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OAKLAND

2018 MAY 31 PM 5:01

## AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Michele Byrd  
Director, HCD

**SUBJECT:** Harrison Hotel & San Pablo Hotel  
Loan Term Changes

**DATE:** May 25, 2018

City Administrator Approval

Date:

5/31/18

### RECOMMENDATION

Staff Recommends That The City Council Adopt The Following Pieces Of Legislation:

- 1) Resolution Amending Resolution Nos. 70597 And 80571 C.M.S. To Extend The Maturity Date And Authorize The Reduction Of The Interest Rate Of The Existing Loan To The Harrison Hotel Affordable Housing Project;
- 2) Resolution Amending The Existing Affordable Housing Loan For The San Pablo Hotel Project At 1955 San Pablo Avenue To (1) Approve The Assignment And Assumption Of The Loan From San Pablo Hotel Associates To San Pablo Associates II, LP, (2) Terminate The City Regulatory Agreement And Amend And Extend The Former Redevelopment Agency Regulatory Agreement, (3) Extend The Loan Term, And (4) Reduce The Interest Rate To The Applicable Federal Rate;
- 3) Resolution Authorizing The Grant Of Federal Home Funds To Provide Operating Support And Technical Assistance To The Community Housing Development Corporation, Dignity Housing West, Inc., Construction Resource Center, And Friendship Community Development Corporation In An Aggregate Amount Not To Exceed \$315,000; and
- 4) Resolution Appropriating An Additional \$166,000 To The Housing Predevelopment Revolving Loan And Grant Program.

### EXECUTIVE SUMMARY

Staff recommends that the City Council adopt multiple Resolutions that would authorize the following affordable housing items, listed below:

- Authorization to amend the existing affordable housing loans to the Harrison Hotel Project in order to extend the loan maturity dates and reduce the interest rates.
- Authorization to amend the existing affordable housing loans to the San Pablo Hotel Project in order to change the ownership entity, terminate the City Regulatory

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CED Committee  
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Agreement dated July 3, 1991, amend and restate the former Redevelopment Agency Regulatory Agreement dated August 31, 1994, and reduce the interest rate to Applicable Federal Rate for the former Redevelopment Agency loan. The loan term changes are necessary to ensure the preservation and rehabilitation of the affordable housing project.

- Authorization to grant HOME CHDO Operating Funds to Community Housing Development Corporation, Dignity Housing West, Inc., Construction Resource Center and Friendship Community Development Corporation in the aggregate amount of \$315,000. The funds will assist staff with the capacity to develop affordable housing projects in the community.
- Authorization and appropriation for up to \$166,000 in additional funding for the Housing Predevelopment Loan and Grant Program from the Affordable Housing Trust Fund. The funds will provide up to three additional predevelopment loans.

## **BACKGROUND/LEGISLATIVE HISTORY**

### ***Harrison Hotel***

The Harrison Hotel, an 81-unit affordable housing project, is located at 1415 Harrison Street in Downtown Oakland. The property was originally built in 1914 and later acquired and renovated by an affiliate of Resources for Community Development (RCD) in 1993. A substantial renovation is now required to ensure the property's long-term viability. In order to maximum funds for the rehabilitation, loan modifications are required to the existing City of Oakland loan, including reducing the interest rate and extending the loan term.

In 1993, per Resolution No. 70597 C.M.S. the City provided a loan in the amount of \$1,678,000 for a rehabilitation of the property when Harrison Hotel Associates, an affiliate of RCD, acquired the property. This loan was amended in 2007, per Resolution No. 80571 C.M.S., dated May 15, 2007, to extend the loan term through December 31, 2062. This amendment was required in order to refinance the property at that time (the City did not provide additional funds in 2007).

### ***San Pablo Hotel***

The San Pablo Hotel, a 144-unit affordable housing project, is located at 1955 San Pablo Avenue. The City provided a grant in the amount of \$2,200,000 to Housing for Independent People, Inc. in 1991. In 1992, the project received a \$1,400,000 loan from the Oakland Redevelopment Agency that was assumed by San Pablo Hotel Associates and increased up to \$1,700,000. In 1994, the Project received a bridge loan from the Oakland Redevelopment Agency in the amount of \$1,600,000. The East Bay Asian Local Development Corporation (EBALDC) was substituted in as a general partner in 1994. EBALDC, as the developer, is planning to refinance the San Pablo hotel to finance a much needed rehabilitation of the Project.

