

RESOLUTION NO. _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE (A) CONSENTING TO THE REFINANCING AND SUBORDINATION OF THE EXISTING CITY LOAN AND CITY GRANT FOR THE EL PASEO APARTMENTS, A 98-SINGLE ROOM OCCUPANCY (SRO) EFFICIENCY UNIT AFFORDABLE APARTMENT DEVELOPMENT LOCATED AT 4980 HAMILTON AVENUE TO A NEW FANNIE MAE-BACKED SENIOR LOAN IN THE AMOUNT OF APPROXIMATELY \$6,500,000, INCLUDING THE WITHDRAWAL OF NO MORE THAN \$2,282,170 IN REFINANCING PROCEEDS BY THE PROPERTY'S OWNER, EL PASEO APARTMENTS, L.P., AN AFFILIATE OF THE SAN JOSE-BASED NONPROFIT DEVELOPER FIRST COMMUNITY HOUSING; (B) ALLOWING THE OWNER TO RECEIVE HALF OF THE REFINANCING PROCEEDS IN THE AMOUNT OF \$1,141,355; AND (C) AUTHORIZING THE DIRECTOR OF HOUSING TO NEGOTIATE AND EXECUTE AMENDMENTS TO THE CITY'S EXISTING LOAN DOCUMENTS ON THE PROJECT, IN ORDER TO ENABLE REFINANCING OF THE PROJECT'S SENIOR LOAN AND PARTIAL REPAYMENT OF THE CITY LOAN IN THE AMOUNT OF \$1,141,355

WHEREAS, El Paseo ("El Paseo" or "Project") is a 98 Single Room Occupancy (SRO) efficiency affordable apartment located at 4980 Hamilton Avenue built in 2004, and developed by First Community Housing ("FCH" or "Sponsor") that is the sponsor of El Paseo Apartments, L.P., a California limited partnership ("Borrower" or "Owner"); and

WHEREAS, of the 98 apartment units, ten (10) units are required to be affordable to households at 30% of the Area Median Income ("AMI"), eighty-seven (87) units are affordable to households at 50% AMI and one manager's unit shall remain unrestricted; and

WHEREAS, the Project was originally financed with: equity derived from the sale of Low-Income Housing Tax Credits of \$5,312,000; a City of San José (“City”) loan of \$4,019,475; a City conditional grant of \$999,200, and a senior City-issued bond loan of approximately \$9,600,000; and

WHEREAS, the City’s loan has a current balance of \$6,427,882.62 as of April 27, 2020 and is paid by 70% of annual net cash flow after payment of expenses, bears 4% simple interest, and is due in full at maturity on April 1, 2044; and

WHEREAS, both the City’s loan and grant were funded with former Redevelopment Agency of the City of San José property tax allocation revenues per California Health & Safety Code Sections 33486 and 33670 (“20% Funds”), and the City’s affordability restriction expires in November 2058; and

WHEREAS, in February 2020, FCH requested City’s consent to refinance the Project in order to take advantage of the current low interest rates and to augment its financial strength. The proposal is to obtain a new senior loan of \$6.5 million from Fannie Mae, which would be used to pay off the existing senior loan balance of approximately \$3,745,000, to pay fees and closing costs, make minor repairs to the Property, increase replacement reserves as required by the new senior lender in the amount of \$472,290 and make a loan payment of \$1,141,355 to the City; and

WHEREAS, FCH would hold \$1,141,355 in refinancing proceeds to meet investors’ liquid net worth requirements that will have the effect of strengthening FCH’s financial position in order to bolster financing on sixteen forthcoming San José affordable developments and cover staff and predevelopment costs on these deals; and

WHEREAS, the proposed new senior loan of \$6.5 million will bear an interest rate of approximately 3.24% with a maturity of 10 years; and

WHEREAS, the City would need to subordinate its existing deed of trust to the new Fannie Mae-backed senior loan, and would need to slightly delay the exercise of its remedies in the case of noncompliance under its affordability restriction through the senior lender's enforcement of a standstill agreement; and

WHEREAS, the City underwriting guidelines are silent regarding cash out as part of a refinance without City Council approval which has prompted staff to seek City Council's approval of such proposed refinance; and

WHEREAS, the City desires to: (a) consent to the refinancing and subordination of the existing City loan and the City grant for the Project to a new Fannie Mae-backed senior loan in the amount of approximately \$6,500,000, including the withdrawal of no more than \$2,282,170 in refinancing proceeds by the Owner; (b) allow the Owner to receive half of the refinancing proceeds in the amount of \$1,141,355; and (c) negotiate and execute amendments to the City's existing loan documents on the Project, in order to enable refinancing of the Project's senior loan and partial repayment of the City loan in the amount of \$1,141,355, as set forth in the Memorandum from Housing Department dated April 28, 2020.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

- a. City hereby consents to the refinancing and subordination of the existing City loan and the City grant for the El Paseo Apartment, a 98 single room occupancy (SRO) efficiency unit affordable apartment development located at 4980 Hamilton Avenue to a new Fannie Mae-backed senior loan in the amount of approximately \$6,500,000, including the withdrawal of no more than \$2,282,170 in refinancing proceeds by the Property's owner, El Paseo Apartments, L.P., an

affiliate of the San José-based nonprofit developer First Community Housing;
and

- b. El Paseo Apartments, L.P. and/or its developer First Community Housing are hereby allowed to receive half of the refinancing proceeds in the amount of \$1,141,355; and
- c. The Director of Housing Department is hereby authorized to negotiate and execute amendments to the City's existing loan documents on the Project, in order to enable refinancing of the Project's senior loan and partial repayment of the City loan in the amount of \$1,141,355.

ADOPTED this ____ day of _____, 2020, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk