COUNCIL AGENDA: 09/17/19
FILE: 19-797
ITEM: 4.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: August 26, 2019

Approved D. DSyl Date 9/5/19

COUNCIL DISTRICT: 10

SUBJECT: APPROVAL OF THE ISSUANCE OF TAX-EXEMPT MULTIFAMILY HOUSING REVENUE NOTE AND THE LOAN OF NOTE PROCEEDS, APPROVAL OF RELATED DOCUMENTS, AND MODIFICATION OF AN EXISTING LOAN FROM THE CITY OF SAN JOSE FOR THE VISTA PARK I DEVELOPMENT

RECOMMENDATION

Adopt a resolution of the City Council:

(a) Authorizing the issuance of tax-exempt multifamily housing revenue note designated as "City of San José Multifamily Housing Revenue Note (Vista Park I Apartments), Series 2019C in a principal amount not to exceed $18,150,896 (the "2019C Note");
(b) Approving a loan of the proceeds of Series 2019C to Vista Park I, L.P. a California limited partnership sponsored by EAH, Inc., a California nonprofit corporation, to finance the acquisition and rehabilitation of the 83-unit multifamily rental housing Development known as Vista Park I Apartments located at 3955 Vistapark Drive in San José;
(c) Approving in substantially final form the Funding Loan Agreement, Construction and Permanent Loan Agreement, and Regulatory Agreement and Declaration of Restrictive Covenants (the "Series 2019C Note Documents");
(d) Authorizing and directing the City Manager, Director of Housing, Director of Finance, the Assistant Director of Finance, or their designees, to execute and, deliver the Series 2019C Note Documents and related documents as necessary; and
(e) Authorizing the Director of Housing to negotiate and execute amendments to existing City loan documents for a loan in an amount of up to $5,000,000 relating to the Vista Park I Apartments consistent with the terms described below.

OUTCOME

Approval of the recommended actions will enable the issuance of a tax-exempt multifamily housing revenue note for the purpose of financing the acquisition and rehabilitation of Vista Park I Apartments, an existing 83-unit apartment rental property for seniors located at 3955 Vistapark Drive in San José, CA 95136.

Eighty-two one-bedroom units at the Development will remain affordable for an additional period of at least 55 years. One one-bedroom manager's unit will be unrestricted. The Development will continue to serve very low-income families with current annual incomes up to 50% of Area Median Income ("AMI") adjusted for family size. Approval of the recommended section will also enable the City to "re-cast" its existing loan with an interest rate that will be lower than the current 4% an extended loan term, and a loan to value ratio ("LTV") that exceeds one hundred percent.

EXECUTIVE SUMMARY

Vista Park I Apartments is an existing affordable housing development constructed and completed in 1999 by EAH, Inc. (the "Developer"). The City provided financial assistance to the Developer in the form of a subordinate loan (the "City Loan"). As of August 1, 2019, the City Loan had an outstanding balance of $4,696,837, consisting of $2,741,477 in principal and $1,955,360 in accrued unpaid interest. The Developer has requested that the City issue tax-exempt multifamily housing revenue Note in an amount not to exceed $18,150,896.[1]

The Series 2019C Note will be purchased by MUFG Union Bank, N.A. (the "Lender"). The proceeds of the Series 2019C Note will be loaned to Vista Park I, L.P. (the "Borrower"), a California limited partnership formed by the Developer. These proceeds, together with other funds, will be used by the Borrower to finance the acquisition and rehabilitation of the existing 83-unit rental housing property known as Vista Park I Apartments (the "Development").

This financing is intended to ensure the Development's long-term physical and economic viability and lengthen the period for which it serves as an affordable housing resource for the City's residents.

[1] The financing would occur through the issuance of tax-exempt "Note" under a "Back-to-Back" loan structure. The Back-to-Back structure and a bond issuance structure with an Indenture are functionally equivalent. In the Back-to-Back Structure, a Bank Loan Agreement (among the Lender, Issuer and the Fiscal Agent) replaces the Indenture and a Borrower Loan Agreement (between the Issuer and the Borrower) replaces the Loan Agreement from an Indenture structure. A "Fiscal Agent" replaces the Trustee. Certain lenders prefer the Back-to-Back structure in order to obtain beneficial treatment under the Community Reinvestment Act.

The Series 2019C Note will not be paid from or secured by the general taxing power of the City or any other City asset.

