



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Erik L. Soliván
Maria Öberg

SUBJECT: See Below

DATE: January 6, 2025

Approved 

Date: 1/14/25

COUNCIL DISTRICT: 1, 2, 7

SUBJECT: Approval of Exception to the City Council Multifamily Housing Revenue Bond Policy and Authorizing the Finance Department to Hold Tax Equity and Fiscal Responsibility Act of 1986 Public Hearings

RECOMMENDATION

Adopt a resolution:

- (a) Authorizing exceptions to the City Council's Multifamily Housing Revenue Bond Policy, Council Policy 1-16, for the issuance of Multifamily Housing Revenue Bonds due to special circumstances, thereby allowing the California Municipal Finance Authority to issue the bonds for the following developments:
 - (1) Paseo Senter I, located at 1898 Senter Road;
 - (2) Moreland Apartments, located at 4375 Payne Avenue; and
 - (3) Eden Palms Apartments, located at 5398 Monterey Road.

- (b) Authorizing the Director of Finance to hold the Tax Equity and Fiscal Responsibility Act public hearings for Paseo Senter I, Moreland Apartments, and Eden Palms Apartments upon the receipt of California Debt Limit Allocation Committee debt allocations and the California Municipal Finance Agency's recycled bond allocations.

SUMMARY AND OUTCOME

Approval of the staff recommendation in this memorandum will (1) allow the California Municipal Finance Authority (CMFA) to issue tax-exempt bonds to finance the

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resyndication¹ of Paseo Senter I, Moreland Apartments, and Eden Palms Apartments, resulting in the renovation of 422 affordable homes; and (2) authorize the Director of Finance to hold the Tax Equity and Fiscal Responsibility Act (TEFRA) public hearings. **Table 1** lists the three developments discussed in this memorandum with their total unit count. The funding accessed is CMFA's recycled bond program, a financing product currently unavailable from the City.

Table 1: Summary of Developments and Unit Count

Development	Total Units
Paseo Senter I	117
Moreland Apartments	160
Eden Palms Apartments	145
Total	422

BACKGROUND

This memorandum is recommending an exception to City Council Policy 1-16: Multifamily Housing Revenue Bond Policy² (Bond Policy), to allow three developments to proceed with the CMFA as the bond issuer for the following reasons.

- 1) Developer's desire to participate in CMFA's recycled bond program; and/or
- 2) No City subordinate funding.

ANALYSIS

The Bond Policy states the City shall be the issuer of all bonds financing multifamily housing rental developments within the City, with specified exceptions. One of these exceptions allows an alternate issuer to issue bonds for an affordable housing development within the City when there are special circumstances merited by the needs of the development and the financing.

¹ Resyndication is a common way for affordable housing developments to extend the life of the development by completing capital improvements. The California Tax Credit Allocation Committee compliance period is for a term of 30 years. When an owner of a tax credit property finishes the first 15 years of the compliance period with the California Tax Credit Allocation Committee, during the remaining 15 years, they have the option of rehabilitating the property and getting new tax credits based on how much they will spend on capital improvements. Resyndication is a secondary allocation of Low-Income Housing Tax Credits on a qualified development that has previously served as a Low-Income Housing Tax Credits housing development.

² City Council Policy 1-16: Multifamily Housing Revenue Bond Policy, Web link: <https://www.sanjoseca.gov/home/showpublisheddocument/50379/637146963305870000>

Special Circumstances Supporting a Bond Policy Exception

The three developments discussed in this memorandum fit into one or more of the following circumstances:

1) CMFA's Recycled Bond Program

CMFA established a Tax-Exempt Multifamily Housing Bond Recycling Program in 2021, which has helped facilitate the financing of additional affordable rental housing in the State of California without obtaining new private activity bond volume cap. Recycled bond volume cap becomes available when borrowers prepay construction bonds that previously received tax-exempt private activity bond volume cap.