### ***Community Housing Development Organization***

The Housing and Community Development Department (HCD) recommended funding awards for three affordable housing development projects that applied for funds in response to the City's 2017-19 Notice of Funding Availability for Affordable Rental and Ownership Housing (the "original NOFA") and the Notice of Funding Availability for Preservation and Rehabilitation of Existing Affordable Housing (the "Rehabilitation NOFA"). The City is recommending for approval approximately \$315,000 in the Department of Housing and Urban Development (HUD) Community Housing Development Organization (CHDO) operating subsidies for the three sponsors associated with those projects.

### ***Predevelopment Loan Program***

The Housing and Predevelopment Revolving Loan and Grant Program (PDRLP) was created on May 5, 1987, through Resolution No. 64573 C.M.S. The funds for the program are nearly depleted and staff anticipates receiving applications for an additional \$150,000 for loans under the PDRLP. However, without additional appropriations, the requests cannot be approved.

At the December 18, 2017 City Council meeting, Resolution No. 87017 C.M.S. was approved, that authorized the transfer of \$166,000 in Affordable Housing Trust Fund to the Predevelopment Loan Program. Unfortunately, the Resolution omitted language appropriating said funds from the Affordable Housing Trust Fund to the Predevelopment Revolving Loan Program (PDRLP).

The Resolution has been revised to include appropriation language in order for funds to be transferred to the Program for approved use.

## **ANALYSIS AND POLICY ALTERNATIVES**

### ***Harrison Hotel***

Twenty-five years after RCD acquired the property, a substantial renovation is now required to ensure the property's long-term quality. The proposed renovation includes seismic upgrades, elevator repairs, common area improvements, energy efficiency upgrades and if budget allows, adding kitchenettes to the units. RCD is proposing to renovate and refinance the Harrison Hotel as part of a scattered-site refinancing and tax credit application. RCD plans to utilize new funds committed from the State's Affordable Housing and Sustainable Communities (AHSC) Program, the Federal Home Loan Bank's Affordable Housing Program, and the Oakland Housing Authority, as well as a new bank loan and four percent tax credit equity. In order to maximize funding, the refinancing of the Harrison Hotel will be combined with Empyrean Towers. By combining the ownership structure of the properties and undertaking a simultaneous renovation, RCD is able to leverage more tax credit and private debt than would be possible by renovating either property individually. In order to re-syndicate and refinance the property for the substantial rehabilitation, the City must modify its existing loan terms including reducing the interest rate and extending the loan term.

### ***San Pablo Hotel***

Twenty-six years after EBALDC acquired the property, a substantial renovation is now required to ensure the property's long-term viability. The proposed renovation will include, among other items, updating of systems, including, a new roof, new trash chutes, modernization of both elevators, a new fire panel and updated fire safety systems, accessibility upgrades, unit modernization, and common area upgrades. EBALDC is planning to re-syndicate in order to get new tax credit equity to pay for the extensive rehabilitation. In order to re-syndicate and refinance the property for the rehabilitation, the City must modify its existing loan terms, including terminating the City Regulatory Agreement dated July 1991, amending the former Redevelopment Agency Regulatory Agreement, reducing the interest rate and extending the loan terms on the City loan.

### ***Community Housing Development Organizations (CHDO) Awards***

Over the past several years, the City of Oakland has set aside five percent of its HUD HOME grant to provide operating support grants to City-designated CHDO's. The City would like to use this funding to assist Oakland's CHDOs to build their capacity to develop and manage vital affordable housing stock in the City. Per the HOME program requirements, a CHDO receiving operating support funding has either received HOME funds for an affordable housing project or expects to receive HOME funds for such purposes within 24 months of receipt of operating support funding. Community Housing Development Corporation (CHDC) and Dignity Housing West, Inc. (DHW) have been designated CHDO's by the City and are recommended to receive HOME funds within the next 24 months. Construction Resource Center and Friendship Community Development Corporation are currently applying for CHDO status and depending on approval, may or may not receive operating funds.

### ***Predevelopment Loan Program***

The City has administered its Predevelopment Loan Program since 1987, and has provided loans to approximately 47 projects in Oakland. The program provides predevelopment loans up to \$50,000 per project. This program provides developers with additional working capital to perform detailed predevelopment activities, including but not limited to, feasibility analysis, environmental review and preliminary architectural design work, which encourages more affordable housing in Oakland. Since redevelopment was eliminated, the predevelopment program has become an important source of funding. There are several pending predevelopment loan requests in the queue and funds are needed to support these requests.