The City Loan's outstanding balance (principal and interest) will be recast as a new loan (the "Amended City Loan") at Note closing. The City will amend and restate the existing City Loan documents, incorporating the amended terms discussed below.

The proposed rehabilitation extends the useful life of the Development, and the affordability restrictions will extend another 55 years from the date the Borrower assumes the Amended City Loan.

BACKGROUND

The Development is an existing affordable housing development completed in 1999 by EAH Inc. with financing assistance from the City and proceeds of the syndication of low income housing tax-credits, among other sources. The Development consists of 83-units with 82 income-restricted one-bedrooms units and one unrestricted one-bedroom manager's unit. The Development is three-stories with a wood frame and stucco finish. Amenities include a community room with full kitchen, a community courtyard with sitting areas, laundry facilities, private patios or balconies, and air conditioning.

The Developer has requested that the City issue the Series 2019C Note for the purpose of lending Note proceeds to the Borrower. The proceeds of the Series 2019C Note, together with other funds, will be used by the Borrower to finance the acquisition and rehabilitation of the Development.

The Development is subject to existing regulatory agreements from the City of San José and the California Tax Credit Allocation Committee (CTCAC). The Development will continue to be subject to the amended regulatory agreement of the Amended City Loan as well as the existing CTCAC (from the prior tax credit syndication) and a new CTCAC regulatory agreement reflecting the Development's 2019 allocation of low-income housing tax credits.

Borrower. The Borrower is a California limited partnership. The Borrower will consist of: (1) Vista Park I LLC, a limited liability company created and owned by the Developer, as General Partner and (2) Merritt Community Capital Corp., or an affiliate thereof, as the tax credit investor limited partner.

Development Overview. The Development involves the acquisition and rehabilitation of 83-units, including one manager's unit. Upon completion of the Development's rehabilitation, 82 one-bedroom apartments will continue to be rented to seniors with incomes no greater than 50% of AMI (currently $51,250 for a one-person family in the City of San José). One one-bedroom apartment will continue as an unrestricted manager's unit.

The Development is currently owned by Vista Park Associates I, L.P., a California-limited partnership sponsored by the Developer. The Borrower will be acquiring the Development to recapitalize it and to provide funds for its rehabilitation. The Borrower qualifies for new tax-exempt financing and a new allocation of Low Income Housing Tax Credits - the major sources of funding for acquisition and rehabilitation of existing affordable multifamily properties.

Scope of Work. The scope of repairs is intended to preserve the longevity of the building. The largest issue is the hot and cold-water plumbing lines, which have been damaged by the high mineral content in the water. To prevent further water damage from damaged pipes, the water lines will be repaired or replaced depending on the condition once the walls are opened. A no-salt water condition system will be installed to treat water entering the building and prevent future damage from the "hard water."

Work will also be done to "refresh" the units. Flooring, cabinets, countertops, appliances, and HVAC will at a minimum be replaced in all units that are in poor condition, with a goal of a full replacement in all units. Eight (8) units will be modified to meet chapter 11(B) mobility requirements as well as other accessibility upgrades throughout the site. Energy upgrades include new HVAC units with higher efficiency, new boilers, and new energy star appliances.

This rehabilitation work will take approximately 13 months in total. The work will require phased, temporary relocation of the occupants of all units for short periods. Households are anticipated to be housed at nearby extended stay hotels. The relocation budget for the Development is $1,100,000.

Temporary Relocation of Tenants. According to the Borrower's relocation plan, the rehabilitation will involve temporary relocation of existing tenants, with no households expected to be relocated permanently. Each apartment will be rehabilitated. Apartments will be vacated for approximately two to four weeks, by three to eight households at a time. The Borrower is in the process of finalizing secured temporary lodging at Extended Stay of America. Tenants have received advisory services and will be provided advanced notices as required by state relocation law. The temporary relocation is expected to occur in 12 phases.

City Loan for the Development. In July 1999, the City made a loan of $2,741,477 in connection with the original acquisition and construction of the Development by Vista Park Associates I, L.P. The loan was funded from the former 20% Redevelopment Agency funds. As of August 1, 2019, the City Loan had an outstanding balance of $4,696,837, consisting of $2,741,477 in principal and 1,955,360 in accrued unpaid interest.