Paseo Senter I, Moreland Apartments, and Eden Palms Apartments are seeking to apply for recycled bonds to be more competitive in their respective California Debt Limit Allocation Committee (CDLAC) applications. CDLAC scoring allows for additional points for leveraged soft resources. Recycled bonds, public funds, soft loans with below-market interest rates, and operating subsidies are considered soft resources and can contribute up to eight of the maximum 120 points available for a development under CDLAC's evaluation criteria scoring, which represents 6.67% of the total available points. All the developments on CDLAC's final recommendation list for resyndication activity received 110 points. The City does not have a program to issue recycled bonds.

2) No City Subordinate Funding

The Bond Policy was implemented, in part, to protect the City's subordinate debt. The City does not have any subordinate funding in connection with Moreland Apartments or Eden Palms Apartments. The City has existing subordinate funding with Paseo Senter I.

Paseo Senter I

Paseo Senter I is an existing affordable housing development, placed in service in 2008 and located at 1898 Senter Road in Council District 7. The development is restricted by a City and a California Department of Housing and Community Development affordability restriction, with the state's affordability restriction taking precedence. The City's affordability restriction will expire in July 2063. The California Department of Housing and Community Development's restriction will mature in June 2064. The City administered a \$6,943,800 permanent loan for Paseo Senter I in 1995, and the loan has a current outstanding principal balance of \$6,932,630. Core Affordable Housing, LLC,

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as the developer, applied for tax-exempt bond financing to acquire and resyndicate the existing development and then complete its necessary capital improvements.

On December 21, 2005, the City entered into an agreement with U.S. Bank National Association to issue bonds in a par amount of up to \$6,142,200 for Series 2005B-1 and up to \$23,805,400 for Series 2005B-2 for a total authorized amount of \$29,947,600. Over the years, through conversion and monthly amortization, most of the bonds were paid off. The outstanding bond as of June 30, 2024, was the Series 2005B-1 in the amount of \$3,573,423.

Core Affordable Housing, LLC is seeking to resyndicate the development and applied for the August 27, 2024, CDLAC application round, requesting a total of \$21,900,000 in tax-exempt bonds supplemented by \$4,300,000 in recycled bonds through CMFA. Paseo Senter I received an allocation at the CDLAC meeting on December 11, 2024. The capital improvement work is expected to commence in June 2025 and be completed in June 2026.

Upon the bond issuance for resyndication, the outstanding City bonds (Series 2005B-1) will be redeemed. The developer intends to retain the City's permanent loan to term. The City's loan will be subordinate to bonds issued by CMFA.

Moreland Apartments

Moreland Apartments was placed in service in 1982 and is located at 4375 Payne Avenue in Council District 1. The Reliant Group Management, LLC, is the developer planning to apply for tax-exempt bond financing to acquire and resyndicate the existing development and then complete capital improvements.

The Reliant Group Management, LLC applied for the August 27, 2024, CDLAC application round, and requested a total of \$55,894,252 in tax-exempt bonds and \$10,000,000 in recycled bonds. Moreland Apartments received an allocation at the CDLAC meeting on December 11, 2024. The capital improvement work is expected to commence in February 2025 and be completed in February 2026.

Eden Palms Apartments

Eden Palms Apartments was placed in service in 1996 and is located at 5398 Monterey Road in Council District 2. Eden Housing is the developer planning to apply for tax-exempt bond financing to resyndicate the existing development and then complete capital improvements. An existing City Affordability Restriction Agreement on the development is in place and is set to expire in January 2067. The City administered a \$6,000,000 permanent loan for Eden Palms Apartments in 1997, but Eden Palms Apartments repaid this loan as of July 2017.

Eden Housing applied for the August 27, 2024, CDLAC application round and requested a total of \$59,626,930 in tax-exempt bonds and roughly \$8,000,000 in recycled bonds from CMFA. Eden Palms Apartments was not on the final recommendations list issued by CDLAC on November 27, 2024, and anticipates applying for a bond allocation for the same amount of tax-exempt bonds and recycled bonds in an upcoming 2025 CDLAC application round.

