



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT:** SEE BELOW

**DATE:** October 2, 2018

Approved

Date

10-2-18

**COUNCIL DISTRICT: 9**

**SUBJECT: APPROVAL OF CONDUIT FINANCING FOR THE LINCOLN GLEN  
MANOR FOR SENIOR CITIZENS -- TEFRA HEARING**

## RECOMMENDATION

- a. Hold a Tax Equity and Fiscal Responsibility Act (“TEFRA”) Hearing for the issuance of tax-exempt revenue bonds by the California Municipal Finance Authority (“CMFA”) in an amount not to exceed \$7,000,000 (“Bonds”) to finance the conversion of twelve independent living units to seventeen memory care units and to make certain other facility capital improvements, all located at its multi-level rental, continuing care retirement community at 2671 Plummer Avenue in San Jose, California for Lincoln Glen Manor for Senior Citizens, a nonprofit public benefit corporation and an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 (the “Corporation”).
- b. Consider adoption of a resolution approving the issuance of the Bonds, by the CMFA in an aggregate principal amount not to exceed \$7,000,000 to finance: (1) the conversion of twelve (12) independent living units to seventeen (17) memory care units and to make certain other capital improvements to the multi-level rental, continuing care retirement community located at 2671 Plummer Avenue in San Jose, California and (2) certain expenses incurred in connection with the issuance of Bonds (collectively, the “Project”).

## OUTCOME

Conducting a TEFRA hearing and adoption of the proposed resolution will allow the Lincoln Glen Manor for Senior Citizens Project to move forward with its current financing plan for the Project.

## **BACKGROUND**

The CMFA has provided the City staff with the information in this memorandum related to the proposed issuance of the Bonds, including the Project to be financed by the Bonds as described below.

Lincoln Glen Manor for Senior Citizens, a nonprofit, public benefit corporation and an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 (the "Borrower"), has requested that CMFA participate in the issuance of one or more series of Bonds in an aggregate principal amount not to exceed \$7,000,000 to finance the Project.

Conceived in 1965 by the Lincoln Glen Church Congregation, Lincoln Glen Manor was built in 1969. At that time, the community felt a responsibility to care for their seniors. Thus, the concept of Lincoln Glen Manor was instituted as a caring community for seniors adjacent to Lincoln Glen Church.

Located among six acres in San Jose's Willow Glen neighborhood, Lincoln Glen Manor is dedicated to enhancing the lives of seniors by providing four levels of care.

The CMFA was established in 2004 under the California Government Code as a statewide Joint Powers Authority to provide local governments and private industry access to tax-exempt low-interest financing to achieve public benefit goals. The CMFA is unique in that it shares a portion of its fees directly with its member communities. The City is an Associate member of the CMFA.

## **ANALYSIS**

Lincoln Glen Manor for Senior Citizens, a nonprofit public benefit corporation and an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 (the "Corporation"), has requested that the California Municipal Finance Authority issue one or more series of revenue bonds in an aggregate principal amount not to exceed \$7,000,000 to finance the Project consisting of conversion of twelve independent living units to seventeen memory care units and to make certain other facility capital improvements, all located at its multi-level rental, continuing care retirement community at 2671 Plummer Avenue in San Jose, California.

Bond proceeds will be used principally to renovate and convert the remaining 12 units independent living units in South Manor into 17 additional beds for the treatment of Alzheimer's and dementia patients. The Corporation also plans to use Bond proceeds to finance certain other capital improvements.

Eight units located in the Corporation's South Manor building will be converted into a memory care unit that contains 11 licensed beds. These units will be separated by doors with magnetic combination locks to differentiate the care for residents who suffer from dementia. Once

completed, the memory care unit will contain 5 private rooms and 3 semi-private rooms. A dedicated memory care unit dining room and commons area will be constructed, adding 1,456 gross square feet to the current space and providing a separate egress-controlled space to serve memory care unit residents. The remaining 12 units in South Manor will remain Independent Living units whose residents will continue to enjoy full access to the entire campus.

The Board of Directors of the California Foundation for Stronger Communities, a California non-profit public benefit corporation, acts as the Board of Directors for CMFA. CMFA shares a portion of its issuance fees with its member communities and donates a portion of issuance fees to the Foundation for the support of local charities. It is expected that 25% of the issuance fee will be contributed by CMFA to the City's General Fund, to be used for any lawful purpose. The Borrower will be the beneficiary of a California Foundation for Stronger Communities charitable donation through a 25% reduction in issuance fees.

Pursuant to Section 147(f) of the Internal Revenue Code of 1986 (the "Code"), the issuance of the Bonds by CMFA requires the City's approval because the projects are located within the territorial limits of the City. The proposed bond issuance by CMFA is classified as a private activity for purposes of the Code. A qualified private activity bond is a bond issued to fund a project for a private entity which meets certain requirements under the Internal Revenue Code in order for the interest received by the bondholder to be excluded from gross income for federal income tax purposes.

In order for the interest on the bonds to be excluded from the gross income of the owner of the bonds (i.e. tax-exempt), an "applicable elected representative" of the government unit must approve the issuance of the bond after a public hearing ("TEFRA Hearing"). Because CMFA's Board of Directors is not an elected body, the Code provides that a governmental unit with elected representatives and jurisdiction over the area in which the project to be financed is located, in this case, the City Council of San José, is an "applicable elected representative" with respect to the bond issue. The Council's approval of the action items is not approval of the Project for any other purpose. The City has no obligation for the repayment of the Bonds to be issued by CMFA.

The TEFRA Hearing is scheduled to be held as part of the action items on the October 16, 2018 Council Agenda and serves as a method of notifying the community of CMFA's intent to approve and issue tax-exempt private activity bonds for the Project. A hearing will also provide interested individuals or parties the opportunity to provide testimony on any matters related to such potential bond issue, including the nature and location of the Project to be financed. The public hearing is required to have a 14-day public notice period. In compliance with the notice period, the public hearing notice will be published in the *San José Post Record* on or about October 2, 2018, announcing the time and location of the public hearing. The City Council, however, has the discretion to open the hearing and then continue to a later date.

Federal tax law limits the types of projects that may be funded with tax-exempt bond proceeds since the interest earned on such bonds is exempt from federal taxation. The purpose of a

HONORABLE MAYOR AND CITY COUNCIL

October 2, 2018

**Subject: Conduit Financing for the Lincoln Glen Manor Project -- TEFRA Hearing**

Page 4

TEFRA public hearing is to identify a project which may subsequently receive funding from the sale of private activity tax-exempt bonds. A hearing will also provide interested individuals or parties the opportunity to provide testimony on any matters related to such potential bond issues, including the nature and location of the project.

### **EVALUATION AND FOLLOW-UP**

This action will facilitate the issuance of tax-exempt revenue bonds by CMFA and requires no follow-up with the City Council.

### **COMMISSION RECOMMENDATION/INPUT**

This item does not require any input from a board or commission.

### **PUBLIC OUTREACH**

The TEFRA hearing to be held as part of the action items on the October 2 2018 Council Agenda is a method of notifying the community of CMFA's intent to issue tax-exempt private activity bonds for this Project. The public hearing notice will be published on or before October 2, 2018 in the *San Jose Post Record*, announcing the time and location of the public hearings. This memorandum will be posted on the City's Council Agenda website by October 5, 2018 for the October 16, 2018 Council Meeting.

### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office.

### **CEQA**

Exempt, File No. PP18-087, CEQA Guidelines Section 15301, Existing Facilities.

/s/

JULIA H. COOPER  
Director of Finance

For questions please contact, Joe Gray, Debt Administrator at (408) 535-7032