City as Issuer of Multifamily Housing Bonds or Notes. The City's Policy for Issuance of Multifamily Housing Revenue Bonds (the "City's Policy") requires that the City serve as the issuer of any tax-exempt multifamily housing financing for affordable rental housing projects in its jurisdiction subject to certain exceptions for which it has made or will be making a loan.

Prevailing Wages. On February 7, 1989 and October 10, 1989 adopted resolutions No. 61144 and 61716, requiring the payment of prevailing wages to privately-owned housing projects receiving acquisition financing, construction financing or commitment of such financing by the City's Department of Housing, except projects (a) with fewer than eight (8) dwelling units and (b) the portion of projects involving non-contracted volunteer or self-help construction. In 2005, the Council adopted Resolution No. 72518 which extended those requirements to privately-owned projects receiving City permanent funding or commitment of such financing.

Historically, when no additional City money is disbursed to a project and all City construction funds have already been spent, prevailing wages have not been required for rehabilitation projects. In addition, City prevailing wage requirements have not been applied to projects on which the permanent loan was extended for a new 55-year period, which is the equivalent of making a new permanent loan.

Sources of Development Funding. The proceeds of the Series 2019C Note will fund a portion of the total project costs during the rehabilitation and permanent phases. The Lender will purchase the Series 2019C Note in the expected amount of $14,701,222[2].

Following the rehabilitation of the Development, and its lease-up and stabilization ("Conversion"), a portion of the outstanding Note will be repaid from low income tax credit proceeds, with approximately $5,015,000 remaining outstanding as a permanent loan. The Series 2019C Note will have an approximately 19-year nominal maturity, with a 40-year amortization, subject to repayment 17 years after conversion to the permanent loan.

During the acquisition and rehabilitation period, the Series 2019C Note will accrue interest at a variable rate. At permanent, the Series 2019C Note will continue as variable rate but will be subject to a floating to fixed rate swap between the Borrower and the Lender (as counterparty to the swap). The variable rate will be subject to a 12% maximum rate.

The sources of funding for the Development's acquisition and rehabilitation phase and permanent phase are estimated as shown in the table below.

[2] Based on preliminary budget. Final Note and purchase amount will not exceed the not-to-exceed amount of $18,150,896 hereunder.

Vista Park I Construction and Permanent Source Summary[3][4]

	Construction	Permanent
Tax-Exempt Note	$14,701,222	$5,015,000
Tax Credit Equity	845,406	8,454,000
Seller Financing	1,785,000	1,785,000
Existing City Loan	4,696,837	4,696,837
Sponsor Loan	0	3,070,000
Accrued Interest	208,100	208,100
GP Capital Contributions	1,794,200	1,794,200
Income from Operations	0	278,700
Deferred Developer Fee	0	0
	$24,030,765	**$25,301,837**

Financing History of the Development - Key Dates. The following are the key dates relating to the financing history of the Development:

- March 6, 2019 - The Director of Finance held a TEFRA hearing regarding the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed $19,000,000 to finance the acquisition and rehabilitation of the Development.
- March 15, 2019 - The City on behalf of the Borrower applied to the California Debt Limit Allocation Committee ("CDLAC") for a tax-exempt private activity volume cap allocation of $18,150,000.
- March 25, 2019 - The Mayor certified the actions of the Director of Finance.
- May 15, 2019 - The City received a private activity volume cap allocation in the requested amount of $18,150,000.
- May 15, 2019 - The Development received from the California Tax Credit Allocation Committee ("CTCAC") an allocation of federal tax credits in the requested amount of $930,133 per year.

[3] Totals may be rounded

[4] Source: Developer projections adjusted for City Loan Balance as of August 1, 2019

ANALYSIS

The Vista Park affordable housing development currently provides housing for 82 senior households (plus one manager's apartment) with incomes no greater than 50% of the AMI (currently $51,250 for a one-person family in the City of San José). The approval of financing for this development will provide for $6,132,000 million in rehabilitation of the existing building. This additional investment will preserve the City's original investment of over $2,741,477 million made in 1999, with no additional City funds at this time. Upon completion of the Development's rehabilitation, 83 one-bedroom apartments will continue to be rented to seniors with incomes no greater than 50% for an additional 55 years.

This portion of the report is divided into several sections to address the items in staff's recommendation to proceed with the financing for the Development. These sections describe the financing structure, financing documents, financing team participants, and financing schedule.