City Requirements for Inclusion in the Bond Regulatory Agreement

For the resyndication developments awarded by CDLAC, the Housing Department reserves the right to request that the City be named as an administrator and party to the bond regulatory agreement to give the City a larger monitoring role than is common on conventional CMFA bond issuances. If named as an administrator, Housing Department staff will conduct building inspections, ongoing compliance monitoring, and annual Fair Housing reviews.

EVALUATION AND FOLLOW-UP

This memorandum presents the set of recommendations related to the City Council's approval of an exception to the City Council Bond Policy 1-16 for the issuance of multifamily housing revenue bonds. If approved, this action will facilitate the issuance of tax-exempt revenue bonds by CMFA and requires no further action from the City Council.

If awarded an allocation, the TEFRA public hearings will need to be held prior to the issuance of the bonds, which will occur within approximately six months. Staff will include these TEFRA public hearings in a separate report to the City Council referencing the authorizing resolution so that they will be reported as part of the documentation submitted under San José Municipal Code Section 5.06.450.

COST SUMMARY/IMPLICATIONS

Approving this recommendation would result in the City receiving a \$5,000 fee from each development for holding the TEFRA public hearing. Approval would also result in the City forgoing bond administration fees for these transactions. CMFA will contribute approximately \$45,303 of its issuance fee to the City to be deposited into the City's Housing Trust Fund. **Table 2** provides a comparison between the CMFA fee schedule and the City fee schedule that is foregone.

Table 2: CMFA and City Fee Schedule Comparison

Development	Estimated Bond Amount	CMFA Issuance Fee	CMFA Annual Fee ³	Foregone City Issuance Fee	Foregone City Annual Monitoring Fee
Paseo Senter I	\$21,900,000	\$48,450	\$10,950	\$79,750	\$27,375
Moreland Apartments	\$55,894,252	\$65,447	\$27,947	\$164,736	\$69,867
Eden Palms Apartments	\$59,626,930	\$67,313	\$29,813	\$174,067	\$74,534
Total	\$137,421,182	\$181,210	\$68,710	\$418,553	\$171,776

The Bond Policy outlines the parameters for the administrative fees charged by the City, including the issuance fee, an amount equal to the sum of (a) 0.50% of the first \$10,000,000 issued and (b) 0.25% of the remaining par, or the value of the bonds, issued and the annual monitoring fee in an amount equal to 0.125% of the original principal loan amount which may be reduced at conversion, subject to a minimum fee of \$7,500, for the 55-year term of the regulatory period. Based on these parameters and a total collective issuance of \$137,421,182 for the three developments discussed in this memorandum, the City will forgo approximately \$418,553 in issuance fees and \$171,776 in annual bond monitoring fees. These fees would be collected only if the City were issuing these bonds.

COORDINATION

This memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office.

PUBLIC OUTREACH

This memorandum will be posted on the City Council agenda website for the January 28, 2025 City Council meeting.

³ The CMFA Annual Fee is comparable to the City of San José's Annual Monitoring Fee. The CMFA Annual Fee covers compliance monitoring and administrative expenses.

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COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

CEQA

Paseo Senter I, Moreland Apartments, and Eden Palms Apartments: Categorically Exempt, File No. ER24-246 (Exemption for Housing Rehabilitation Projects), CEQA Guidelines Section 15301, Existing Facilities.

PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

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Housing Director

/s/

Maria Öberg
Finance Director

The principal authors of this memorandum are Francisco Montes, Development Officer, Lucy Ma, Development Officer, Bianca Alvarez, Development Officer, Jimmy Lin, Senior Developer Officer, Michael Jun, Senior Development Officer, and Shelsy Bass, Senior Development Officer. For questions, please contact Qianyu Sun, Deputy Director, Debt and Treasury Management of the Finance Department at Qianyu.Sun@sanjoseca.gov or Banu San, Deputy Director, Housing Department, at Banu.San@sanjoseca.gov.