## **FISCAL IMPACT**

### ***Harrison Hotel***

The fiscal impacts of the loan modifications of the Harrison Hotel are minimal. In 1993, the City executed a loan with Harrison Hotel Associates, an affiliate of RCD, in the amount of \$1,678,000. In order to obtain the tax credit financing for a substantial rehabilitation of the

Harrison Hotel and acquisition and substantial rehabilitation of Empyrean Towers, this loan must be amended to reduce the interest rate to zero percent.

Furthermore, the City awarded \$4,688,000 to the joint Harrison Hotel/Empyrean Hotel affordable housing project and expects to close this financing in October 2018, at the same time as the City modifies the existing loan documents.

### ***San Pablo Hotel***

The fiscal impact of the loan modification of the San Pablo Hotel is minimal and standard for any refinance success.

The loan in the amount of \$1,700,000 from the former Redevelopment Agency currently carries approximately \$2,498,186 in interest. This loan must be amended to reduce the interest rate of the \$1,700,000 loan from six percent to the Applicable Federal Rate (AFR). The rate is announced each month by the Internal Revenue Service and currently ranges from 2.3 percent to 4 percent for June 2018.

The new partnership will assume the loans from the City in order to receive federal tax credits and a tax exempt bond loan from a conventional lender (to be determined at a later date).

The developer is not seeking additional rehabilitation funds from the City with this request. However, an application for funding may be forthcoming during the City's competitive Notice of Funding Availability (NOFA) process in the fall of 2019.

### ***Community Housing Development Organization (CHDO) Funding***

The City has set aside five percent of its HUD HOME grant to provide operating support grants to City designated Community Housing Development Organizations (CHDOs). The City is seeking an aggregate amount of \$315,000 to assist CHDC, DHW, Construction Resource Center and Friendship (pending CHDO approval) with their affordable housing projects, as well as improving their management of projects located in Oakland. Funds are available in HUD-HOME Fund (2109), Housing and Community Development Organization (89929), and CHDO Operating Project (1000394). These funds shall be transferred to the CHDO program in Fund (2109), Organization (89929), and Project (1000248).

### ***Predevelopment Loan Program***

Funding for the Predevelopment Loan and Grant Program is nearly depleted. By adding an additional \$166,000, the program will be able to provide approximately three to four additional predevelopment loans this year. There is \$166,000 available in the Affordable Housing Trust Fund (1870) over the current budget cycle (FY 2018-19). Staff recommends appropriating these funds to replenish the Predevelopment Loan and Grant Program.

## **PUBLIC OUTREACH/INTEREST**

### ***Harrison Hotel***

RCD has performed considerable public outreach related to the upcoming substantial rehabilitation of the Harrison Hotel as required by State and local financing applications. The joint Harrison Hotel/Empyrean Hotel project received a NOFA funding award in November 2017 and as part of that application process, RCD performed outreach to its neighbors to inform them of the proposed substantial rehabilitation. Furthermore, RCD has been the owner of the property since 1993 and has excellent relationships with its neighbors.

### ***San Pablo Hotel***

EBALDC has performed, at a minimum, the required public outreach related to the upcoming rehabilitation of the San Pablo Hotel, per the State and local financing applications. The current residents of the Project may be temporarily relocated during the renovation, however, will return as soon as the rehabilitation is completed. The developer is subject to adhere to the relocation requirements under the recorded Regulatory Agreement.

### ***Community Housing Organization Development***

The three applicants conducted public outreach related to their applications submitted under the 2017-19 NOFA process.

### ***Predevelopment Loan Program***

Applicants that move forward with their projects are required to hold at least one meeting with an established neighborhood organization prior to applying for further financing.

## **COORDINATION**

City Housing and Community Development staff, in addition to the City Attorney's Office and Budget Office collaborated to prepare this Agenda Report.

## **PAST PERFORMANCE, EVALUATION and FOLLOW-UP**

### ***Harrison Hotel***

City staff visits the Harrison Hotel each year to perform a monitoring visit. Staff checks on the physical quality of the units and common areas and performs a financial analysis to ensure the long-term financial health of the property.

### ***San Pablo Hotel***

Per the requirements under the City's recorded Regulatory Agreements, the housing asset monitoring staff conduct regular monitoring visits. The visit is two-fold, 1) to ensure the physical health of the building and; 2) to review the financials to ensure the long-term financial health and viability of the Project.