Financing Structure

Overview of the Multifamily Housing Financing

General. Multifamily housing financing historically has involved the issuance of tax-exempt financing on behalf of private developers of qualifying affordable rental apartment properties. The City would issue tax-exempt bonds or Note and loan the proceeds to the borrower, generally a limited partnership formed by the developer. Tax-exempt financing provides developers access to below-market interest rates and access to federal low income housing tax credits that are not subject to per capita limits.
The private activity tax-exempt financing uses a portion of the State's federal tax-exempt private activity volume cap allocated by CDLAC. The allocation of low-income housing tax credits are provided by CTCAC
The note or bonds are limited obligations of the City, payable solely from loan repayments by the Borrower and are not secured by the general taxing power of the City or any other asset of the City.

Requirements for Tax-Exemption. For a multifamily housing revenue issue to qualify for tax-exemption, federal law generally requires that one of two restrictions must apply: either (1) at least 20% of the apartments in the housing development must be reserved for occupancy by individuals and families whose income is 50% or less of area median income or (2) at least 40% of the apartments must be reserved for occupancy by individuals and families whose income is 60% or less of area median income.

Structure of the Series 2019C Note

Direct Purchase/Funding Structure. The Series 2019C Note will be structured as non-rated and non-credit-enhanced obligations that are directly purchased and funded by the Lender. Pursuant to the City's policies regarding non-credit-enhanced issuances, the Lender will sign an Investor Letter acknowledging that it is a "qualified institutional buyer" or an "accredited investor" - that is, a large institutional investor who understands and accepts the risks associated with unrated note or bonds secured solely by the Development rents. An executed Investor Letter filed with the Trustee must accompany all transfers of the Series 2019C Note. It is anticipated that the Series 2019C Note can be transferred only in whole.

Principal Amounts and Terms. Based on current projections, the Series 2019C Note is anticipated to be issued in the amount of $14,701,222. After the Development is rehabilitated and leased, and conversion to the permanent loan phase occurs (the "Conversion Date"), the principal balance of the Series 2019C Note is expected to be paid down to $5,015,000 from tax credit equity funds. The Conversion Date is anticipated to be 20 months after Note closing (subject to a 90-day extension).

The maturity of the Series 2019C Note is anticipated to be 17 years after the Conversion Date. Note principal remaining on the Conversion Date will amortize on a 40-year basis commencing on the Conversion Date. the Series 2019C Note will be subject to mandatory prepayment in 17 years. At such point, the Borrower will need to refinance the remaining balance of the Series 2019C Note or repay it from another funding source.

Interest Rates. During the acquisition and rehabilitation period, the Series 2019C Note will accrue interest at a variable rate equal to 79% of 30-day LIBOR plus a margin of 1.30% (not to exceed the maximum rate of 12%).

After the Conversion Date, the interest will continue to accrue at a variable rate (not to exceed the maximum rate of 12%). However, the Borrower will enter into a "floating-to-fixed rate" swap with the Lender that will have the effect of creating a "synthetic" fixed rate to the Borrower. In a floating-to-fixed rate swap, the Borrower agrees to pay a counterparty's (in this case, the Lender's) fixed rate obligation in exchange for the counterparty paying the Borrower's variable rate. The Lender will be the counterparty to the Borrower on the swap. The swap will be a "forward-starting" swap i.e., the swap and the effect of the floating-to-fixed arrangement will take effect on the Conversion Date; and the fixed interest rate to be paid by the Borrower under the swap will be determined at the Series 2019C Note Closing. As of June 26, the indicative permanent rate would have been 4.05% comprised of 79% of LIBOR-based swap rate plus 165 basis points.

Note that the City will not be party to any of the swap documents or obligations.

Financing Documents

The following is a brief description of each document the City Council is being asked to approve and authorize its execution. Copies of these documents will be available in the City Clerk's Office on or about September 6, 2019.

Funding Loan Agreement. The Series 2019C Note will be issued under a Funding Loan Agreement (the "FLA") by and among the City, the Lender, and U.S. Bank National Association, as Fiscal Agent (the "Fiscal Agent"). The FLA will be executed by the Director of Finance, or another authorized officer, on behalf of the City, and attested by the City Clerk. Pursuant to the Indenture, the Fiscal Agent is authorized to receive, hold, invest, and disburse Note proceeds and other funds established under the FLA; to authenticate the Series 2019C Note; to apply and disburse payments to the Series 2019C Note owners; and to pursue remedies on behalf of the Series 2019C Note owners. The FLA sets forth the guidelines for the administration, investment and treatment of investment earnings generated by each fund and account, and restrictions relating to any subsequent transfer of the Series 2019C Note. The Loan Agreement (described below) obligates the Borrower to compensate the Trustee for services rendered under the Indenture.

