiving all the additional funding needed for the project.

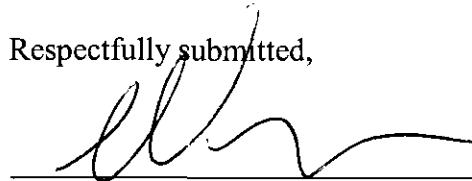
ALTERNATIVE RECOMMENDATION(S)

Council could choose not to authorize the restructuring of the loan or not to restructure it now. Without the loan being restructured, it will not be possible for the project to receive sufficient points to be funded under the State Multifamily Housing Program. This would mean that FHPHA would need to seek another public source of funding to make up the difference of approximately \$2.5 million anticipated from the MHP program. The project operating budget cannot support the continuing hard debt service payment on the HDG loan after the project's rents are restructured to be 100% affordable. Restructuring the HDG loan will reduce the overall debt service. Ongoing principal and interest payment on the HDG loan will result in insufficient net operating income to support a permanent loan in an amount necessary for project feasibility with low income affordable rents. It will not be possible to obtain a permanent loan without the restructuring of the HDG loan.

ACTION REQUESTED OF THE CITY COUNCIL

Staff is recommending that the City Council approve the attached resolution authorizing the restructuring of the City's \$1,350,000 HDG loan to FHP Housing Associates for Foothill Plaza Apartments to change the terms from an amortizing loan due in 30 years to a residual receipts loan due in 55 years, contingent upon FHPHA obtaining enforceable funding commitment sufficient to make the project feasible.

Respectfully submitted,



DANIEL VANDERPRIEM
Director of Redevelopment, Economic
Development and Housing

Reviewed by: *SKR*
Sean Rogan, Deputy Director of Housing and
Community Development


Prepared by:
Marge L. Gladman, Housing Development
Coordinator
Housing & Community Development Division

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE:


OFFICE OF THE CITY ADMINISTRATOR

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OFFICE OF THE CLERK
APPROVED AS TO FORM AND LEGALITY:


Deputy City Attorney
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OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S.

A RESOLUTION AMENDING RESOLUTION NO. 63120 C.M.S. AUTHORIZING A \$1,350,000 HOUSING DEVELOPMENT LOAN TO FHP HOUSING ASSOCIATES FOR THE FOOTHILL PLAZA RENTAL PROJECT LOCATED AT 6311 FOOTHILL BOULEVARD TO CHANGE THE TERMS OF THE LOAN FROM A 30 YEAR AMORTIZING LOAN TO A 55 YEAR RESIDUAL RECEIPTS LOAN

WHEREAS, pursuant to Resolution No. 63120 C.M.S. adopted on June 25, 1985, the City Council authorized a \$1,350,000 affordable housing development loan to Foothill Plaza Partnership for the construction of Foothill Plaza at 6311 Foothill Boulevard; and

WHEREAS, Resolution No. 63120 C.M.S. provided that the loan would be amortized over a 30-year term; and

WHEREAS, on March 10, 2006, FHP Housing Associates ("Owner"), a nonprofit affiliate of Oakland Community Housing, Inc., acquired Foothill Plaza and assumed the loan, which had a balance of approximately \$1,054,053; and

WHEREAS, Owner proposes to rehabilitate Foothill Plaza and has requested that the City change the terms of the loan to more effectively compete for the additional needed funding from outside sources and to make the project financially feasible over the long term; now, therefore, be it

RESOLVED: That the City Council hereby amends Resolution No. 63120 C.M.S. to change the terms of the loan for Foothill Plaza from an amortized loan to a residual receipts loan, and from a 30-year term to a 55-year term; and be it

FURTHER RESOLVED: That the above amendment is contingent upon the Owner securing other funding commitments sufficient to obtain project feasibility to the satisfaction of the City Administrator; and be it

FURTHER RESOLVED: That the City Council hereby authorizes the City Administrator and his or her designee as agent of the City to negotiate and execute an amendment to the loan documents and other documents, and take any other action with respect to the loan and the amendment consistent with this Resolution and its basic purpose.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2006

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, AND PRESIDENT DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

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