### ***Community Housing Organization Development***

Both CHDC and DHW, have met the City's threshold performance requirements of a non-profit, owning and managing affordable housing in the City of Oakland. Construction Resource Center and Friendship, are relatively new non-profits and as a condition of financing, may be required to partner with an experienced non-profit.

### ***Predevelopment Loan Program***

The Program has been in existence since 1987 and has funded over 47 affordable housing projects. Prior to obtaining financing, most non-profit corporations require financial assistance to cover predevelopment costs, for that reason, the City considers it a necessary Program to create and preserve affordable housing. Since development costs continue to escalate, more and more affordable housing developers are submitting applications for funding. Currently, the Program needs an appropriation of funds to provide pending loan approvals.

## **SUSTAINABLE OPPORTUNITIES**

***Economic:*** These actions will improve the financial strength of the Harrison Hotel and San Pablo Hotel, as well as increase the likelihood of residual receipts loan payments to the City, which can be utilized for other affordable housing activities. Providing families with affordable housing frees up household 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 June 2073.

***Environmental:*** The Harrison Hotel and San Pablo Hotels are located in transit-rich downtown Oakland. Its proximity to mass transit enables residents to reduce dependency on automobiles and further reduce any adverse environmental impacts of development.

***Social Equity:*** Affordable housing is a means of achieving greater social equity. The Harrison Hotel provides affordable rental housing for low and very low-income residents in the downtown area.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Adopt The Following Pieces Of Legislation:

- 1) Resolution Amending Resolution Nos. 70597 And 80571 C.M.S. To Extend The Maturity Date And Authorize The Reduction Of The Interest Rate Of The Existing Loan To The Harrison Hotel Affordable Housing Project;
- 2) Resolution Amending The Existing Affordable Housing Loan For The San Pablo Hotel Project At 1955 San Pablo Avenue To (1) Approve The Assignment And Assumption Of The Loan From San Pablo Hotel Associates To San Pablo Associates II, LP, (2) Terminate The City Regulatory Agreement And Amend And Extend The Former Redevelopment Agency Regulatory Agreement, (3) Extend The Loan Term, And (4) Reduce The Interest Rate To The Applicable Federal Rate;
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- 4) Resolution Appropriating An Additional \$166,000 To The Housing Predevelopment Revolving Loan And Grant Program.

For questions regarding this report, please contact Meghan Horl at 510-238-6171 or Antoinette Pietras at 510-238-6177.

Respectfully submitted,



MICHELE BYRD  
Director, Housing & Community Development  
Department

Prepared by:  
Meghan Horl  
Housing Development Coordinator IV

Antoinette Pietras,  
Acting Housing Development Manager

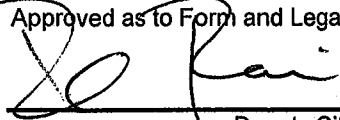
Item: \_\_\_\_\_  
CED Committee  
June 12, 2018



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OAKLAND

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Approved as to Form and Legality:



Deputy City Attorney

## OAKLAND CITY COUNCIL

RESOLUTION No. \_\_\_\_\_ C.M.S.

**RESOLUTION AMENDING RESOLUTION NOS. 70597 AND 80571  
C.M.S. TO EXTEND THE MATURITY DATE AND AUTHORIZE THE  
REDUCTION OF THE INTEREST RATE OF THE EXISTING LOAN TO  
THE HARRISON HOTEL AFFORDABLE HOUSING PROJECT**

**WHEREAS**, Resolution No. 70597 C.M.S., adopted on November 30, 1993, authorized an affordable housing loan in the amount of \$1,678,000 to Harrison Hotel Associates for rehabilitation of the Harrison Hotel; and

**WHEREAS**, Resolution No. 80571 C.M.S., adopted on May 15, 2007, extended the loan term in order to refinance the property; and

**WHEREAS**, the City Council wishes to extend the maturity date of the loan and allow for a reduction in its interest rate; now, therefore, be it

**RESOLVED**: That the City Council hereby amends Resolution Nos. 70597 and 80571 C.M.S. to extend the maturity date of the existing Harrison Hotel loan to September 15, 2073, and authorize the City Administrator in her discretion to reduce the interest rate on the loan based on the needs of the project; and be it

**FURTHER RESOLVED**: That the City Administrator is authorized to negotiate and execute an amendment to the loan documents for this loan, and take whatever other action is necessary 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, GIBSON MCELHANEY, GUILLEN, KALB, KAPLAN,  
AND PRESIDENT REID

NOES -

ABSENT -

ABSTENTION -

ATTEST: \_\_\_\_\_

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