Construction and Permanent Loan Agreement. This document (the "Loan Agreement") is by and among the City, the Lender and the Borrower. The Loan Agreement will be executed by the Director of Finance, or another authorized officer, on behalf of the City. The Loan Agreement provides for the loan of Note proceeds to the Borrower for the acquisition-rehabilitation and permanent financing of the Development, and for the repayment of such loan by the Borrower. The loan will be evidenced by a note (the "Borrower Note") in an amount and with terms that mirror the terms of the Series 2019C Note. The City's rights to receive payments under the Borrower Note will be assigned to the Fiscal Agent, along with certain other rights under the FLA, the Loan Agreement, and the Series 2019C Note; however, the City has retained certain reserved rights, such as the City's right to indemnification.

Regulatory Agreement and Declaration of Restrictive Covenants. This agreement (the "Regulatory Agreement") is among the City and the Borrower. The Regulatory Agreement contains certain covenants and restrictions regarding the Development and its operations intended to assure compliance with the Internal Revenue Code of 1986. The Regulatory Agreement is executed by the Director of Finance and Director of Housing, or other authorized officers, on behalf of the City. The Regulatory Agreement restricts the rental of 82 of the Development's apartments to low-income and very low-income residents for a period of at least 55 years.

Financing Team Participants

The financing team participants for the Series 2019 C tax-exempt Note Issue for the Vista Park I Apartments consist of:

• City's Municipal Advisor	CSG Advisors
• Note Counsel	Kutak Rock
• Fiscal Agent	U.S. Bank National Association
• Note Purchaser	MUFG Union Bank, N.A.

All costs associated with the Municipal Advisor, Note Counsel, and Fiscal Agent are contingent upon the sale of the Series 2019C Note and will be paid from Note proceeds, tax credit equity, and/or Borrower funds.

Financing Schedule

The current proposed schedule is as follows:

• Council Approval of Note Documents	September 17, 2019
• Pre-close Note	September 23, 2019
• Close Note	September 25, 2019
• CDLAC Allocation Lapses	November 25, 2019

City Funding

The City currently has one outstanding City Loan to Developer with respect to the Development. As of August 1, 2019, the City Loan had an outstanding balance of \$4,696,837, consisting of \$2,741,477 of the former 20% Redevelopment Agency funds as principal and \$1,955,360 in accrued unpaid interest. The City Loan has accompanying affordability restrictions in an associated regulatory agreement. At closing of the Series 2019C Note, the City Loan's terms will be amended and restated as follows:

1. **Affordability Restrictions.** The City's Affordability Restriction will be amended and restated to extend the term of affordability from June 28, 2055 to 55 years from the date of the recordation of amended and restated affordability restrictions, or approximately September 2074.

2. **Interest Rate.** The Amended City Loan will bear fixed interest compounded annually at the Applicable Federal Rate ("AFR") in effect at the time of closing. The AFR for long-term annual compounding debt for August 2019 is 2.33%. The current loan interest rate is 3.75% compounded per annum.
3. **Maturity Date.** The term of the Amended City Loan will start at the close of financing and will mature in 55 years – anticipated to be September 2074. Accrued unpaid interest

on the Loan is due annually as 50% of residual cash flow.

4. **Subordination.** The City's Deed of Trust will be subordinated to the new tax-exempt loan from the Lender. However, the amended affordability restrictions will be senior to the new tax-exempt loan from the Lender.

5. **Loan to Value:** The loan to value ratio (LTV) of the Development will exceed 100% after consideration of all debt. Approval of the excess of 100% loan to value ratio is needed to ensure consistency with Municipal Code Chapter 5.06.

   An appraisal prepared by James G. Palmer Appraisals, Inc. on January 3, 2019 valued the Development at $12,000,000. The total debt on the Development including the City Loan will result in a combined loan-to-value ratio ("LTV") that significantly exceeds 100%, which is the City's LTV policy threshold. The 100% LTV policy was intended to reduce the City's risk of loss associated with its loans; however, the deep affordability of the development increases the need for public subsidies, while decreasing the project's market value, leading to an increased LTV. An elevated LTV is not uncommon for public lenders in the affordable housing industry. Projects that have a high LTV are considered acceptable by City staff, as the Development's projected operating income is expected to be at least 1.15 times the permanent mortgage debt service payments. This standard is a common standard for assessing the financial feasibility of affordable housing developments.

6. **Prevailing Wage**: As no new City funds are being loaned or granted to the Borrower, the City's Prevailing Wage policy will not apply.

7. **Other.** The City will incorporate additional provisions in the Affordability Restriction that provide for City loan monitoring and loan servicing fees, Borrower operating and reporting covenants, and certain City approval rights. Also, together with the senior lender, the City will oversee rehabilitation using the assistance of an external construction consultant, to ensure the quality of rehabilitation.

EVALUATION AND FOLLOW-UP

This Memorandum presents the set of recommendations related to the City Council's approval of the issuance of the Series 2019C Note and requires no follow-up to the City Council. The Housing Department, after the Series 2019C Note close and the acquisition and rehabilitation of the Development commences, will provide updates in its Quarterly Construction Reports posted at www.sjhousing.org under " Reports & Data."

PUBLIC OUTREACH

The method of notifying the community of the City's intent to issue the tax-exempt private activity notes or bonds is the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing. The TEFRA Hearing was held on March 6, 2019 before the Director of Finance. The public hearing notice for the March 6, 2019 hearing was published in the *San Jose Post - Record* on February 20, 2019.

This memorandum and the Series 2019C Note Documents will be posted on the City's website for the September 17, 2019 meeting.

COORDINATION

This report has been prepared by the Finance Department and the Housing Department in coordination with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of affordable development financing do not fall under the functions, powers and duties of the Commission delineated in Section 2.08.2840 of the San Jose Municipal Code.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's *Consolidated Plan 2015-2020,* adopted by City Council on May 5, 2015, to provide homes for very low- and extremely low-income households; and with Goal H-2 of the City's *Housing Element 2014-2023,* adopted by City Council on January 27, 2015, to "increase, preserve, and improve San Jose's affordable housing stock."

COST SUMMARY/IMPLICATIONS

The Borrower will pay all issuance costs from proceeds of the Series 2019C Note, tax credit equity and/or Borrower funds. The Series 2019C Note will not be paid from, nor secured by, the general taxing power of the City or any other City asset.

City Fees

Under the City's Policy, the City charges an upfront issuance fee based on the total amount of tax-exempt and taxable obligations issued: 0.50% of the first $10 million principal amount of such obligations and 0.25% of the remaining principal amount. Based on the currently estimated aggregate initial size of $14,701,222 for the Series 2019C Note, the City will receive an upfront issuance fee of $61,753.

The City will also receive an annual fee for monitoring the Development and reporting its compliance to CDLAC. Note fees will be deposited into Housing Trust Fund.

Under the City's Policy, nonprofit sponsors such as EAH are allowed a lower annual fee after the Conversion Date than before the Conversion Date. Before the Conversion Date, the annual fee is equal to one-eighth of a point (0.125%) of the initial maximum principal amount of the Series 2019C Note; after the Conversion Date, the annual fee is equal to one-eighth of a point (0.125%) of the principal amount of the Series 2019C Note on the Conversion Date, with a minimum fee of $7,500. Based on this formula, an initial $14,701,222 maximum principal amount of Note prior to the Conversion Date and an expected $5,015,000 principal amount of Note to be outstanding on the Conversion Date, the annual fee will be $18,376 prior to the Conversion Date and $7,500 after the Conversion Date.

The Borrower is obligated to pay this fee throughout the 55-year Regulatory Agreement term; if the Series 2019C Note mature or are redeemed prior to maturity, the City has the option to require the Borrower to prepay the annual fee due for the remainder of the Regulatory Agreement term.

There will be no additional investment made by the City in this transaction.

CEQA

Categorically Exempt, CEQA Guidelines Section 15301 for Existing Facilities, File No. PP19-064.

/s/
JULIA H. COOPER
Director of Finance

/s/
JACKY MORALES- FERRAND
Director of Housing

For questions, please contact Lisa Taitano, Assistant Director of Finance, at (408) 535-7041.

Attachment A: Site Map

Attachment A
SITE MAP

3955 Vistapark Drive